Healthcare Equipment

iSonea Limited
(ASX: ISN – OTCQX: ISOAY)

Overview Report

Equity | Australia
January 3, 2012

VIRIATHUS®

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Company Description:

iSonea Limited (formerly KarmelSonix Limited) is commercializing non-invasive devices for asthma monitoring based on its proprietary Acoustic Respiratory Monitoring (ARM) technology. The Company is focusing initial sales efforts on the U.S. market, where there are an estimated 25 million asthma sufferers. ARM devices are more patient-friendly and affordable than the current standard technology and address a huge unmet medical need for ongoing asthma monitoring, which is recommended by medical experts, but rarely done in practice due to inadequate technology. iSonea has secured approval to market its devices in the U.S., Europe and Australia and is enlisting support from pulmonary specialists and other opinion leaders. In addition, the Company has signed distributor agreements in the U.S., Europe, Australia and other developed markets.

Informational Report Highlights:

- **Technology addresses huge asthma market.** More than 300 million people worldwide suffer from asthma, including some 25 million Americans, and this population is forecast to swell to 400 million by 2025. The Centers for Disease Control (CDC) estimates the asthma sufferer population is growing by 2-3% a year as a result of an aging population, the obesity trend and declining air quality.

- **Superior, more cost-effective technology.** ARM devices are non-invasive and require no physical exertion by the patients. Spirometry, which is the current standard of care, requires active cooperation from the patient and is thus unsuitable for very young children, the elderly and the infirm. Costs for spirometry are also prohibitive at $1,500 to $2,500 per test, whereas a personal ARM device can be purchased for as little as $350.

- **Distribution partnerships secured.** The Company has 23 distributors in the U.S., Australia and Asia and recently signed a deal with a subsidiary of Omron to distribute ARM devices in Japan and multiple foreign markets.

iSonea is planning to initiate studies in the US in 2012 that will provide the foundation for securing reimbursement from health insurance payers and has begun rolling out an ARM program in partnership with physician offices and sleep labs that is generating physician experience with the novel technology. Under the leadership of a new management team experienced in guiding start-ups to profitability, iSonea is raising capital to enable achievement of its key commercialization milestones in 2012. iSonea's American Depositary Receipts (ADRs) will commence trading on the OTCQX marketplace in the US beginning January 3, 2012 under the symbol ISOAY.

Financial Data (AUD):

Share Price:	**0.007**
Market Capitalization (mln):	**15.36**
Shares Outstanding (mln):	**2,194.45**
Float (mln):	**2.194.45**
Average Volume (90 Day approx.):	**3,659,820**
52 Week Range:	**0.024 - 0.004**
Exchange:	**ASX, OTCQX**

Recent Milestones:

- Secured marketing approval in the U.S., Europe and Australia for all products.

- Obtained Category III CPT code from the American Medical Association, the first step in qualifying for full reimbursement from Medicare and insurance payers.

- Signed agreements with regional distributors and potential global partners, including a subsidiary of Omron that will distribute ARM products in multiple foreign markets.

- Put in place new management team and medical advisory board.

