KARMELSONIX LIMITED

AND CONTROLLED ENTITIES

Annual Financial Report

For The Year Ended 30 June 2009

KARMELSONIX LIMITED
ABN: 98 009 234 173
CORPORATE DIRECTORY

AUSTRALIAN COMPANY NUMBER
009 234 173

KARMELSONIX LIMITED IS A PUBLIC COMPANY LIMITED BY SHARES AND IS DOMICILED IN AUSTRALIA

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Prof Noam Gavriely	CMO & Executive Director
Dr Henry Pinskier	Executive Director

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The financial report was authorised for issue by the Directors on 30 September 2009. The Company has the power to amend and reissue the financial report.

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

Dear Shareholder,

Against a backdrop of a very difficult economic environment KarmelSonix (KSX) continued to make significant progress in all key business areas.

The 2009 financial year was characterised as a year of two halves. The first half represented a very challenging operating environment. The Capital Markets essentially were closed especially to companies such as KSX who were forced to review their business and operating plans and make all necessary adjustments.

The management of KSX made significant changes to its operating plan and in so doing made some major cuts to its overall burn rate. This reduction had the effect of delaying and reducing certain activities but in terms of technical milestones the Company has continued to make excellent progress. Amongst the various achievements for the year the following key points and/or milestones were achieved:

o Completion of product development work for WheezoMeter™;

o Continuing significant interest in the PulmoTrack® in the US and select parts of Europe where additional regional distributors have now been appointed;

o Expansion of distribution channels in Europe and Canada and appointment of distributor in Korea;

o The successful 'soft' launch of the WheezoMeter™ at the ATS Conference in San Diego to an enthusiastic response and highly positive feedback from a substantial number of people regarding the KSX product suite;

o Approval of the PulmoTrack Cough Counter software in Europe as an add on to the core PulmoTrack® technology;

o Receipt of European CE Mark and Australian TGA approval for the WheezoMeter™;

o Completion of a capital raising program later in the financial year which secured approx. $3.2m to enable the Company to focus on and ramp up its sales and marketing and related commercial activities;

o The Company participated in additional international conferences, where its technology and products were showcased to a number of audiences of professional practitioners with positive feedback;

o The Company also saw the publication and/or presentation of additional papers prepared by KSX personnel in the area of respiratory and pulmonary acoustics.

The Company has made significant progress in the development and initial commercialisation of its range of unique & proprietary respiratory products. The current range comprises:

- The PulmoTrack®
- The PulmoTrack® - Cough Counter
- The PulmoTrack® - Wireless (to be released)
- The WheezoMeter™ – Clinical & Personnel
- The WHolter™ (to be released)

The above products represent what the Company has termed its H2H (Hospital to Home) Solution – products which can be used in the emergency room, intensive care unit, doctors' and nurses' rooms, pharmacies as well as in the home setting.

During the period under review, the Company continued to pursue engagement of potential distribution partners covering specific geographic areas. To date, distribution arrangements have been entered into with companies in the Benelux countries, Taiwan and China, Italy, UK, Germany, Romania, Korea with products already supplied to these markets.

Discussions are also progressing with parties in other European countries, Asia Pacific and Australia.

Approximately 12 months ago the Company announced the appointment of Mr. Larry Murdock as its US General Manager in charge of Marketing and Sales. The Company's strategy in the US is to appoint territory dealers and distributors who have proven experience in the pulmonary function and respiratory monitoring field. Several territorial distributors have been appointed.

As has been commented on previous occasions, the PulmoTrack® is the clinical acoustic respiratory monitoring product which contains the core 'Wheeze Rate' detection and quantification technology and introduces and validates the technology, particularly in the hospital and Pulmonary Function Testing Clinical setting. Validation of the 'Wheeze Rate' technology is taking place through various clinical validation (or outcome) trials and through significant exposure to the key opinion leaders on several continents.

The technology can be used in patients who are not capable of performing Spirometry. Accordingly, the studies that have been and are continuing to be done in clinical settings, particularly in hospitals in Israel, Australia, USA and Europe, are essential in having this new paradigm – of 'wheeze rate monitoring' accepted as the new standard for asthma management. This work is also of key importance by laying the medical and scientific foundation prior to the release of the WHolter™ and WheezoMeter™ both the clinical and Personal versions.

Importantly, with the development work now essentially complete, the WheezoMeter™ is set to become the Company's flagship product with first sales expected to be recorded in September 2009. The Wheezometer™ is a palm sized device which will allow patients and family members as well as other health professionals, to assess wheeze activity at home and other settings and do so at regular intervals. Most importantly, it is suitable for use on infants, young children as well as elderly and disabled patients. The embedded processor of self-contained technology is capable of conducting the extensive computational tasks needed for the detection of wheezes and removal of ambient interference.

The WHolter™ is an ambulatory acoustic recorder for continuous 24 hour data collection and recording based on the PulmoTrack® technology. When released over the course of the next few months it will also be the world's first device to provide physicians with accurate and quantitative measurement of the patients respiratory condition in his/her own environment and for identification of nocturnal asthma. The clear market need for assessing the level of Asthma Control as a critical determination of the type and dose of asthma medications is underlying the importance and utility of the WHolter™.

As previously stated the Company has made important progress towards scaling up its sales and marketing activities during this financial year. These activities included exposure of the Wheeze Monitoring Technology to Key Opinion Leaders (KOLs) and commencement of the clinical validation trials. These activities will continue to be given much greater focus and resourcing by the Company as part of the commercialisation process which has commenced.

Of course, getting new and novel medical devices to market is a complex and time consuming process that involves many complex steps and details. Importantly, the Company has the expertise and know-how to anticipate these steps and is taking all necessary measures to ensure that its products enter the market in a way that will achieve a strong market acceptance, at the clinical and consumer levels.

The WHolter™ is an ambulatory acoustic recorder for continuous 24 hour data collection based on the PulmoTrack® technology. It will also be the world's first device to provide physicians with accurate and quantitative measurement of the patients respiratory condition in his/her own environment and for diagnosis of nocturnal asthma. The clear market need for assessing the level of Asthma control (GINA – Global Initiative on Asthma, 2006) as a critical determination of the type and dose of asthma medications, is underlying the importance and utility of the WHolter™.

As mentioned previously, until end March 2009 the Capital Markets globally were effectively closed. When the markets began to reopen at the end of March, companies started to tap the market for funding to improve their balance sheets and/or secure funding for working capital purposes. KSX was able to take advantage of the improved market conditions and undertook placements to professional investors. In so doing it secured an additional $3.2m (approx.) in equity which enabled the Company to maintain the momentum in completing the product development program relating to the Wheezometer™ and WHolter™, as well as the PulmoTrack® - Cough Counter and the PulmoTrack ® - Wireless (currently being completed).

The funds are also being deployed to substantially increase the sales and marketing activities in Australasia which is seen as an important and potentially highly lucrative region for the Company over the coming years. In tandem with this work are important activities in the US especially those covering regulatory, reimbursement and clinical trial activities. The work surrounding these activities has been commenced and have been budgeted for. It should also be noted that these activities are very intense and time consuming but completing them will help to ensure that the huge US market is fully open to the Company and it is well positioned to sell all its products

Finally, I would like to welcome two important new members to the team. Mr Tim Brosz, who is based in the US is V.P. – Corporate & Business Development and responsible for leading the Company's corporate partnering, licensing and related activities. Tim has a background as a successful US-based Investment Banker with a strong background of completing many corporate transactions in the Life Sciences sector. In addition, Mr. Paul Eisen recently joined as VP – Sales & Marketing, Australia & Asia and brings to the Company an enormous range of experience and skills in the selling of specialised medical devices, having worked at ResMed Inc for approximately 8 years, as well as other well known global device companies.

In welcoming these two additional senior members to the KSX team I would also like to thank the other members of the staff in Israel and Australia for their continuing hard work and dedication particularly during these uncertain times.

Finally, to our shareholders, thank you for your continuing interest in and support for your Company. The Directors very much appreciate your involvement and look forward to providing further updates on the Company's commercial progress over the coming months.

Peter Marks
Chairman

Overview

The 2008/09 year for KarmelSonix Ltd can be characterised as a year of transition from product development to commercial rollout. Specific highlights for the year include:

• Completion of product development work for the WheezoMeter™;

• Continuing significant interest in the PulmoTrack® in the US and select parts of Europe where additional regional distributors have been appointed;

• Expansion of distribution channels in Europe and Canada and the appointment of a distributor in Korea under a 3 year contract with minimum sales levels;

• The successful 'soft' launch of the WheezoMeter™ at the American Thoracic Society (ATS) Conference in San Diego to an enthusiastic response and highly positive feedback from a substantial number of people regarding the KSX product suite;

• Approval of the PulmoTrack Cough Counter as an add on to the core PulmoTrack® technology;

• Receipt of European CE Mark and Australian TGA approval for the WheezoMeter™;

• Gearing up for production of the WheezoMeter™ and WHolter™ monitor in Israel, with shipping of first WheezoMeter™ orders scheduled for September 2009;

• Completion of a capital raising program which secured approximately $3.2m to enable the Company to increase its sales and marketing and related commercial activities;

• The Company continued participating in international conferences, where the technology and products were exposed to a number of audiences of professional practitioners with positive feedback;

• The Company also saw the publication and/or presentaion of additional papers prepared by KSX in the area of respiratory and pulmonary acoustics;

Background on Asthma

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

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

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

In short, the asthma market is huge and the awareness of a need for new solutions to address all sufferers is acutely perceived.

Core Technology

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

The Current Product Range

Based on its Core Technology, the Company is now bringing to market a suite of products to supply solutions for major aspects of the disease, from the mild to the severe, from hospital to home, from young to old, during rest and during exercise (i.e. exercise-induced asthma) and from awake to asleep (nocturnal asthma). Below are brief descriptions of the products, their intended use and market, their current status, and the timeline for rollout. The products are listed in the order of their commercialisation onset.

The Personal Wheezometer™ - The Company's flagship product - is a hand-held device for clinical and home use. When placed on the neck with its sensor over the trachea, it picks up the breathing sounds and determines if wheezes are present. A 30 seconds determination indicates the momentary wheeze rate. Should it be high, the patient (or parent) is instructed to seek medical help. The Personal Wheezometer™ prototype was completed in June 2008 and had an initial launch at ATS in San Diego (US) in May 2009 and a follow up launch of the production WheezoMeters™ at ERS in Vienna (Australia) in September, 2009. The first batch of WheezoMeters™ are expected to be shipped during September/October 2009. This product has received European CE Mark clearance and Australian TGA approval for sale in these jurisdictions.

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

The Wireless PT™ is an add-on option to the PulmoTrack™ to facilitate ease of use and to reduce the cost of manufacturing. The regulatory process of the Wireless PT™ is by "letter-to-file" amendment of the technical file (self registration). This product was launched at ERS in Vienna in September 2009.

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

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

Marketing and Sales

The last 12 months have seen the Company's transition from product development to commercialisation and with this much greater focus on the increased level of sales and marketing activities.

The Company has recently commenced the implementation of a multi-pronged marketing strategy which focuses on the clinical settings (e.g. hospitals, G.P. clinics, critical care facilities etc.) (especially for the PulmoTrack®) the Sleep Clinics (for the Wholter™) and the retail distribution outlets (for the WheezoMeter™).

The products which have been developed by KSX address very specific market segments and fill important gaps which currently exist in the asthma market.

The response by the medical fraternity to all the products but particularly to the Wholter™ and WheezoMeter™ has been extremely positive. There is little doubt that the Wholter™ has several important applications – in the sleep labs / centres as well as in the home setting for recording the existence or prevalence of nocturnal asthma. The WHolter™ development work has been completed and will shortly commence the regulatory process.

The WheezoMeter™ has been developed to be deployed in both a clinical (doctors surgery) and personal (home, work, etc.) environment. Following the soft launch of the WheezoMeter™ at ATS in May 2009, KSX has commenced production of the WheezoMeter™ for sale and distribution.

The first batch of WheezoMeters™ is expected to be dispatched from Israel in September/October 2009. Thereafter additional batches will be produced to fill orders currently being received and it is expected that production of WheezoMeters™ will continue to be undertaken in Israel for the foreseeable future although preparations are underway for a gear up for mass production which is likely to occur in one of the designated lower cost manufacturing environments, e.g. China.

Current Distribution Channels

Over the last 12 months the Company has made important progress in expanding its distribution channels. To date, the Company has appointed distributors in the following countries:

- UK
- Germany
- Italy
- Romania
- Benelux
- Taiwan/China
- Korea
- USA - territorial distributors
- Australia - combination of direct/indirect sales

Negotiations with other potential distributors in Europe and Asia are currently underway.

The appointed distributors have been actively involved with key parties (including doctors, hospitals, clinics, etc.) in their respective markets. Specifically, there is a tremendous amount of background work required in each of the markets and with the key opinion leaders, the doctors, clinicians, nurses and other potential users of the products. This is covered in more detail below.

Strategic Marketing

KarmelSonix Ltd has been very active over the last 12 months with activities that are aimed at bringing the "Wheeze Rate™" concept to the awareness of all medical personnel providing care to asthma patients. To achieve this goal, the Company is focusing its strategic marketing activities on the following tasks:

i) Post-market clinical studies aimed at generating scientific publications in peer-reviewed journals;

ii) Appointment and active participation of the Scientific Advisory Committee and engagement with Key Opinion Leaders;

iii) Active participation in international conferences and exhibits including the American Thoracic Society, the European Respiratory Society, the American Academy of Asthma, Allergy and Immunology, Medica, American College of Chest Physicians, American Association of Respiratory Care and the Asia-Pacific Thoracic Society. In addition, the Company will support the participation of its Territorial and Regional Distributors in National/Regional conferences with a booth displaying our products;

iv) Collaboration and sponsorship of activities with asthma advocacy and policy making groups such as Mothers for Asthma Children in the US, The Asthma Foundation (Australia), the World Health Organisation (WHO), various charities, the Global Initiative on Asthma (GINA) etc; and

v) PR and media exposure .

Clinical Studies

The Company conducts 3 types of studies:

1. Outcome Studies are aimed to demonstrate the clinical impact of using the Acoustic Respiratory Management (ARM) products on the short- and long-term well being of patients. These studies are primarily needed in order to obtain reimbursement approval from third-party payers. (E.g. CPT code in the US).

2. Validation Studies are used to assess the accuracy of the products in detection of wheeze and cough. These studies are needed in order to calibrate the hardware, software and algorithms used in the products and to demonstrate safety and effectiveness to the regulatory authorities. (E.g. the FDA in the US, CE in Europe etc.)

3. Post-Market Studies are conducted by basic and clinical researchers to determine the areas where using the technology can increase the level of knowledge on diseases such as asthma, COPD, bronchiolitis and chronic cough and to optimize the clinical utility of the products (e.g. set wheezeRate thresholds, determine patterns of nocturnal asthma etc.)

During 2008-2009 we conducted primarily validation and pilot studies to facilitate the Company's R&D and regulatory activities. These studies include:

1. Wheeze monitoring in acute asthma and in non-asthma control (33 pediatric patients, Bnei Zion Hospital, Haifa);

2. Wheeze and Cough monitoring in acute asthma (35 pediatric patients, Carmel Medical Center);

3. Cough algorithm validation study (11 patients, Rambam Hospital and KSI, Haifa, Israel);

4. ASAM proof of concept validation (19 patients during broncho dilatation, broncho provocation, and acute asthma, Alfred Hospital,

5. ARM during sleep study in adults (45 patients, Royal Melbourne Hospital, Melbourne);

6. Wheeze monitoring during GERD evaluation (Bordeaux, France); and

7. Cough monitoring during GERD evaluation (Leuven, Belgium).

In addition, the Company has developed protocols for studies that are on going as follows:

1. Wheeze and cough monitoring during sleep (Adult) at Northwestern Memorial Hospital Sleep Lab, Chicago (IRB cleared);

2. Wheeze and cough documentation of intra vs. Extra thoracic obstructions in adults, U of Wisconsin, Madison (IRB pending);

3. Wheeze monitoring during methacholine bronchial challenge test in pre-school children (University of Prague Medical Center, Ethics Committee approval granted);

4. Wheeze monitoring during adenosine bronchial challenge tests in pre-school children (Rambam Hospital, Ethecs Committee approval granted); and

5. ASAM in pediatric asthma, Melbourne Children's Hospital (Ethics Committee approval granted).

Competitive Edge - Strong IP Position

KarmelSonix Ltd has 6 granted patent families, 4 pending patents and 4 patents in preparation. The granted patents are:

- KarmelSonix (Israel) Ltd (KSI) has 4 granted US patents;
  - Phonopneumography US 6,168,568;
  - Phonopneumography US 6,261,238;
  - Determination of apnoea type US 6,375,623;
  - Sound velocity for lung diagnosis US 6,383,142.
- PulmoSonix Pty Ltd (PS) has 2 granted patents;
  - Method and apparatus for determining conditions of biological tissues (US-methods, 7,347,824; Australia, NZ); pending in Europe & Canada; divisional applications accepted in Australia (patency), pending in the US (apparatus);
  - Measuring tissue mobility (US 7,201,721, Australia, UK).
- Published pending patents and CIPs (Continuation In Part):
  - Apparatus and method for lung analysis ("PulmoScreen), Pending in US, UK, Australia;
  - Method and Apparatus for Monitoring Airways ("AirwayClear"), Pending in US, UK, Australia;
  - Method for determining lung condition indicators (Combined Active-Passive), Pending in US;
  - Method and apparatus for determining a bodily characteristic or condition (Acoustic Transfer Function), Pending in US;
  - Devices and Methods for tissue analysis ("PulmoScreen" lung tissue wave propagation), Pending in US.
- Four New Patents in preparation:
  - Active acoustics (PS)
  - Sensor (PS)
  - Statistical reporting (KSI)
  - Apparatus for detecting wheezes (KSI)

The patents in preparation cover specific new applications (methods and apparatus) of our pulmonary acoustics technology.

Other IP Protection

The Company has developed certain algorithms, know-how and methods that it prefers to maintain fully confidential rather than have them published as is the case with all patent applications. Additionally, the Company views its commercial strategy of covering all aspects of acoustic asthma management with high-quality cost-effective products as an added deterrence to competition.

Management and Staff

The last 12 months has seen a number of management changes and key appointments being made. In the second half of last year and in response to the downturn in financial markets the Company made some difficult decisions and reduced its workforce. Whilst this did have an impact on our activities, key milestones continued to be met.

As the Capital Markets improved and the Company raised additional capital and was able to secure the services of some key personnel. Larry Murdock joined the Company as VP – Sales and Marketing for the US. In June 2009 Mr. Tim Brosz, an experienced investment banker from Inter Ocean Capital working in the lifesciences sector joined the Company heading Business and Corporate Development (based in the US). In August 2009, Mr. Paul Eisen joined the Company as VP – Sales & Marketing for Australia and Asia. Paul comes to KSX with a long and successful career in bringing medical devices and products to market, most recently as VP of Sales and Marketing for ResMed Inc.

The core team in Israel, comprising Amir Ohad, Isaac Kroin and Igor Naroditsky, and their respective Finance, R&D and Operations personnel have continued to do a tremendous job in difficult times in moving the products through their development phases to completion and gearing up of cost-effective production. The Board wishes to thank all of them and all other staff members for their ongoing contribution to the development of the Company.

Corporate

The Corporate offices are in Melbourne where the management of the parent holding company KarmelSonix Ltd resides. The Corporate Office handles all activities vis-à-vis the Australian Securities Exchange where the Company's shares are traded (ASX: KSX) as well as investor relations and fundraising activities.

