KARMELSONIX LIMITED

ABN: 98 009 234 173

AND CONTROLLED ENTITIES

Annual Financial Report

For The Year Ended 30 June 2008

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

DIRECTORS

Mr Peter Marks	Executive Chairman
Dr Nathan Intrator	CEO & Executive Director
Prof Noam Gavriely	CMO & Executive Director
Dr Henry Pinskier	Executive Director
Mr Nadaisan Logaraj	Non Executive Director

COMPANY SECRETARIES
Mr Phillip Hains
Mr Brad Slade

AUDITORS
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Chartered Accountants & Business Advisers
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ARMADALE VIC 3143

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The financial report was authorised for issue by the Directors on 30 September 2008. 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 Company's registered office or from the ASX website www.asx.com.au.

Dear Shareholder,

The 2007/08 financial year was an important one for the completion of key product and commercial milestones. In addition it was the Company's first full year of operations as a merged entity. The achievement of these milestones has further consolidated the Company's ambitions to become a leading developer and producer of non-invasive clinical solutions and products for the monitoring and management of a range of respiratory conditions, including asthma, sleep apnoea and emphysema. The asthma products are the first to reach the commercial marketplace and remain the Company's current focus.

A summary of the key milestones achieved is as follows:

• FDA, European CE Mark and TGA approval received for the company's first asthma diagnostic product and core technology – PulmoTrack®;

• Completion of the working prototypes of the Personal Wheezometer™ and WHolter™;

• Distributorship agreements and commencement of sales in Taiwan. China, Belgium, Netherlands and Luxembourg;

• Commencement of sales in Australia;

• Confirmation of US$900,000 funding from the US-Israel BIRD Foundation to fund joint venture product development with Sandhill Scientific of Denver, Co in the US & ongoing VISTECH funding for combining the passive and active acoustic asthma monitor;

• Formation of Medical Advisory Panel comprising eminent Respiratory physicians;

• Initiation of clinical studies in leading research institution in US, Europe, Israel and Australia;

• Formulation of strategic relations with Asthma Advocate Groups (e.g. Asthma Foundation);

• Expansion of the combined companies IP Position;

• Participation at International meetings with a KSX booth (AAAAI, ATS);

Since completion of the financial year:

• Securing of equity credit funding facility from Trafalgar Capital;

• Appointment of experienced respiratory device executive, Mr. Larry Murdock to head up US Sales & Marketing Operations;

• Operating overheads reduced in order to conserve funds;

• Product demonstrations to Key Opinion Leaders in UK, US, Taiwan, China, Australia;

• US Reimbursement strategy outlined.

On 7 November 2007 KSX announced it had received regulatory clearance from the US Food and Drug Administration (FDA) for its first product, the PulmoTrack® (also known as the WIM-PC™). The FDA clearance allows KSX to market and use this product within the United States and constituted an important milestone in the commercialisation of the product. Following FDA clearance, a production and assembly line was established with full ISO 13845 accreditation. Regulatory approvals in Europe and Australia followed and marked the commencement of marketing and sales in Europe, Australia, Oceania and in the USA. In addition, the company has continued to ramp up its product development program for the additional products covering the other key segments of the Asthma diagnostic marketplace. This development program is progressing on time and on budget.

The Company is now focusing its product development activities on the completion and release of the Personal Wheezometer™ and the WHolter™. Early market feedback on prototypes of these products has been very positive and, as previously indicated, the Personal Wheezometer™ is expected to become the Company's flagship product.

In mid-March the PulmoTrack® was officially launched at the American Academy of Allergy, Asthma and Immunology (AAAAI) in Philadelphia and on 18 May 2008 the product and technology were presented at the International Conference of the American Thoracic Society (ATS) in Toronto, Canada. This marked the launch of the PulmoTrack® marketing campaign within the United States. During the ATS meeting, the Company held the inaugural meeting of its Scientific Advisory Committee. The SAC is Chaired by Prof. Simon Godfrey, a world renowned pulmonologist and expert on asthma. The committee endorsed the plan to cover the asthma management needs with non-invasive acoustic products for hospital, clinic and home use. The SAC also provides guidance and hands-on support to the Company's extensive clinical studies program.

The commercialisation process is accompanied by the initiation of securing reimbursement for the test performed by the PulmoTrack® in the US and in Europe. The Company obtained a comprehensive report by an outside expert which outlined the strategy of obtaining a reimbursement (CPT) code and coverage in the US. This process will consist of submission of results of specific clinical studies to the relevant authorities and, when completed, is expected to significantly facilitate marketing and sales. Meanwhile, the Company has identified target markets where existing codes are applicable (e.g. Australia), where private pay is a common practice (parts of Europe), or where reimbursement is based on daily ("DRG") charges (US – Intensive Care).

During the period under review, the Company continued to pursue engagement of potential distribution partners covering specific geographic areas. In particular, distribution arrangements have been entered into with companies in the Benelux countries, Taiwan and China, with products supplied to these markets. Discussions are also progressing with parties in other European countries and Australia, with arrangements expected to be completed in the near term. Recently, 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. The business development aspects of the process include mapping of potential future marketing and joint venture partners.

As has been commented on previous occasions, the PulmoTrack® is the clinical product which contains the core 'Wheeze Rate' WIM-PC™ 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 trials and through significant exposure to the Key Opinion Leaders.

The PulmoTrack® (as well as the other asthma products) represents a novel way for monitoring and managing asthma. Unlike the current "Spirometry" method, which requires extensive patient co-operation, dexterity and cognitive capacity, the acoustic technology is non-invasive and completely non-imposing on patients. The technology can be used in patients who are not capable of performing Spirometry and/or Pulmonary Function Tests. Accordingly, the studies that have been and are being 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 as laying the medical and scientific foundation prior to the release of the WHolter™ and Personal Wheezometer™.

Specifically, the Personal Wheezometer™ is set to become the Company's flagship product with release due for Q2 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 will be suitable for use on infants, young children as well as elderly and disabled patients. The embedded processor of self-contained technology is now capable of conducting the extensive computational tasks needed for the detection of wheezes and removal of ambient interference. The PoPP (Proof of Principle Prototype) of the Personal Wheezometer™ was completed in June of 2008 and tested to be functionally fully compatible to the PulmoTrack™. It is now being readied for submission to the FDA and CE as a 510(k) "substantially equivalent" medical device with Over the Counter (OTC) clearance. Submission will take place in Q4 2008 and approval is anticipated in Q2 2009. Preparations for medium-scale production and cost-reduction engineering are under way.

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 previously stated the Company has made significant progress towards scaling up sales and marketing activities during the financial year. These activities included exposure of the Wheeze Monitoring Technology to Key Opinion Leaders (KOLs) and commencement of the clinical validation trials.

Getting new and novel medical devices to market is a complex and time consuming process that involves many steps. 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 rapid market acceptance. Further details relating to the Company's product development and launch plans, sales and marketing activities, expansion of the IP portfolio are contained in the detailed Review of Operations on page 5 to 8.

In relation to capital raising activities, in what has been a very difficult capital market environment, the Company successfully raised approx. AU$5.5 million in August 2007 and an additional AU$1.8m via the option exercise program in June 2008. Whilst the Company is continuing to examine other avenues of fund raising, the Company, in late August, announced the AU$7.2 million equity credit facility which has been put in place with Trafalgar Capital which will help to underpin the capital requirements of the Company moving forward and importantly, enable the Company to move ahead with the completion of the two key products and its marketing/sales efforts. In addition, the Company has received a US$900,000 funding from the US-Israel BIRD Foundation to fund a joint venture product development of the WIM-GER™, a hybrid of KarmelSonix' Wholter™ and a GER monitor made by Sandhill Scientific of Denver, Co in the US who is a Global leader in the Gastro-Esophageal Reflux (regurgitation) market. The VISTECH funding for combining the passive and active acoustic asthma monitor for severe asthma was also approved for the second year.

In summary, the year under review has been one of dynamic progress towards accomplishing its stated business plan. The Company's first product, the PulmoTrack® has been launched, receiving key regulatory approvals and has appointed initial distributors for the product. The Company is now focused on the work required to complete and launch the two key additional products, the WHolter™ and Personal Wheezometer™. The Company believes that these two products, expected to be launched in the first half of 2009, will provide the strong and ongoing commercial underpinnings for the Company's expected commercial success going forward.

The year has also seen some important management changes including the appointment of Dr. Nathan Intrator as Executive Director and Interim CEO of KarmelSonix (Israel), (replacing Dr. Reuven Regev), and Mr. Raj Logaraj as a Non-Executive Director. Both individuals bring significant additional skills and experience to the Board.

The Board wishes to thank all shareholders for their continued support and interest in the Company's activities. As everyone is no doubt aware, stock markets around the world have suffered dramatic falls over the last 12 months and KarmelSonix share price has suffered along with the rest. We have managed to raise additional capital during the year and recently put in place an important equity credit facility. The entire team remains committed to achieving the Company's key milestones over the next 12 months which, if achieved, are expected to see a transformation from a product development to a full commercial enterprise.

We will continue to provide all shareholders with regular updates on the Company's progress.

Peter Marks
Chairman

Our Mission

To be the world leader in the provision of acoustic based diagnostic solutions to better manage respiratory conditions using non invasive asthma diagnostic solutions for the medical and consumer markets.

Market and Market Needs

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

Today, Asthma diagnosis and on-going management is based on taking history, performing physical examination by a physician, which always includes listening for wheezing by a stethoscope and by measuring the Pulmonary Function Tests (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 30,000,000 in the developed countries, the current clinical practice does not provide any practical quantitative and objective alternative metric of the presence and the severity of the disease. This shortcoming is fully recognized by the leading key opinion clinicians in Asthma management as was recently exclaimed by Prof. Andrew Bush, a leading paediatric pulmonologist from the UK in the World Asthma Meeting, Istanbul, 6/2007:

> "Management of paediatric asthma is empirical at best; we need better measuring tools to confirm diagnosis, assess severity, and adjust medications."

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

Spirometry (from left to right): ~120 years ago; modern spirometer; home spirometer.

Addressing the Needs

KarmelSonix Ltd has developed novel methods of non-invasive assessment of asthma patients that do not require any patient cooperation and effort. These methods are based on pickup and analysis of the sounds generated by the patient while breathing. When the airways of the asthmatic patient become narrow, they flutter and generate a musical sound called a Wheeze. The asthma patient also coughs frequently, particularly during an asthma attack. Wheezes are the most common symptom of asthma and terms such as "Wheezy Chest" or "Wheezy Infant" are often interchangeable with Asthma.

The Core Technology

The Company's core technology consists of proprietary sensors, signal conditioning hardware, and extensive array of signal processing algorithms for automatic detection and quantification of wheezes, cough and respiration. The technology also includes protection of the inner-body signal against interferences from background noisy acoustic environments which is found in pulmonary function testing laboratories. The quantification of wheezes is based on their duration, namely, the percentage time a patient wheezes (e.g. 12 seconds of wheeze in a minute is equivalent to a 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 Commercial Rollout Program

Development of KarmelSonix' core technology was the focus of the first 17 months since its inception in November 2006. The Technology was implemented in the form of the PulmoTrack® a (laptop) PC – based device for Pulmonary Function Testing (PFT) by laboratories and asthma specialists groups (Pulmonologists, Pediatricians, Asthma-Allergy specialists etc). The PulmoTrack® R&D, product design, engineering, validation, and production line including a full implementation of a QA/QC system are completed with ISO 13845 granted in January 2008. The Company's core technology in the form of the PulmoTrack®, was cleared by the FDA (US) on 7 November 2007, and received the CE Mark (Europe) and the TGA (Australia). Its commercialisation commenced at the meetings of the American Association of Asthma, Allergy and Immunology in Philadelphia and the American Thoracic Society in Toronto (March and May, 2008, respectively; refer Marketing and Sales below).

Based on its Core Technology, the Company is 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.

