



iSonea Limited

Investor Update and Quarterly Report - 31 December 2011

Sydney, Australia, 31 January 2012: Australian medical technology company iSonea Limited (ASX:ISN; OTC:ISOAY) provides the following report on its progress for the three month period ending 31 December 2011.

Highlights:

- **\$5.3 million received from issue of shares and options**
- **Recruited new management team**
- **Corporate restructure focusing on US commercialisation**
- **Preparation for iSonea trading on US OTCQX from 3 January 2012 (Symbol: ISOAY)**
- **Protocol finalised for US WheezoMeter study to support non-Rx submission to FDA**
- **Mobile health product development initiated for smartphone asthma management app v1.0**
- **US asthma consumer quantitative research (n=369) conducted on app usage & monitoring**

\$5.3 million received from issue of shares and options

iSonea raised \$4.3 million by way of subscription under the renounceable rights issue that closed on 15 December 2011 with further commitments to subscribe. The company allotted 860,253,232 shares and 215,063,309 free-attaching options as per the Prospectus in respect to the renounceable rights issue dated 18 November 2011. Australian broker Patersons Securities Limited led the management of the Rights Issue, raising \$4,301,266.

The company also received firm commitments for placement of another 60 million shares and 15 million free-attaching options, to raise a \$300,000 in January 2012 from overseas investors who were unable to participate in the Rights Issue.

The additional January 2012 allotments represented a further 7% of the allotment offered to qualifying shareholders. This support affirms the new direction of the company as it moves from the cost-cutting and restructuring efforts in late 2011 to implementing its strategic plan for 2012.

Earlier in the quarter, a \$1 million investment was made by Bergen Global Opportunity Fund, LP by way of an unsecured convertible instrument.

Recruited new management team

The new senior management team was recruited during 2nd Quarter FY2012. The new team has extensive experience in pioneering respiratory devices and building global medical technology companies.

- **Jonathan Freudman, MD – Medical Director:** Dr Freudman has 25 years of healthcare experience, including 16 years practicing internal medicine for Kaiser Permanente, during which time he helped establish disease management programs for asthma, diabetes, and heart failure. He was in charge of technology assessment at Blue Shield of California, and has been an industry consultant since 2002 assisting early-stage healthcare companies with clinical trial design and aspects of new product commercialization. His clients have included VC-backed medical device companies and biotech companies. Dr. Freudman specializes in reimbursement strategies and he will play a key role over the next 12 months helping the company secure Category I CPT code reimbursement. He is also on faculty at the University of California San Francisco School of Medicine.
- **Michael A Cheney – Vice President of Marketing:** Mr Cheney has 25 years experience as a strategic marketing leader for pharmaceutical, biotechnology, and medical device companies. He has launched major market-shaping brands for Wyeth Laboratories and BASF/Knoll Pharmaceuticals. For six years, he was VP Marketing and responsible for the International Business Unit at Cyberonics, Inc., a pioneer in neurostimulation therapy devices for CNS disorders. He also has experience in the respiratory care/sleep disordered breathing market (NovaSom Inc.), where he developed marketing strategies to increase adoption of home sleep tests for the diagnosis of sleep apnea.
- **Jan P Barker - Vice President of Business Development:** Ms Barker brings experience in venture capital investing and fund raising, board of director participation, company growth and exits, leadership, management and a broad coalition of business skills from her 25 year career in healthcare. Ms. Barker was a partner with MedVenture Associates, a venture fund investing in healthcare for six years. Prior to that she was a founder and managing member of The Crucible Group, LLC, a venture development organization. In both partnerships she participated in private equity related investments in the device, systems and information technology segments of healthcare. Her capabilities include sourcing deals, analyzing potential, and assisting entrepreneurial ventures in obtaining seed and additional capital rounds.

Corporate restructure focusing on US commercialisation

Expenses during the 2nd Quarter of FY2012 reflect the restructuring of the company, to eliminate high fixed cost resources that would not produce profitable returns and to take necessary steps for commercialization in the US. Staff adjustments were made in Australia, Europe, Israel and the US to cut operating costs. This is in line with our development strategy for a new mobile health product development and marketing model. Specifically, sales staff and marketing expenses to support the traditional physician promotion model were substantially reduced. A more profitable model of direct-to-consumer demand creation will be executed in the US, using a lower cost, higher margin over-the-counter (OTC) version of the WheezoMeter personal monitoring device and mobile health (mHealth) smartphone asthma management apps. Reduced sales revenues in the quarter are a direct result of reductions in sales staff and promotional expenses.

Preparation for iSonea trading on US OTCQX from 3 January 2012 (Symbol: ISOAY)

In December, iSonea received notification of approval by the Financial Industry Regulatory Authority (FINRA) to trade its American Depositary Receipts (ADRs) on the OTCQX, beginning 3 January 2012. The company has appointed Bank of New York Mellon (BNY Mellon) as its depository bank. BNY Mellon also serves as Principal American Liaison (PAL) advising iSonea about the US OTC market. The importance of the OTC listing for iSonea is that it provides a direct market mechanism for US investors to participate in the future growth of the company. There is considerable shareholder value to be realized as 2012 milestones are met and the technology developments are introduced to the US asthma market. We believe that the involvement of US investors will bring new energy and vitality to the stock.