The technology and commercial centre is based within the KarmelSonix (Israel) Ltd, a fully-owned subsidiary of KarmelSonix Ltd, where R&D, product development, regulatory affairs, manufacturing, marketing, sales, clinical studies, reimbursement, IP, administration are carried out. The activities in the Melbourne-based offices of PulmoSonix Pty Ltd, which is also a fully-owned subsidiary, consist of technology development of the active acoustic methods, including the corresponding clinical validation studies as well as product commercialisation towards the Asia Pacific and Oceania markets.

Post Balance Date Events

Significant events since 1st of July 2009, include the signing of an agreement with an Australian health fund to include the WheezoMeter in their allowed basket of services, and the appointment of Mr. Paul Eisen (see above) as VP Sales and Marketing for the Asia Pacific markets.

Further, on the 23rd of September the FDA cleared the WheezoMeter™ for sale to healthcare professionals in the US. This important development marks the first time a wheeze quantification device will be made available to the broad professional market for testing of Acoustic Pulmonary Functions in patients who cannot cooperate and exert the effort needed for spirometry measurements. Follow-on marketing developments in the US are the completion of a survey among Respiratory Therapists (RT) that showed high level of acceptance of the WheezoMeter™ as a tool to improve accurate management of the asthmatic patient.

Other developments in the US include the opening of the Company's US office in the outskirts of Los Angeles and the launch of the reimbursement activities for the US market. The latter is highlighted by the signing of a representation agreement with a reputable US reimbursement consulting group, (Emerson) who will work closely with the Company to secure CPT code(s) for coverage of the use of its products.

Finally, the Company's booth at the European Respiratory Society (ERS) meeting 12-15 September provided an excellent showcase for its line of products. The booth attracted several hundred conference participants who were exposed to the clinical potential of Acoustic Asthma Management. The reaction was very positive with most expressing interest in trialling the devices and many were interested in conducting clinical studies. The active participation of our outstanding existing distributors and the long list of new territorial dealers seeking distributorship in their respective territories contributed to the success of KarmelSonix Ltd in The ERS.

The Company is committed to implementing the highest standards of corporate governance. In determining what those standards should involve, the consolidated entity has considered the ASX Corporate Governance Council's ('the Council') *Corporate Governance Principles and Recommendations*.

A review of the Company's 'Corporate Governance Framework' is performed on a periodic basis to ensure that it is relevant and effective in light of changing legal and regulatory requirements. The Board of Directors ('the board') continues to adopt a set of Corporate Governance Practices and a Code of Conduct appropriate for the size, complexity and operations of the Company and its subsidiaries.

Where the Company's corporate governance practices do not correlate with the practices recommended by the Council, the Company has stated that fact in the annual report and has set out a mandate for future compliance when the size of the consolidated entity and the scale of its operations warrants the introduction of those recommendations. All Charters and Policies are available from the Company.

To illustrate where the Company has addressed each of the Council's recommendations, the following table cross-references each recommedation with sections of this report. The table does not provide the full text of each recommendation, but rather the topic covered. The full details of each recommendation can be found on the ASX Corporate Governance Council's website.

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Board of Directors

Role of the Board

The Board's role is to govern the Company rather than to manage it. In governing the Company, the Directors must act in the best interest of the Company as a whole. It is the role of senior management to manage the Company in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

In carrying out its governance role, the main task of the Board is to drive the performance of the consolidated entity. The Board must also ensure that the consolidated entity complies with all of its contractual, statutory and any other legal obligations, including the requirements of any regulatory body. The Board has the final responsibility for the successful operations of the consolidated entity.

To assist the Board carry out its functions, it has a Code of Conduct in place to guide Directors, the Chief Executive Officer, the Chief Financial Officer and other senior executives and employees in the performance of their roles.

Composition of the Board

To add value to the Company, the Board has been formed so that it has effective composition, size and commitment to adequately discharge its responsibilities and duties. The names of the Directors and their qualifications and experience are stated in the Directors' Report under the section headed 'Information on Directors' along with the term of office held by each of the Directors.

The Board believes that the interests of all Shareholders are best served by:
* Directors having the appropriate skills, experience and contacts within the Company's industry;
* The Company striving to have a number of Directors being independent; and
* Some major Shareholders being represented on the Board.

The Company recognises the importance of Non-Executive Directors and the external perspective and advice that Non-Executive Directors can offer. Further, the Company also recognises the importance of Independent Directors in ensuring shareholders that the Board is properly fulfilling its role.

The Company considers a Non-Executive Director to be independent when they are not a substantial shareholder of the Company or an associate of a substantial holder of the Company or have any other material interest and within the past three years has not been employed in an executive capacity by the Company (or subsidiary) and is free from any business or other relationship which could materially intefere with the Director's ability to act in the best interests of the Company and shareholders.

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

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

Responsibility of the Board

In general, the Board is responsible for, and has the authority to determine, all matters relating to the policies, practices, management and operations of the Company. It is required to do all things that may be necessary to be done in order to carry out the objectives of the consolidated entity.

Without intending to limit this general role of the Board, the principal functions and responsibilities of the Board include the following:

1. Leadership of the Organisation: overseeing the Company and establishing codes that reflect the values of the Company and guide the conduct of the Board, management and employees.
2. Strategy Formulation: to set and review the overall strategy and goals for the Company and ensure that there are policies in place to govern the operation of the consolidated entity.
3. Overseeing Planning Activities: overseeing the development of the Company's strategic plan and approving that plan as well as the annual and long term budgets.
4. Shareholder Liaison: ensuring effective communications with shareholders through an appropriate communications policy and promoting participation at general meetings.
5. Monitoring, Compliance and Risk Management: overseeing the development of the Company's risk management, compliance, control and accountability systems and monitoring and directing the financial and operation performance of the Company.
6. Company Finances: approving expenses and approving and monitoring acquisitions, divestitures and financial and other reporting.
7. Human Resources: appointing, and, where appropriate, removing the Executive Officers as well as reviewing the performance of the Chief Executive Officer and monitoring the performance of senior management in their implementation of Company strategy.
8. Ensuring the Health, Safety and Well-Being of Employees: in conjunction with the senior management team, developing, overseeing and reviewing the effectiveness of the Company's occupational health and safety systems to ensure the well-being of all employees.
9. Delegation of Authority: delegating appropriate powers to executives of the Company to ensure the effective day-to-day management of the Company and establishing and determining the powers and functions of the Committees of the Board.

Full details of the Board's role and responsibilities are contained in the Board Charter, a copy of which is available for inspection at the Company's registered office.

Board Policies

Conflicts of Interest

Directors must:
• disclose to the Board actual or potential conflicts of interest that may or might reasonably be thought to exist between the interests of the Director and the interests of any other parties in carrying out the activities of the Company; and
• if requested by the Board, within seven days or such further period as may be permitted, take such necessary and reasonable steps to remove any conflict of interest.

If a Director cannot or is unwilling to remove a conflict of interest then the Director must, as per the *Corporations Act*, absent himself or herself from the room when discussion and/or voting occurs on matters about which the conflict relates.

Commitments

Each member of the Board is committed to spending sufficient time to enable them to carry out their duties as a Director of the Company.

Confidentiality
In accordance with legal requirement and agreed ethical standards, Directors and key executives of the Company have agreed to keep confidential, information received in the course of the exercise of their duties and will not disclose non-public information except where disclosure is authorised or legally mandated.

Continuous Disclosure
The Board has designated the Company Secretary as the person responsible for overseeing and coordinating disclosure of information to the ASX as well as communicating with the ASX. In accordance with the ASX Listing Rules the Company immediately notifies the ASX of information:

1. concerning the Company that a reasonable person would expect to have a material effect on the price or value of the Company's securities; and
2. that would, or would be likely to, influence persons who commonly invest in securities in deciding whether to acquire or dispose of the Company's securities.

The Company also posts all information disclosed in accordance with this policy on the Company's website in an area accessible by the public.

Education and Induction
It is the policy of the Company that new Directors undergo an induction process in which they are given a full briefing on the Company. Information conveyed to new Directors includes:
• details of the roles and responsibilities of a Director;
• formal policies on Director appointment as well as conduct and contribution expectations;
• details of all relevant legal requirements;
• a copy of the Board Charter;
• guidelines on how the Board processes function;
• details of past, recent and likely future developments relating to the Board including anticipated regulatory changes;
• background information on and contact information for key people in the organisation including an outline of their roles and capabilities;
• an analysis of the Company; and
• a copy of the Constitution of the Company.

In order to achieve continuing improvement in Board performance, all Directors are encouraged to undergo continual professional development.

Independent Professional Advice
The Board collectively and each Director has the right to seek independent professional advice at the Company's expense, up to specified limits, to assist them to carry out their responsibilities.

Related Party Transactions
Related party transactions include any financial transaction between a Director and the Company and will be reported in writing at each Board meeting. Unless there is an exemption under the *Corporations Act* from the requirement to obtain shareholder approval for the related party transaction, the Board cannot approve the transaction.

Shareholder Communication
The Company respects the rights of its shareholders and to facilitate the effective exercise of those rights the Company is committed to:

1. communicating effectively with shareholders through releases to the market via the ASX and the general meetings of the Company;
2. giving shareholders ready access to balanced and understandable information about the Company and corporate proposals;
3. making it easy for shareholders to participate in general meetings of the Company; and
4. requesting the external auditor to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.

Shareholder's are also able to ring the registered office of the Company to make enquiries of the Company or obtain updated announcements via the ASX website and the Company's website.

Information is communicated to shareholders through:
• the annual report which is published on the Company's website and distributed to shareholders where specifically requested;
• the half-year shareholder's report which is published on the Company's website and distributed to shareholders where specifically requested, containing summarised financial information and a review of the operations during the period since the annual report; and
• other correspondence regarding matters impacting on shareholders as required.

Trading in the Consolidated Entity's Shares
The Company has a Share Trading Policy which states that Directors, members of senior management, certain other employees and their associates likely to be in possession of unpublished price sensitive information may not trade in the Company's securities prior to that unpublished price sensitive information being released to the market via the ASX. Unpublished price sensitive information is information regarding the Company, of which the market is not aware, that a reasonable person would expect to have a material effect on the price or value of the Company's securities.

Performance Review/Evaluation
A 'Performance Evaluation Policy' has been established to evaluate the performance of the Board, individual Directors and Executive Officers of the Company. The Board is responsible for conducting evaluations on an annual basis in line with these policy guidelines.

During the reporting period, the Board conducted individual and group performance evaluations on an informal basis which provided the Board with valuable feedback for future development.

Further information on policies and procedures established to evaluate the performance of the Board are set out in the Director's Report under the section headed 'Remuneration Report'.

Attestations by Chief Executive Officer (CEO) and Chief Financial Officer (CFO)
In accordance with the Board's policy, the CEO and the CFO make the attestations recommended by the ASX Corporate Governance Council as to the Company's financial condition prior to the Board signing the Annual Report.

Risk Management Accountability
As part of the process of approving the financial statements, at each reporting date the CEO and other responsible senior executives provide statements in writing to the Board on the quality and effectiveness of the company's risk management and internal compliance and control systems.

Board Committees

Audit, Risk and Compliance Committee

Below is a summary of the role, composition and responsibilities of Audit, Risk and Compliance Committee ('Audit Committee'). Further details are contained in the Audit Committee's Charter, which is available from the Company.

Role
The Audit Committee is responsible for reviewing the integrity of the Company's financial reporting and overseeing the independence of the external Auditors.

Composition
The Audit Committee, consisting of two Directors of the Company, with the Chairman being an Executive Director. Due to the current composition of the full board, it is not possible to meet the recommendation to have a minimum of three Non-Executive Directors, with the majority being independent. The current members of the Committee as at the date of this report, and their qualifications are detailed in the Directors' Report.

The Audit Committee holds a minimum of two meetings a year. Details of meetings held during the year and attendance of the members of the Audit Committee are contained on pp 17.

Responsibilities
The Audit Committee reviews the audited annual and half-yearly financial statements and any reports which accompany published financial statements before submission to the Board and recommends their approval.

The Audit Committee also recommends to the Board the appointment of the external auditor each year, reviews the appointment of the external auditor, their independence, the audit fee and any questions of resignation or dismissal.

The Audit Committee is also responsible for establishing policies on risk oversight and management.

Remuneration and Nomination Committee

Role
The role of a Remuneration and Nomination Committee ('Remuneration Committee') is to assist the Board in fulfilling its responsibilities in respect of establishing appropriate remuneration levels and incentive policies for employees and achieve a structured Board that adds value to the Company by ensuring an appropriate mix of skills are present in Directors on the Board at all times.

Composition
The Remuneration Committee consists of two Directors of the Company, with the Committee Chairman being an Executive Director. The current members of the Committee as at the date of this report, and their qualifications are detailed in the Directors' Report.

The Remuneration Committee holds a minimum of two meetings a year. Details of meetings held during the year and attendance of the members of the Remuneration Committee are contained on pp 17.

Responsibilities
The responsibilities of the Remuneration Committee include setting policies for senior officers' remuneration, setting the terms and conditions of employment for the CEO, reviewing and making reccomnmendations to the Board on the Company's incentive schemes and superannuation arrangements, reviewing the remuneration of both Executive and Non-Executive and making reccommendations to the Board on any proposed changes and undertake a review of the CEO's performance, including, setting with the CEO goals for the coming year and reviewing progress in achieving those goals.

The Nomination duties include devising criteria for Board membership, regularly reviewing the structure of the Board and identifying specific individuals for nomination/removal as Directors for review by the Board. Further responsibilities include overseeing management succession plans including the CEO and their direct reports and evaluation of the Board's performance.

Remuneration Policy
The Remuneration Report includes further details on the Company's remuneration policy and its relationship to the company's performance last year (pp 18 to pp 21). It also includes details of the remuneration of Directors and senior executives last year. Shareholders are invited to vote on the adoption of the report at the Company's annual general meeting.

Senior Executive Remuneration Policy
The Company is committed to remunerating its senior executives in a manner that is market competitive and consistent with best practice as well as supporting the interests of shareholders. Under the senior executive remuneration policy, remuneration of senior executives may comprise of the following:
- fixed salary that is determined from a review of the market and reflects core performance requirements and expectations;
- a performance bonus designed to reward actual achievement by the individual of performance objectives and for materially improved Company performance;
- participation in the share/option scheme with thresholds approved by shareholders; and
- statutory superannuation.

The Company aims to align the interests of senior executives with those of shareholders by remunerating senior executives through performance and long-term incentive plans in addition to their fixed remuneration.

Non-Executive Director Remuneration Policy
Non-Executive Directors are paid their fees out of the maximum aggregate amount approved by shareholders for the remuneration of Non-Executive Directors. Non-Executive Directors do not receive performance based bonuses and do not participate in equity schemes of the Company without prior shareholder approval.

Non-Executive Directors are entitled to but not necessarily paid statutory superannuation.

Interests of Stakeholders

Company Code of Conduct

As part of its commitment to recognising the legitimate interests of stakeholders, the Company has established a Code of Conduct to guide compliance with legal and other obligations to legitimate stakeholders. These stakeholders include employees, clients, customers, government authorities, creditors and the community as whole. This code includes the following:

Responsibilities to Shareholders and the Financial Community Generally
The Company complies with the spirit as well as the letter of all laws and regulations that govern shareholders' rights. The Company has processes in place designed to ensure the truthful and factual presentation of the Company's financial position and prepares and maintains its accounts fairly and accurately in accordance with the generally accepted accounting and financial reporting standards.

Responsibilities to Clients, Customers and Consumers
The Company has an obligation to use its best efforts to deal in a fair and responsible manner with each of the Company's clients, customers and consumers and is committed to providing clients, customers and consumers with fair value.

Employment Practices
The Company endeavours to provide a safe workplace in which there is equal opportunity for all employees at all levels of the Company. The Company does not tolerate the offering or acceptance of bribes or the misuse of Company assets or resources.

Obligations Relative to Fair Trading and Dealing
The Company aims to conduct its business fairly and to compete ethically and in accordance with relevant competition laws and strives to deal fairly with the Company's customers, suppliers and competitors and encourages its employees to strive to do the same.

Responsibilities to the Community and to Individuals
As part of the community the Company is committed to conducting its business in accordance with applicable environmental laws and regulations and supports community charities.

The Company is committed to keeping private information from employees, clients, customers, consumers and investors confidential and protected from uses other than those for which it was provided.

Conflicts of Interest
Directors and employees must avoid conflicts as well as the appearance of conflicts between personal interests and the interests of the Company.

How the Company Complies with Legislation Affecting its Operations

Within Australia, the Company strives to comply with the spirit and the letter of all legislation affecting its operations. Outside Australia, the Company will abide by local laws in all countries in which it operates. Where those laws are not as stringent as the Company's operating policies, particularly in relation to the environment, workplace practices, intellectual property and the giving of "gifts", Company policy will prevail.

How the Company Monitors and Ensures Compliance with its Code

The Board, management and all employees of the Company are committed to implementing this Code of Conduct and each individual is accountable for such compliance. Disciplinary measures may be imposed for violating the Code.

Your Directors present their report on the Company consisting of KarmelSonix Limited and the entities it controlled at the end of, or during, the year ended 30 June 2009.

Directors

The names of the Directors of KarmelSonix Limited in office at any time during or since the end of the financial year are:
Mr Peter Marks
Dr Nathan Intrator
Prof Noam Gavriely
Dr Henry Pinskier
Mr Nadaisan Logaraj (resigned 21 November 2008)

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

Company Secretary

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

Mr Phillip Hains (Joint Company Secretary)

Mr Hains has served as the Company Secretary since 21 November 2006.

Mr Hains is a Chartered Accountant and specialist in the public company environment. He has served the needs of a number of public company boards of directors and related committees. He has over 20 years experience in providing accounting, administration, compliance and general management services. He holds a Masters of Business Administration from RMIT and a Public Practice Certificate from the Institute of Chartered Accountants.

Mr Brad Slade (Joint Company Secretary)

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

Mr Slade is a qualified accountant and has more than 15 years of professional experience, with specialised knowledge of taxation, finance and accounting principles and practice. He has held senior financial and accounting positions within high profile private practices, servicing a diverse portfolio of clients in varied industries. Mr Slade also currently holds a number of office positions in private companies.

Principal Activities

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

Review of Operations

The consolidated loss of the Company after providing for income tax amounted to $6,701,092 (2008: $11,678,053). For further detail, refer to the Review of Operations set out on pp 4 to 8.

Dividends

The Directors did not pay any dividends during the financial year. The Directors do not recommend the payment of a dividend in respect of the 2009 financial year.

Significant Changes in the State of Affairs

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

After Balance Date Events

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

Future Developments

The likely developments in the Company's operations, to the extent that such matters can be commented upon, are covered in the Review of Operations on pp 4 to 8 of this Annual Report. In the opinion of the Directors, disclosure of information regarding the expected results of those operations are not predictable at this stage, or may prejudice the interests of the Company. Accordingly, this information has not been included in this report.

Environmental Regulations

The Company's operations are not subject to any significant environmental regulations under either Commonwealth or State legislation.