Products and Commercialisation Plan

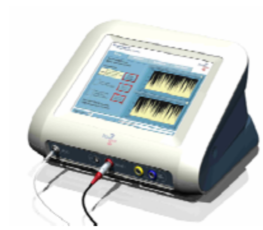
The Personal Wheezometer™ - The Company's flag-ship product - is a hand-held device for home use. When placed on the neck with its sensor over the trachea (see opposite), it picks up the breathing sounds and determines if wheezes are present. A 30 seconds determination indicates the momentary wheeze rate. Should it be high, the patient (or parent) is instructed to seek medical help. The Personal Wheezometer™ prototype was completed in June 2008. Its launch to the market is due to be at the next American Thoracic Society meeting in May 2009 once receipt of regulatory approval (FDA, CE Mark and TGA) as an Over-the-Counter (OTC) device is received.

The WHolter™ is a 24 hour ambulatory digital data-logger. It is intended to be used for tracking wheezing and coughing for evaluation of nocturnal asthma, occupational asthma and persistent cough, in the patient's own allergen environment. The WHolter™ will also be incorporated as a component in the first phase of the WIM-GER™ (see opposite). An engineering prototype is near completion and will be tested and validated in preparation for submission of the product for regulatory approval (i.e. FDA, CE Mark, TGA) as a 510k special ("substantial equivalence") process. Following the receipt of regulatory clearance, the sale of the WHolter™ to PFT labs, sleep labs and Holter monitoring dispensing clinics will begin in May 2009.

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). Its prototype is near completion and it is expected to be launched to the market in Q1 2009.

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

The ASAM™ or Acoustic Severe Asthma Monitor is a novel continuous monitor for minute-by-minute assessment of the severe asthma patient, typically in an ambulance, the Emergency Room, the Intensive Care Unit (ICU), and during recovery in the paediatric or internal medicine ward. The device combines the wheeze detection core-technology outlined above, and the advanced active acoustics technology developed by PulmoSonix Pty Ltd in Melbourne. The co-development of the ASAM™ by the Israeli and Victoria based companies, is generously supported by a $AU 500,000 grant from the VISTECH foundation, established by the Victorian and Israeli Governments to support joint R&D projects. Phase 1 Proof of Principle clinical study at the Alfred Hospital in Melbourne have been completed with clear confirmation of the ability of the new technology.



Marketing and Sales

KarmelSonix' products target diverse segments of the medical device market, extending from Hospital-to-Home (H2H™).

The Personal Wheezometer for home use will be the most important revenue generator for KarmelSonix. This device, to be launched in May 2009, will assist patients to self manage their asthma. Home management of chronic diseases such as Diabetes Hypertension and Asthma, is currently the fastest growing trend in health care.

The path to widespread acceptance and endorsement of the Personal Wheezometer by mainstream pulmonary authorities requires broad exposure of the product to the health care community and to the concept of quantitative wheeze monitoring. This process will utilise the sales of the PulmoTrack® into Pulmonary Function Testing (PFT) laboratories and group practices that have already started. An additional facilitator in this process is the highly market-driven overnight wheeze and cough monitor (Wholter™), which is intensively sought for evaluation of nocturnal asthma and in sports medicine. A key accelerator of sales is the availability of reimbursement by third party payers such as medical insurance, HMO's medical/health funds and national health services. Reimbursement strategies rely on scientific publications and acceptance by key opinion leaders and professional societies.

Strategic Marketing

KarmelSonix is intensively engaged in 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;

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;

v) PR and media exposure .

Reimbursement

Getting reimbursement from insurers for the use of the PulmoTrack® and other KarmelSonix devices by PFT labs and medical doctors is important for the long term commercial success of the devices. The process of getting approval for third party payments for testing asthma patients with the PulmoTrack® and its derivatives has begun in the US, Europe and Australia. In Australia, it was determined that according to the wording of the current Medicare codes, doctors can charge for using the PulmoTrack® for measurement of respiratory function before and after inhalation of bronchodilator in the doctor’s office.

The process of evaluation of possible strategies in the United States was initiated using the services of the JGS Group (www.jgsgroup.com) and of Dr. Vincent Jaeger, which prepared assessment reports outlining the reimbursement strategy for the PulmoTrack® and other acoustic products. The report made specific recommendations for short and long term actions and sets the path for applying for a CPT code for wheeze monitoring in the US. In the ICU, ER and OR environments, the use of the PulmoTrack® does not require reimbursement coding in the US (and certain other countries) as hospital remuneration is diagnosis-related (DRGs). Sales of the Personal Wheezometer™ in the US and Europe as a consumer item is driven by marketing effort and does not mandate reimbursement to meet success.

In China and Taiwan, work has commenced on expanding the reimbursement codes in addition to the regulatory process which is underway. Whilst codes exist already in China, the objective of the distributor is to engage Chinese key opinion leaders to develop the rationale based on the clinical feedback and success of the device to significantly increase the available reimbursement coverage. In Taiwan the process of obtaining new codes for determining wheeze rate has also commenced.

In Europe, the services of a consulting company (www.jnbd.com) which specialises in determining reimbursement in European countries has been retained. However, the Company will also work together with its territory distributors to determine the reimbursement strategy in each of the European countries.

Distribution Channels

Direct Sales - the Company will retain direct sales rights to specific major accounts with strategic importance. These entities include the defence establishment in Australia, US, Israel, and other key countries; sales to major retail chains; sales to key professional organizations such as the World Health Organization (WHO), the Asthma Council, etc; the pharmaceutical industry and to strategic partners (e.g. Sandhill Scientific Inc, see Section on the WIM-GER™).

Territorial Distributors - Sales to the Pulmonary Function Testing laboratories, Sleep labs, Holter Dispensing Clinics of the PulmoTrack™, the Wholter™, the Wireless PT™, and the Spiro-WIM™ will be via Territorial Distributors who specialize in catering to the needs of these markets. KarmelSonix is currently engaging these Distributors through a screening and qualifying process which, once successful, will lead after a 3-6 months trial period to entering into a formal distribution agreement. The Distributor is obligated to specific marketing activities (e.g. translation of product literature, presentation of the products in Territorial or Regional professional conferences and exhibits, etc). In order to retain the distribution rights, the distributor must meet agreed upon quotas of sales volume.

KarmelSonix is focusing its marketing and sales activities this financial year (2008/9) on setting up a broad network of Territorial Distributors in North America, Europe and the Asia-Pacific region.

The company has previously entered into preliminary agreements with territorial distributors in Taiwan/China and the Benelux. It is currently under contract negotiations with 4 other Territorial Distributors. An experienced General Manager of KarmelSonix, USA, Mr. Larry Murdock, will commence with the Company in October.

Distribution of the Personal Wheezometer™ will be via distributors who sell to primary healthcare professionals (GPs, internists, paediatricians, ENT doctors, nurses, respiratory therapists, paramedics etc.). The Personal Wheezometer™ will be sold to asthma patients and/or their families via pharmacies and similar retail outlets/ chains. The Company will engage directly with the larger retail chains of pharmacies for OTC sale of the device. The sale activities to the health-care professionals will be, in part, by our Territorial Distributors and by other dealers who address these professionals on a regular basis.

Clinical Studies

Clinical studies are important as a vehicle and path to acceptance by the medical community. To date, 11 scientific publications on the use of the PulmoTrack® 1010 have been published in peer-reviewed journals. This is in addition to over 40 publications by the Company's medical and scientific key personnel, Professors Noam Gavriely and Simon Godfrey on the basic and applied aspects of wheezes and their clinical use. Additional publications by the scientist behind PulmoSonix' technology, Dr. Mal Wilkinson add to this extensive publications track record. Nevertheless, the Company embarked on a broad multi-center program of post-market clinical studies in leading institutions. These studies include 7 studies in the US (UCLA, Northwestern (2), Harvard (2), University of Chicago, Mayo Clinic), 3 studies in Europe (Leuven, Bordeaux (2)), 6 studies in Israel (Wolfson (2), Carmel, Rambam, Bney Zion (2)) and 2 studies in Australia (Melbourne, Alfred, Children). Additional sites and studies are currently under review.

Competitive Edge

IP Position

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

• KarmelSonix Israel (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 (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 Barriers to Entry

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.

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 KSL, 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

As announced previously, the Company secured approx. $1.8 million from the June option exercise program which while pleasing in the current difficult environment is insufficient to fund the Company's full product development and sales and marketing plans. Accordingly, in August the Company announced a transaction with Trafalgar Capital under which they agreed to provide a AU$7.2m Equity Credit Facility to the Company. This has provided KarmelSonix with an important safety net in terms of being able to maintain the momentum to complete the product development program which will lead to the launch of the Personal Wheezometer™ and WHolter™ early in 2008. The company has had significant success to date in reducing the burn rate and continues to look at all options in terms of reducing expenditure.

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 Principles of Good Corporate Governance and Best Practice 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 continue to adopt a set of Corporate Governance Practices and a Code of Conduct appropriate for the current size, complexity and operations of the Company and its subsidiaries.

Given the current size and scale of operations of the Company it is neither practical nor economic for the adoption of all the recommendations approved via the board charter. Where the consolidated entity has not adhered to the recommendations it 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.

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.

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 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 as defined in the ASX Corporate Governance Guidelines; and

* Some major Shareholders being represented on the Board.

At present there is not a majority of the Directors classified as being 'Independent'. The number of Independent Directors on the Board will increase as the Company develops and grows, and the Board believes that it can attract appropriate 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 consolidated entity. 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.

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: the development of the Company's strategic plan.

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: 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, divestures and financial and other reporting.

7. Human Resources: appointing, and, where appropriate, removing the Executive Officers as well as reviewing the performance of senior management in their implementation of Company's 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 authorized 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.

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;

• a copy of the Board Charter; 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, Director related entities and the Company. Unless there is an exemption under the Corporations Act from the requirement to obtain shareholder approval for the related 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 consolidated entity 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.

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 consolidated entity'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.

During the year, all Directors have full access to all Company records and receive Financial and Operational updates on a regular basis.

Attestations by Chief Executive Officer (CEO) and Chief Financial Officer (CFO)

It is the Board's policy, that 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.

Board Committees

Audit, Risk and Compliance Committee

The Company has a duly constituted Audit, Risk and Compliance Committee, consisting of three Directors of the Company, with the Committee Chairman being an Independent Non-Executive Director (the Chairman was reassigned to an executive position on 27 August 2008). 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 Committee holds a minimum of two meetings a year. Details of attendance of the members of the Committee are contained on pp 15.

Remuneration and Nomination Committee

During the year the Company formed a Remuneration and Nomination Committee, consisting of three Directors of the Company, with the Committee Chairman being an Executive Director. The current members of the Committee as at the date of this report, and their qualifications are detailed in the Directors' Report.

Role

The role of a Remuneration and Nomination 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.

Remuneration Policy

Director Remuneration is approved by resolution of the Board.

(i) 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.

(ii) Current Director Remuneration

Full details regarding the remuneration of Directors, is included in the remuneration report which forms part of the Directors' Report.

Company Code of Conduct

As part of its commitment to recognising the legitimate interests of stakeholders, the consolidated entity 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 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's policy is to endeavour 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.

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.

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 consolidated entity.

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 of the Company is committed to implementing this Code of Conduct and each individual is accountable for such compliance. Disciplinary measures 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 2008.

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 Reuven Regev	(resigned 15 April 2008)
Prof Noam Gavriely	
Dr Henry Pinskier	
Mr Nadaisan Logaraj	(appointed 15 April 2008)
Dr Nathan Intrator	(appointed 15 April 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 14 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 public and 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 $11,678,053 (2007: $5,124,413). For further detail, refer to the Review of Operations set out on pp 5 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 2008 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.

Subsequent Events

On 25 August 2008 KarmelSonix Ltd announced it had entered into a three-year ongoing funding agreement with Trafalgar Capital Specialised Investment Fund. The facility of up to A$7.2M consists of two components, a standby equity drawdown facility of up to A$7.2M and a loan facility for up to A$1M as part of the A$7.2M facility.

