

KarmelSonix Limited**Highlights For The 3 Months
Ended 31 December 2009**

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

Approximately 45-50% of the capital raised will be dedicated to sales and marketing consistent with the program put to the market.

As part of the Sales and Marketing program the Company is foreshadowing a number of structural changes and the appointment of key personnel in the European and Australasian markets to ensure the company is focussed on its commercial program going forward.

Other key highlights for the quarter include:

- Signing of the Australian pharmacy distribution agreement;
- The appointment of Indian distributors for the Southern part of India with further Indian distributors to be announced shortly;
- Sales to the medical community in Australia;
- The completion in Australia of the Sleep Centre integration model incorporating Wheeze detection and cough detection. This model is currently being evaluated in sleep centres in Australia and the United States;
- The completion of the WHolter™ and the Pulmotrack® Wireless;
- The acceptance for publication in the noted Journal of Asthma of the clinical study regarding Children and Nocturnal Asthma and Wheeze; and
- Regulatory approval for the Pulmotrack® and WheezoMeter™ in Canada.

The Directors would like to thank shareholders for their continued support and interest in the Company and look forward to providing future updates to the market in the coming months.

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

KarmelSonix Limited (ASX:KSX)

ABN

98 009 234 173

Quarter ended ("current quarter")

31st December, 2009

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 | 23 | 63 |
| 1.2 Payments for | | |
| (a) staff costs | (532) | (920) |
| (b) advertising and marketing | (295) | (700) |
| (c) research and development | (180) | (381) |
| (d) leased assets | (50) | (81) |
| (e) other working capital | (316) | (500) |
| 1.3 Dividends received | - | - |
| 1.4 Interest and other items of a similar nature received | 20 | 29 |
| 1.5 Interest and other costs of finance paid | - | - |
| 1.6 Income taxes paid | - | - |
| 1.7 Other (R&D Tax Refund & Grants) | - | 106 |
| Net operating cash flows | (1,330) | (2,384) |

+ 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) | (1,330) | (2,384) |
| Cash flows related to investing activities | | |
| 1.9 Payment for acquisition of: | | |
| (a) businesses (item 5) | - | - |
| (b) equity investments | - | - |
| (c) intellectual property | - | - |
| (d) physical non-current assets | - | - |
| (e) other non-current assets | (46) | (47) |
| 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 | (46) | (47) |
| 1.14 Total operating and investing cash flows | (1,376) | (2,431) |
| Cash flows related to financing activities | | |
| 1.15 Proceeds from issues of shares, options, etc. | 4,621 | 5,036 |
| 1.16 Proceeds from sale of forfeited shares | - | - |
| 1.17 Proceeds from borrowings | - | - |
| Trf Transfer | - | - |
| 1.18 Repayment of borrowings | - | - |
| 1.19 Dividends paid | - | - |
| 1.20 Other – (Capital Raising Costs) | (426) | (475) |
| Net financing cash flows | 4,195 | 4,561 |
| Net increase (decrease) in cash held | 2,819 | 2,130 |
| 1.21 Cash at beginning of quarter/year to date | 2,228 | 2,961 |
| 1.22 Exchange rate adjustments to item 1.21 | (25) | (69) |
| 1.23 Cash at end of quarter | 5,022 | 5,022 |

+ 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 | 139 |
| 1.25 | Aggregate amount of loans to the parties included in item 1.11 | |
| 1.26 | <p>Explanation necessary for an understanding of the transactions</p> <div style="border: 1px solid black; padding: 5px; margin-top: 5px;"> <p>Salaries, directors' fees and consulting fees at normal commercial rates.</p> </div> | |

Non-cash financing and investing activities

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

During the period the following equity was issued:

- 2,000,000 shares and 5,000,000 options were issued to consultants in lieu of cash payment for services rendered.
- 1,333,333 shares and 2,000,000 options were issued to consultants in lieu of cash payment for services rendered.
- 666,666 shares and 1,000,000 options were issued to consultants in lieu of cash payment for services rendered.
- 1,875,000 shares were issued to consultants in lieu of cash payment for services rendered.

- 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 | 1,000 | - |
| 3.2 | Credit standby arrangements | 6,200 | - |

The Company has entered into a three-year ongoing funding arrangement with Trafalgar Capital Specialised Investment Fund.

The total facility of A\$7.2 million consists of two components and may be drawn down as follows:

- i. A standby equity drawdown facility of up to A\$7.2 million; or
- ii. A loan facility for up to A\$1.0 million and a standby equity drawdown facility of up to A\$6.2 million.

The facilities have been put in place as a working capital funding arrangement and to be used on a standby basis.

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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 | 5,022 | 2,228 |
| 4.2 Deposits at call | - | - |
| 4.3 Bank overdraft | - | - |
| 4.4 Other (provide details) | - | - |
| Total: cash at end of quarter (item 1.23) | 5,022 | 2,228 |

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: 29th January, 2010

Print name: Brad Slade

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.