Information on Directors

Mr Peter Marks (Executive Chairman)		
Appointed to the board	—	21 November 2006
Qualifications	—	Bec LLB, Grad. Dip. Comm. Law, MBA
Experience	—	Mr Marks also serves as a Non Executive Director of Prana Biotechnology Ltd, a research and development company listed on the ASX, focused on commercialising research in Alzheimer's Disease and other major age-related degenerative disorders. From September 1998 until March 2001, Mr Marks was employed by KPMG Corporate Finance Ltd (Australia), where he rose to Director and was responsible for heading up the equity capital markets group in Melbourne. From January 1992 until July 1994, Mr Marks served as Head of the Melbourne Companies Department at the Australian Stock Exchange and was founding Director of Momentum Funds Management Pty Ltd, an Australian venture capital firm. From December 1990 until December 1991, Mr Marks served as Director of Corporate Finance at Burdett Buckeridge & Young Ltd in their Melbourne offices, from August 1988 until November 1990, he held senior corporate finance positions at Barings Securities Ltd, and from July 1985 until July 1988, he served as an Associate Director of McIntosh Securities, now Merrill Lynch Australia. In his roles with these various financial institutions, Mr Marks was responsible for advising a substantial number of listed and unlisted companies on issues ranging from corporate and company structure, to valuations, business strategies, acquisitions and international opportunities. Mr Marks is currently a Director of Peregrine Corporate Ltd, an Australian based investment bank and Watermark Global Plc, an AIM listed company commercialising the treatment & recycling of acid mine drainage water from South African mines.
Interest in shares and options	—	10,040,000 Ordinary Shares
Committees	—	Member of Audit, Risk & Compliance Committee and Remuneration & Nomination Committee
Directorships held in other listed entities	—	Prana Biotechnology Ltd (appointed 29 July 2005) Watermark Global Plc (appointed November 2005) Premier Bionics Limited (appointed 18 December 2001, resigned 10 May 2007) Select Vaccines Ltd (appointed 31 December 2001, resigned 9 August 2006)

Dr Nathan Intrator (CEO & Executive Director)		
Appointed to the board	—	15 April 2008
Experience	—	Dr. Intrator is widely recognised as a world expert in the field of signal processing (an area critical to the work of KarmelSonix Ltd) and has over 100 peer reviewed publications in major journals and conferences. He is also the Founder of two technology start-up companies, including one in the field of Cardio Pulmonary interactions – an area complementary to that of the Company. He has been responsible for the establishment, funding and expansion of these entities and brings to KarmelSonix Ltd an impressive range of technical, project management, commercial and leadership skills, including successful interactions with major funds and investors. Nathan is also Senior Faculty Member of the School of Computer Sciences at the University of Tel Aviv and Brown University in Providence USA.
Interest in shares and options	—	15,604,508 Ordinary Shares and 7,000,000 Unlisted Options over Ordinary Shares
Committees	—	Nil
Directorships held in other listed entities	—	Nil

Prof Noam Gavriely (CMO & Executive Director)		
Appointed to the board	—	21 November 2006
Qualifications	—	MD, DSc
Experience	—	Prof Gavriely is the founder and former CEO of Karmel Medical Acoustic Technologies Ltd. Prof Gavriely has been conducting basic and applied research on pulmonary acoustics for over 25 years and is an international authority in this field. He is extensively published in various aspects of breath sounds, including the 1995 CRC Press book on "Breath Sounds Methodology", and holds multiple US and international patents on phonopneumography and other aspects of breath sounds monitoring. Prof Gavriely has extensive entrepreneurial experience, has founded and managed several medical device companies in recent years and commercialised multiple medical devices with World-wide distribution.
Interest in shares and options	—	82,970,808 Ordinary Shares
Committees	—	Nil
Directorships held in other listed entities	—	Nil

Dr Henry Pinskier (Executive Director)		
Appointed to the board	—	21 November 2006 (Executive Director from 27 August 2008)
Qualifications	—	MBBS
Experience	—	Dr Pinskier has extensive involvement in the health care sector. A trained medical practitioner, Dr Pinskier is Chairman of Medi7 Pty Ltd (Formerly: Health Care United), a multi site medical services company providing serviced rooms and medical and allied health services to the medical, para medical and general population. He is a former Director of the Alfred Hospital (resigned 30 June 2009) and the Victorian Managed Insurance Authority and also chairs an Optometry Research Ethics Committee. Dr Pinskier brings to the Company a strong business background and an intimate understanding and appreciation of the health care services and health care technology industries, he assists in interfacing with healthcare professionals who deal with asthmatic and COPD patients on a daily basis.
Interest in shares and options	—	11,135,426 Ordinary Shares and 6,000,000 Unlisted Options over Ordinary Shares
Committees	—	Member of Audit, Risk & Compliance Committee and Remuneration & Nomination Committee
Directorships held in other listed entities	—	Premier Bionics Limited (appointed 18 December 2001, resigned 5 April 2007)

Mr Nadaisan Logaraj (Non Executive Director)		
Appointed to the board	—	15 April 2008 (Resigned 21 November 2008)
Qualifications	—	LL.B (Hons) LL.M
Experience	—	Mr Logaraj has worked both in international law firms and investment banks for the last 28 years, having been responsible for a wide range of cross-border financing, M&A and other transactions and brings to KSX an extensive network throughout Australia and Asia. Currently Mr. Logaraj advises several Asian and Australasian corporations on their international investments and is a Member of the NSW Government's Asia Business Council. He was one of six external advisers to The University of Sydney on its strategic development and is currently a Member of its Council which deals with Asia Pacific issues. Mr Logaraj is the National President of the Australia-Singapore Chamber of Commerce (since 1993), as well as a Director of the Australia-India Leadership Dialogue. He holds a Master of Laws degree from The University of Sydney majoring in International Tax and Public Company Finance.
Interest in shares and options	—	Nil
Committees	—	Member of Audit, Risk & Compliance Committee and Remuneration & Nomination Committee
Directorships held in other listed entities	—	Cauldron Energy Ltd [Formerly - Scimitar Resources Ltd] (appointed 13 December 2007) Carbon Conscious Ltd (appointed 3 January 2008)

Meetings of Directors

The number of meetings of the Company's board of Directors (including committees of Directors) held during the year ended 30 June 2009, and the number of meetings attended by each of the Directors were:

	Directors' Meetings		Committee Meetings			
			Audit, Risk and Compliance Committee		Remuneration and Nomination Committee	
Directors	Number Available to Attend	Number Attended	Number Available to Attend	Number Attended	Number Available to Attend	Number Attended
Mr Peter Marks	13	13	6	6	2	2
Dr Nathan Intrator	13	12	-	-	-	-
Prof Noam Gavriely	13	13	-	-	-	-
Dr Henry Pinskier	13	12	6	6	2	2
Mr Nadaisan Logaraj	7	7	3	3	1	1

Indemnification of Officers and Auditors

During the financial year the Company maintained an insurance policy to indemnify Directors and Officers against certain liabilities incurred as such a Director or Officer, including costs and expenses associated in successfully defending legal proceedings. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. The Company has not otherwise, during or since the financial year, indemnified or agreed to indemnify an Officer or Auditor of the Company or any related boby corporate against a liability incurred as such an Officer or Auditor.

REMUNERATION REPORT (AUDITED)

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

Directors and Key Management Personnel

Name	Position	
Mr Peter Marks	Executive Chairman	
Dr Nathan Intrator	Non Executive Director	
Prof Noam Gavriely	Executive Director	
Dr Henry Pinskier	Executive Director	
Mr Nadaisan Logaraj	Executive Director	(resigned 21 November 2008)

The above personnel includes the five highest paid executives.

Remuneration Policy

Remuneration of all Executive and Non-Executive Directors and Officers of the Company is determined by the Board following recommendation by the Remuneration and Nomination Committee.

The Company is committed to remunerating Executive Directors in a manner that is market-competitive and consistent with "Best Practice" including the interests of shareholders. Remuneration packages are based on fixed and variable components, determined by the Executives' position, experience and performance, and may be satisfied via cash or equity.

Non-Executive Directors are remunerated out of the aggregate amount approved by shareholders and at a level that is consistent with industry standards. Non-Executive Directors do not receive performance based bonuses and prior Shareholder approval is required to participate in any issue of equity. No retirement benefits are payable other than statutory superannuation, if applicable.

Remuneration Policy Versus Company Financial Performance

Directors have been compensated for work undertaken and the responsibilities assumed in being Directors of this publicly listed company based on industry practice, as opposed to company performance which has been difficult to assess given the nature of the activities undertaken.

The Company envisages its performance in terms of earnings will remain negative whilst the Company continues in the research and development phase. Shareholder wealth reflects the speculative and volatile biotechnology market sector. This pattern is indicative of the Company's performance over the past five years.

Performance Based Remuneration

The purposes of a performance bonus is to reward individual performance in line with Company objectives. Consequently, performance based remuneration is paid to an individual where the individual's performance clearly contributes to a successful outcome for the Company. This is regularly measured in respect of performance against key performance indicators (KPI's).

The Company uses a variety of KPI's to determine achievement, depending on the role of the executive being assessed. These include:

* successful contract negotiations
* Company share price consistently reaching a targeted rate on the ASX or applicable market over a period of time
* completion of set milestones

Details of Remuneration for Year Ended 30 June 2009

The remuneration for each Director and each of the Key Management Personnel of the consolidated entity during the year was as follows:

		Short-Term Employment Benefits			Post Employment Benefits	Share-Based Payments	
		Cash, Salary & Fees	Cash Bonus	Non-Monetary Benefits	Super-annuation	Equity	Total
2009		$	$	$	$	$	$
Mr Peter Marks		160,000	-	-	-	-	160,000
Dr Nathan Intrator	1	49,429	-	-	-	33,908	83,337
Prof Noam Gavriely	3	132,708	-	-	-	1,482,000	1,614,708
Dr Henry Pinskier	1,2	135,500	-	-	-	40,642	176,142
Mr Nadaisan Logaraj		30,000	-	-	2,700	-	32,700
		507,637	-	-	2,700	1,556,550	2,066,887

1. During the year unlisted options were issued to Dr Nathan Intrator and Dr Henry Pinskier, as approved by shareholders at the AGM held on 21 November 2008, in recognition of the future contributions to the growth and success of the Company as CEO and VP of Sales & Marketing Australisia. This is in addition to their roles as Director's. As per the Australian accounting standards the options issued to Directors were valued at grant date and are being expensed over the vesting period of the options. The value of the options approved at the AGM on 21 November 2008 were calculated using the Black-Scholes Model applying the following inputs:

Issue Date: 1 December 2008
Exercise Price: $0.05
Stock Price: $0.014
Years to Expiry: 7.07 years
Volatility: 184.90%
Risk-free Interest Rate: 3.93%
Dividend Yield: 0%
Option Price: $0.0091

2. The 1,000,000 ordinary shares issued to Dr Henry Pinskier, as approved by shareholders at the AGM held on 21 November 2008, in recognition of the future contributions to the growth and success of the Company as VP of Sales & Marketing Australisia and as a Director, were fair valued at the ASX market price on the date approval was received at 1.4 cents per share. The fair value of this grant was $14,000.

3. On the 31 December 2008 Prof Noam Gavriely received non cash remuneration in the form of shares for research services provided resulting in the achievement of the fourth and final milestone subsequent to the acquistion of Karmel Sonix (Israel) Ltd in November 2006. The 30,000,000 D Class shares have been converted to ordinary shares on achievement of this milestone, the shares issued were fair valued at the ASX market price on the completion date at 4.9 cents per share. This amount has been fully expensed in the profit and loss of the parent entity.

		Short-Term Employment Benefits			Post Employment Benefits	Share-Based Payments	
		Cash, Salary & Fees	Cash Bonus	Non-Monetary Benefits	Super-annuation	Equity	Total
2008		$	$	$	$	$	$
Mr Peter Marks		190,000	-	-	-	-	190,000
Dr Nathan Intrator		8,902	-	-	-	-	8,902
Prof Noam Gavriely	2	67,895	-	-	-	1,630,250	1,698,145
Dr Henry Pinskier		77,000	-	-	-	-	77,000
Mr Nadaisan Logaraj		12,500	-	-	1,125	-	13,625
Dr Reuven Regev	1	63,341	-	-	-	1,801,015	1,864,356
		419,638	-	-	1,125	3,431,265	3,852,028

1. During the year equity was issued to Dr Reuven Regev as approved by shareholders at the EGM held on 27 July 2007 in recognition of the future contributions to the growth and success of the Company as CEO and a Director. As per the Australian accounting standards the options issued to Directors were valued at grant date and are being expensed over the vesting period of the options. As a result, the value does not reflect the current market price of the Company's shares. The value of the options approved at the EGM on 27 July 2007 were calculated using the Black-Scholes Model applying the following inputs:

Issue Date: 9 August 2007
Exercise Price: $0.05
Stock Price: $0.245
Years to Expiry: 2.93 years
Volatility: 87%
Risk-free Interest Rate: 6.35%
Dividend Yield: 0%
Option Price: $0.18

The Board approved the vesting of 10,000,000 options during the year on the resignation of Mr Regev on 15 April 2008, as a Director and CEO of the Company. The remaining 4,000,000 options were forfeited by Mr Regev. This amount has been fully expensed in the profit and loss of the subsidiary Karmel Sonix (Israel) Ltd.

2. On the 27 June 2008 Prof Noam Gavriely received non cash remuneration in the form of shares for research services provided resulting in the achievement of the third milestone subsequent to the acquistion of Karmel Sonix (Israel) Ltd in November 2006. The 30,000,000 E Class shares have been converted to ordinary shares on achievement of this milestone, the shares issued were fair valued at the ASX market price on the completion date at 4.9 cents per share. This amount has been fully expensed in the profit and loss of the parent entity.

The allocation of key management personnel expense between the parent entity and the consolidated entity is set out in Note 5.

Performance Income as a Proportion of Total Remuneration

All Directors as key management personnel are eligible to receive incentives whether through employment contracts or by the recommendation of the Board. Their performance payments are based on a set monetary value, set number of shares or options or as a portion of base salary. Therefore there is no fixed proportion between incentive and non-incentive remuneration.

Non-Executive Directors are not entitled to receive bonuses and/or incentives.

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

	Fixed Remuneration		At Risk - LTI	
Directors	**2009**	**2008**	**2009**	**2008**
Mr Peter Marks	100%	100%	-	-
Dr Nathan Intrator	59%	100%	41%	-
Prof Noam Gavriely	8%	4%	92%	96%
Dr Henry Pinskier	77%	100%	23%	-
Mr Nadaisan Logaraj	100%	100%	-	-
Dr Reuven Regev	-	3%	-	97%

At risk long term incentive (LTI) relates to remuneration in the form of share based payments. There are no short term incentives considered to be at risk in the current or prior year.

Share-based Compensation

At the General Meeting held on 24 May 2007, Shareholders approved the establishment of the 2007 Employees', Directors' and Consultants' Share and Option Plan (ESOP). The ESOP is intended to reward Directors, employees and/or consultants for their contributions to the Group. The Plan is to be used as a method of retaining key personnel for the growth and development of the Group. Due to the Group's presence in Israel, the Plan has been established to benefit personnel in both Australia and Israel. At 30 June 2009 equity had been issued to 1 previous Director, 22 employees and 8 consultants.

The terms and conditions of each grant of options affecting Director and Key Management Personnel remuneration in the previous, this or future reporting periods are as follows:

Grant Date	Date Vested & Exercisable	Expiry Date	Exercise Price	Share Price Hurdle	Vested	Value per Option at Grant Date
27 July 2007	15 April 2008	30 June 2010	$0.05	N/A	Yes	$0.18

The board approved the vesting of the above options on the resignation of Mr Regev on the 15 April 2008, as set out on page 19.

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

When exercisable, each option is convertible into one ordinary share as soon as practical after the receipt by the Company of the completed exercise form and full payment of such exercise price.

The exercise price of options granted under this plan shall be determined by the Committee in its sole discretion.

The plan rules contain a restriction on removing the 'at risk' aspect of the instruments granted to executives. Plan participants may not enter into any transaction designed to remove the 'at risk' aspect of an instrument before it vests.

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

		Number of Options Granted During the Year		Number of Options Forfeited During the Year		Number of Options Vested During the Year	
Directors		**2009**	**2008**	**2009**	**2008**	**2009**	**2008**
Mr Peter Marks		-	-	-	-	-	-
Dr Nathan Intrator	2	7,000,000	-	-	-	1,500,000	-
Prof Noam Gavriely		-	-	-	-	-	-
Dr Henry Pinskier	2	6,000,000	-	-	-	1,000,000	-
Mr Nadaisan Logaraj		-	-	-	-	-	-
Dr Reuven Regev	1	-	14,000,000	-	4,000,000	-	10,000,000
		13,000,000	14,000,000	-	4,000,000	2,500,000	10,000,000

1. The Board approved the vesting of 10,000,000 options (71.43%) during the year on the resignation of Mr Regev on 15 April 2008, as a Director and CEO of the Company. The remaining 4,000,000 (28.57%) options were forfeited by Mr Regev, the fair value of the options forfeited was $720,406.

2. The fair value of otions granted to Dr Henry Pinskier for the year ended 30 June 2009 was $54,312. Due to vesting conditions an amount of $26,642 has been recognised as an expense in the current year. The fair value of otions granted to Dr Nathan Intrator for the year ended 30 June 2009 was $63,364. Due to vesting conditions an amount of $33,908 has been recognised as an expense in the current year. Further details in relation to these options is disclosed on pp 19.

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

		Number of Shares Granted During the Year	
Directors		2009	2008
Mr Peter Marks		-	-
Prof Noam Gavriely	1	30,000,000	30,000,000
Dr Henry Pinskier	1	1,000,000	-
Mr Nadaisan Logaraj		-	-
Dr Nathan Intrator		-	-
Dr Reuven Regev		-	-
		31,000,000	30,000,000

1. Further details in relation to these shares is disclosed on pp 19.

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

Employment Contracts of Directors and Key Management Personnel

No Director or Senior Executive were under a formal contract as at 30 June 2009.

This is the end of the Remuneration Report.

Share Options on Issue at 30 June 2009

The unissued ordinary shares of KarmelSonix Limited under option at the following dates were:

Date of Expiry	Exercise Price $	Number Under Option at 30 June 2009	Number Under Option at 30 June 2008
31 July 2009	$0.05	56,575,572	55,475,572
30 October 2009	$0.25	10,000,000	10,000,000
30 June 2010	$0.05	10,600,000	10,600,000
30 June 2012	$0.05	24,737,497	-
15 December 2013	$0.05	3,812,500	-
15 December 2014	$0.13	900,000	-
15 June 2015	$0.13	900,000	-
15 December 2015	$0.05	13,000,000	-
		120,525,569	76,075,572

Shares Issued as a Result of the Exercise of Options

During the year ended 30 June 2009 the following ordinary shares of KarmelSonix Limited were issued as a result of the exercise of options:

Date of Issue	Exercise Price $	Shares Issued
25 August 2008	$0.025	287,000
		287,000

There have been no ordinary shares of KarmelSonix Limited issued as a result of the exercise of options since the end of the year.

Proceedings on Behalf of the Company

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

Non-audit Services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

During the year ended 30 June 2009 the Company did not engage the external auditor to provide non-audit services.

Auditor's Independence Declaration

The lead auditor's independence declaration as required under section 307C of the Corporations Act 2001 for the year ended 30 June 2009 has been received and can be found on pp 22 of the annual report.