The facilities have been put in place to be used as working capital, on a standby basis, to support the continuous funding of the Company's ongoing product development and commercialisation program and to enable the Company to complete additional key product and commercial milestones. For more details please refer to the announcement released on the ASX on 28 August 2008.

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

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 5 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 bio-tec company listed on the ASX and NASDAQ. Mr Marks is also a non-executive Director of Watermark Global Plc, a water technology company listed on the AIM market. 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 1998 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, merges and acquisitions and international opportunities as well as fund raising and IPO's. Mr Marks is also currently a Director of Peregrine Corporate Ltd, an Australian based investment bank.
Interest in shares and options	—	8,100,000 Ordinary Shares
Committees	—	Member of Audit, Risk & Compliance Committee and Renumeration & 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 KSX) 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 KSX. He has been responsible for the establishment, funding and expansion of these entities and brings to KSX 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	—	7,604,508 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	—	87,115,500 Ordinary Shares
Committees	—	Nil
Directorships held in other listed entities	—	Nil

Dr Henry Pinskier (Executive Director)

Appointed to the board	—	21 November 2006 (Reassigned to Executive role on 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 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 Director of the Alfred Hospital 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	—	5,914,228 Ordinary Shares
Committees	—	Member of Audit, Risk & Compliance Committee and Renumeration & 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
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	—	330,000 Unlisted Options
Committees	—	Member of Audit, Risk & Compliance Committee and Renumeration & Nomination Committee
Directorships held in other listed entities	—	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 2008, 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	Number	Number	Number	Number	Number
Mr Peter Marks	10	10	6	6	3	3
Dr Reuven Regev	4	3	-	-	1	1
Prof Noam Gavriely	8	7	-	-	-	-
Dr Henry Pinskier	10	9	6	6	2	2
Mr Nadaisan Logaraj	5	5	-	-	1	1
Dr Nathan Intrator	4	4	-	-	-	-

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 Reuven Regev	Executive Director	(resigned 15 April 2008)
Dr Nathan Intrator	Executive Director	(appointed 15 April 2008)
Prof Noam Gavriely	Executive Director	
Dr Henry Pinskier	Executive Director	(appointed 27 August 2008)
	Non Executive Director	(reassigned 27 August 2008)
Mr Nadaisan Logaraj	Non Executive Director	(appointed 15 April 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 2008

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
2008		$	$	$	$	$	$
Mr Peter Marks		190,000	-	-	-	-	190,000
Dr Reuven Regev	1	63,341	-	-	-	1,801,015	1,864,356
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 Nathan Intrator		8,902	-	-	-	-	8,902
		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. 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
2007		$	$	$	$	$	$
Mr Peter Marks	1	136,666	-	-	-	153,000	289,666
Dr Reuven Regev	1	28,805	-	-	-	85,000	113,805
Prof Noam Gavriely	1	32,158	-	-	-	85,000	117,158
Dr Henry Pinskier	1,2	73,141	-	-	-	79,500	152,641
Mr Matthew Sheldrick		28,348	-	-	2,552	-	30,900
Mr Chin Joo Goh		25,000	-	-	-	-	25,000
Mr Gary Steinepris		20,833	-	-	-	-	20,833
		344,951	-	-	2,552	402,500	750,003

1. During the year Mr Peter Marks, Dr Reuven Regev, Prof Noam Gavriely and Dr Henry Pinskier received non cash remuneration in the form of shares for successfully negotiating the acquisitions of PulmoSonix Pty Ltd and Karmel Sonix (Israel) Ltd in November 2006. This equity was issued as part of the Sale of Shares Agreement and consisted of ordinary shares and C & F Class shares which have been converted to ordinary shares during the year on the achievement of milestones. The number of shares received is disclosed on page 19. The shares issued were fair valued at the ASX market price on the date of issue. This amount has been fully expensed in the profit and loss of the parent entity.

2. During the year Dr Pinskier was issued 500,000 options in relation to the successful negotiations referred to above and approved at the EGM held on 24 May 2007. The options issued were fair valued at the ASX market price on the date of issue. This amount has been fully expensed in the profit and loss of the parent entity.

All equity issued to Directors in the 2008 year was 100% vested. The allocation of key management personnel expense between the parent entity and the consolidated entity is set out in Note 6.

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	**2008**	**2007**	**2008**	**2007**
Mr Peter Marks	100%	47%	-	53%
Dr Reuven Regev	3%	25%	97%	75%
Prof Noam Gavriely	4%	27%	96%	73%
Dr Henry Pinskier	100%	48%	-	52%
Mr Nadaisan Logaraj	100%	-	-	-
Dr Nathan Intrator	100%	-	-	-
Mr Matthew Sheldrick	-	100%	-	-
Mr Chin Joo Goh	-	100%	-	-
Mr Gary Steinepris	-	100%	-	-

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 2008 equity had been issued to 1 previous Director and 2 employees.

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	Value per Option at Grant Date
27 July 2007	15 April 2008	30 June 2010	$0.05	N/A	$0.18

The board approved the vesting of the above options on the resignation of Mr Regev on the 15 April 2008.

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		**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Mr Peter Marks		-	-	-	-	-	-
Dr Reuven Regev	1	14,000,000	-	4,000,000	-	10,000,000	-
Prof Noam Gavriely		-	-	-	-	-	-
Dr Henry Pinskier	2	-	500,000	-	-	-	500,000
Mr Nadaisan Logaraj		-	-	-	-	-	-
Dr Nathan Intrator		-	-	-	-	-	-
		14,000,000	500,000	4,000,000	-	10,000,000	500,000

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.

2. In the prior year Dr Pinskier was issued 500,000 (100.00%) options in relation to the successful negotiations of the acquisition of two subsidiaries and approved at the EGM held on 24 May 2007.

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		**2008**	**2007**
Mr Peter Marks	1	-	2,000,000
Dr Reuven Regev	1	-	2,000,000
Prof Noam Gavriely	1	30,000,000	2,000,000
Dr Henry Pinskier	1	-	1,000,000
Mr Nadaisan Logaraj	1	-	-
Dr Nathan Intrator	1	-	-
		30,000,000	7,000,000

1. Further details in relation to these shares is disclosed on page 18.

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

Name	Date Exercised	Number of Ordinary Shares Issued on Exercise of Options	Amount Paid per Share	Fair Value of Options Exercised
Dr Henry Pinskier	30 June 2008	500,000	$0.10	$49,500.00

Employment Contracts of Directors and Key Management Personnel

No Director or Senior Executive was under a formal contract as at 30 June 2008.

Share Options on Issue at 30 June 2008

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 2008	Number Under Option at 30 September 2008
31 July 2009	$0.05	55,475,572	56,575,572
30 October 2009	$0.25	10,000,000	10,000,000
30 June 2010	$0.05	10,600,000	10,600,000
15 December 2013	$0.05	-	5,012,500
15 June 2014	$0.05	-	600,000
15 December 2014	$0.13	-	5,300,000
15 June 2015	$0.13	-	3,200,000
		76,075,572	91,288,072

Shares Issued as a Result of the Exercise of Options

During the year ended 30 June 2008 the following ordinary shares of KarmelSonix Limited were issued as a result of the exercise of options.

Date of Issue	Exercise Price $	Shares Issued
9 August 2007	$0.10	4,822,566
17 August 2007	$0.10	500,000
3 September 2007	$0.10	864,130
18 September 2007	$0.10	4,357,395
2 October 2007	$0.10	260,000
29 October 2007	$0.10	1,151,007
29 October 2007	$0.05	200,000
8 November 2007	$0.10	2,675,028
12 December 2007	$0.10	26,241
12 December 2007	$0.05	150,000
21 December 2007	$0.10	340,156
21 December 2007	$0.05	150,000
25 January 2008	$0.10	80,000
14 March 2008	$0.05	2,274,428
11 April 2008	$0.10	1,000
11 April 2008	$0.05	500,000
24 April 2008	$0.10	75,303
24 April 2008	$0.05	1,750,000
9 May 2008	$0.10	1,350,000
30 May 2008	$0.10	1,236,485
20 June 2008	$0.10	3,553,691
26 June 2008	$0.10	3,056,769
30 June 2008	$0.10	9,169,994
		38,544,193

Since 30 June 2008, 287,000 ordinary shares of KarmelSonix Limited were issued, at an exercise price of $0.025 per option, as a result of the exercise of options.

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.

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 2008 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 2008 has been received and can be found on pp 21 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 2008

Chartered Accountants
& Business Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Karmel Sonix Limited for the year ended 30 June 2008, 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 Karmel Sonix Limited and the entities it controlled during the year.

David Garvey

DJ Garvey
Partner
PKF
Chartered Accountants

30 September 2008
Melbourne

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

	Note	Consolidated Entity 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Revenue	2	790,085	185,617	544,270	84,513
Other income	2	141,034	138,433	759	-
Amortisation expenses	3	90,151	-	-	-
Consulting, employee and director expenses	3	6,004,232	1,204,141	2,269,872	782,798
Depreciation expenses	3	87,556	25,565	1,878	709
Impairment expense	3	-	1,714,086	9,361,507	1,974,430
Corporate administration expenses		636,687	338,562	424,607	263,775
Marketing and promotion expenses		2,439,039	737,828	1,701,663	625,737
Research and development expenses	3	3,021,130	1,319,296	-	-
Travel and entertainment expenses		330,377	108,484	271,299	101,789
Loss before income tax		(11,678,053)	(5,123,912)	(13,485,797)	(3,664,725)
Income tax expense	4	-	-	-	-
Loss from continuing operations		(11,678,053)	(5,123,912)	(13,485,797)	(3,664,725)
Loss from discontinued operations	5	-	(501)	-	-
Loss Attributable to Members of the Parent Entity		**(11,678,053)**	**(5,124,413)**	**(13,485,797)**	**(3,664,725)**
Overall Operations					
Basic loss per share (cents per share)	8a	(3.53)	(3.09)		
Diluted loss per share (cents per share)	8b	(3.53)	(3.09)		
Continuing Operations					
Basic loss per share (cents per share)	8a	(3.53)	(3.08)		
Diluted loss per share (cents per share)	8b	(3.53)	(3.08)		
Discontinued Operations					
Basic loss per share (cents per share)	8a	0.00	(0.01)		
Diluted loss per share (cents per share)	8b	0.00	(0.01)		

The accompanying notes form part of these financial statements.