Protocol finalized for US WheezoMeter study to support non-Rx submission to FDA

Protocol design for a US pediatric study on wheeze rate monitoring was finalized by the company's Medical Director and the newly-appointed Medical Advisory Board. This multi-site study will involve 95 children in the asthma patient and control groups. Institutional Review Board (IRB) approval is expected for the study in February 2012, with the study scheduled to begin enrollment in April/May. Study completion is expected within 3 to 4 months following initiation. The significance of this study is twofold: 1) data will support FDA submission of a non-prescription OTC wheeze monitoring device for the US market, and 2) establishing evidence of equivalence to spirometry measurements is the first step in the pursuit of physician reimbursement for in-office testing with wheeze monitoring devices.

Mobile health product development initiated for smartphone asthma management app v1.0

A major component of the new strategy for iSonea is the integration of our proprietary Acoustic Respiratory Monitoring sensory technology and diagnostic algorithms into smartphone platforms. The universal proliferation and availability of iPhones and Android-based smartphones provides an ideal platform for asthma monitoring – over 500 million of these devices are being sold every year. These devices are perpetually present with their owners, meaning that the hardware needed for frequent daily monitoring will already be in our customers' hands. Harnessing the mobile health (mHealth) platform also provides lower cost product development, a more efficient market penetration model (than traditional physician promotion), and a quicker path to revenue generation for the company. Specification development for the function and design of the iSonea v1.0 asthma management app was completed in December 2011; the app will proceed to user interface design and programming early in 2012.

US asthma consumer quantitative research (n=369) conducted on app usage & monitoring

In December 2011, iSonea completed its first quantitative research with asthma patients and caregivers in the US (n=369). Developing a better understanding of the needs of asthma consumers, with respect to current asthma monitoring practices and smartphone usage of asthma management apps, will be crucial to informing the company's strategy for online marketing of its upcoming mHealth and OTC wheeze monitoring products.

Upcoming FY 2012 Half-Year Update will lay out milestones for the next six months

At the AGM in November and the Australian investor presentations in December 2011, we defined the critical steps and milestones for the remainder of CY 2011 and the beginning of CY 2012. The company has achieved all of those milestones except for one. We have not announced further details regarding the Memorandum of Understanding on a new strategic partnership that is currently in negotiations. Progress on this matter is ongoing. The Company's strengthened financial position and new strategic direction have attracted the attention of other competing interests, and consequently we are scrutinizing all options with the intent to maximize long term shareholder interests. We will promptly announce any material news to the market.

The Half-Year Update will be issued in February 2012. That report will specify the milestones that we will achieve over the next 6 months with respect to:

- the FDA submission for an OTC wheeze monitoring device (for sale in the US);
- development and commercialization of our first smartphone asthma management app;
- strategic collaboration initiatives;
- US clinical study progress; and
- Internet-based direct-to-consumer asthma education and marketing initiatives.

This is an exciting period for the iSonea. We have a vision for this novel technology that moves beyond the traditional path of a medical device manufacturer, which typically depends upon physician prescriptions for demand creation as well as third party insurance and government reimbursement for payment, to a much broader highway to profitability. That highway includes physician adoption, but incorporates a fast lane to consumer adoption of non-prescription wheeze monitoring products and mHealth apps. We believe that the universal proliferation of the smartphone platform provides iSonea with the ideal route to a scalable, profitable asthma monitoring business with recurring revenue.

We are accelerating on that highway and will be reporting the milestones as we pass them. We want to personally thank our shareholders for your continued support and loyalty during this upcoming year.

Michael J. Thomas
Chief Executive Officer
iSonea Limited

mthomas@iSoneaMed.com

iSonea Limited (ASX: ISN; OTCQX: ISOAY), an international medical technology pioneer, is developing and transforming proprietary monitoring techniques and diagnostic software into mHealth™ tools, enabling patients to improve their management of chronic, costly respiratory disorders such as asthma or COPD. Leveraging the universally available smart phone platform along with the Internet cloud, iSonea enables anyone, anywhere, at any time to use Acoustic Respiratory Monitoring™ (ARM) technology to monitor their breathing distress symptoms, alerting caregivers and physicians to changes in lung function and treatment response. ARM technology is a breakthrough in asthma management and is more patient-friendly than traditional tests, enabling frequent monitoring in real-life settings to improve asthma control. iSonea's core technology has produced three ARM devices which have been cleared for use by the U.S. Food and Drug Administration, the Australian TGA, and the European Union CE. For more information, please visit www.iSoneaMed.com.