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

Mr Peter Marks
Director
Dated this 30th day of September 2009

PKF

Chartered Accountants
& Business Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of KarmelSonix Limited for the year ended 30 June 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 audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

D J Garvey
Partner
PKF

30 September 2009
Melbourne

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KARMELSONIX LIMITED
ABN: 98 009 234 173
INCOME STATEMENT
FOR THE YEAR ENDED 30 JUNE 2009

	Note	Consolidated Entity 2009 $	Consolidated Entity 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
Revenue	2	225,432	-	-	-
Cost of goods sold		(294,954)	-	-	-
		(69,522)	-	-	-
Other income	2	201,667	931,119	797,844	545,029
Amortisation expenses	3	187,084	90,151	-	-
Consulting, employee and director expenses	3	2,924,230	6,004,232	2,002,392	2,269,872
Corporate administration expenses		486,766	636,687	369,432	424,607
Depreciation expenses	3	79,967	87,556	1,514	1,878
Impairment expense	3	-	-	3,968,166	9,361,507
Marketing and promotion expenses		1,050,846	2,439,039	331,027	1,701,663
Research and development expenses	3	2,026,361	3,021,130	-	-
Travel and entertainment expenses		77,983	330,377	45,893	271,299
Loss before income tax		(6,701,092)	(11,678,053)	(5,920,580)	(13,485,797)
Income tax expense	4	-	-	-	-
Loss Attributable to Members of the Parent Entity		**(6,701,092)**	**(11,678,053)**	**(5,920,580)**	**(13,485,797)**
Overall Operations					
Basic loss per share (cents per share)	7a	(1.70)	(3.53)		
Diluted loss per share (cents per share)	7b	(1.70)	(3.53)		

The accompanying notes form part of these financial statements.

KARMELSONIX LIMITED
ABN: 98 009 234 173
BALANCE SHEET
AS AT 30 JUNE 2009

	Note	Consolidated Entity 2009 $	Consolidated Entity 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
Assets					
Current Assets					
Cash and cash equivalents	8	2,959,130	3,370,543	2,338,678	2,300,562
Trade and other receivables	9	221,470	375,877	27,278	24,226
Inventories	10	76,899	61,676	-	-
Other	15	145,079	20,694	25,250	9,505
Total Current Assets		3,402,578	3,828,790	2,391,206	2,334,293
Non-Current Assets					
Trade and other receivables	9	-	-	530,169	930,458
Other financial assets	11	-	-	1,580,750	1,580,750
Plant and equipment	13	143,069	216,295	1,857	3,371
Intangible assets	14	1,536,960	1,712,876	-	-
Other	15	18,849	9,671	-	-
Total Non-Current Assets		1,698,878	1,938,842	2,112,776	2,514,579
Total Assets		**5,101,456**	**5,767,632**	**4,503,982**	**4,848,872**
Liabilities					
Current Liabilities					
Trade and other payables	16	826,990	893,722	249,656	124,596
Other financial liabilities	17	323,820	-	323,820	-
Provisions	18	15,268	17,508	-	-
Total Current Liabilities		1,166,078	911,230	573,476	124,596
Non-Current Liabilities					
Provisions	18	5,991	3,686	-	-
Total Non-Current Liabilities		5,991	3,686	-	-
Total Liabilities		**1,172,069**	**914,916**	**573,476**	**124,596**
Net Assets		**3,929,387**	**4,852,716**	**3,930,506**	**4,724,276**
Equity					
Issued capital	19	56,571,097	51,796,073	56,571,097	51,796,073
Reserves	20	4,877,893	3,875,154	4,446,056	4,094,270
Accumulated losses		(57,519,603)	(50,818,511)	(57,086,647)	(51,166,067)
Total Equity		**3,929,387**	**4,852,716**	**3,930,506**	**4,724,276**

The accompanying notes form part of these financial statements.

KARMELSONIX LIMITED
ABN: 98 009 234 173
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2009

	Note	Issued Capital	Option Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
		Consolidated Entity				
		$	$	$	$	$
Balance at 01 July 2007	19,20	41,307,210	219,000	19,878	(39,140,458)	2,405,630
Shares issued	19	7,110,874	-	-	-	7,110,874
Capital raising costs	19	(345,412)	-	-	-	(345,412)
Options exercised net of costs	19	3,603,198	-	-	-	3,603,198
Options issued	20	-	3,995,473	-	-	3,995,473
Net (loss) for the period		-	-	-	(11,678,053)	(11,678,053)
Currency translation movement		-	-	(238,994)	-	(238,994)
Transfers to/from reserves	19	120,203	(120,203)	-	-	-
Balance at 30 June 2008		51,796,073	4,094,270	(219,116)	(50,818,511)	4,852,716
Shares issued	19	5,110,544	-	-	-	5,110,544
Capital raising costs	19	(382,664)	-	-	-	(382,664)
Options exercised net of costs	19	7,175	-	-	-	7,175
Options issued	20	-	391,755	-	-	391,755
Net (loss) for the period		-	-	-	(6,701,092)	(6,701,092)
Currency translation movement		-	-	650,953	-	650,953
Transfers to/from reserves	19	39,969	(39,969)	-	-	-
Balance at 30 June 2009		**56,571,097**	**4,446,056**	**431,837**	**(57,519,603)**	**3,929,387**
		Parent Entity				
		$	$	$	$	$
Balance at 01 July 2007	19,20	41,307,210	219,000	-	(37,680,270)	3,845,940
Shares issued	19	7,110,874	-	-	-	7,110,874
Capital raising costs	19	(345,412)	-	-	-	(345,412)
Options exercised net of costs	19	3,603,198	-	-	-	3,603,198
Options issued	20	-	3,995,473	-	-	3,995,473
Net (loss) for the period		-	-	-	(13,485,797)	(13,485,797)
Transfers to/from reserves	19	120,203	(120,203)	-	-	-
Balance at 30 June 2008		51,796,073	4,094,270	-	(51,166,067)	4,724,276
Shares issued	19	5,110,544	-	-	-	5,110,544
Capital raising costs	19	(382,664)	-	-	-	(382,664)
Options exercised net of costs	19	7,175	-	-	-	7,175
Options issued	20	-	391,755	-	-	391,755
Net (loss) for the period		-	-	-	(5,920,580)	(5,920,580)
Transfers to/from reserves	19	39,969	(39,969)	-	-	-
Balance at 30 June 2009		**56,571,097**	**4,446,056**	**-**	**(57,086,647)**	**3,930,506**

The accompanying notes form part of these financial statements.

KARMELSONIX LIMITED
ABN: 98 009 234 173
CASH FLOW STATEMENT
FOR THE YEAR ENDED 30 JUNE 2008

	Note	Consolidated Entity 2009 $	Consolidated Entity 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
Cash Flows Related To Operating Activities					
Receipts from customers		225,432	-	-	-
Payments to suppliers and employees		(4,105,417)	(6,730,506)	(556,553)	(1,633,410)
Interest received		70,190	689,894	36,568	173,105
Receipt of grant funding		25,871	100,191	-	-
R & D tax refund		288,107	140,275	-	-
Net Cash Flows Used In Operating Activities	24a	**(3,495,817)**	**(5,800,146)**	**(519,985)**	**(1,460,305)**
Cash Flows Related To Investing Activities					
Payment for purchases of plant and equipment		(13,319)	(122,357)	-	-
InterCompany		-	-	(2,536,820)	(5,076,407)
Net Cash Flows Used In Investing Activities		**(13,319)**	**(122,357)**	**(2,536,820)**	**(5,076,407)**
Cash Flows Related To Financing Activities					
Proceeds from issues of equity securities		2,431,365	9,048,434	2,431,365	9,048,434
Proceeds from issues of debt securities		1,046,220	-	1,046,220	-
Capital raising costs		(382,664)	(345,412)	(382,664)	(345,412)
Net Cash Flows From Financing Activities		**3,094,921**	**8,703,022**	**3,094,921**	**8,703,022**
Net Increase/(Decrease) In Cash And Cash Equivalents		(414,215)	2,780,519	38,116	2,166,310
Cash and cash equivalents at the beginning of the year	8	3,370,543	588,350	2,300,562	134,252
Effects of exchange rate changes on cash and cash equivalents		2,802	1,674	-	-
Cash And Cash Equivalents At The End Of The Year	8	**2,959,130**	**3,370,543**	**2,338,678**	**2,300,562**

The accompanying notes form part of these financial statements.

Note 1 Statement of Significant Accounting Policies

Statement of Compliance

The financial report is a general purpose financial report that has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Australian Accounting Interpretations, and complies with other authoritive pronouncements from the Australian Accounting Standards Board.

The financial report covers the consolidated entity of KarmelSonix Ltd and controlled entities, and KarmelSonix Ltd as an individual parent entity. KarmelSonix Ltd is a listed public Company, incorporated and domiciled in Australia. The Company's principal activities are research, development and commercialisation of medical devices.

The financial report complies with Australian Accounting Standards, as issued by the Australian Accounting Standards and with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board (IASB).

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

Basis of Preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

Critical Accounting Estimates and Judgments

In the preparation of these financial statements the Directors are required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are continually evaluated. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Going Concern

For the year ended 30 June 2009, the company (Parent) and consolidated entity (Group) incurred an operating loss of $5,920,580 and $6,701,092 (2008: Parent $13,485,797, Group $11,678,053), had operating cash outflows of $519,985 and $3,495,817 (2008: Parent $1,460,305, Group $5,800,146). Furthermore, the company and consolidated entity do not yet have a source of income sufficient to meet their operating costs and are reliant on equity capital or loans from third parties to meet their operating costs. For the period covering 12 months from signing of the financial report, the company and consolidated entity expect 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 company's and consolidated entity's ability to continue as going concerns.

The ability of the company and the consolidated entity to continue as going concerns is dependent upon a number of factors, one being the continuation and availability of funds. At balance date the company and consolidated entity had positive net working capital of $1,817,730 and $2,236,500, respectively. 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 company and the consolidated entity are expecting to fund ongoing obligations beyond this working capital position as follows:

- The directors have resolved to place before the shareholders at the AGM a resolution to enable the raising of capital of up to $6 million from existing and new sophisticated investors. Subject to shareholder approval and the offer being adequately subscribed, the raising will provide further funds to meet working capital and capital requirements. Since April 2009, the Company has raised $3.6million (approximately before costs), providing evidence that the Company can raise capital from existing and new investors;

- A number of the Company's products have reached commercialisation stage and the company is expected to commence sales which will provide additional cash flow to the Company. To June 2009 the company has recorded sales from distributors and targeted customers for the PulmoTrack unit amounting to A$225,432;

- The Company has access to an equity draw down facility of up to $7.2 million 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; and

- 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 company and the consolidated entity have sufficient cash flows to meet their commitments over the next twelve months based on the above factors, and for that reason the financial statements have been prepared on the basis that the company and consolidated entity are going concerns, which contemplates the continuity of normal business activity, realisation of assets and the settlement of liabilities in the normal course of business.

Should the company and consolidated entity be unable to continue as going concerns, 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 statements. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts or liabilities that might be necessary should the company and the consolidated entity not continue as going concerns.

Impairment

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

Share-Based Payment Transactions

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

Useful-Life of Intellectual Property

As detailed at Note 15, intellectual property is amortised over its expected useful life of 10 years. The estimate of a useful life of 10 years is a critical estimate impacting the amortisation expense of intellectual property.

Accounting Policies

(a) Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries)(referred to as 'the Group' in these financial statements). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

A list of controlled entities is contained in Note 12 to the financial statements. All controlled entities have a 30 June financial year-end.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation. In the separate financial statements of the Company, intra-group transactions ('common control transactions') are generally accounted for by reference to the existing book value of the items. Where the transaction value of common control transactions differ from their consolidated book value, the difference is recognised as a contribution by or distribution to equity participants by the transacting entities.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those policies applied by the parent entity. Subsidiaries are accounted for at cost in the parent entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

(b) Income Tax

The income tax expense is based on the taxable income for the year. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date. Current tax for current and prior periods is recognised as a liability (or assets) to the extent that it is unpaid (or refundable).

Deferred tax is accounted for using the balance sheet liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the balance sheet. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes. In principle, deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (excluding a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint ventures except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled. Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/Group intends to settle its current tax assets and liabilities on a net basis.

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

The company participates in the R & D Tax Offset scheme to obtain a tax rebate equivalent to the entitlements under the R & D Tax Concession. Such rebates are accrued at the time the R & D expenditure is incurred based on its estimated recovery at this time and are disclosed as revenue within the Income Statement.

(c) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories comprise cost of purchase and costs incurred in bringing inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated selling costs.

Costs of inventories are assigned as follows:

Raw materials	Purchase cost on a first in, first out basis.
Finished Goods	Purchase cost on a first in, first out basis.

The Company periodically evaluates the condition and age of inventories amd makes provisions for slow moving inventories accordingly.

If in a particular period production is not at normal capacity, the costs of inventories does not include additional fixed overheads in excess of those allocated based on normal capacity. Such unallocated overheads are recognised as an expense in the income statement in the period in which they are incurred. Furthermore, cost of inventories does not include abnormal amounts of materials, labour or other costs resulting from inefficiency.

(d) Plant and Equipment

Plant and equipment is stated at cost, less accumulated depreciation and impairment.

Cost includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets is depreciated on a straight line basis commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Furniture & fittings	6 - 15%
Computer equipment & software	15 - 33%
Medical equipment	15%
Fitout assets	16.66%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement.

(e) Financial Assets and Liabilities

Recognition

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

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

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date which are classified as non-current assets. Loans and receivables are carried at amortised cost using the effective interest rate method less impairment.

Financial Liabilities

Non-derivative financial liabilities are recognised at amortised cost using the effective interest rate method, comprising original debt less principal payments, amortisation and impairment.

(f) Impairment of Assets

At each reporting date, the Group reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the assets carrying value. Any excess of the assets carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(g) Non-current Assets (or Disposal Groups) Held for Sale and Discontinued Operations

Non-current assets (or disposal groups) are classified as held for sale and stated at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction rather than through continuing use.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resell. The results of discontinued operations are presented separately on the face of the income statement.

(h) Intangibles

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGU's), or groups of CGU's, expected to benefit from the synergies of the business combination. Any impairment loss is allocated is the first to reduce the carrying amount of any goodwill allocated to the CGU (or groups of CGUs) and then to other assets of the CGU (or groups of CGUs) pro-rata on the basis of the carrying amount of each asset in the CGU (or groups of CGUs). An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period.

Research and Development

Research expenditure is recognised as an expense when incurred. Costs incurred on development projects (relating to design and testing of new or improved technology) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technical feasibilty and its costs can be measured reliably. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriated proportion of overheads. Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life, which varies from 3 to 5 years.

Intellectual Property

Intellectual property relates to technology assets, know-how and patents related to assets acquired on acquisition of KarmelSonix (Israel) Limited and is recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over the expected life, being 10 years. Amortisation commences when the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

The amortisation period and the amortisation method for an intangible asset is reviewed at least at the end of each reporting period. If the expected useful life of the asset is different from the pervious estimates, the amortisation shall be changed accordingly. Such changes are accounted for as changes in accounting estimates.

(i) Foreign Currency Transactions and Balances

Functional and Presentation Currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and Balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are retranslated at the rates prevailing at the balance sheet date. Non-monetary items that are measured in terms of historical cost are not retranslated. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

Group Companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

- assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
- income and expenses are translated at average exchange rates for the period; and
- retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the balance sheet. These differences are recognised in the income statement in the period in which the operation is disposed.

(j) Employee Benefits

Wages and Salaries, Annual Leave and Sick Leave

A liability is recognised for the Company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

Share-Based Payments

Shared-based compensation benefits are provided to employees via the KarmelSonix Limited Employee Option Plan and an employee share scheme.

The fair value of options granted under KarmelSonix Limited Option Share Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at the grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date was determined using an option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and the expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

(k) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably measured. Provisions are not recognised for future operating losses.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

(l) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

(m) Revenue

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. All revenue is stated net of the amount of goods and services tax (GST).

(n) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(o) Government Grants

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating. Grants relating to the purchase of property, plant and equipment are included in non current liabilities as deferred income and are credited to the income statement over the expected useful life of the related asset on a straight-line basis.

(p) Share Capital

Ordinary share capital is recognised as the fair value of the consideration received by the Company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(q) Business Combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group’s share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the group’s share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity’s incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

(r) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

(s) New Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2009 reporting periods. The Group’s assessment of the impact of these new standards and interpretations is only relevant to the below:

i) AASB 8 Operating Segments introduces the "management approach" to segment reporting. AASB 8, which becomes mandatory for the Group's 30 June 2010 financial statements, will require the disclosure of segment information based on the internal reports regularly reviewed by the Group's Chief Operating Decision Maker in order to assess each segment's performance and to allocate resources to them. Currently the Group presents segment information in respect of its business and geographical segments (see note 23). The Group does not believe AASB 8 will have a material impact on the Group's financial report.

ii) Revised AASB 101 Presentation of Financial Statements introduces as a financial statement (formerly "primary" statement) the "statement of comprehensive income". The revised standard does not change the recognition, measurement or disclosure of transactions and events that are required by other AASBs. The revised AASB 101 will become mandatory for the Group's 30 June 2010 financial statements. These amendments are only expected to affect the presentation of the Group's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report.

(iii) AASB 2008-1 Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations was issued in February 2008 and will become applicable for annual reporting periods beginning on or after 1 January 2009. The revised standard clarifies that vesting conditions are service conditions and performance conditions only and that other features of a share-based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply the revised standard from 1 July 2009, but it is not expected to affect the accounting for the Group's share-based payments.

(iv) Revised AASB 3 Business Combinations, AASB 127 Consolidated and Separate Financial Statements and AASB 2008-3 Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 were issued in March 2008 and are operative for annual reporting periods beginning on or after 1 July 2009, but may be applied earlier. However, the new rules generally apply only prospectively to transactions that occur after the application date of the standard. Their impact will therefore depend on whether the Group will enter into any business combinations or other transactions that affect the level of ownership held in the controlled entities in the year of initial application. For example, under the new rules:

- all payments (including contingent consideration) to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments subsequently remeasured at fair value through income;
- all transaction cost will be expensed;
- the Group will need to decide whether to continue calculating goodwill based only on the parent's share of net assets or whether to recognise goodwill also in relation to the non-controlling (minority) interest; and
- when control is lost, any continuing ownership interest in the entity will be remeasured to fair value and a gain or loss recognised in profit or loss.

(v) AASB 2008-7 Amendments to Australian Accounting Standard - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate was issued in August 2008 and will apply to financial reporting periods commencing on or after 1 January 2009. The revised rules, remove from AASB 118 the requirement to deduct dividends declared out of pre-acquisition profits from the cost of an investment in a subsidiary, jointly controlled entity or associate. Thus, all dividends received would be recognised as revenue. Furthermore, it amends AASB 127 to require, in certain circumstances, a new parent entity created in a group reorganisation to measure its investment at the carrying amount of the net assets shown in the separate financial statements of the original parent at the date of reorganisation. The Group does not believe AASB 2008-7 will have a material impact on the Group's financial report.

(vi) AASB 2009-8 Amendments to Australian Accounting Standard - Group Cash-Settled Share Based Payments was issued in August 2009 and will apply to financial reporting periods commencing on or after 1 January 2010. The amendments clarify the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. The Group has not yet determined what impact, if any, AASB 2009-8 will have on the Group's financial report.