KARMELSONIX LIMITED
ABN: 98 009 234 173
BALANCE SHEET
AS AT 30 JUNE 2008

	Note	Consolidated Entity 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Assets					
Current Assets					
Cash and cash equivalents	9	3,370,543	588,350	2,300,562	134,252
Trade and other receivables	10	375,877	407,030	24,226	47,598
Inventories	11	61,676	-	-	-
Other	16	20,694	103,601	9,505	98,714
Total Current Assets		3,828,790	1,098,981	2,334,293	280,564
Non-Current Assets					
Trade and other receivables	10	-	-	930,458	2,099,824
Other financial assets	12	-	-	1,580,750	1,580,750
Plant and equipment	14	216,295	183,770	3,371	5,249
Other intangible assets	15	1,712,876	1,749,710	-	-
Other	16	9,671	19,924	-	-
Total Non-Current Assets		1,938,842	1,953,404	2,514,579	3,685,823
Total Assets		**5,767,632**	**3,052,385**	**4,848,872**	**3,966,387**
Liabilities					
Current Liabilities					
Trade and other payables	17	893,722	615,068	124,596	120,447
Provisions	18	17,508	29,246	-	-
Total Current Liabilities		911,230	644,314	124,596	120,447
Non-Current Liabilities					
Provisions	18	3,686	2,441	-	-
Total Non-Current Liabilities		3,686	2,441	-	-
Total Liabilities		**914,916**	**646,755**	**124,596**	**120,447**
Net Assets		**4,852,716**	**2,405,630**	**4,724,276**	**3,845,940**
Equity					
Issued capital	19	51,796,073	41,307,210	51,796,073	41,307,210
Reserves	20	3,875,154	238,878	4,094,270	219,000
Accumulated losses		(50,818,511)	(39,140,458)	(51,166,067)	(37,680,270)
Total Equity		**4,852,716**	**2,405,630**	**4,724,276**	**3,845,940**

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 2008

	Note	Issued Capital	Option Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
Consolidated Entity		$	$	$	$	$
Balance at 01 July 2006	19	34,296,414	108,000	-	(34,016,045)	388,369
Shares issued	19	7,296,963	-	-	-	7,296,963
Capital raising costs	19	(286,167)	-	-	-	(286,167)
Options issued	19	-	111,000	-	-	111,000
Net (loss) for the period		-	-	-	(5,124,413)	(5,124,413)
Transfers to/from reserves		-	-	19,878	-	19,878
Balance at 30 June 2007		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	19	3,603,198	-	-	-	3,603,198
Options issued	19	-	3,995,473	-	-	3,995,473
Net (loss) for the period		-	-	-	(11,678,053)	(11,678,053)
Transfers to/from reserves		120,203	(120,203)	(238,994)	-	(238,994)
Balance at 30 June 2008		**51,796,073**	**4,094,270**	**(219,116)**	**(50,818,511)**	**4,852,716**

	Note	Issued Capital	Option Reserve	Foreign Currency Translation Reserve	Accumulated Losses	Total
Parent Entity		$	$	$	$	$
Balance at 01 July 2006	19	34,296,414	108,000	-	(34,015,545)	388,869
Shares issued	19	7,296,963	-	-	-	7,296,963
Capital raising costs	19	(286,167)	-	-	-	(286,167)
Options issued	19	-	111,000	-	-	111,000
Net (loss) for the period		-	-	-	(3,664,725)	(3,664,725)
Balance at 30 June 2007		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	19	3,603,198	-	-	-	3,603,198
Options issued	19	-	3,995,473	-	-	3,995,473
Net (loss) for the period		-	-	-	(13,485,797)	(13,485,797)
Transfers to/from reserves		120,203	(120,203)	-	-	-
Balance at 30 June 2008		**51,796,073**	**4,094,270**	**-**	**(51,166,067)**	**4,724,276**

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 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Cash Flows Related To Operating Activities					
Payments to suppliers and employees		(6,730,506)	(2,611,286)	(1,633,410)	(828,901)
Interest received		689,894	38,446	173,105	34,718
Receipt of grant funding		100,191	149,158	-	-
R & D tax refund		140,275	135,498	-	-
Net Cash Flows Used In Operating Activities	24a	**(5,800,146)**	**(2,288,184)**	**(1,460,305)**	**(794,183)**
Cash Flows Related To Investing Activities					
Payment for purchases of plant and equipment		(122,357)	(167,388)	-	(3,908)
Proceeds from sales of equity investments		-	-	-	400
Payment for purchases of subsidiary, net of cash acquired		-	114,951	-	-
Loans to other entities		-	(192,634)	-	-
InterCompany		-	-	(5,076,407)	(2,188,309)
Payment for rental deposits		-	(19,924)	-	-
Net Cash Flows Used In Investing Activities		**(122,357)**	**(264,995)**	**(5,076,407)**	**(2,191,817)**
Cash Flows Related To Financing Activities					
Proceeds from issues of securities		9,048,434	2,992,558	9,048,434	2,992,558
Capital raising costs		(345,412)	(286,167)	(345,412)	(286,167)
Net Cash Flows From Financing Activities		**8,703,022**	**2,706,391**	**8,703,022**	**2,706,391**
Net Increase/(Decrease) In Cash And Cash Equivalents		2,780,519	153,212	2,166,310	(279,609)
Cash and cash equivalents at the beginning of the year	9	588,350	415,260	134,252	413,861
Effects of exchange rate changes on cash and cash equivalents		1,674	19,878	-	-
Cash And Cash Equivalents At The End Of The Year	9	**3,370,543**	**588,350**	**2,300,562**	**134,252**

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

Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the parent entity and consolidated financial statements and notes of KarmelSonix Limited comply 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.

Adoption of New and revised Standards

The Group has adopted the following new and amended AASB standards during the year. Adoption of these revised standards did not have any material effect on the financial performance or position of the Group. They however give rise to additional disclosures.

AASB 7 Financial instruments: Disclosures
AASB 101 Amendment – Presentation of Financial Statements

The principal effects of these changes are as follows:

AASB 7 Financial Instruments: Disclosures - during the year the Group adopted this standard. Accordingly, the Group has made additional disclosures in relation to capital, financial instruments and risk classification and valuation of the Group's financial instruments. As required by IFRS 7, comparative disclosures have also been made.

AASB 101 Amendment: Presentation of Financial Statements - this amendment requires the Group to make new disclosures to enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital.

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.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(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 13 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 manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs.

(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 from KarmelSonix (Israel) Limited and is recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over its 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 2008 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. The Group has not yet determined the potential effect of the revised standard on the Group's disclosure.

(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 applied earlier. The Group has not yet decided when it will apply the revised standards. 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) Amendments to IFRS 1 and IAS 27 Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate were issued in May 2008 and will apply to financial reporting periods commencing on or after 1 January 2009. Amendments to the corresponding Australian Accounting Standards are expected to be issued shortly. After application of these revised rules, all dividends received from investments in subsidiaries, jointly controlled entities or associates will be recognised as revenue, even if they are paid out of pre-acquisition profits, but the investments may need to be tested for impairment as a result of the dividend payment. Furthermore, when a new intermediate parent entity is created in internal reorganisations it will measure its investment in subsidiaries at the carrying amounts of the net assets of the subsidiary rather than the subsidiary's fair value.

(t) 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 believe 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.

(i) 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.

(ii) 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(i) and 25).

(iii) 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.

Note 2 Revenue

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	$	$	$	$
Operating activities				
— Grant income	100,191	149,158	-	-
Total operating revenue	100,191	149,158	-	-
Non-operating activities				
— Interest received	689,894	36,459	544,270	84,513
Total non-operating revenue	689,894	36,459	544,270	84,513
	790,085	185,617	544,270	84,513
Other income				
— R & D tax refunds	141,034	138,433	759	-
Total other income	141,034	138,433	759	-
Total Income	931,119	324,050	545,029	84,513

Note 3 Loss from Ordinary Activities

		Note	Consolidated Entity 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
(a)	Expenses					
	Amortisation expenses					
	— Amortisation		90,151	-	-	-
	Amortisation expenses		90,151	-	-	-
	Consulting, employee and director expenses					
	— Consulting expenses		444,283	261,903	60,000	137,936
	— Employee expenses		1,707,707	192,235	158,645	-
	— Director expenses		3,852,242	750,003	2,051,227	644,862
	Consulting, employee and director expenses		6,004,232	1,204,141	2,269,872	782,798
	Depreciation expenses					
	— Depreciation		87,556	25,565	1,878	709
	Depreciation expenses		87,556	25,565	1,878	709
	Impairment expense					
	— Impairment of intangible	12 & 15	-	1,714,086	-	1,835,750
	— Impairment of intercompany loan		-	-	6,616,938	117,338
	— Loss on disposal of controlled entity		-	-	-	400
	— Write off loan to controlled entity on disposal		-	-	-	20,942
	— Impairment of investment in subsidiary		-	-	2,744,569	-
	Impairment expense		-	1,714,086	9,361,507	1,974,430
	Research and development expenses					
	— Consulting expenses		775,587	562,871	-	-
	— Employee expenses		1,398,156	524,314	-	-
	— Patent and regulatory expenses		330,811	37,292	-	-
	— Other research and development		516,576	194,819	-	-
	Research and development expenses		3,021,130	1,319,296	-	-
	Office rental under operating lease		93,379	36,810	-	-
	Total office rental under operating lease		93,379	36,810	-	-

Note 4 Income Tax Expense

		Consolidated Entity 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
(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:				
	Income tax benefit on loss from ordinary activities calculated at 30% (2007: 30%)	(3,503,416)	(1,537,324)	(4,045,739)	(1,099,418)
	Add:				
	Tax effect of:				
	— impairment expense and amortisation	27,045	514,226	823,371	-
	— other non-allowable items	(81,908)	32,712	(151,328)	2,609
	— share-based payments	1,708,321	-	873,013	-
	— impairment of intercompany loan	-	-	1,985,081	585,926
	— loss on disposal of controlled entity	-	-	-	120
	— write off loan to controlled entity on disposal	-	-	-	6,283
		(1,849,958)	(990,386)	(515,602)	(504,480)
	Tax effect of current period losses not recognised as deferred tax assets	1,849,958	990,386	515,602	504,480
	Income Tax Recognised in Profit or Loss	-	-	-	-
(b)	**Recognised Tax Assets and Liabilities**				
	Deferred tax assets and liabilities are attributable to the following:				
	Trade and other receivables	-	(82,328)	-	(29,614)
	Trade and other payables	102,045	16,328	9,371	8,400
	Employee provisions	(3,148)	19,173	-	-
		98,897	(46,827)	9,371	(21,214)
	Temporary difference not recognised	(98,897)	46,827	(9,371)	21,214
		-	-	-	-

		Consolidated Entity 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
(c)	**Unrecognised Tax Assets**				
	Deferred tax assets have not been recognised in respect of the following:				
	Temporary difference	98,897	(46,827)	9,371	(21,214)
	Tax losses	2,788,274	1,037,213	2,788,274	1,037,213
		2,887,171	990,386	2,797,645	1,015,999

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 Discontinued Operations

On 14 December 2006 the Company disposed of its wholly owned subsidiary Advanced Wound Care Pty Ltd.

Financial information relating to the discontinued operation, to the date of disposal, is set out below and at Segment Reporting Note 23.

The financial performance of the discontinued operation to the date of sale which is included in profit/(loss) from discontinued operations per the income statement is as follows:

	Consolidated Entity 2008 $	Consolidated Entity 2007 $
Expenses	-	(101)
Loss before income tax	-	(101)
Income tax expense	-	-
Loss attributable to members of the parent entity	-	(101)
Loss on sale before income tax	-	(400)
Income tax expense	-	-
Loss on sale after income tax	-	(400)
Loss from discontinued operations	-	(501)
The carrying amounts of assets and liabilities of the discontinuing operations at 30 June 2008 were:		
Total Assets	-	-
Total Liabilities	-	-
Net Assets	-	-
The net cash flows of the discontinued division which have been incorporated into the statement of cash flows are as follows:		
Net cash outflow from operating activities	-	(999)
Net decrease in cash generated by the discontinued division	-	(999)

Note 6 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 Reuven Regev	Executive Director	(resigned 15 April 2008)
Prof Noam Gavriely	Executive Director	
Dr Henry Pinskier	Executive Director	(appointed 27 August 2008)
	Non Executive Director	(reassigned 27 August 2008)
Mr Nadaisan Logaraj	Non Executive Director	(appointed 15 April 2008)
Dr Nathan Intrator	Executive Director	(appointed 15 April 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	
	2008	2007	2008	2007
	$	$	$	$
Short-term employee benefits	419,638	344,951	419,638	239,810
Post-employment benefits	1,125	2,552	1,125	2,552
Long-term benefits	-	-	-	-
Termination benefits	-	-	-	-
Share-based payments	3,431,265	402,500	-	402,500
	3,852,028	750,003	420,763	644,862

Additional disclosures as required per AASB 124 can be found in the Remuneration Report on pages 16 to 19.

(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:

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

2007	Balance at Start of the Year	Granted as Compensation (iii)	Options Exercised	Net Change Other	Balance at End of the Year	Vested and Exercisable	Unvested
Directors of KarmelSonix Limited							
Mr Peter Marks	-	-	-	-	-	-	-
Dr Reuven Regev	-	-	-	-	-	-	-
Prof Noam Gavriely	-	-	-	-	-	-	-
Dr Henry Pinskier	-	500,000	-	2,009,720	2,509,720	2,509,720	-
	-	500,000	-	2,009,720	2,509,720	2,509,720	-

(i) 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.