Disclaimer

This update may contain certain forward-looking statements that have been based on current expectations about future acts, events and circumstances. These forward-looking statements are, however, subject to risks, uncertainties and assumptions that could cause those acts, events and circumstances to differ materially from the expectations described in such forward-looking statements.

These factors include, among other things, commercial and other risks associated with the achieving of adequate commercial sales of the Company's products, the meeting of objectives and other investment considerations, as well as other matters not yet known to the Company or not currently considered material by the Company.

iSonea accepts no responsibility to update any person regarding any error or omission or change in the information in this update or any other information made available to a person or any obligation to furnish the person with further information, other than in accordance with ASX or other applicable laws or regulations.

Appendix 4C – 2nd Quarter

Quarterly report for entities admitted on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001

Name of entity:

iSonea Limited (ASX:ISN)

ABN:

98 009 234 173

Quarter ended ("current quarter")

31st December, 2011

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (6 months) \$A'000
1.1 Receipts from customers	-	4
1.2 Payments for:		
(a) staff costs	(653)	(1,006)
(b) advertising and marketing	(69)	(175)
(c) research and development	(203)	(492)
(d) leased assets	(62)	(121)
(e) other working capital	(543)	(998)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	7	12
1.5 Interest and other costs of finance paid	(1)	(3)
1.6 Income taxes paid	10	133
1.7 Other (R&D Tax Refund & Grants)	(1)	(8)
Net operating cash flows	(1,515)	(2,654)

+ See chapter 19 for defined terms.

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

	Current quarter \$A'000	Year to date (6 months) \$A'000
1.8 Net operating cash flows (carried forward)	(1,515)	(2,654)
Cash flows related to investing activities		
1.9 Payment for acquisition of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	(24)
(c) intellectual property	-	-
(d) physical non-current assets	-	-
(e) other non-current assets	-	(1)
1.10 Proceeds from disposal of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	-
(e) other non-current assets	-	-
1.11 Loans to other entities	-	-
1.12 Loans repaid by other entities	-	-
1.13 Other (provide details if material)	-	-
Net investing cash flows	-	(25)
1.14 Total operating and investing cash flows	(1,515)	(2,679)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc.	5,301	5,322
1.16 Proceeds from sale of forfeited shares	-	-
1.17 Proceeds from borrowings	-	-
1.18 Repayment of borrowings	-	-
1.19 Dividends paid	-	-
1.20 Other – (Capital Raising Costs)	(438)	(449)
Net financing cash flows	4,863	4,873
Net increase (decrease) in cash held	3,348	2,194
1.21 Cash at beginning of quarter/year to date	165	1,318
1.22 Exchange rate adjustments to item 1.21	(24)	(23)
1.23 Cash at end of quarter	3,489	3,489

+ See chapter 19 for defined terms.

Payments to directors of the entity and associates of the directors

Payments to related entities of the entity and associates of the related entities

		Current quarter \$A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	89
1.25	Aggregate amount of loans to the parties included in item 1.11	-

1.26 Explanation necessary for an understanding of the transactions

Salaries, directors' fees and consulting fees at normal commercial rates.

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated Assets and liabilities but did not involve cash flows

The following securities were issued to consultants and employees in lieu of cash payment for services rendered:

- 20,000,000 Ordinary fully paid shares;
- 215,063,309 Listed options exercisable @ \$0.0007 on or before 30 June 2014 (free-attaching); and
- 185,000,000 Listed options exercisable @ \$0.030 on or before 01 July 2014;

2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

-

Financing facilities available

Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).

		Amount available \$A'000	Amount used \$A'000
3.1	Loan facilities	\$ 10,600	-
3.2	Credit standby arrangements	-	-

+ See chapter 19 for defined terms.

Appendix 4C
Quarterly report for entities
admitted on the basis of commitments

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
4.1 Cash on hand and at bank	3,489	165
4.2 Deposits at call	-	-
4.3 Bank overdraft	-	-
4.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.23)	3,489	165

Acquisitions and disposals of business entities

	Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a))
5.1 Name of entity	N/A	N/A
5.2 Place of incorporation or registration	-	-
5.3 Consideration for acquisition or disposal	-	-
5.4 Total net assets \$A'000	-	-
5.5 Nature of business	-	-

Compliance statement

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
- 2 This statement does give a true and fair view of the matters disclosed.

Sign Here: 

 Company Secretary

Date: Tuesday 31st January 2012

Print Name: PETER VAUGHAN



The CFO Solution

31.01.2012

+ See chapter 19 for defined terms.

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, *AASB 1026: Statement of Cash Flows* apply to this report except for the paragraphs of the Standard set out below.
 - 6.2 - reconciliation of cash flows arising from operating activities to operating profit or loss
 - 9.2 - itemised disclosure relating to acquisitions
 - 9.4 - itemised disclosure relating to disposals
 - 12.1(a) - policy for classification of cash items
 - 12.3 - disclosure of restrictions on use of cash
 - 13.1 - comparative information
3. **Accounting Standards.** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

+ See chapter 19 for defined terms.