Note 2 Revenue

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Sales				
— PulmoTrack	223,499	-	-	-
— Wheezometer	1,933	-	-	-
Total operating revenue	225,432	-	-	-
Interest received	70,190	689,894	797,645	544,270
Other income				
— R & D tax refunds	79,428	141,034	199	759
— Grant income	52,049	100,191	-	-
Total other income	131,477	241,225	199	759
Total non-operating revenue	201,667	931,119	797,844	545,029
Total Income	427,099	931,119	797,844	545,029

Note 3 Loss from Ordinary Activities

	Note	Consolidated Entity 2009 $	Consolidated Entity 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
(a) Expenses					
Amortisation and depreciation expenses					
— Amortisation		187,084	90,151	-	-
— Depreciation		79,967	87,556	1,514	1,878
Amortisation and depreciation expenses		267,051	177,707	1,514	1,878
Consulting, employee and director expenses					
— Consulting expenses		286,467	444,283	60,000	60,000
— Employee expenses		559,122	1,681,232	31,106	150,497
— Director expenses		2,064,187	3,850,903	1,908,586	2,050,102
— Defined contribution superannuation		14,454	27,814	2,700	9,273
Consulting, employee and director expenses		2,924,230	6,004,232	2,002,392	2,269,872
Impairment expense					
— Impairment of intercompany loan	9	-	-	3,698,186	6,616,938
— Impairment of investment in subsidiary	11	-	-	269,980	2,744,569
Impairment expense		-	-	3,968,166	9,361,507
Research and development expenses					
— Consulting expenses		189,807	775,587	-	-
— Employee expenses		1,241,460	1,398,156	-	-
— Patent and regulatory expenses		171,872	330,811	-	-
— Other research and development		411,493	516,576	-	-
Research and development expenses		2,026,361	3,021,130	-	-
Other expenses					
Office rental under operating lease		128,022	93,379	-	-
Foreign exchange loss		481	991	481	811
Total other expenses		128,503	94,370	481	811

Note 4 Income Tax Expense

	Consolidated Entity 2009 $	Consolidated Entity 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
(a) Income Tax Recognised in Profit or Loss				
The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:				
Loss before income tax	(6,701,092)	(11,678,053)	(5,920,580)	(13,485,797)
Income tax benefit calculated at 30% (2008: 30%)	(2,010,328)	(3,503,416)	(1,776,174)	(4,045,739)
Tax effect of amounts which are not deductible in calculating taxable income:				
— impairment expense and amortisation	56,125	27,045	80,994	823,371
— share-based payments	706,713	1,708,321	625,718	873,013
— other costs not deductible	1,891	5,541	1,820	5,389
— impairment of intercompany loan	-	-	1,109,456	1,985,081
Tax benefit associated with R&D rebate	(23,828)	(42,083)	-	-
Interest on Group loans not assessable	-	-	(228,323)	(111,350)
Other deductible items	(60,855)	(45,367)	(60,855)	(45,367)
Over/under provision for tax in prior years	(74,206)	75,574	205	(6,410)
Deferred tax assets relating to tax losses not recognised	1,404,488	1,774,385	247,159	522,012
Income Tax Recognised in Profit or Loss	-	-	-	-
(b) Deferred Tax Assets and Liabilities				
Deferred tax assets and liabilities are attributable to the following:				
Tax losses	4,173,184	2,788,274	4,173,184	2,788,274
Trade and other payables	13,200	16,965	13,200	9,371
Employee provisions	6,378	6,358	-	-
Net deferred tax assets not recognised	4,192,762	2,811,597	4,186,384	2,797,645
(c) Components of Tax				
The components of tax expense comprise:				
Current tax	-	-	-	-
Deferred tax	-	-	-	-
	-	-	-	-

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

Note 5 Key Management Personnel Compensation

Key Management Personnel includes:

(a) Directors

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

Name	Position	
Mr Peter Marks	Chairman	
Dr Nathan Intrator	Executive Director	
Prof Noam Gavriely	Executive Director	
Dr Henry Pinskier	Executive Director	
Mr Nadaisan Logaraj	Non Executive Director	(resigned 21 November 2008)

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

(b) Key Management Personnel Compensation

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

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Short-term employee benefits	507,637	419,638	352,036	419,638
Post-employment benefits	2,700	1,125	2,700	1,125
Long-term benefits	-	-	-	-
Termination benefits	-	-	-	-
Share-based payments	1,556,550	3,431,265	1,556,550	3,431,265
	2,066,887	3,852,028	1,911,286	3,852,028

Additional disclosures as required per AASB 124 can be found in the Remuneration Report on pages 18 to 21.

(c) Options and Rights Holdings

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

2009	Balance at Start of the Year	Granted as Compensat-ion (iv)	Options Exercised	Net Change Other (i)	Balance at End of the Year	Vested and Exercisable	Unvested
Directors of KarmelSonix Limited							
Mr Peter Marks	-	-	-	-	-	-	-
Dr Nathan Intrator	-	7,000,000	-	-	7,000,000	1,500,000	5,500,000
Prof Noam Gavriely	-	-	-	-	-	-	-
Dr Henry Pinskier	-	6,000,000	-	-	6,000,000	1,000,000	5,000,000
Mr Nadaisan Logaraj	330,000	-	-	(330,000)	-	-	-
	330,000	13,000,000	-	(330,000)	13,000,000	2,500,000	10,500,000

2008	Balance at Start of the Year	Granted as Compensat-ion (iv)	Options Exercised	Net Change Other (ii,iii)	Balance at End of the Year	Vested and Exercisable	Unvested
Directors of KarmelSonix Limited							
Mr Peter Marks	-	-	-	-	-	-	-
Dr Nathan Intrator	-	-	-	-	-	-	-
Prof Noam Gavriely	-	-	-	-	-	-	-
Dr Henry Pinskier	2,509,720	-	(2,500,000)	(9,720)	-	-	-
Mr Nadaisan Logaraj	-	-	-	330,000	330,000	330,000	-
Dr Reuven Regev	-	14,000,000	-	(4,000,000)	10,000,000	10,000,000	-
	2,509,720	14,000,000	(2,500,000)	(3,679,720)	10,330,000	10,330,000	-

(i) Mr Logaraj resigned as a Director of the Company on 21 November 2008, the unlisted options he held at this date have been included under the heading Net Change Other above. These options expired unexercised on 31 July 2009.

(ii) The options held by Dr Pinskier were listed options expiring on or before the 30 June 2008, exercisable at $0.10. Prior to expiry, 2,500,000 options were exercised at $0.10 and 9,720 options expired unexercised. The options held by Mr Logaraj are unlisted options expiring on or before the 31 July 2009 at $0.05. Dr Intrator held 7,604,508 listed options, which all expired unexercised on 30 June 2008.

(iii) Mr Logaraj and Dr Intrator were appointed as Directors of the Company on 15 April 2008, the options they held at this date have been included under the heading Net Change Other above. Mr Regev resigned as a Director and CEO of the Group on 15 April 2008, at this date he forfeited 4,000,000 options.

(iv) Please refer to Note 20(g) for further details in relation to issues in 2009 and Note 20(b) for details of issues in 2008, including terms.

(d) Shareholdings

The number of shares in the Company held during the financial year by each Director of KarmelSonix Limited and other key management personnel of the Group, including their personally related parties, are set out below. There were no shares granted during the period as remuneration.

2009		Balance at the Start of the Year	Received as Compensat-ion	Options Exercised	Net Change Other	Balance at the End of the Year
Directors of KarmelSonix Limited						
Mr Peter Marks	(i)	7,300,000	-	-	2,630,000	9,930,000
Dr Nathan Intrator	(i)	7,604,508	-	-	6,500,000	14,104,508
Prof Noam Gavriely	(i) (iii)	89,712,700	-	-	(6,981,892)	82,730,808
Dr Henry Pinskier	(i) (ii)	5,809,720	1,000,000	-	3,725,706	10,535,426
Mr Nadaisan Logaraj		-	-	-	-	-
		110,426,928	1,000,000	-	5,873,814	117,300,742

2008		Balance at the Start of the Year	Received as Compensat-ion	Options Exercised	Net Change Other	Balance at the End of the Year
Directors of KarmelSonix Limited						
Mr Peter Marks	(i)	7,000,000	-	-	300,000	7,300,000
Dr Nathan Intrator	(ii)	-	-	-	7,604,508	7,604,508
Prof Noam Gavriely	(i) (iv)	92,853,947	-	-	(3,141,247)	89,712,700
Dr Henry Pinskier		3,309,720	-	2,500,000	-	5,809,720
Mr Nadaisan Logaraj	(ii)	-	-	-	-	-
Dr Reuven Regev	(i)	2,000,000	-	-	135,000	2,135,000
		105,163,667	-	2,500,000	4,898,261	112,561,928

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

(ii) During the year ended 30 June 2009, Dr Henry Pinskier received non cash remuneration in the form of shares, as approved by shareholders at the AGM held on 21 November 2008, in recognition of the future contributions to the growth and success of the Company as VP of Sales & Marketing Australisia and as a Director, the shares were fair valued at the ASX market price on the date approval was received.

(iii) On the 27 June 2008 and 31 December Prof Noam Gavriely received non cash remuneration in the form of shares on the achievement of the third and fourth milestones in relation to the acquistion of Karmel Sonix (Israel) Ltd in November 2006. The 30,000,000 D & E Class shares have been converted to ordinary shares on achievement of these milestones, the shares issued were fair valued at the ASX market price on the completion date, these shares are included in the opening balance in 2008 and 2009.

(iv) Mr Logaraj and Dr Intrator were appointed as Directors of the Company on 15 April 2008, the shares they held at this date have been included under the heading Net Change Other above.

Note 6 Auditors' Remuneration

	Note	Consolidated Entity 2009 $	Consolidated Entity 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
Remuneration of the auditor of the parent entity for:					
— auditing or reviewing the financial report		49,250	45,982	49,250	45,982
— taxation services		-	-	-	-
		49,250	45,982	49,250	45,982
Remuneration of other auditors of subsidiaries for:					
— auditing or reviewing the financial report of subsidiaries	(i)	20,158	22,366	-	-
		20,158	22,366	-	-

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

Note 7 Loss per Share

	2009 cents	2008 cents
(a) Basic loss per share		
From overall operations	(1.70)	(3.53)
(b) Diluted earnings/loss per share		
From overall operations	(1.70)	(3.53)

	2009 $	2008 $
(c) Reconciliation of loss per share to net loss		
Net Loss	(6,701,092)	(11,678,053)
Loss used to calculate basic loss per share	(6,701,092)	(11,678,053)
Loss used to calculate diluted loss per share	(6,701,092)	(11,678,053)
(d) Reconciliation of loss per share to net loss from continuing operations		
Net Loss	(6,701,092)	(11,678,053)
Loss used to calculate basic loss per share	(6,701,092)	(11,678,053)
Loss used to calculate diluted loss per share	(6,701,092)	(11,678,053)

	No.	No.
(e) Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	395,246,272	330,385,072

(f) 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, as exercise of the options would decrease the basic loss per share, and have been excluded from the calculation of diluted loss per share.

Note 8 Cash and Cash Equivalents

	Consolidated Entity 2009 $	Consolidated Entity 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
Cash at bank and in hand	797,492	912,125	177,040	121,167
Short-term bank deposits	2,161,638	2,458,418	2,161,638	2,179,395
	2,959,130	3,370,543	2,338,678	2,300,562

Reconciliation of cash

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

Cash and cash equivalents	2,959,130	3,370,543	2,338,678	2,300,562
	2,959,130	3,370,543	2,338,678	2,300,562

Note 9 Trade and Other Receivables

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Current				
Trade receivables^	221,470	375,877	27,278	24,226
	221,470	375,877	27,278	24,226
Non-Current				
Loans to controlled entities	-	-	10,982,972	7,685,075
Provision for impairment of loan to controlled entity*	-	-	(10,452,803)	(6,754,617)
	-	-	530,169	930,458

^Trade receivables include GST receivable, V.A.T receivable and R&D tax refundable. Trade debtors are not past due and are not considered impaired.

*The provision for impairment recognised during the year was $3,698,186 (2008: $6,616,939). The provision for impairment recognised during the year was due to the Director's not being satisfied that the loans from the subsidiaries were recoverable as it was uncertain when these subsidiaries would generate sufficient positive cash flows to support repayment of the loans.

Note 10 Inventories

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Current				
At cost				
Raw materials and stores	76,899	3,515	-	-
Finished goods	-	58,161	-	-
	76,899	61,676	-	-

Note 11 Other Financial Assets

	Note	Consolidated Entity		Parent Entity	
		2009	2008	2009	2008
		$	$	$	$
Shares in Other Related Parties					
(a) Unlisted					
Investment in PulmoSonix Ltd - at cost		-	-	1,835,750	1,835,750
Less: Impairment loss	(i)	-	-	(1,835,750)	(1,835,750)
		-	-	-	-
Investment in Karmel Sonix (Israel) Limited - at cost		-	-	1,580,750	1,580,750
Other additions	(ii)	-	-	3,014,550	2,744,569
Less: Impairment loss	(iii)	-	-	(3,014,550)	(2,744,569)
		-	-	1,580,750	1,580,750

(i) The impairment loss was recorded in 2007 and arose following an assessment by the Directors of the carrying amount of the investment in PulmoSonix Pty Ltd using value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a 5 year period. The Directors consider it unrealistic to extrapolate cash flow projections beyond a five year period due to the changing nature of this business segment and have instead, calculated a terminal value at the end of 5 years using a price earnings ratio of four times final year net profit. The cash flows are discounted using an appropriate risk adjusted discount rate. The discount rate used in the vale-in-use calculations was 13.15%.

(ii) The options granted to employees of the subsidiary Karmel Sonix (Israel) Ltd, under the 2007 Employee and Consultant Share and Option Plan, have been expensed at the fair value of the options by the subsidiary and have been treated as an addition to the investment in the subsidiary by the parent.

(iii) The impairment loss reported in 2008 arose following an assessment by the Directors of the carrying amount of the investment in Karmel Sonix (Israel) Ltd using value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a 5 year period. The Directors consider it unrealistic to extrapolate cash flow projections beyond a five year period due to the changing nature of this business segment and have instead, calculated a terminal value at the end of 5 years using a price earnings ratio of four times final year net profit. The cash flows are discounted using an appropriate risk adjusted discount rate. The discount rate used in the vale-in-use calculations was 29.07%.

The carrying amount of the investment in Karmel Sonix (Israel) Ltd at 30 June 2009 was further assessed by the Directors and deemed to be in excess of the carrying amount. Accordingly, a further provision for impairment was recorded in the amount of $269,981.

Note 12 Controlled Entities

(a) Controlled Entities Consolidated

	Country of Incorporation	Percentage Owned (%)* 2009	2008
Parent Entity:			
KarmelSonix Limited	Australia		
Subsidiaries of KarmelSonix Limited:			
PulmoSonix Pty Ltd	Australia	100	100
Karmel Sonix (Israel) Limited	Israel	100	100

* Percentage of voting power is in proportion to ownership.

(b) Acquisition of Controlled Entities

On 21 November 2006 the parent entity acquired 100% of PulmoSonix Pty Ltd and Karmel Sonix (Israel) Limited, with KarmelSonix Ltd entitled to all profits earned from 21 November 2006 for a purchase consideration of $1,835,750 and $1,580,750 respectively.

During the year the parent entity issued options to employees of its subsidiary, Karmel Sonix (Israel) Ltd, under the 2007 Employee and Consultant Share and Option Plan. The subsidiary has expensed the fair value of the options being 269,981 (2008: $2,744,569) in the profit and loss. The parent entity has treated this amount as an addition to its investment in the subsidiary.

Note 13 Property, Plant and Equipment

	Consolidated Entity 2009 $	2008 $	Parent Entity 2009 $	2008 $
Plant & Equipment				
Furniture & Fittings				
At cost	32,488	31,259	-	-
Accumulated depreciation	(4,785)	(2,302)	-	-
	27,704	28,957	-	-
Computer Equipment & Software				
At cost	301,485	295,771	6,590	6,590
Accumulated depreciation	(227,839)	(153,579)	(4,733)	(3,219)
	73,645	142,192	1,857	3,371
Medical Equipment				
At cost	34,544	30,205	-	-
Accumulated amortisation	(13,685)	(8,693)	-	-
Total Leasehold Improvements	20,859	21,512	-	-
Fitout Assets				
At cost	31,083	28,943	-	-
Accumulated depreciation	(10,222)	(5,309)	-	-
	20,862	23,634	-	-
Total Plant and Equipment	143,069	216,295	1,857	3,371

(a) Movements in Carrying Amounts

Movements in carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

2009	Furniture & Fittings $	Computer Equipment & Software $	Medical Equipment $	Fitout Assets $	Total $
Consolidated Entity:					
Balance at the beginning of year	28,957	142,192	21,512	23,634	216,295
Additions	763	6,706	3,989	1,861	13,319
Depreciation expense	(2,433)	(69,293)	(4,928)	(4,859)	(81,513)
Disposals of assets	(205)	(5,310)	-	-	(5,515)
Exchange adjustment	622	(650)	286	225	483
Carrying amount at the end of year	27,704	73,645	20,859	20,862	143,069
Parent Entity:					
Balance at the beginning of year	-	3,371	-	-	3,371
Depreciation expense	-	(1,514)	-	-	(1,514)
Carrying amount at the end of year	-	1,857	-	-	1,857

2008	Furniture & Fittings $	Computer Equipment & Software $	Medical Equipment $	Fitout Assets $	Total $
Consolidated Entity:					
Balance at the beginning of year	14,915	141,778	15,449	11,628	183,770
Additions	14,296	63,749	9,314	16,890	104,249
Depreciation expense	(1,950)	(76,518)	(4,204)	(4,884)	(87,556)
Exchange adjustment	1,696	13,183	953	-	15,832
Carrying amount at the end of year	28,957	142,192	21,512	23,634	216,295
Parent Entity:					
Balance at the beginning of year	-	5,249	-	-	5,249
Depreciation expense	-	(1,878)	-	-	(1,878)
Carrying amount at the end of year	-	3,371	-	-	3,371

Note 14 Intangible Assets

	Consolidated Entity 2009 $	Consolidated Entity 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
Intellectual Property - Acquired				
Cost	1,814,195	1,803,027	-	-
Less accumulated amortisation	(277,235)	(90,151)	-	-
Net carrying value	1,536,960	1,712,876	-	-
Total intangibles	1,536,960	1,712,876	-	-

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

Consolidated Entity	Acquired Intellectual Property $	Total $
Year ended 30 June 2009		
Balance at the beginning of year	1,712,876	1,712,876
Additions	-	-
Effect of movements in exchange rates	11,168	11,168
Amortisation	(187,084)	(187,084)
Impairment losses	-	-
Closing carrying value at 30 June 2009	1,536,960	1,536,960
Year ended 30 June 2008		
Balance at the beginning of year	1,749,710	1,749,710
Additions	-	-
Effect of movements in exchange rates	53,317	53,317
Amortisation	(90,151)	(90,151)
Impairment losses	-	-
Closing carrying value at 30 June 2008	1,712,876	1,712,876

Amortisation

Amortisation is charged on a straight line basis over the expected life of the asset and begins when the asset is available for use. The Directors have determined that the asset was available for use on 1 January 2008 and the life of the intangible is 10 years. Intellectual property relates to acquired assets.