(ii) 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.

(iii) Please refer to Note 20 for details, 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.

2008		Balance at the Start of the Year	Received as Compensation	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 Reuven Regev	(i)	2,000,000	-	-	135,000	2,135,000
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 Nathan Intrator	(ii)	-	-	-	7,604,508	7,604,508
		105,163,667	-	2,500,000	4,898,261	112,561,928

2007		Balance at the Start of the Year	Received as Compensation	Options Exercised	Net Change Other	Balance at the End of the Year
Directors of KarmelSonix Limited						
Mr Peter Marks	(i) (iii)	-	2,000,000	-	5,000,000	7,000,000
Dr Reuven Regev	(iii)	-	2,000,000	-	-	2,000,000
Prof Noam Gavriely	(i) (iii)	-	2,000,000	-	90,853,947	92,853,947
Dr Henry Pinskier	(i) (iii)	-	1,000,000	-	2,309,720	3,309,720
		-	7,000,000	-	98,163,667	105,163,667

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

(ii) 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.

(iii) During the year ended 30 June 2007, Mr Peter Marks, Dr Reuven Regev, Prof Noam Gavriely and Dr Henry Pinskier received non cash remuneration in the form of shares for successfully negotiating the acquisitions of PulmoSonix Pty Ltd and Karmel Sonix (Israel) Ltd in November 2006. This equity was issued as part of the Sale of Shares Agreement and consisted of ordinary shares and C & F Class shares which have been converted to ordinary shares during the year on the achievement of milestones. At the date of issue C & F Class shares were fair valued at $Nil due to the terms attaching to the shares. During the year ended 30 June 2007, the remuneration of Directors at Note 6(d) consisted of the following:

(a) Mr Peter Marks - 1,000,000 ordinary shares, and 1,000,000 F Class shares that converted into ordinary shares on achievement of milestones. The shares issued were fair valued at the ASX market price on the date of issue.

(b) Dr Reuven Regev - 1,000,000 ordinary shares, and 1,000,000 C Class shares that converted into ordinary shares on achievement of milestones. The shares issued were fair valued at the ASX market price on the date of issue.

(c) Prof Noam Gavriely - 1,000,000 ordinary shares, and 1,000,000 F Class shares that converted into ordinary shares on achievement of milestones. The shares issued were fair valued at the ASX market price on the date of issue.

(d) Dr Henry Pinskier - 500,000 ordinary shares, and 500,000 F Class shares that converted into ordinary shares on achievement of milestones. The shares issued were fair valued at the ASX market price on the date of issue. Also Dr Pinskier was issued 500,000 options during the year which were approved at the EGM held on 24 May 2007, the options issued were fair valued at the ASX market price on grant date.

(iv) On the 27 June 2008 Prof Noam Gavriely received non cash remuneration in the form of shares on the achievement of the third milestone in relation 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, these shares are included in the opening balance of 92,853,947.

(e) Contracts for Services of Key Management Personnel

No Director or Senior Executive was under a formal contract as at 30 June 2008.

Note 7 Auditors' Remuneration

	Note	Consolidated Entity 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Remuneration of the auditor of the parent entity for:					
— auditing or reviewing the financial report		45,982	50,028	45,982	50,028
— taxation services		-	4,530	-	-
		45,982	54,558	45,982	50,028
Remuneration of other auditors of subsidiaries for:					
— auditing or reviewing the financial report of subsidiaries	(i)	22,366	22,899	-	-
		22,366	22,899	-	-

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

Note 8 Loss per Share

		2008 cents	2007 cents
(a)	Basic loss per share		
	From continuing operations	(3.53)	(3.08)
	From discontinued operation	0.00	(0.01)
	From overall operations	(3.53)	(3.09)
(b)	Diluted earnings/loss per share		
	From continuing operations	(3.53)	(3.08)
	From discontinued operation	0.00	(0.01)
	From overall operations	(3.53)	(3.09)
		2008 $	**2007 $**
(c)	Reconciliation of loss per share to net loss		
	Net Loss	(11,678,053)	(5,123,912)
	Loss used to calculate basic loss per share	(11,678,053)	(5,123,912)
	Loss used to calculate diluted loss per share	(11,678,053)	(5,123,912)
(d)	Reconciliation of loss per share to net loss from continuing operations		
	Net Loss	(11,678,053)	(5,124,413)
	Loss used to calculate basic loss per share	(11,678,053)	(5,124,413)
	Loss used to calculate diluted loss per share	(11,678,053)	(5,124,413)
(e)	Reconciliation of loss per share to net loss from discontinued operations		
	Net Loss	-	(501)
	Loss used to calculate basic loss per share	-	(501)
	Loss used to calculate diluted loss per share	-	(501)
(f)	Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	No. 330,385,072	No. 166,096,771

(g) 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 and have been excluded from the calculation of diluted loss per share.

Note 9 Cash and Cash Equivalents

	Consolidated Entity 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Cash at bank and in hand	912,125	226,427	121,167	15,309
Short-term bank deposits	2,458,418	361,923	2,179,395	118,943
	3,370,543	588,350	2,300,562	134,252

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	3,370,543	588,350	2,300,562	134,252
	3,370,543	588,350	2,300,562	134,252

Note 10 Trade and Other Receivables

	Consolidated Entity 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Current				
Trade receivables^	375,877	407,030	24,226	47,598
	375,877	407,030	24,226	47,598
Non-Current				
Loans to controlled entities	-	-	7,685,075	2,237,502
Provision for impairment of loan to controlled entity*	-	-	(6,754,617)	(137,678)
	-	-	930,458	2,099,824

^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 $6,616,939, (2007: $137,678). 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 11 Inventories

	Consolidated Entity 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Current				
At cost				
Raw materials and stores	3,515	-	-	-
Finished goods	58,161	-	-	-
	61,676	-	-	-

Note 12 Other Financial Assets

	Note	Consolidated Entity 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
(a) **Shares in Other Related Parties**					
(i) Unlisted					
Investment in Advanced Wound Care Pty Ltd - at cost		-	-	-	513,750
Less: Provision for diminution		-	-	-	(513,350)
Loss on disposal of controlled entity		-	-	-	(400)
		-	-	-	-
Investment in PulmoSonix Ltd - at cost		-	-	-	1,835,750
Less: Impairment loss	(i)	-	-	-	(1,835,750)
		-	-	-	-
Investment in Karmel Sonix (Israel) Limited - at cost		-	-	1,580,750	1,580,750
Other additions	(ii)	-	-	2,744,569	-
Less: Impairment loss	(iii)	-	-	(2,744,569)	-
		-	-	1,580,750	1,580,750

(i) The impairment loss reported in 2007 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 subsidiary by the parent.

(iii) The impairment loss reported in the current year 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%.

Note 13 Controlled Entities

(a) **Controlled Entities Consolidated**

	Country of Incorporation	Percentage Owned (%)*	
		2008	2007
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 $2,744,569 in the profit and loss. The parent entity has treated this amount as an addition to its investment in the subsidiary.

(c) **Disposal of Controlled Entities**

On 14 December 2006, the parent entity disposed of its 100% interest in Advanced Wound Care Pty Ltd. An operating loss of $101 after income tax was attributable to members of the parent entity from the disposal. No remaining interest in the entity was held by any member of the economic entity.

Note 14 Property, Plant and Equipment

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	$	$	$	$
Plant & Equipment				
Furniture & Fittings				
At cost	31,259	15,232	-	-
Accumulated depreciation	(2,302)	(317)	-	-
	28,957	14,915	-	-
Computer Equipment & Software				
At cost	295,771	217,269	6,590	6,590
Accumulated depreciation	(153,579)	(75,491)	(3,219)	(1,341)
	142,192	141,778	3,371	5,249
Medical Equipment				
At cost	30,205	19,870	-	-
Accumulated amortisation	(8,693)	(4,421)	-	-
Total Leasehold Improvements	21,512	15,449	-	-
Fitout Assets				
At cost	28,943	12,053	-	-
Accumulated depreciation	(5,309)	(425)	-	-
	23,634	11,628	-	-
Total Plant and Equipment	216,295	183,770	3,371	5,249

(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.

	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
Additions	-	-	-	-	-
Depreciation expense	-	(1,878)	-	-	(1,878)
	-	3,371	-	-	3,371

Note 15 Intangible Assets

	Note	Consolidated Entity 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Goodwill					
Cost		-	1,714,086	-	-
Less accumulated impairment losses		-	(1,714,086)	-	-
Net carrying value		-	-	-	-
Intellectual Property					
Cost		1,803,027	1,749,710	-	-
Less accumulated amortisation		(90,151)	-	-	-
Net carrying value		1,712,876	1,749,710	-	-
Total intangibles		1,712,876	1,749,710	-	-

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

Consolidated Entity	Goodwill $	Intellectual Property $	Total $
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
Accumulated amortisation	-	(90,151)	(90,151)
Impairment losses	-	-	-
Closing carrying value at 30 June 2008	-	1,712,876	1,712,876
Year ended 30 June 2007			
Balance at the beginning of year	-	-	-
Additions	1,714,086	1,749,710	3,463,796
Accumulated amortisation	-	-	-
Impairment losses	(1,714,086)	-	(1,714,086)
Closing carrying value at 30 June 2007	-	1,749,710	1,749,710

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.

Impairment Disclosures

Goodwill on consolidation from the investments in subsidiaries has been written down to its recoverable amount based on forecast discounted cash flows. Goodwill is allocated to the Group's cash-generating units (CGU's) indentified according to business segement. The following CGU's have been identified:

	2008 $	2007 $
PulmoSonix Pty Ltd cash generating unit	-	1,714,086
Karmel Sonix (Israel) Ltd cash generating unit	-	-
Impairment losses	-	(1,714,086)
	-	-

The recoverable amount of a CGU is based on value-in-use calculations which use cash flow projections based on budgets approved by management and extrapolated 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 termination value at the end of the 5 years using a price earnings ratio of four times final year net profit.

The key assumptions used for value-in-use calculations are as follows:

- The discount rate used was 13.15%.
- The forecast uses an internal projection for 2008 to 2011 and then further 30% increases in revenue for the following year and then 25% for year 5.

Management determined budgeted gross margins based on past performance and its expectations for the future. The historical weighted average growth rates used to project revenue and the historical gross margins and estimated weighted average inflation rates used to project costs are consistent with inflation rates applicable to the locations in which the CGU's operate. Discount rates are pre-tax and are adjusted to incorporate risks associated with the relevant segment.

Management believes that any reasonable possible change in key assumptions, on which the recoverable amount has been assessed, would not cause any carrying values to exceed recoverable amounts in any of the cash generating units described above.

Note 16 Other Assets

	Consolidated Entity 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Current				
Prepayments	20,694	103,601	9,505	98,714
	20,694	103,601	9,505	98,714
Non-Current				
Rental Deposits	2,938	2,938	-	-
Car Leases	6,733	16,986	-	-
	9,671	19,924	-	-

Note 17 Trade and Other Payables

	Note	Consolidated Entity 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Current					
Unsecured liabilities					
Trade payables	17a	743,234	503,124	26,856	54,036
Sundry payables and accrued expenses		124,310	89,717	97,740	66,411
Prepaid Income		26,178	22,227	-	-
		893,722	615,068	124,596	120,447

(a) At balance date there were foreign currency payables of $ILS2,238,330 (2007: $ILS1,508,492, Israeli New Shekel) or $AUD692,204 (2007:$AUD418,607) payable by the economic entity.