Note 15 Other Assets

	Consolidated Entity 2009 $	Consolidated Entity 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
Current				
Prepayments	145,079	20,694	25,250	9,505
	145,079	20,694	25,250	9,505
Non-Current				
Rental Deposits	2,938	2,938	-	-
Car Leases	15,911	6,733	-	-
	18,849	9,671	-	-

Note 16 Trade and Other Payables

	Note	Consolidated Entity 2009 $	Consolidated Entity 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
Current					
Unsecured liabilities					
Trade payables	16a	682,068	743,234	107,234	26,856
Sundry payables and accrued expenses		144,922	124,310	142,422	97,740
Prepaid Income		-	26,178	-	-
		826,990	893,722	249,656	124,596

(a) At balance date there were unhedged foreign currency payables of $ILS1,677,880 (2008: $ILS2,238,330, Israeli New Shekel) or $AUD530,042 (2008:$AUD692,204) payable by the economic entity.

Note 17 Other Financial Liabilities

	Note	Consolidated Entity 2009 $	Consolidated Entity 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
Current					
Redeemable convertible preference shares	17a	323,820	-	323,820	-
		323,820	-	323,820	-

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

- o KSX producing 2000 units of its Personal WheezoMeter and/or achieving confirmed order book of 5,000 units;
- o any sale, transfer or creation of any charge, mortgage, pledge, lien, or other dealing of whatsoever nature over the Company's wholly owned subsidiary, Karmel Sonix Israel (the owner of the Personal WheezoMeter™) and including its assets, and not limited to the Personal WheezeoMeter™, its patents, related technology and intellectual property; and/or
- o 24 months from the date of the subscription agreement.

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

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

During and since the end of the current financial year, 14,184,000 redeemable convertible preference shares have been converted into ordinary shares in KarmelSonix Limited.

Note 18 Provisions

	Consolidated Entity 2009 $	Consolidated Entity 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
Current				
Annual leave	15,268	17,508	-	-
	15,268	17,508	-	-
Non-Current				
Long service leave	5,991	3,686	-	-
	5,991	3,686	-	-

Provision for Employee Entitlements

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

Note 19 Issued Capital

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

	Note	Consolidated Entity 2009 $	Consolidated Entity 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
Fully Paid Ordinary shares (2009: 524,896,573) (2008: 273,824,583)	19a	56,497,267	51,796,073	56,497,267	51,796,073
Partly Paid Ordinary Shares (2009: 36,915,000) (2008: Nil)	19b	73,830	-	73,830	-
Fully Paid D class shares (2009: Nil) (2008: 30,000,000)	19c	-	-	-	-
Fully Paid E class shares (2009: Nil) (2008: 30,000,000)	19d	-	-	-	-
Fully Paid G class shares (2009: 12,500,000) (2008: 12,500,000)	19e	-	-	-	-
Fully Paid H class shares (2009: 12,500,000) (2008: 12,500,000)	19f	-	-	-	-
		56,571,097	51,796,073	56,571,097	51,796,073

(a) Ordinary Shares

	Note	2009 No.	2009 $	2008 No.	2008 $
At the beginning of reporting period		273,824,583	51,796,073	206,370,597	41,307,210
Shares issued during year	(i)	250,784,990	5,036,714	28,909,793	7,110,874
Exercise of options	(ii)	287,000	7,175	38,544,193	3,603,198
Transaction costs relating to share issues			(382,664)		(345,412)
Transfer to/from other equity classes and reserves			39,969		120,203
At reporting date		524,896,573	56,497,267	273,824,583	51,796,073

(i) 2009	Details	Number	Issue Price $	$
31-Jul-08	Issue E Class Shares expensed in prior year	30,000,000	0.000	-
31-Jul-08	Issued to Consultants^	937,500	0.032	30,000
25-Aug-08	Issued to Consultants^	3,827,751	0.038	144,000
03-Oct-08	Issued to Consultants^	457,143	0.070	32,000
01-Dec-08	Issued to Director*	1,000,000	0.014	14,000
01-Dec-08	Issued to Consultants^	471,429	0.014	6,600
31-Dec-08	Conversion of D Class Shares but not yet issued	-	0.000	1,482,000
24-Feb-09	Partial issue of D Class Shares	15,000,000	0.000	-
24-Feb-09	Capital Raising	31,783,333	0.015	467,000
03-Apr-09	Capital Raising	35,000,000	0.015	525,000
03-Apr-09	Capital Raising	5,333,332	0.015	80,000
03-Apr-09	Capital Raising	3,855,000	0.010	38,550
03-Apr-09	Issued to Consultants^	1,500,000	0.030	45,000
20-Apr-09	Final issue of D Class Shares	15,000,000	0.000	-
20-Apr-09	Conversion of Redeemable Convertible Preference Shares	7,560,000	0.015	113,400
01-May-09	Capital Raising	5,000,000	0.010	50,000
01-May-09	Conversion of Redeemable Convertible Preference Shares	16,290,909	0.016	260,400
01-May-09	Capital Raising	6,449,997	0.015	96,750
15-May-09	Capital Raising	1,650,000	0.010	16,500
15-May-09	Conversion of Redeemable Convertible Preference Shares	15,272,728	0.022	336,000
15-May-09	Capital Raising	2,333,333	0.015	35,000
15-May-09	Issued to Consultants^	4,500,000	0.020	90,000
15-May-09	Issued to Consultants^	3,780,000	0.033	124,854
28-May-09	Conversion of Redeemable Convertible Preference Shares	309,202	0.041	12,600
23-Jun-09	Capital Raising	43,023,333	0.024	1,032,560
23-Jun-09	Conversion of Partly Paid Shares to Fully Paid Ordinary Shares	450,000	0.010	4,500
		250,784,990		5,036,714

2008	Details	Number	Issue Price $	$
09-Aug-07	Issued per Resolution 1 of EGM held on 27/07/07	20,353,125	0.190	3,867,100
17-Aug-07	Issued per Resolution 1 of EGM held on 27/07/07	8,305,966	0.190	1,578,135
28-Feb-08	Issue to Consultants^	200,000	0.144	28,889
11-Apr-08	Issue to Consultants^	50,702	0.128	6,500
30-Jun-08	Conversion of E Class Shares but not yet issued	-		1,630,250
		28,909,793		7,110,874

^The market value of shares issued to consultants are equivalent to the invoiced services.
*Further details in relation to these shares is disclosed on pp 19.

(ii)	2009	Details	Number	Issue Price $	$
	25-Aug-08	Exercise of Unlisted Options at $0.025, expiring on or before 30 June 2010	287,000	0.025	7,175
			287,000		7,175

2008	Details	Number	Issue Price $	$
09-Aug-07	Exercise of Options at $0.10, expiring on or before 30 June 2008	4,822,566	0.100	482,257
17-Aug-07	Exercise of Options at $0.10, expiring on or before 30 June 2008	500,000	0.100	50,000
03-Sep-07	Exercise of Options at $0.10, expiring on or before 30 June 2008	864,130	0.100	86,413
18-Sep-07	Exercise of Options at $0.10, expiring on or before 30 June 2008	4,357,395	0.100	435,740
02-Oct-07	Exercise of Options at $0.10, expiring on or before 30 June 2008	260,000	0.100	26,000
29-Oct-07	Exercise of Options at $0.10, expiring on or before 30 June 2008	1,151,007	0.100	115,101
29-Oct-07	Exercise of Unlisted Options at $0.05, expiring on or before 31 July 2009	200,000	0.050	10,000
08-Nov-07	Exercise of Options at $0.10, expiring on or before 30 June 2008	2,675,028	0.100	267,503
12-Dec-07	Exercise of Options at $0.10, expiring on or before 30 June 2008	26,241	0.100	2,624
12-Dec-07	Exercise of Unlisted Options at $0.05, expiring on or before 31 July 2009	150,000	0.050	7,500
21-Dec-07	Exercise of Options at $0.10, expiring on or before 30 June 2008	340,156	0.100	34,016
21-Dec-07	Exercise of Unlisted Options at $0.05, expiring on or before 31 July 2009	150,000	0.050	7,500
25-Jan-08	Exercise of Options at $0.10, expiring on or before 30 June 2008	80,000	0.100	8,000
14-Mar-08	Exercise of Unlisted Options at $0.05, expiring on or before 31 July 2009	2,274,428	0.050	113,721
11-Apr-08	Exercise of Options at $0.10, expiring on or before 30 June 2008	1,000	0.100	100
11-Apr-08	Exercise of Unlisted Options at $0.05, expiring on or before 31 July 2009	500,000	0.050	25,000
24-Apr-08	Exercise of Options at $0.10, expiring on or before 30 June 2008	75,303	0.100	7,530
24-Apr-08	Exercise of Unlisted Options at $0.05, expiring on or before 31 July 2009	1,750,000	0.050	87,500
09-May-08	Exercise of Options at $0.10, expiring on or before 30 June 2008	1,350,000	0.100	135,000
30-May-08	Exercise of Options at $0.10, expiring on or before 30 June 2008	1,236,485	0.100	123,649
20-Jun-08	Exercise of Options at $0.10, expiring on or before 30 June 2008	3,553,691	0.100	355,369
26-Jun-08	Exercise of Options at $0.10, expiring on or before 30 June 2008	3,056,769	0.100	305,676
30-Jun-08	Exercise of Options at $0.10, expiring on or before 30 June 2008	9,169,994	0.100	916,999
		38,544,193		3,603,198

(b) Partly Paid Ordinary Shares

	Note	2009 No.	2009 $	2008 No.	2008 $
At the beginning of the reporting period		-	-	-	-
Shares issued during year	(i)	36,915,000	73,830	-	-
At reporting date		36,915,000	73,830	-	-

(i)	2009	Details	Number	Issue Price $	$
	03-Apr-09	Capital Raising	17,415,000	0.002	34,830
	01-May-09	Capital Raising	15,000,000	0.002	30,000
	29-May-09	Capital Raising	4,950,000	0.002	9,900
	23-Jun-09	Discretionary Payment of unpaid $0.008 call	-	0.008	3,600
	23-Jun-09	Conversion of Partly Paid Shares to Fully Paid Ordinary Shares	(450,000)	0.010	(4,500)
			36,915,000		73,830

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

Since the 30 June 2009, 9,450,000 unlisted partly paid ordinary shares have been converted into ordinary shares in KarmelSonix Limited on becoming fully paid to $0.01.

(c) D Class Shares

	Note	2009 No.	2009 $	2008 No.	2008 $
At the beginning of reporting period		30,000,000	-	30,000,000	-
Conversion of shares to ordinary shares	(i)	(30,000,000)	-	-	-
At reporting date		-	-	30,000,000	-

(i)	2009	Details	Number	Issue Price $	$
	31-Jul-08	Partial conversion of D class shares	(15,000,000)	-	-
	20-Apr-09	Final conversion of D class shares	(15,000,000)	-	-
			(30,000,000)		-

KarmelSonix Limited, as part of its acquisition of KarmelSonix (Israel) Ltd on 21 November 2006, had an obligation to issue to the previous shareholders of this entity 30,000,000 D Class shares upon technological completion of the WIM-Holter™ by Karmel Sonix (Israel) Limited.

On the 31 December 2008 the Directors approved the achievement of this fourth milestone and the conversion of the D Class shares to ordinary shares. The shares were issued in two tranches on 31 July 2008 and 20 April 2009 to Prof Noam Gavriely.

(d) E Class Shares

	Note	2009 No.	2009 $	2008 No.	2008 $
At the beginning of reporting period		30,000,000	-	30,000,000	-
Conversion of shares to ordinary shares	(i)	(30,000,000)	-	-	-
At reporting date		-	-	30,000,000	-

(i)	2009	Details	Number	Issue Price $	$
	31-Jul-08	Conversion of E class shares	(30,000,000)	-	-
			(30,000,000)		-

KarmelSonix Limited, as part of its acquisition of KarmelSonix (Israel) Ltd on 21 November 2006, had an obligation to issue to the previous shareholders of this entity 30,000,000 E Class shares upon completion of the design and building of a working prototype of the Personal WheezoMeter™ by Karmel Sonix (Israel) Limited.

On the 27 June 2008 the Directors approved the achievement of this third milestone and the conversion of the E Class shares to ordinary shares. The shares were issued on 1 August 2008 to Prof Noam Gavriely.

(e) G Class Shares

	Note	2009 No.	2009 $	2008 No.	2008 $
At the beginning of reporting period		12,500,000	-	12,500,000	-
Shares issued during year		-	-	-	-
At reporting date		12,500,000	-	12,500,000	-

These class shares are performance shares and are subject to research based milestones, Note 22 contains further details, including terms.

(f) H Class Shares

	Note	2009 No.	2009 $	2008 No.	2008 $
At the beginning of reporting period		12,500,000	-	12,500,000	-
Shares issued during year		-	-	-	-
At reporting date		12,500,000	-	12,500,000	-

These class shares are performance shares and are subject to research based milestones, Note 22 contains further details, including terms.

Terms and Conditions of Issued Capital

Ordinary Shares: have the right to receive dividends as declared and in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy at a meeting of the Company.

Options: option holders do not have the right to receive dividends and are not entitled to vote at the meeting of the Company. Options may be exercised at any time from the date they vest to their expiry date. Share options convert into ordinary shares on a one for one basis on the date they are exercised.

Note 20 Reserves

Foreign Currency Translation Reserve

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve, as described in Note 1(i). The reserve is recognised in profit and loss when the net investment is disposed of.

Option Reserve

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

		Consolidated Entity		Parent Entity	
		2009	2008	2009	2008
	Note	$	$	$	$
Listed options over shares (2009: Nil) (2008: Nil)	20a	373,560	373,560	373,560	373,560
Unlisted options over shares (2009: 10,600,000) (2008: 10,600,000)	20b	2,257,923	2,784,361	2,257,923	2,784,361
Unlisted options over shares (2009: 56,575,572) (2008: 55,475,572)	20c	773,056	736,349	773,056	736,349
Unlisted options over shares (2009: 28,549,997) (2008: Nil)	20d	459,069	-	459,069	-
Unlisted options over shares (2009: 10,000,000) (2008: 10,000,000)	20e	200,000	200,000	200,000	200,000
Unlisted options over shares (2009: 1,800,000) (2008: Nil)	20f	289,568	-	289,568	-
Unlisted options over shares (2009: 13,000,000) (2008: Nil)	20g	60,550	-	60,550	-
Unlisted options over shares (2009: Nil) (2008: Nil)	20h	32,330	-	32,330	-
Foreign Currency Translation Reserve	20i	431,837	(219,116)	-	-
		4,877,893	3,875,154	4,446,056	4,094,270

(a) Listed Options Over Fully Paid Ordinary Shares

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

		2009		2008	
		No.	$	No.	$
At the beginning of reporting period		-	373,560	133,750,653	219,000
Options issued during year	(i)	-	-	13,500,000	209,445
Exercise of options	(ii)	-	-	(33,519,765)	-
Expiration of options	(iii)	-	-	(113,730,888)	-
Transfer to/from reserves			-		(54,885)
At reporting date		-	373,560	-	373,560

(i) 2008		Details	Number	Option Fair Value $	$
09-Aug-07	1	Issue of options to Consultants	6,000,000	0.014	86,667
08-Nov-07	1	Issue of options to Consultants	4,500,000	0.014	65,000
28-Feb-08	1	Issue of options to Consultants	3,000,000	0.019	57,778
			13,500,000		209,445

(ii) 2008	Details	Number	Issue Price $	$
09-Aug-07	Exercise of Options at $0.10	(4,822,566)	-	-
17-Aug-07	Exercise of Options at $0.10	(500,000)	-	-
03-Sep-07	Exercise of Options at $0.10	(864,130)	-	-
18-Sep-07	Exercise of Options at $0.10	(4,357,395)	-	-
02-Oct-07	Exercise of Options at $0.10	(260,000)	-	-
29-Oct-07	Exercise of Options at $0.10	(1,151,007)	-	-
08-Nov-07	Exercise of Options at $0.10	(2,675,028)	-	-
12-Dec-07	Exercise of Options at $0.10	(26,241)	-	-
21-Dec-07	Exercise of Options at $0.10	(340,156)	-	-
25-Jan-08	Exercise of Options at $0.10	(80,000)	-	-
11-Apr-08	Exercise of Options at $0.10	(1,000)	-	-
24-Apr-08	Exercise of Options at $0.10	(75,303)	-	-
09-May-08	Exercise of Options at $0.10	(1,350,000)	-	-
09-May-08	Exercise of Options at $0.10	(1,236,485)	-	-
20-Jun-08	Exercise of Options at $0.10	(3,553,691)	-	-
26-Jun-08	Exercise of Options at $0.10	(3,056,769)	-	-
30-Jun-08	Exercise of Options at $0.10	(9,169,994)	-	-
		(33,519,765)		-

(iii) 2008		Details	Number	Issue Price $	$
30-Jun-08	1	Listed Options Lapsed	(113,730,888)	-	-
			(113,730,888)		-

1 Listed options issued at the market value of the options at grant date. Options at market value issued to consultants are equivalent to the value of the invoiced services.

(b) Unlisted Options Over Fully Paid Ordinary Shares

These options are unlisted options and expired on or before 30 June 2010, the exercise price range from 2.5 cents to 15 cents per option.

		2009		2008	
		No.	$	No.	$
At the beginning of reporting period		10,600,000	2,784,361	-	-
Options issued during year	(i)	287,000	-	15,600,000	1,343,983
Exercise of options	(ii)	(287,000)	(39,969)	-	-
Cancellation of options	(iii)	-	-	(5,000,000)	(400,422)
Expense recorded over vesting period of options			65,382		1,840,800
Transfer to/from reserves			(551,851)		-
At reporting date		10,600,000	2,257,923	10,600,000	2,784,361

(i) 2009		Details	Number	Option Fair Value $	$
25-Aug-08	1	Issued to eligible persons under Company's ESOP plan	287,000	0.139	-
			287,000		-

2008		Details	Number	Option Fair Value $	$
09-Aug-07	2	Issued per Resolution 2 of EGM held on 27/07/07	14,000,000	0.180	1,313,325
21-Dec-07	3	Issued to eligible persons under Company's ESOP plan	1,000,000	0.086	25,186
31-Dec-07	2	Issued to eligible persons under Company's ESOP plan	600,000	0.016	5,472
			15,600,000		1,343,983

(ii) 2009		Details	Number	Issue Price $	$
25-Aug-08	1	Exercise of Unlisted Options at $0.025	(287,000)		(39,969)
			(287,000)		(39,969)

(iii) 2008		Details	Number	Issue Price $	$
26-Jun-08	2	Cancellation of options on termination of employees	(4,000,000)		(375,236)
26-Jun-08	3	Cancellation of options on termination of employees	(1,000,000)		(25,186)
			(5,000,000)		(400,422)

1 Unlisted options exercisable at $0.025 on or before 30 June 2010.
2 Unlisted options exercisable at $0.05 on or before 30 June 2010. Refer to Remuneration Report for equity valuation.
3 Unlisted options exercisable at $0.15 on or before 30 June 2010.

(c) Unlisted Options Over Fully Paid Ordinary Shares

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

		2009		2008	
		No.	$	No.	$
At the beginning of reporting period		55,475,572	736,349	-	-
Options issued during year	(i)	1,100,000	36,707	60,500,000	801,667
Exercise of options	(ii)	-	-	(5,024,428)	-
Transfer to/from reserves			-		(65,318)
At reporting date		56,575,572	773,056	55,475,572	736,349

(i) 2009		Details	Number	Option Fair Value $	$
25-Aug-08	1	Issued in lieu of cash payment for services provided	1,100,000	0.033	36,707
			1,100,000		36,707

2008		Details	Number	Option Fair Value $	$
09-Aug-07	1	Issued per Resolution 3 of EGM held on 27/07/07	50,000,000	0.013	650,000
09-Aug-07	1	Issue of options to Consultants	3,000,000	0.014	43,333
12-Dec-07	1	Issue of options to Consultants	4,500,000	0.014	65,000
28-Feb-08	1	Issue of options to Consultants	3,000,000	0.014	43,333
			60,500,000		801,667

(ii) 2008	Details	Number	Issue Price $	$
29-Oct-07	Exercise of Unlisted Options at $0.05	(200,000)	-	-
12-Dec-07	Exercise of Unlisted Options at $0.05	(150,000)	-	-
21-Dec-07	Exercise of Unlisted Options at $0.05	(150,000)	-	-
14-Mar-08	Exercise of Unlisted Options at $0.05	(2,274,428)	-	-
11-Apr-08	Exercise of Unlisted Options at $0.05	(500,000)	-	-
24-Apr-08	Exercise of Unlisted Options at $0.05	(1,750,000)	-	-
		(5,024,428)		-

1 Unlisted options issued at the market value of the options at grant date. Options at market value issued to consultants are equivalent to the value of the invoiced services.

(d) Unlisted Options over fully paid ordinary shares

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

		2009		2008	
		No.	$	No.	$
At the beginning of reporting period		-	-	-	-
Options issued during year	(i)	30,349,997	-	-	-
Cancellation of options	(ii)	(1,800,000)	(12,668)	-	-
Expense recorded over vesting period of options			132,267	-	-
Transfer to/from reserves			339,470		-
At reporting date		28,549,997	459,069	-	-

(i) 2009		Details	Number	Option Fair Value $	$
25-Aug-08	1	Issue to eligible persons of the Company's ESOP plan	5,012,500	0.111	-
25-Aug-08	2	Issue to eligible persons of the Company's ESOP plan	600,000	0.108	-
03-Apr-09	3	Capital Raising, free attaching	8,750,000	-	-
03-Apr-09	3	Capital Raising, free attaching	8,791,665	-	-
03-Apr-09	3,4	Issued to Consultants, free attaching	5,000,000	-	-
01-May-09	3	Capital Raising, free attaching	1,612,499	-	-
29-May-09	3	Capital Raising, free attaching	583,333	-	-
			30,349,997		-

(ii) 2009		Details	Number	Issue Price $	$
29-May-09	1	Cancellation of options on termination of employees.	(1,200,000)		(9,812)
29-May-09	2	Cancellation of options on termination of employees.	(600,000)		(2,856)
			(1,800,000)		(12,668)

1 Unlisted options exercisable at $0.05 on or before 15 December 2013.
2 Unlisted options exercisable at $0.05 on or before 15 June 2014.
3 Unlisted options exercisable at $0.05 on or before 30 June 2012.
4 Unlisted options issued at the market value of the options at grant date. Options at market value issued to consultants are equivalent to the value of the invoiced services.

(e) Unlisted Options over fully paid ordinary shares

These options are unlisted options and expire on 30 October 2009, the exercise price is 25 cents per option.

		2009		2008	
		No.	$	No.	$
At the beginning of reporting period		10,000,000	200,000	-	-
Options issued during year	(i)	-	-	10,000,000	200,000
At reporting date		10,000,000	200,000	10,000,000	200,000

(i) 2008		Details	Number	Option Fair Value $	$
28-Feb-08	1	Issued per Resolution 3 of AGM held on 28 November 2007	10,000,000	0.020	200,000
			10,000,000		200,000

1 Unlisted options issued at the market value of the options at grant date. Options at market value issued to consultants are equivalent to the value of the invoiced services.

(f) Unlisted Options over fully paid ordinary shares

These options are unlisted options and expire on 30 October 2009, the exercise price is 25 cents per option.

		2009		2008	
		No.	$	No.	$
At the beginning of reporting period		-	-	-	-
Options issued during year	(i)	8,500,000	93,172	-	-
Cancellation of options	(ii)	(6,700,000)	(91,587)	-	-
Expense recorded over vesting period of options			75,602	-	-
Transfer to/from reserves			212,381		-
At reporting date		1,800,000	289,568	-	-

(i) 2009		Details	Number	Option Fair Value $	$
25-Aug-08	1	Issue to eligible persons of the Company's ESOP plan	5,300,000	0.097	-
25-Aug-08	2	Issue to eligible persons of the Company's ESOP plan	3,200,000	0.035	93,172
			8,500,000		93,172

(ii) 2009		Details	Number	Issue Price $	$
29-May-09	1	Cancellation of options on termination of employees.	(4,400,000)		(11,202)
29-May-09	2	Cancellation of options on termination of employees.	(2,300,000)		(80,385)
			(6,700,000)		(91,587)

1 Options exercisable at $0.13 on or before 15 December 2014.

2 Options exercisable at $0.13 on or before 15 June 2015.

(g) Unlisted Options over fully paid ordinary shares

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

		2009		2008	
		No.	$	No.	$
At the beginning of reporting period		-	-	-	-
Options issued during year	(i)	13,000,000	17,358	-	-
Expense recorded over vesting period of options			43,192	-	-
At reporting date		13,000,000	60,550	-	-

(i) 2009		Details	Number	Option Fair Value $	$
01-Dec-08	1,2	Issued to Director	7,000,000	0.091	11,190
01-Dec-08	1,2	Issued to Director	6,000,000	0.091	6,168
			13,000,000		17,358

1 Refer to Remuneration Report for equity valuation.

2 Options exercisable at $0.05 on or before 15 December 2015.

(h) Unlisted Options over fully paid ordinary shares

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

		2009		2008	
		No.	$	No.	$
At the beginning of reporting period		-	-	-	-
Expense recorded over vesting period of options	(i)	-	32,330	-	-
At reporting date		-	32,330	-	-

(i) 2009		Details	Number	Option Fair	$
31-Dec-08	1	Options expensed under AASB2 but not issued	-	0.040	18,656
30-Jun-09	1	Options expensed under AASB2 but not issued	-	0.040	13,674
			-		32,330

1 Options exercisable at $0.12 on or before 10 July 2013.

(i) Foreign Currency Translation Reserve

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

Note 21 Capital and Leasing Commitments

(a) Operating Lease Commitments

	Note	Consolidated Entity 2009 $	Consolidated Entity 2008 $	Parent Entity 2009 $	Parent Entity 2008 $
Non-cancellable operating leases contracted for but not capitalised in the financial statements					
Payable — minimum lease payments					
— not later than 12 months		56,862	81,073	-	-
— between 12 months and 5 years		451,895	166,223	-	-
		508,757	247,296	-	-

Elsternwick, Australia
This property lease is a non-cancellable lease with a two-year term, with rent payable monthly in advance. There are no contingent rental provisions within the lease agreement which require the lease payments to be increased by CPI or a percentage of the rental payments on an annual basis. An option exists to renew the lease at the end of the two-year term for two additional terms of two years. On renewal, there is a provision within the lease agreement to increase the rental payments by 5% at the start of each new term. The lease allows for subletting of all lease areas. On expiry of the initial term, the first 2 year options was not taken up and the lease is currently paid on a month by month basis.

Haifa, Israel
In December 2008, KarmelSonix (Israel) Ltd relocated to new premises. The new lease is a non-cancellable lease with a five-year term, with rent payable monthly in advance. There are contingent rental provisions within the lease agreement which link the lease payments to CPI. An option exists to renew the lease at the end of the initial five-year term for two additional terms of one year. The lease allows for subletting of all lease areas.

Prior to relocating, the property lease was a non-cancellable sub-lease with a three-year term with Karmel Medical Acoustic Technologies Ltd, including office space of 331m² and 122m² in the basement. The lease agreement contained a contingent provision which set the monthly rental fees at $USD8.50 for each shared m² including VAT during the first year, $USD9.00 for each shared m² plus VAT in the second year, and $USD10 per shared m² plus VAT in the third year. In consideration of the lease area of 122m² in the basement, the monthly rental fees of $US4.00 per shared m² plus VAT, payable for the entire term of the lease.

(b) Other

Management Fees

(i) On the 1 January 2006, the Company entered into an agreement with Karmel Medical Acoustic Technologies Ltd for managerial services rendered. The agreement covers two kinds of managerial services:

(1) Hired services rendered (lease commitments included at Note 21a), including: security services, cleaning services and rent.
(2) General managerial services, including: bookkeeping services and administration services.

The agreement was terminated on 31 December 2008, upon KarmelSonix (Israel) Ltd relocating to new premises.

(ii) The CFO Solution provides administrative support at a rate of $10,000 per month plus GST. This commitment may be terminated with 3 months notice from either party.

Consultant Fees

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

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

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

On the 23 June 2008 the board of Directors approved an amendment to the above agreement, which limited the total cost to the Group at $ISL90,000, including salary and car expenses paid to Prof Gavriely.

(ii) On the 19 June 2008 the board of Directors approved the consultant agreement with Acoustic View Ltd, a company wholly owned by Nathan Intrator, at $ISL57,300 per month. In October 2008, the consulting fee was reduced, before being cancelled on 1 January 2009.

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

Note 22 Contingent Liabilities

Acquisition of Subsidiaries

KarmelSonix Limited has an obligation as part of its acquisition of PulmoSonix Pty Ltd to issue to the previous shareholders of this entity additional equity as follows;

- 12,500,000 G Class Shares to Medic Vision Ltd (formerly Premier Bionic Ltd)
- 12,500,000 H Class Shares to Medic Vision Ltd (formerly Premier Bionic Ltd)

The shares will be valued using the weighted average ASX closing price of the KarmelSonix Limited shares for the 5 trading days immediately preceding the completion date.

The additional shares are issuable when PulmoSonix Pty Ltd reach the following milestones:

- The issue of 12.5 million G Class Shares upon completion of the AirwayClear™ clinical trial at the Mayo Clinic, Minnesota USA and completion of a clinical trial at the Royal Children's Hospital, Melbourne by PulmoSonix Pty Ltd.
- The issue of 12.5 million H Class Shares upon completion of a commercial prototype of the AirwayClear™ and Pulmoscreen™ by PulmoSonix Pty Ltd.

According to the Sale of Shares Agreement, the Class shares will be automatically redeemed by the Company, for the sum of $1, if the set milestones are not achieved within thirty six (36) months from the date of issue of the Class shares.

Chief Scientist

In 2000 Karmel Medical Acoustic Technologies Ltd (KMAT Ltd), which has sold its intellectual property, received a grant of US$540,000 from the Chief Scientist, and in return committed to transfer royalties valued at 3.5% to the Chief Scientist, including interest, from the sale of its products.

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

During in the year, the Company finished two projects for which it obtained from the Chief Scientist of the State of Israel grants of US$850,657, for the participation in research and development. The Company has an obligation to pay royalities amounting to 3.5% from sales to the Chief Scientist.

BIRD Foundation

In December 2008, the KarmelSonix (Israel) Ltd signed a grant agreement with the Binational Industrial Research and Development Foundation (BIRD Foundation) and American Company Sandhill. The grant receivable is US$460,000 of which US$184,000 has been recieved during the current financial year. The maximium repayment to the BIRD Foundation is 100%, 113%, 125%, 138% and 150% if the repayment occurs in the first, second, third, forth or fifth year accordingly.

Legal Claim

(i) On July 7 2008, KarmelSonix (Israel) Ltd (the "Subsidiary") received a letter from an attorney representing one of its former employees, Mr. Israel Tal (the "Employee"), demanding compensation of A$226,015. The claim relates to the employee's alleged unanswered request to exercise and sell options that he was allegedly entitled to in accordance with his employment agreement.

The Subsidiary believes that it's defence holds strong against the complaint and intends to defend itself vigorously. Therefore, it is unlikely that the complaint will cause any material losses to the Group. Not withstanding this the financial statements include a provision of A$20,000.

(ii) In December 2008, the KarmelSonix (Israel) Ltd (the "Subsidiary") evacuated the office space which it had rented for two years and moved to a new location. The offices were rented as a sublease from an interested party, which was the main tenant. Following the evacuation of the offices, the owner of the premises claimed damages in the sum of NIS 400,000 (A$126,360). The claim was rejected by the main tenant. The Subsidiary has filed for an injunction against the owner, in order to prevent the owner from realising the guarantee provided by the Subsidiary with regard to renting the offices. The court has granted the injunction, and following the court's decision the owner has filed an appeal which was rejected.

The Subsidiary and the main tenant have also filed a claim for damages against the owner of NIS 500,000 (A$157,950), to which the owner responded by filing a counter claim for a total amount of over NIS 1,000,000 (A$315,900) against all parties. The Subsidiary and its legal advisors have assessed the risk due at an amount of NIS 200,000 (A$63,180), which has been included in the Group financial reports as a provision to cover the potential loss.

Note 23 Segment Reporting

Primary Reporting Format - Business Segments

The company operates only in one business segment being medical devices and technology.

Secondary Reporting Format - Geographical Segments

The company operates in the following geographical segments:

Continuing Operations	Segment revenues		Segment assets		Acquisition of property, plant and equipment, intangibles and other non-current segment assets	
	2009	2008	2009	2008	2009	2008
Geographical Location	$	$	$	$	$	$
Australia	177,126	418,214	4,226,163	2,827,175	1,069	14,032
Israel	249,973	512,905	875,293	2,940,457	12,250	107,723
Unallocated	-	-	-	-	-	-
Total	427,099	931,119	5,101,456	5,767,632	13,319	121,755

Note 24 Cash Flow Information

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

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Net Cash Flows from operating activities				
Loss for the period	(6,701,092)	(11,678,053)	(5,920,580)	(13,485,797)
Add back depreciation expense	79,967	87,556	1,514	1,878
Add back amortisation expense	187,084	90,151	-	-
Add back interest on inter-Company loans	-	-	(761,076)	(371,165)
Add back impairment of goodwill	-	-	-	-
Add back equity issued to settle expenses	2,355,709	5,661,111	2,085,728	2,916,542
Add back provision for inter-company loan	-	-	3,698,186	6,616,938
Add back provision for diminution in investments	-	-	269,980	2,744,569
(Increases)/Decreases in accounts receivable	154,407	31,153	(3,052)	23,372
(Increases)/Decreases in inventories	(15,223)	(61,676)	-	-
(Increases)/Decreases in other current assets	(124,385)	82,907	(15,745)	89,209
Increases/(Decreases) in accounts payable	(66,732)	278,654	125,060	4,149
Increases/(Decreases) in provisions	65	(10,493)	-	-
Foreign exchange rate movements	634,383	(281,456)	-	-
Cash flow used in operations	(3,495,817)	(5,800,146)	(519,985)	(1,460,305)

(b) Non-cash Financing and Investing Activities

See note 19 and 20 for equity issued for nil consideration.

Note 25 Share-based Payments

Employee, Directors' and Consultants' Share and Option Plan

At the General Meeting held on 24 May 2007, Shareholders approved the establishment of the 2007 Employees', Directors' and Consultants' Share and Option Plan (ESOP). The ESOP is intended to reward Directors, employees and/or consultants for their contributions to the Group. The Plan is to be used as a method of retaining key personnel for the growth and development of the Group. Due to the Group's presence in Israel, the Plan has been established to benefit personnel in both Australia and Israel. At 30 June 2009 equity had been issued to 1 previous Director, 22 employees and 8 consultants.

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

	Consolidated Entity		Parent	
	2009	2008	2009	2008
Shares	Number of Shares	Number of Shares	Number of Shares	Number of Shares
Outstanding at the beginning of the year	-	-	-	-
Granted	8,280,000	-	8,280,000	-
Forfeited	-	-	-	-
Exercised Options	287,000	-	287,000	-
Expired	-	-	-	-
Outstanding at year end	8,567,000	-	8,567,000	-

Shares issued to employees and consultants were valued at the market price of the shares at grant date. See note 19 for further details.

The weighted average fair value of the shares granted during the year was $0.03. For the year ended 30 June 2009 $214,854 has been expensed in the Income statement.

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

	Consolidated Entity				Parent			
	2009		2008		2009		2008	
Options	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding at the beginning of the year	10,600,000	0.05	-	-	10,600,000	0.05	-	-
Granted	14,399,500	0.10	15,600,000	0.06	14,399,500	0.10	15,600,000	0.06
Forfeited	(8,500,000)	(0.11)	(5,000,000)	(0.07)	(8,500,000)	(0.11)	(5,000,000)	(0.07)
Exercised	(287,000)	(0.03)	-	-	(287,000)	-	-	-
Expired	-	-	-	-	-	-	-	-
Outstanding at year-end	16,212,500	0.04	10,600,000	0.05	16,212,500	0.04	10,600,000	0.05
Exercisable at year-end	14,502,083	(0.05)	10,000,000	0.05	14,502,083	(0.05)	10,000,000	0.05

There were 287,000 options exercised during the year ended 30 June 2009. These options were exercised into ordinary shares with a weighted average share price of $0.037 at exercise date.

The options oustanding at 30 June 2009 had a weighted average exercise price of $0.04 and a weighted average remaining contractual life of 2.34 years. Exercise prices range from $0.05 to $0.13 in respect of options outstanding at 30 June 2009.

The weighted average fair value of the options granted during the year was $0.05.

This price was calculated by using a Black Scholes option pricing model applying the following inputs:

Weighted average exercise price	$0.10
Weighted average life of the option	1.58 years
Underlying share price	$0.15
Expected share price volatility	106%
Risk free interest rate	6.21%

The Group estimates expected volatility based on historical volatility of the Group over the estimated life of the option and any other relevant factors.

Included under Consultants, Employees and Directors expense in the income statement is $294,500 (2008: $2,784,361), and relates, in full, to equity-settled share-based payment transactions. There is a remaining balance to be expensed in future periods of $114,284 (2008: $675,327).

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

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

	Consolidated Entity		Parent	
	2009	2008	2009	2008
Shares	Number of	Number of	Number of	Number of
Outstanding at the beginning of the year	18,971,316	13,696,186	18,971,316	13,696,186
Granted	8,193,823	250,702	8,193,823	250,702
Forfeited	-	-	-	-
Exercised Options	-	5,024,428	-	5,024,428
Expired	-	-	-	-
Outstanding at year end	27,165,139	18,971,316	27,165,139	18,971,316

Shares issued to employees and consultants were valued at the market price of the shares at grant date and is equal to the value of services provided under an agreement / invoice. See note 19 for further details.

The weighted average fair value of the shares granted during the year was $0.03 (2008: $0.14). For the year ended 30 June 2009 $271,600 (2008: $35,388) has been expensed in the Income statement.

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

	Consolidated Entity				Parent Entity			
	2009		2008		2009		2008	
Options	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $	Number of Options	Weighted Average Exercise Price $
Outstanding at the beginning of the year	65,475,572	0.10	9,000,000	0.10	65,475,572	0.10	9,000,000	0.10
Granted	19,100,000	0.05	84,000,000	0.08	19,100,000	0.05	84,000,000	0.08
Forfeited	-	-	-	-	-	-	-	-
Exercised	-	-	(5,024,428)	0.05	-	-	(5,024,428)	0.05
Expired	-	-	(22,500,000)	0.10	-	-	(22,500,000)	0.10
Outstanding at year-end	84,575,572	0.04	65,475,572	0.08	84,575,572	0.04	65,475,572	0.08
Exercisable at year-end	84,575,572	0.04	65,475,572	0.08	84,575,572	0.04	65,475,572	0.08

There no were options exercised during the year ended 30 June 2009 (2008: 5,024,428, with a weighted average share price of $0.14 at exercise date).