Note 18 Provisions

	Consolidated Entity 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Current				
Annual leave	17,508	29,246	-	-
	17,508	29,246	-	-
Non-Current				
Long service leave	3,686	2,441	-	-
	3,686	2,441	-	-

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 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
Fully Paid Ordinary shares (2008: 206,370,597) (2007: 206,370,597)	19a	51,796,073	41,307,210	51,796,073	41,307,210
Fully Paid A class shares (2008: Nil) (2007: Nil)	19b	-	-	-	-
Fully Paid B class shares (2008: Nil) (2007: Nil)	19c	-	-	-	-
Fully Paid C class shares (2008: Nil) (2007: Nil)	19d	-	-	-	-
Fully Paid D class shares (2008: 30,000,000) (2007: 30,000,000)	19e	-	-	-	-
Fully Paid E class shares (2008: 30,000,000) (2007: 30,000,000)	19f	-	-	-	-
Fully Paid F class shares (2008: Nil) (2007: Nil)	19g	-	-	-	-
Fully Paid G class shares (2008: 12,500,000) (2007: 12,500,000)	19h	-	-	-	-
Fully Paid H class shares (2008: 12,500,000) (2007: 12,500,000)	19i	-	-	-	-
		51,796,073	41,307,210	51,796,073	41,307,210

(a) Ordinary Shares

	Note	2008 No.	2008 $	2007 No.	2007 $
At the beginning of reporting period		206,370,597	41,307,210	33,972,088	34,046,414
Shares issued during year	(i)	28,909,793	7,110,874	172,398,509	7,546,963
Exercise of options	(ii)	38,544,193	3,603,198	-	-
Transaction costs relating to share issues			(345,412)		(286,167)
Transfer to/from reserves			120,203		-
At reporting date		273,824,583	51,796,073	206,370,597	41,307,210

(i) 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

2007	Details	Number	Issue Price $	$
13-Sep-06	Capital Raising	16,000,000	0.050	800,000
21-Nov-06	Acquisition of Sudsidiary - PulmoSonix	10,000,000	0.060	600,000
21-Nov-06	Acquisition of Sudsidiary - PulmoSonix & Karmel Sonix (Israel)	2,250,000	0.060	135,000
21-Nov-06	Acquisition of Sudsidiary - Karmel Sonix (Israel)	15,000,000	0.060	900,000
21-Nov-06	Acquisition of Sudsidiary - PulmoSonix & Karmel Sonix (Israel)	2,250,000	0.060	135,000
21-Nov-06	Acquisition of Sudsidiary - PulmoSonix & Karmel Sonix (Israel)	1,000,000	0.060	60,000
21-Nov-06	Acquisition of Sudsidiary - PulmoSonix & Karmel Sonix (Israel)	1,000,000	0.060	60,000
21-Nov-06	Acquisition of Sudsidiary - PulmoSonix & Karmel Sonix (Israel)	1,000,000	0.060	60,000
21-Nov-06	Acquisition of Sudsidiary - PulmoSonix & Karmel Sonix (Israel)	500,000	0.060	30,000
21-Dec-06	Capital Raising	12,000,000	0.050	600,000
21-Dec-06	Issue to Consultants^	2,000,000	0.048	96,000
24-Dec-06	Cancellation of A Class Shares	-	0.000	125,000
23-Jan-07	Conversion of B Class Shares	5,000,000	0.025	125,000
12-Apr-07	Issue to Consultants^	4,000,000	0.025	100,000
20-Apr-07	Non renounceable pro-rata rights issue	43,702,323	0.025	1,092,558
20-Apr-07	Capital Raising	15,000,000	0.025	375,000
24-Apr-07	Issue to Consultants^	196,186	0.025	4,905
07-Jun-07	Issue to Consultants^	5,000,000	0.025	125,000
26-Jun-07	Conversion of C Class Shares	19,500,000	0.025	487,500
26-Jun-07	Conversion of F Class Shares	14,500,000	0.093	1,348,500
27-Jun-07	Issue to Consultants^	2,500,000	0.115	287,500
		172,398,509		7,546,963

^The market value of shares issued to consultants are equivalent to the invoiced services.

(ii)	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) A Class Shares

		2008		2007	
	Note	No.	$	No.	$
At the beginning of the reporting period		-	-	5,000,000	125,000
Cancellation of shares	(i)	-	-	(5,000,000)	(125,000)
At reporting date		-	-	-	-

(i)	2007	Details	Number	Issue Price $	$
	24-Dec-06	A class shares cancelled as per Deed of Cancellation	(5,000,000)	0.025	(125,000)
			(5,000,000)		(125,000)

(c) B Class Shares

		2008		2007	
	Note	No.	$	No.	$
At the beginning of reporting period		-	-	5,000,000	125,000
Conversion of shares	(i)	-	-	(5,000,000)	(125,000)
At reporting date		-	-	-	-

(i)	2007	Details	Number	Issue Price $	$
	23-Jan-07	B Class shares converted on achievement of milestone	(5,000,000)	0.025	(125,000)
			(5,000,000)		(125,000)

(d) C Class Shares

		2008		2007	
	Note	No.	$	No.	$
At the beginning of reporting period		-	-	-	-
Shares issued during year	(i)	-	-	-	-
At reporting date		-	-	-	-

These class shares are performance shares and are subject to research based milestones, Note 22 & 29 contain further details, including terms.

(i)	2007	Details	Number	Issue Price $	$
	21-Nov-06	Acquisition of Karmel Sonix Israel	19,500,000	-	-
	26-Jun-07	C Class shares converted on achievement of milestone	(19,500,000)	-	-
			-		-

(e) D Class Shares

		2008		2007	
	Note	No.	$	No.	$
At the beginning of reporting period		30,000,000	-	-	-
Shares issued during year	(i)	-	-	30,000,000	-
At reporting date		30,000,000	-	30,000,000	-

These class shares are performance shares and are subject to research based milestones, Note 22 & 29 contain further details, including terms.

(i)	2007	Details	Number	Issue Price $	$
	21-Nov-06	Acquisition of Karmel Sonix Israel	30,000,000	-	-
			30,000,000		-

(f) E Class Shares

		2008		2007	
	Note	No.	$	No.	$
At the beginning of reporting period		30,000,000	-	-	-
Shares issued during year	(i)	-	-	30,000,000	-
At reporting date		30,000,000	-	30,000,000	-

These class shares are performance shares and are subject to research based milestones, Note 22 & 29 contain further details, including terms. On the 27 June 2008 the Directors approved the achievement of the third milestone and the conversion of the Class E shares to ordinary shares. The shares were issued on 1 August 2008.

(i)	2007	Details	Number	Issue Price $	$
	21-Nov-06	Acquisition of Karmel Sonix Israel	30,000,000	-	-
			30,000,000		-

(g) F Class Shares

		2008		2007	
	Note	No.	$	No.	$
At the beginning of reporting period		-	-	-	-
Shares issued during year	(i)	-	-	-	-
At reporting date		-	-	-	-

These class shares are performance shares and are subject to research based milestones, Note 22 & 29 contain further details, including terms.

(i)	2007	Details	Number	Issue Price $	$
	21-Nov-06	Acquisition of PulmoSonix	14,500,000	-	-
	26-Jun-07	F Class shares converted on achievement of milestone	(14,500,000)	-	-
			-		-

(h) G Class Shares

		2008		2007	
	Note	No.	$	No.	$
At the beginning of reporting period		12,500,000	-	-	-
Shares issued during year	(i)	-	-	12,500,000	-
At reporting date		12,500,000	-	12,500,000	-

These class shares are performance shares and are subject to research based milestones, Note 22 & 29 contain further details, including terms.

(i)	2007	Details	Number	Issue Price $	$
	21-Nov-06	Acquisition of PulmoSonix	12,500,000	-	-
			12,500,000		-

(i) H Class Shares

	Note	2008 No.	2008 $	2007 No.	2007 $
At the beginning of reporting period		12,500,000	-	-	-
Shares issued during year	(i)	-	-	12,500,000	-
At reporting date		12,500,000	-	12,500,000	-

These class shares are performance shares and are subject to research based milestones, Note 22 & 29 contain further details, including terms.

(i) 2007	Details	Number	Issue Price $	$
21-Nov-06	Acquisition of PulmoSonix	12,500,000	-	-
		12,500,000		-

Terms and Conditions of Issued Capital

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

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

Note 20 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	
		2008	2007	2008	2007
	Note	$	$	$	$
Listed options over shares (2008: Nil) (2007: 133,750,653)	20a	373,560	219,000	373,560	219,000
A class options (2008: Nil) (2007: Nil)	20b	-	-	-	-
B class options (2008: Nil) (2007: Nil)	20c	-	-	-	-
Unlisted ESOP options over shares (2008: 10,600,000) (2007: Nil)	20d	2,784,361	-	2,784,361	-
Unlisted options over shares (2008: 55,475,572) (2007: Nil)	20e	736,349	-	736,349	-
Unlisted options over shares (2008: 10,000,000) (2007: Nil)	20f	200,000	-	200,000	-
Foreign Currency Translation Reserve	20g	(219,116)	19,878	-	-
		3,875,154	238,878	4,094,270	219,000

(a) Listed Options Over Fully Paid Ordinary Shares

		2008 No.	2008 $	2007 No.	2007 $
At the beginning of reporting period		133,750,653	219,000	30,602,144	72,000
Options issued during year	(i)	13,500,000	209,445	103,148,509	147,000
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	133,750,653	219,000

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

(i) 2008		Details	Number	Issue Price $	$
09-Aug-07	1,2	Issue of options to Consultants	6,000,000	0.014	86,667
08-Nov-07	1,2	Issue of options to Consultants	4,500,000	0.014	65,000
28-Feb-08	1,2	Issue of options to Consultants	3,000,000	0.019	57,778
			13,500,000		209,445

2007		Details	Number	Issue Price $	$
13-Sep-06	1	Issue of options under Capital Raising - free attaching	16,000,000	-	-
21-Dec-06	1,2	Issue of options to Consultants	2,000,000	0.010	20,000
24-Dec-06	1	Cancellation of A class options	-	-	18,000
23-Jan-07	1,3	Conversion of B Class options	2,250,000	0.008	18,000
28-Feb-07	1	Issue of options under Capital Raising - free attaching	12,000,000	-	-
12-Apr-07	1,2	Issue of options to Consultants	4,000,000	0.002	8,000
20-Apr-07	1	Issue of options under Capital Raising - free attaching	43,702,323	-	-
20-Apr-07	1	Issue of options under Capital Raising - free attaching	15,000,000	-	-
24-Apr-07	1	Issue of options under Capital Raising - free attaching	196,186	-	-
07-Jun-07	1	Issue of options under Capital Raising - free attaching	5,000,000	-	-
07-Jun-07	1,2	Issue of options to a Director	500,000	0.006	3,000
26-Jun-07	1,2	Issue of options to Consultants	2,500,000	0.032	80,000
			103,148,509		147,000

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

2 These options are listed and the issue price is calculated based on 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.

3 These options were converted to ordinary shares on the achievement of a research based milestone, the issue price is calculated based on the market value at entitlemen date.

(b) A Class Options

		2008		2007	
		No.	$	No.	$
At the beginning of reporting period		-	-	2,250,000	18,000
Cancellation of options	(i)	-	-	(2,250,000)	(18,000)
At reporting date		-	-	-	-

(i) 2007	Details	Number	Issue Price $	$
24-Dec-06	A class options cancelled as per Deed of Cancellation	(2,250,000)	0.008	(18,000)
		(2,250,000)		(18,000)

(c) B Class Options

		2008 No.	2008 $	2007 No.	2007 $
At the beginning of reporting period		-	-	2,250,000	18,000
Conversion of options	(i)	-	-	(2,250,000)	(18,000)
At reporting date		-	-	-	-

(i) 2007	Details	Number	Issue Price $	$
23-Jan-07	B Class options converted on achievement of milestone	(2,250,000)	0.008	(18,000)
		(2,250,000)		(18,000)

(d) Unlisted ESOP Options Over Fully Paid Ordinary Shares

		2008 No.	2008 $	2007 No.	2007 $
At the beginning of reporting period		-	-	-	-
Options issued during year	(i)	15,600,000	1,343,983	-	-
Cancellation of options	(ii)	(5,000,000)	(400,422)		
Expense recorded over vesting period of options			1,840,800		
At reporting date		10,600,000	2,784,361	-	-

(i) 2008		Details	Number	Issue Price $	$
09-Aug-07	1	Issued per Resolution 2 of EGM held on 27/07/07	14,000,000	0.180	1,313,325
21-Dec-07	2	Issued to eligible persons under Company's ESOP plan	1,000,000	0.086	25,186
31-Dec-07	1	Options expensed under AIFRS but not issued	600,000	0.016	5,472
			15,600,000		1,343,983

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

1 Refer to Remuneration Report for equity valuation.
2 Options exercisable at $0.15 on or before 30 June 2010.

(e) Unlisted Options Over Fully Paid Ordinary Shares

		2008 No.	2008 $	2007 No.	2007 $
At the beginning of reporting period		-	-	-	-
Options issued during year	(i)	60,500,000	801,667	-	-
Exercise of options	(ii)	(5,024,428)	-	-	-
Transfer to/from reserves		-	(65,318)	-	-
At reporting date		55,475,572	736,349	-	-

(i) 2008		Details	Number	Issue Price $	$
09-Aug-07	1,2	Issued per Resolution 3 of EGM held on 27/07/07	50,000,000	0.013	650,000
09-Aug-07	1,2	Issue of options to Consultants	3,000,000	0.014	43,333
12-Dec-07	1,2	Issue of options to Consultants	4,500,000	0.014	65,000
28-Feb-08	1,2	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	1	Exercise of Unlisted Options at $0.05	(200,000)	-	-
12-Dec-07	1	Exercise of Unlisted Options at $0.05	(150,000)	-	-
21-Dec-07	1	Exercise of Unlisted Options at $0.05	(150,000)	-	-
14-Mar-08	1	Exercise of Unlisted Options at $0.05	(2,274,428)	-	-
11-Apr-08	1	Exercise of Unlisted Options at $0.05	(500,000)	-	-
24-Apr-08	1	Exercise of Unlisted Options at $0.05	(1,750,000)	-	-
			(5,024,428)		-

1 Options exercisable at $0.05 on or before 31 July 2009.
2 These options are unlisted and the issue price is calculated based on 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

		2008		2007	
		No.	$	No.	$
At the beginning of reporting period		-	-	-	-
Options issued during year	(i)	10,000,000	200,000	-	-
At reporting date		10,000,000	200,000	-	-

(i) 2008		Details	Number	Issue Price $	$
28-Feb-08	1,2	Issued per Resolution 3 of AGM held on 28 November 2007	10,000,000	0.020	200,000
			10,000,000		200,000

1 Options exercisable at $0.25 on or before 31 October 2009.

2 These options are unlisted and the issue price is calculated based on 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.

(g) 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		Parent Entity	
		2008	2007	2008	2007
		$	$	$	$
Non-cancellable operating leases contracted for but not capitalised in the financial statements					
Payable — minimum lease payments					
— not later than 12 months		81,073	75,861	-	-
— between 12 months and 5 years		166,223	192,632	-	-
— greater than 5 years		-	51,935	-	-
		247,296	320,428	-	-

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.

Haifa, Israel

This property lease is a non-cancellable sub-lease with a three-year term and includes office space of 331m² and an additional 122m² in the basement. The lease agreement contains a contingent provision which sets 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 is payable for the entire term of the lease. An option exists to renew the lease at the end of the three-year term for two additional terms of one year.

On the 29 June 2008, KarmelSonix (Israel) Ltd, informed the landlord that they intend to vacate the premises on the 31 December 2008.

(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 is for a three year period which ends on 31 December 2009.

(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

- 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. From the 1 July 2008, the consulting fee will be increased to $ISL90,000 per month.

Note 22 Contingent Liabilities

Acquisition of Subsidiaries

KarmelSonix Limited has an obligation as part of its acquisition of PulmoSonix Pty Ltd and KarmelSonix (Israel) Ltd to issue to the previous shareholders of these entities additional equity as follows;

· 30,000,000 D Class Shares to Karmel Medical Accoustic Technologies Ltd
· 30,000,000 E Class Shares to Karmel Medical Accoustic Technologies Ltd^
· 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)

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

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 and Karmel Sonix (Israel) Ltd reach the following milestones:

· The issue of 30 million D Class Shares upon Technological Completion of the WIM-Holter™ by Karmel Sonix (Israel) Limited.
· 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.

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.

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 from sales to external customers		Segment assets		Acquisition of property, plant and equipment, intangibles and other non-current segment assets	
	2008	2007	2008	2007	2008	2007
Geographical Location	$	$	$	$	$	$
Australia	418,214	324,050	2,827,175	1,917,948	14,032	53,566
Israel	512,905	-	2,940,457	1,134,437	107,723	1,903,197
Unallocated	-	-	-	-	-	-
Total	931,119	324,050	5,767,632	3,052,385	121,755	1,956,763

Note 24 Cash Flow Information

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

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	$	$	$	$
Net Cash Flows from operating activities				
Loss for the period	(11,678,053)	(5,124,413)	(13,485,797)	(3,664,725)
Add back depreciation expense	87,556	25,565	1,878	709
Add back amortisation expense	90,151	-	-	-
Add back interest on inter-Company loans	-	-	(371,165)	(49,795)
Add back impairment of goodwill	-	1,714,086	-	-
Add back equity issued for nil consideration	5,661,111	998,905	2,916,542	998,905
Add back provision for inter-company loan	-	-	6,616,938	138,280
Add back provision for diminution in investments	-	-	2,744,569	1,835,750
(Increases)/Decreases in accounts receivable	31,153	(199,753)	23,372	(42,557)
(Increases)/Decreases in other current assets	21,231	(92,878)	89,209	(98,714)
Increases in accounts payable	278,654	355,931	4,149	87,964
Increases/(Decreases) in other current liabilities	(10,493)	34,373	-	-
Foreign exchange rate movements	(281,456)	-	-	-
Cash flow used in operations	(5,800,146)	(2,288,184)	(1,460,305)	(794,183)

(b) Acquisition of Entities

In the prior financial year, the Group acquired two businesses. The net cash outflow on acquisition was $Nil. Please refer to Note 29 for further details of these acquisitions.

(c) Disposal of Entities

During the prior year the controlled entity Advanced Wound Care Pty Ltd was sold. Details of the disposal are as follows:

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	$	$	$	$
Consideration				
Cash and cash equivalents	-	-	-	-
Cash consideration	-	-	-	-
Book value of net assets sold				
Cash and cash equivalents	-	400	-	-
Receivables	-	-	-	-
Property, plant and equipment	-	-	-	-
Payables	-	-	-	-
	-	400	-	-
Net gain/(loss) on disposal	-	(400)		
	-	-	-	-

(d) 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 2008 equity had been issued to 1 previous Director and 2 employees.

	Consolidated Entity				Parent			
	2008		2007		2008		2007	
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	-	-	-	-	-	-	-	-
Granted	15,600,000	0.06	-	-	15,600,000	0.06	-	-
Forfeited	(5,000,000)	(0.07)	-	-	(5,000,000)	(0.07)	-	-
Exercised	-	-	-	-	-	-	-	-
Expired	-	-	-	-	-	-	-	-
Outstanding at year-	10,600,000	0.05	-	-	10,600,000	0.05	-	-
Exercisable at year-	10,000,000	0.05	-	-	10,000,000	0.05	-	-

There were no options exercised during the year ended 30 June 2008.

The options oustanding at 30 June 2008 had a weighted average exercise price of $0.05 and a weighted average remaining contractual life of 2 years. The exercise price was $0.05 in respect of options outstanding at 30 June 2008.

The weighted average fair value of the options granted during the year was $0.16.

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

Weighted average exercise price	$0.06
Weighted average life of the option	1.5 years
Underlying share price	$0.23
Expected share price volatility	87%
Risk free interest rate	6.35%

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 employee benefits expense in the income statement is $2,784,361 (2007:$Nil), and relates, in full, to equity-settled share-based payment transactions.There is a remaining balance to be expensed in future periods of $675,327 (2007:$Nil).

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

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

	Consolidated Entity				Parent Entity			
	2008		2007		2008		2007	
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	9,000,000	0.10	-	-	9,000,000	0.10	-	-
Granted	84,000,000	0.08	9,000,000	0.10	84,000,000	0.08	9,000,000	0.10
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-	65,475,572	0.08	9,000,000	0.10	65,475,572	0.08	9,000,000	0.10
Exercisable at year-	65,475,572	0.08	9,000,000	0.10	65,475,572	0.08	9,000,000	0.10

There were 5,024,428 options exercised during the year ended 30 June 2008, with a weighted average share price of $0.14 at exercise date.

The options outstanding at 30 June 2008 had a weighted average exercise price of $0.08 and a weighted average remaining contractual life of 1 year. The exercise price was $0.05 and $0.25 in respect of options outstanding at 30 June 2008.

The weighted average fair value of the options granted during the year was $0.014.

Date of Issue	Quantity	Expiry Date	Exercise Price $	Value Attributable at Grant date	ASX Code
9 August 2007	6,000,000	30 June 2008	0.10	0.014	KSXOA
8 November 2007	4,500,000	30 June 2008	0.10	0.014	KSXOA
28 February 2008	3,000,000	30 June 2008	0.10	0.019	KSXOA
9 August 2007	50,000,000	31 July 2009	0.05	0.013	KSXAK
9 August 2007	3,000,000	31 July 2009	0.05	0.014	KSXAK
12 December 2007	4,500,000	31 July 2009	0.05	0.014	KSXAK
28 February 2008	3,000,000	31 July 2009	0.05	0.014	KSXAK
28 February 2008	10,000,000	31 October 2009	0.25	0.020	KSXAW
	84,000,000				

All options vest upon issue and are not escrowed. No dividend or voting rights are attached to the options.

The fair value was determined on the value of services provided under an agreement / invoice. The value of the options, $1,211,112 forms part of the Consultants, Employees and Directors expenses in the Income Statement.

Note 26 Events After the Balance Sheet Date

On 25 August 2008 KarmelSonix Ltd announced it had entered into a three-year ongoing funding agreement with Trafalgar Capital Specialised Investment Fund. The facility of up to A$7.2M consists of two components, a standby equity drawdown facility of up to A$7.2M and a loan facility for up to A$1M as part of the A$7.2M facility.

The facilities have been put in place as a working capital funding arrangement which will be used on a standby basis to support the continuous funding of the Company's ongoing product development and commercialisation program and to enable the Company to complete additional key product and commercial milestones.

For further details please refer to the announcement released on the ASX on 28 August 2008.

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

Note 27 Related Party Transactions

		Consolidated Entity 2008 $	Consolidated Entity 2007 $	Parent Entity 2008 $	Parent Entity 2007 $
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			395,081	334,612
	Loan - Karmel Sonix (Israel) Ltd			535,377	1,765,212
	Interest Received - PulmoSonix Pty Ltd			47,933	12,145
	Interest Received - Karmel Sonix (Israel) Ltd			323,232	37,651
	Share Based Payments (Directors & Employees) - Karmel Sonix (Israel) Ltd			2,744,569	-
	Details of the ordinary shares held in subsidiaries are disclosed in Note 13 to the financial statements.				
(c)	**Transactions with Key Management Personnel**				
	(i) Key Management Personnel compensation				
	Details of key management personnel compensation are disclosed in Note 6 and the Remuneration Report within the Directors Report.				
	(ii) Key Management Personnel equity holdings				
	Disclosed in Note 6.				
(d)	**Equity Interests in related parties**				
	Details of interests in subsidiaries are disclosed in Note 13.				
(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	35,000	60,000	35,000
	Rent paid to Medi-Admin Pty Ltd a company of which Henry Pinskier is a Director	35,250	8,813	-	-
	Rent and facilities management fees paid to KMAT Ltd a company of which Noam Gavriely is a Director	58,129	27,997	-	-

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:

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
	$	$	$	$
Financial assets - US (cash and receivables)	738,310	65,738	-	-
Financial assets - Israel (cash and receivables)	-	243,645	-	-
Financial liabilities - US (accounts payable)	(692,204)	(418,607)	-	-
Financial liabilities - Israel (accounts payable)	-	-	-	-
	46,106	(109,224)	-	-

The Group has conducted a sensitivity analysis of the Group's exposure to foreign currency risk. The Group is currently exposed to the Israeli New Shekel (ISL) and US dollar (USD). The sensitivity analysis below is conducted on a currency 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 4.5%.