The options outstanding at 30 June 2009 had a weighted average exercise price of $0.04 and a weighted average remaining contractual life of 1.27 year. Exercise prices ranged from $0.05 to $0.25 in respect of options outstanding at 30 June 2009.

The weighted average fair value of the options granted during the year was $0.01.

Date of Issue	Quantity	Expiry Date	Exercise Price $	Value Attributable at Grant date	ASX Code
25 August 2008	1,100,000	30 June 2012	0.05	0.033	KSXAK
1 December 2008	7,000,000	15 December 2015	0.05	0.009	KSXOA
1 December 2008	6,000,000	15 December 2015	0.05	0.009	KSXOA
3 April 2009	5,000,000	30 June 2012	0.05	-	KSXAM
	19,100,000				

Options issued to employees and consultants were valued at the market price of the option at grant date and is equal to the value of services provided under an agreement / invoice. For the year ended 30 June 2009, $97,255 (2008: $1,211,111) has been expensed in the Income Statement. There is a remaining balance to be expensed in future periods of $57,126 (2008: $Nil).

Note 26 Events After the Balance Sheet Date

No matters or circumstances have arisen since the end of the reporting period, not otherwise disclosed in this report, which significantly affected or may significantly affect the operations of the economic entity, the result of those operations or the state of affairs of the economic entity in subsequent financial years.

Note 27 Related Party Transactions

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated. Transactions with related parties:				
(a) Ultimate Parent Company				
KarmelSonix Limited is the Ultimate Parent Entity				
(b) Controlled Entities				
Loan - PulmoSonix Pty Ltd			1,119,315	953,734
Less Provision for Impaiment of Loan			(965,987)	(558,653)
Recoverable Amount of Loan			153,328	395,081
Loan - Karmel Sonix (Israel) Ltd			9,863,657	6,731,341
Less Provision for Impaiment of Loan			(9,486,816)	(6,195,964)
Recoverable Amount of Loan			376,841	535,377
Impairment of Loan - PulmoSonix Pty Ltd			(407,334)	(420,975)
Impairment of Loan - Karmel Sonix (Israel) Ltd			(3,290,852)	(6,195,964)
Interest Received - PulmoSonix Pty Ltd			83,111	47,933
Interest Received - Karmel Sonix (Israel) Ltd			677,966	323,232
Share Based Payments (Directors & Employees) - Karmel Sonix (Israel) Ltd			269,982	2,744,569
Details of the ordinary shares held in subsidiaries are disclosed in Note 12 to the financial statements.				
(c) Transactions with Key Management Personnel				
(i) Key Management Personnel compensation				
Details of key management personnel compensation are disclosed in Note 5 and the Remuneration Report within the Directors Report.				
(ii) Key Management Personnel equity holdings				
Disclosed in Note 5.				
(d) Equity Interests in related parties				
Details of interests in subsidiaries are disclosed in Note 12.				
(e) Other Related Parties				
Director Related Entities				
Consulting fees paid to Peregrine Corporate Ltd a company of which Peter Marks is a Director	60,000	60,000	60,000	60,000
Consulting fees paid to Lampam Pty Ltd a company of which Peter Marks is a Director	60,000	60,000	-	-
Consulting fees paid to Meadsview Pty Ltd a company of which Henry Pinskier is a Director	12,000	48,000		
Consulting fees paid to Acoustic View Ltd a company of which Nathan Intrator is a Director	125,172	-	-	-
Consulting fees paid to Karmel Medical Acoustic Technologies Ltd a company of which Noam Gavriely is a Director	73,114	-	-	-
Rent paid to Medi-Admin Pty Ltd a company of which Henry Pinskier is a Director	35,250	35,250	-	-
Rent and facilities management fees paid to KMAT Ltd a company of which Noam Gavriely is a Director	46,302	58,129	-	-

Note 28 Financial Risk Management

The Group's activities expose it to a variety of financial risks including market risk, credit risk and liquidity risk. Price risk is not a risk exposure. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The Company and Group do not have written policies regarding risk management, however, these risks are managed prudently by senior management.

(a) Market Risk

(i) Foreign Currency Risk

The Group engages in international purchase transactions and is exposed to foreign currency risk arising from various currency exposures, primarily with respect to the US dollar and Israeli shekel. The parent has minimal exposure to foreign exchange risk as it does not hold any currency cash reserves and only makes minor foreign currency payments. The Group does not make use of deriviative financial instruments to hedge foreign exchange risk.

The carrying amount of the foreign currency denominated monetary assets and liabilities at the reporting date is as follows, all amounts in the table below are displayed in $AUD at year-end spot rates:

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
	$	$	$	$
Financial assets - Israel (cash and receivables)	181,868	738,310	-	-
Financial assets - US (cash and receivables)	480,675	-	-	-
Financial assets - EUR (cash and receivables)	2,488	-	-	-
Financial liabilities - Israel (accounts payable)	(530,042)	(692,204)	-	-
Financial liabilities - US (accounts payable)	-	-	-	-
Financial liabilities - EUR (accounts payable)	-	-	-	-
	134,989	46,106	-	-

Sensitivity Analysis

The Group currently has material exposures to the Israeli New Shekel (ISL) and US dollar (USD). The sensitivity analysis below is conducted on a by currency basis using the same sensitivity analysis variable, which has been based on the average annual movement in the AUD/ISL exchange rate over the past 5 years based on the year-end spot rates, being 2.2%.

All the amounts in the table below are displayed in $AUD. A positive number indicates an increase in profit and equity. A negative number indicates a decrease in profit and equity.

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
Increase/(Decrease) in financial assets	$	$	$	$
AUD/ISL + 2.2%	(4,091)	(34,789)	-	-
AUD/USD + 2.2%	(10,813)	-	-	-
AUD/ISL - 2.2%	3,915	31,793	-	-
AUD/USD - 2.2%	10,347	-	-	-

	Consolidated Entity		Parent Entity	
	2009	2008	2009	2008
Increase/(Decrease) in financial liabilities	$	$	$	$
AUD/ISL + 2.2%	11,923	32,617	-	-
AUD/USD + 2.2%	-	-	-	-
AUD/ISL - 2.2%	(11,410)	(29,808)	-	-
AUD/USD - 2.2%	-	-	-	-

(ii) Interest Rate Risk

The Group's exposure to interest rate risk is the risk that a financial instruments value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities.

2009							
Consolidated Entity	**Weighted Average Effective Interest Rate**	**Floating Interest Rate $**	**Fixed Interest Rate Within Year $**	**Fixed Interest Rate 1 to 5 years $**	**Fixed Interest Rate Over 5 years $**	**Non-Interest Bearing $**	**Total $**
Financial Assets:							
Cash and cash equivalents	1.40%	2,959,130	-	-	-	-	2,959,130
Trade and other receivables		-	-	-	-	221,470	221,470
Total Financial Assets		2,959,130	-	-	-	221,470	3,180,600
Financial Liabilities:							
Trade and other payables		-	-	-	-	826,990	826,990
Provisions		-	-	-	-	21,259	21,259
Total Financial Liabilities		-	-	-	-	848,249	848,249

Parent	**Weighted Average Effective Interest Rate**	**Floating Interest Rate $**	**Fixed Interest Rate Within Year $**	**Fixed Interest Rate 1 to 5 years $**	**Fixed Interest Rate Over 5 years $**	**Non-Interest Bearing $**	**Total $**
Financial Assets:							
Cash and cash equivalents	1.75%	2,338,678	-	-	-	-	2,338,678
Trade and other receivables		-	-	-	-	557,447	557,447
Other financial assets		-	-	-	-	1,580,750	1,580,750
Total Financial Assets		2,338,678	-	-	-	2,138,197	4,476,875
Financial Liabilities:							
Trade and other payables		-	-	-	-	249,656	249,656
Total Financial Liabilities		-	-	-	-	249,656	249,656

2008							
Consolidated Entity	**Weighted Average Effective Interest Rate**	**Floating Interest Rate $**	**Fixed Interest Rate Within Year $**	**Fixed Interest Rate 1 to 5 years $**	**Fixed Interest Rate Over 5 years $**	**Non-Interest Bearing $**	**Total $**
Financial Assets:							
Cash and cash equivalents	4.29%	3,370,543	-	-	-	-	3,370,543
Trade and other receivables		-	-	-	-	375,877	375,877
Total Financial Assets		3,370,543	-	-	-	375,877	3,746,420
Financial Liabilities:							
Trade and other payables		-	-	-	-	867,544	867,544
Provisions		-	-	-	-	21,194	21,194
Total Financial Liabilities		-	-	-	-	888,738	888,738
Parent							
Financial Assets:							
Cash and cash equivalents	5.63%	2,300,562	-	-	-	-	2,300,562
Trade and other receivables		-	-	-	-	954,684	954,684
Other financial assets		-	-	-	-	1,580,750	1,580,750
Total Financial Assets		2,300,562	-	-	-	2,535,434	4,835,996
Financial Liabilities:							
Trade and other payables		-	-	-	-	124,596	124,596
Total Financial Liabilities		-	-	-	-	124,596	124,596

There has been no change to the Group's exposure to interest rate risk or the manner in which it manages and measures its risk in the current year.

Sensitivity Analysis

A movement in the interest rate by +/- 1%, being reflective of the movement of the weighted average interest rates from financial years 2008 to 2009, and all other variables had remained constant, would impact the consolidated entity's loss after tax and equity as follows:

	Consolidated Entity		**Parent Entity**	
	2009 $	**2008 $**	**2009 $**	**2008 $**
+1% (100 basis points)	29,591	33,705	23,387	23,006
-1% (100 basis points)	(29,591)	(33,705)	(23,387)	(23,006)

(b) Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has no significant concentration of credit risk in the current or prior year.

The Group ensures that surplus cash is invested with financial institutions of appropriate credit worthiness and limits the amount of credit exposure to any one counter party.

There has been no significant change in the Group's exposure to credit risk since the previous year. The carrying amount of the Group's financial assets represent the maximum credit exposure.

Ageing of Trade Receivables

2009				
Consolidated Entity	**0-30 Days**	**30-60 Days**	**60-90 Days**	**90+ Days**
Trade and other receivables	221,470	-	-	-
Parent				
Trade and other receivables	27,278	-	-	-

2008				
Consolidated Entity	**0-30 Days**	**30-60 Days**	**60-90 Days**	**90+ Days**
Trade and other receivables	231,745	-	-	144,132
Parent				
Trade and other receivables	24,226	-	-	-

The credit period offered by the Group is 30 days from the date of invoice. No interest is charged on trade receivables.

(c) Liquidity Risk

Liquidity risk is the risk that the Group will not pay its debtors when they fall due. Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group manages liquidity risk by maintaining sufficient bank balances to fund its operations and the availability of funding through committed credit facilities.

Management manages this risk by monitoring rolling forecasts of the Group's liquidity reserve on the basis of expected cash flows.

Maturities of Financial Liabilities

2009				
Consolidated Entity	**Less than 6 months**	**6-12 months**	**Total contracted cashflows**	**Carrying Amounts**
Trade and other payables	826,990	-	826,990	826,990
Other financial liabilities	-	-	-	-
Parent				
Trade and other payables	249,656	-	249,656	249,656
Other financial liabilities	-	-	-	-

2008				
Consolidated Entity	**Less than 6 months**	**6-12 months**	**Total contracted cashflows**	**Carrying Amounts**
Trade and other payables	867,544	-	867,544	867,544
Other financial liabilities	-	-	-	-
Parent				
Trade and other payables	124,596	-	124,596	124,596
Other financial liabilities	-	-	-	-

(d) Capital Risk Management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain a capital structure that maximises shareholder value. In order to maintain or achieve an optimal capital structure, the Group may issue new shares or reduce its capital, subject to the provisions of the Group's constitution. The capital structure of the Group consists of equity attributed to equity holders of the Group, comprising contributed equity, reserves and accumulated losses disclosed in Notes 19 and 20. By monitoring undiscounted cash flow forecasts and actual cash flows provided to the Board by the Group's Management the Board monitors the need to raise additional equity from the equity markets.

(e) Fair Value Estimation

The carrying amount of financial assets and financial liabilities recorded in the financial statements represents their respective fair values determined in accordance with the accounting policies disclosed in Note 1.

Note 29 Company Details

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

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

DIRECTORS' DECLARATION

The directors of the Company declare that:

1. the financial statements and notes, as set out on pages 23 to 58, are in accordance with the Corporations Act 2001 and:
   (a) comply with Accounting Standards and the Corporations Regulations 2001; and
   (b) give a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2009 and their performance for the year ended on that date;

2. the Chief Executive Officer and Chief Finance Officer have each declared that:
   (a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the Corporations Act 2001;
   (b) the financial statements and notes for the financial year comply with the Accounting Standards; and
   (c) the financial statements and notes for the financial year give a true and fair view.

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

4. 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.

Mr Peter Marks
Director
Dated this 30th day of September 2009

PKF

Chartered Accountants
& Business Advisers

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF KARMELSONIX LIMITED

Report on the Financial Report

We have audited the accompanying financial report of KarmelSonix Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration for both KarmelSonix Limited and the consolidated entity. The consolidated entity comprises KarmelSonix Limited and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the 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 controls relevant to the preparation and fair presentation of the 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. In note 1 the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial report complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

Auditor's Opinion

In our opinion:

(a) the financial report of KarmelSonix Limited is in accordance with the Corporations Act 2001, including:

- (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001, and

(b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

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GPO Box 5099 | Melbourne | Victoria 3001

PKF

Chartered Accountants
& Business Advisers

Emphasis of Matter - Material Uncertainty Regarding Continuation as a Going Concern

Without qualification to the audit opinion expressed above, attention is drawn to the following matter.

As referred to in Note 1 to the financial report, under "Going Concern", the company and the consolidated entity incurred a loss for the year ended 30 June 2009 of $5,920,580 and $6,701,092 respectively and had net cash outflows from operating activities amounting to $519,985 and $3,495,817 respectively. These conditions along with other matters set forth in note 1 give rise to a material uncertainty which may cast significant doubt about the ability of the company and the consolidated entity to continue as a going concerns, and therefore whether they will be able to pay their debts as and when they fall due and realise their assets and extinguish their 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 company and the consolidated entity not continue as going concerns.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 18 to 21 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of KarmelSonix Limited for the year ended 30 June 2009, complies with section 300A of the Corporations Act 2001.

PKF

PKF

30 September 2009
Melbourne

D J Garvey
Partner

As at 28 September 2009

NUMBER OF HOLDERS OF EQUITY SECURITIES

Ordinary Shares

554,991,239 fully paid ordinary shares are held by 3,708 individual shareholders
12,500,000 fully paid unlisted G Class shares are held by 1 individual shareholder
12,500,000 fully paid unlisted H Class shares are held by 1 individual shareholder
27,465,000 partly paid unlisted (KSXAQ) shares are held by 9 individual shareholders

All ordinary shares carry one vote per share

Options

10,600,000 [ASX: KSXAI] unlisted options exercisable at $0.05 on or before 30/06/2010, are held by 2 individual shareholders
10,000,000 [ASX: KSXAW] unlisted options exercisable at $0.25 on or before 30/10/2009, are held by 17 individual shareholders
3,812,500 [ASX: KSXAM] unlisted options exercisable at $0.05 at various dates, are held by 2 individual shareholders
1,800,000 [ASX: KSXAZ] unlisted options exercisable at $0.13 at various dates, are held by 5 individual shareholders
13,000,000 [ASX: KSXAO] unlisted options exercisable at $0.05 on or before 15/12/2015, are held by 2 individual shareholders
24,737,497 [ASX: KSXAM] unlisted options exercisable at $0.05 on or before 30/06/2012, are held by 26 individual shareholders

Options do not carry a right to vote. Voting rights will be attached to the unissued shares when the options have been exercised.

DISTRIBUTION OF HOLDERS IN EQUITY SECURITIES

	Fully paid ordinary shares
1 - 1,000	1,814
1,001 - 5,000	259
5,001 - 10,000	259
10,001 - 100,000	900
100,001 - and over	476
Total number of shareholders	3,708
Unmarketable parcels	2,228

TWENTY LARGEST HOLDERS OF QUOTED SECURITIES

	Fully Paid Ordinary Shares		
	Shareholders	Number	%
1	Karmel Medical Acoustic Tecnologies Ltd	79,669,861	14.36
2	Renlyn Bell Investments Pty Ltd	46,878,788	8.45
3	Public Trustee	34,653,803	6.24
4	MND Australia Pty Ltd	14,783,333	2.66
5	HSBC Custody Nominees Australia Ltd	10,151,510	1.83
6	Hills, Ingrid	9,922,161	1.79
7	Salavente Pty Ltd	8,933,333	1.61
8	Murie, Ian Barrie	8,491,023	1.53
9	Intrator, Nathan	8,000,000	1.44
10	Natsue Pty Ltd	7,690,909	1.39
11	Peregrine Corporate Ltd	7,540,000	1.36
12	Bond Australia Pty Ltd	7,427,273	1.34
13	Paneth, Dov	6,835,060	1.23
14	Paneth R & Bierenkrant J	5,935,000	1.07
15	Guina Nominees Pty Ltd	5,158,020	0.93
16	Meadsview Pty Ltd	5,113,508	0.92
17	Citicorp Nominees Pty Ltd	5,078,285	0.92
18	Slade, Bradley Thomas	4,500,000	0.81
19	AMN Nominees Pty Ltd	4,000,000	0.72
20	Yelena Two Pty Ltd	3,718,400	0.67
		284,480,267	51.27

UNQUOTED EQUITY SECURITIES HOLDINGS GREATER THAN 20%

Medic Vision Ltd holds 12,500,000 unlisted G Class shares which represents 50.00% of a total of 25,000,000 unlisted shares.
Medic Vision Ltd holds 12,500,000 unlisted H Class shares which represents 50.00% of a total of 25,000,000 unlisted shares.
Larry Murdoch holds 462,000 unlisted Redeemable Convertible Preference shares which represents 71.96% of a total of 642,000 unlisted Redeemable Convertible Preference shares.
John King holds 180,000 unlisted Redeemable Convertible Preference shares which represents 28.04% of a total of 642,000 unlisted Redeemable Convertible Preference shares.
Renlyn Bell Investments Pty Ltd holds 15,000,000 unlisted Partly Paid shares which represents 54.61% of a total of 27,465,000 unlisted Partly Paid shares.

SUBSTANTIAL SHAREHOLDERS

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

Karmel Medical Acoustic Tecnologies Ltd	82,490,808 ordinary shares
Renlyn Bell Investments Pty Ltd	70,812,121 ordinary shares

SHAREHOLDER ENQUIRIES

Shareholders with enquiries about their shareholders should contact the share
Security Transfer Registrars
770 Canning Highway
APPLECROSS WA 6153
Telephone (08) 9315 2333
Facsimile (08) 9315 2233
Email registrar@securitytransfer.com.au

CHANGE OF ADDRESS, CHANGE OF NAME, CONSOLIDATION OF SHAREHOLDINGS

Shareholders should contact the Share Registry to obtain details of the procedure required for any of these changes.

REMOVAL FROM THE ANNUAL REPORT MAILING LIST

Shareholders who wish to receive the Annual Report should advise the Share Registry in writing. These shareholders will continue to receive all other shareholder information.

TAX FILE NUMBERS

It is important that Australian resident shareholders, including children, have their tax file number or exemption details noted by the Share Registry.

CHESS (Clearing House Electronic Subregister System)

Shareholders wishing to move to uncertified holdings under the Australian Stock Exchange CHESS system should contact their stockbroker.

UNCERTIFICATED SHARE REGISTER

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