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	
	2008	2007	2008	2007
Increase/(Decrease) in financial assets	$	$	$	$
AUD/ISL + 4.5%	(34,789)	(3,098)	-	-
AUD/USD + 4.5%	-	(11,481)	-	-
AUD/ISL - 4.5%	31,793	2,831	-	-
AUD/USD - 4.5%	-	10,492	-	-

	Consolidated Entity		Parent Entity	
	2008	2007	2008	2007
Increase/(Decrease) in financial liabilities	$	$	$	$
AUD/ISL + 4.5%	32,617	19,725	-	-
AUD/USD + 4.5%	-	-	-	-
AUD/ISL - 4.5%	(29,808)	(18,026)	-	-
AUD/USD - 4.5%	-	-	-	-

(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.

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

2008							
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	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

2007							
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	2.17%	587,987	-	-	-	363	588,350
Trade and other receivables		-	-	-	-	407,030	407,030
Total Financial Assets		587,987	-	-	-	407,393	995,380
Financial Liabilities:							
Trade and other payables		-	-	-	-	592,841	592,841
Provisions		-	-	-	-	31,687	31,687
Total Financial Liabilities		-	-	-	-	624,528	624,528

Parent							
Financial Assets:							
Cash and cash equivalents	5.29%	134,252	-	-	-	-	134,252
Trade and other receivables		-	-	-	-	2,147,422	2,147,422
Other financial assets		-	-	-	-	1,580,750	1,580,750
Total Financial Assets		134,252	-	-	-	3,728,172	3,862,424
Financial Liabilities:							
Trade and other payables		-	-	-	-	120,447	120,447
Total Financial Liabilities		-	-	-	-	120,447	120,447

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.

The Group has conducted a sensitivity analysis of the consolidated entity's exposure to interest rate risk. The analysis shows that if the consolidated entity's interest rate varied by +/- 1%, being reflective of the movement of the weighted average interest rates from financial years 2007 to 2008, and all other variables had remained constant, then the interest rate sensitivity impact on the consolidated entity's loss after tax and equity would be as follows:

	Consolidated Entity		**Parent Entity**	
	2008 $	**2007 $**	**2008 $**	**2007 $**
+1% (100 basis points)	33,705	5,880	23,006	1,343
-1% (100 basis points)	(33,705)	(5,880)	(23,006)	(1,343)

(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

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	-	-	-

2007				
Consolidated Entity	**0-30 Days**	**30-60 Days**	**60-90 Days**	**90+ Days**
Trade and other receivables	195,566	-	185,557	25,907
Parent				
Trade and other receivables	18,205	-	19,137	10,256

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

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	-	-	-	-

2007				
Consolidated Entity	**Less than 6 months**	**6-12 months**	**Total contracted cashflows**	**Carrying Amounts**
Trade and other payables	592,841	-	592,841	592,841
Other financial liabilities	-	-	-	-
Parent				
Trade and other payables	120,447	-	120,447	120,447
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 an optimal capital structure so as to maximise 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 Business Combinations

On 5 September 2006 the parent entity announced the acquisition of PulmoSonix Pty Ltd and Karmel Sonix (Israel) Limited, subject to approval by shareholders, which was received at the AGM held on 10 November 2006. The acquisitions were subsequently completed on 21 November 2006, with the parent entity acquiring 100% of the issued share capital of both companies.

PulmoSonix Pty Ltd:

The purchase consideration for PulmoSonix Pty Ltd consisted of:

10,000,000 KarmelSonix Ltd fully paid ordinary shares and 35,000,000 class shares which are convertible into fully paid ordinary shares on achievement of various milestones issued to Medic Vision Limited (formerly Premier Bionics Limited);

and

2,250,000 KarmelSonix Ltd fully paid ordinary shares and 2,750,000 class shares issued equally between Peregrine Corporate Limited and Ascent Capital Holdings Pty Ltd for introducing to the Company to PulmoSonix Pty Ltd.

The acquired business contributed revenues of $289,349 and net loss of $152,448 to the Group for the period 21 November 2006 to 30 June 2007. Had the acquisition occurred on 1 July 2006, the business would have contributed revenues of $365,540 and an operating loss for the full year ended 30 June 2007 of $473,281.

Goodwill on the acquisition of PulmoSonix Pty Ltd represents the premium paid for the entry into the market and the expertise and knowledge of the company's employees. The fair value of tangible assets and liabilities recognised in the table below is the same as the carrying amount of assets and liabilities of PulmoSonix Pty Ltd immediately prior to acquisition.

In line with the Company's accounting policies, it has impaired the goodwill on acquisition of PulmoSonix Pty Ltd by $1,714,086 and deemed its carrying value to be zero, based on a discounted cash flow model for the unit (refer note 1(h)).

Karmel Sonix (Israel) Ltd:

The purchase consideration for Karmel Sonix (Israel) Ltd was:

15,000,000 KarmelSonix Ltd fully paid ordinary shares and 75,000,000 class shares which are convertible into fully paid ordinary shares on achievement of various milestones issued to Karmel Medical Acoustic Technologies Ltd; and

and

2,250,000 KarmelSonix Ltd fully paid ordinary shares and 2,750,000 class shares issued equally between Peregrine Corporate Limited and Ascent Capital Holdings Pty Ltd for introducing to the Company to Karmel Sonix (Israel) Ltd.

The acquired business contributed a net loss of $1,547,205 to the Group for the period 21 November 2006 to 30 June 2007. Had the acquisition occurred on 1 July 2006, the loss for the full year to the 30 June 2007 would have been $1,739,510.

The purchase consideration and subsequent goodwill on the acquisition of both subsidiaries has been calculated as follows:

	PulmoSonix Pty Ltd $	Karmel Sonix (Israel) Ltd $
Purchase consideration:		
Ordinary shares in KarmelSonix Limited	735,000	1,035,000
C Class shares converted to ordinary shares	31,250	406,250
F Class shares converted to ordinary shares	1,069,500	139,500
	1,835,750	1,580,750
Fair values of net assets acquired:		
Cash (acquired)	2,083	112,868
Receivables	189,201	14,496
Prepayments	9,288	-
Plant and Equipment	35,721	4,116
Intellectual Property	-	1,749,710
Payables	(95,088)	-
Provisions	(19,541)	(107,806)
Loan - KarmelSonix Limited	-	(192,634)
Fair values of net assets on acquisition	121,664	1,580,750
Goodwill on consolidation	1,714,086	-
Impairment of Goodwill at year end	(1,714,086)	-
Carrying amount of Goodwill at year end	-	-

Class Shares

Details of the class shares in relation to the acquisition of PulmoSonix Pty Ltd and Karmel Sonix (Israel) Ltd which have not been issued are disclosed in Note 22 to the financial statements. These class shares are performance based shares, which are:

* unlisted
* non-voting
* non-transferable
* convertible to ordinary shares upon achievement of various milestones

Due to the above factors, and that it is not certain at this time that the various milestones will be achieved, no value can be attributed to these shares. If it becomes certain that these shares will be converted to ordinary shares, they will be valued appropriately and such value will be reflected in the accounts of the Company at that time.

Note 30 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 22 to 57, 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 financial position as at 30 June 2008 and of the performance for the year ended on that date of the Company and economic entity;

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. 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 2008

Chartered Accountants
& Business Advisers

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF KARMEL SONIX LIMITED

We have audited the accompanying financial report of Karmel Sonix Limited, which comprises the balance sheet as at 30 June 2008, 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 Karmel Sonix Limited and the consolidated entity comprising Karmel Sonix 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 Australian Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with Australian Accounting Standards ensures that the financial statements and notes, comply with International Financial Reporting Standards.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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.

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PKF

Chartered Accountants
& Business Advisers

Auditor's Opinion

In our opinion:

(a) the financial report of Karmel Sonix 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 2008 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.

Report on the Remuneration Report

We have audited the Remuneration Report included in page 16 to 19 of the directors' report for the year ended 30 June 2008. 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 Karmel Sonix Limited for the year ended 30 June 2008, complies with section 300A of the Corporations Acts 2001.

PKF

David Garvey

PKF
Chartered Accountants

D J Garvey
Partner

30 September 2008
Melbourne

As at 23 September 2008

NUMBER OF HOLDERS OF EQUITY SECURITIES

Ordinary Shares

308,876,834 fully paid ordinary shares are held by 3,537 individual shareholders
30,000,000 fully paid unlisted D Class shares are held by 1 individual shareholder
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

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 shareholder
56,575,572 [ASX: KSXAK] unlisted options exercisable at $0.05 on or before 31/07/2009, are held by 68 individual shareholders
10,000,000 [ASX: KSXAW] unlisted options exercisable at $0.25 on or before 30/10/2009, are held by 1 individual shareholder
5,612,500 [ASX: KSXAM] unlisted options exercisable at $0.05 at various dates, are held by 5 individual shareholder
8,500,000 [ASX: KSXAZ] unlisted options exercisable at $0.13 at various dates, are held by 14 individual shareholder
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	1,822
1,001 - 5,000	270
5,001 - 10,000	276
10,001 - 100,000	803
100,001 - and over	366
Total number of shareholders	3,537
Unmarketable parcels	2,521

TWENTY LARGEST HOLDERS OF QUOTED SECURITIES

		Fully Paid Ordinary Shares	
Shareholders		Number	%
1	Karmel Medical Acoustic Tecnologies Ltd	56,567,753	18.31
2	HSBC Custody Nominees Australia Ltd	9,905,121	3.21
3	Murie, Ian Barrie	9,083,800	2.94
4	Public Trustee	8,653,803	2.80
5	Renlyn Bell Investments Pty Ltd	6,450,000	2.09
6	Citicorp Nominees Pty Ltd	5,837,284	1.89
7	MGG Capital Pty Ltd	5,510,570	1.78
8	Guina Nominees Ltd	5,158,020	1.67
9	Peregrine Corporate Ltd	5,000,000	1.62
10	AMN Nominees Pty Ltd	4,000,000	1.30
11	DBS Vickers Securities (Singapore) Pte Ltd	3,956,250	1.28
12	ANZ Nominees Ltd	3,006,091	0.97
13	Perpetual Trustee Company Ltd	2,760,406	0.89
14	Yelena Two Pty Ltd	2,489,600	0.81
15	Paneth, Dov	2,309,350	0.75
16	Fortis Clearing Nominees Pty Ltd	2,221,737	0.72
17	Zehavi, Ephraim	2,150,000	0.70
18	Ivanoff, James	2,135,000	0.69
19	Gaje Pty Ltd	2,042,857	0.66
20	Eisenberger, Marcia	2,000,000	0.65
		141,237,642	45.73

UNQUOTED EQUITY SECURITIES HOLDINGS GREATER THAN 20%

Karmel Medical Acoustic Tecnologies Ltd holds 30,000,000 unlisted D Class shares which represents 54.55% of a total of 55,000,000 unlisted shares.
Medic Vision Ltd holds 12,500,000 unlisted G Class shares which represents 22.73% of a total of 55,000,000 unlisted shares.
Medic Vision Ltd holds 12,500,000 unlisted H Class shares which represents 22.72% of a total of 55,000,000 unlisted 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	32,894,947 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.