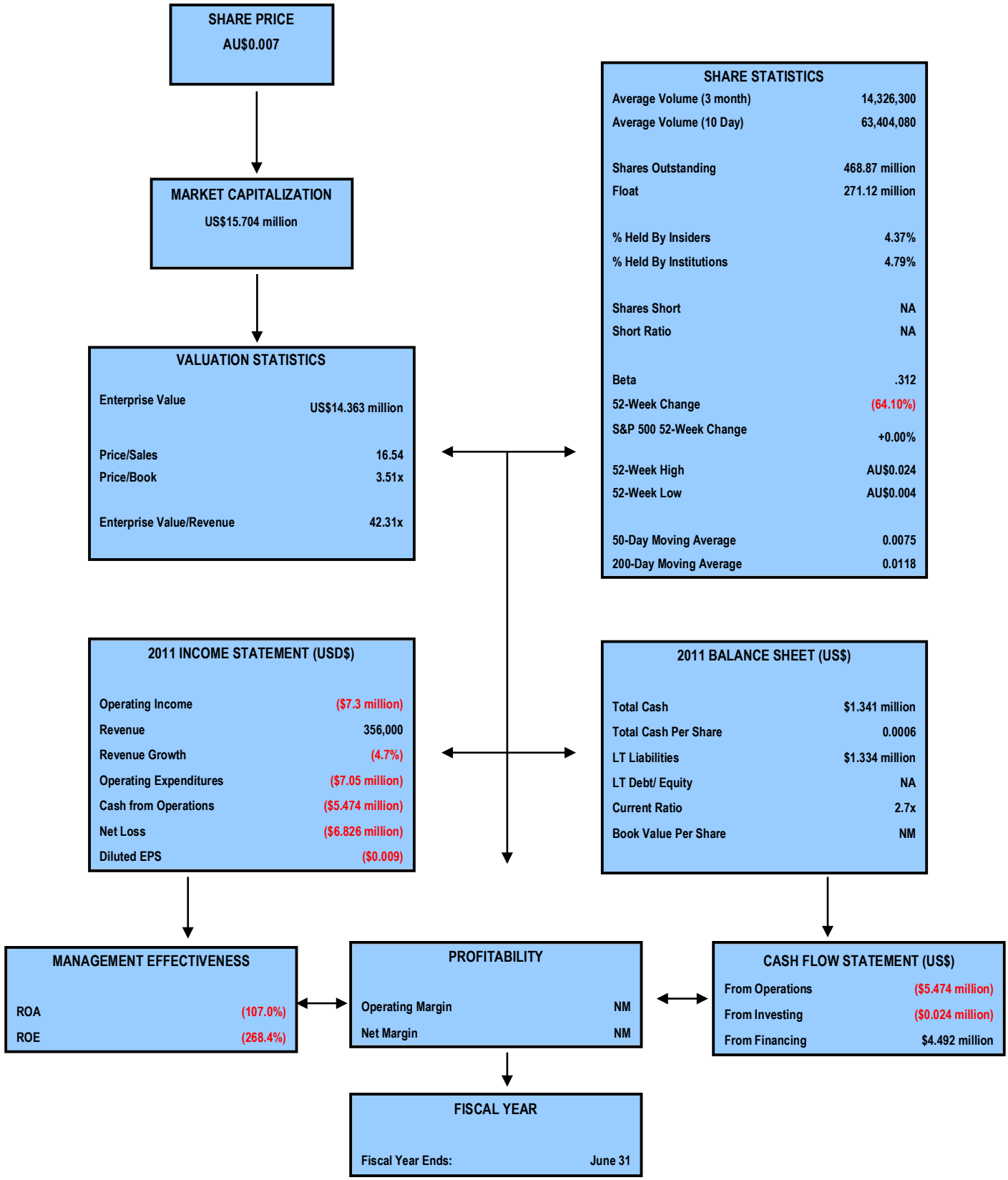
- Re-focused clinical development and launch strategies, initiated re-engineering of platform to lower COGS and secured major U.S. institutional investor.

Balance Sheet (US$) mln	LTM June 31
Cash	1,408
Assets	3,598
Shareholders' Equity	2,264
Long-Term Obligations	.541
LT Debt to Equity Ratio	NA

P&L Data US$ mln	Jun 08	Jun 09	Jun 10	Jun 11
Revenues	-	0.23	0.356	0.34
Gross Profit	-	(0.071)	0.08	0.094
Operating Loss	(12.89)	(7.057)	(6.261)	(6.956)
Net Loss	(1.182)	(3.899)	(5.755)	(3.443)
EPS	(11.93)	(6.851)	(6.072)	(6.826)

Margin: (%)	Jun 08	Jun 09	Jun 10	Jun 11
Gross Margin	NA	(30.8)	22.6	27.8
Operating Margin	NA	NM	NM	NM
Net Margin	NA	NM	NM	NM

Financial Metrics



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Company Overview

iSonea is an emerging medical technology company that has developed and is commercializing asthma monitoring devices that incorporate the Company's patented Acoustic Respiratory Monitoring (ARM) technology. This technology uses proprietary algorithms to detect and quantify breath sounds, which are picked up by sensors applied directly to the patient's throat or through strategically placed electrodes. ARM technology offers a completely new, non-invasive approach to asthma monitoring that is passive, patient-friendly and easy to use. Unlike conventional monitoring tools, ARM devices require no physical exertion from the patient. This makes ARM devices a better solution than traditional technologies for monitoring asthma in children, the infirm and elderly and also for continuous monitoring, which has been recommended by The American Thoracic Society, but is rarely done in practice due to inadequate technology.

iSonea has signed distributors in the U.S. and Asia and has an agreement with Omron to be its exclusive distributor in multiple foreign countries.

iSonea sells its products through designated distributors to clinical laboratories, multi-specialty clinics, sleep laboratories and specialty and general practice physicians. iSonea has already signed agreements with 23 distributors worldwide and is gaining physician experience with ARM technology through pilot studies in Europe, Asia, the United States and Canada. In addition, the company recently signed a distribution agreement with a subsidiary of Japan-based Omron to distribute its products in multiple countries. iSonea has been listed on the Australian Stock Exchange since 2000, but was a development-stage company until recently. In 2011, iSonea began laying the groundwork for large-scale commercialization of ARM technology through improved reimbursement, clinical data validating its technology and strategic partnerships. iSonea has also recruited a new CEO, Mike Thomas, who is a seasoned medical device industry executive with proven skills in fund-raising, value creation and leading healthcare start-ups to profitability.

Technology Advantage

ARM devices combine accuracy and ease of use with greater affordability.

iSonea offers a portfolio of products that help physicians and patients improve asthma management. These products include: WheezoMeter, for home and physician office use; WHolter, which is the first ambulatory recorder for respiratory symptom assessment and Pulmotrack, for continuous monitoring in hospital settings. Frost and Sullivan has recognized the value of iSonea technology two years in a row with annual awards for innovation made to PulmoTrack in 2009 and WheezoMeter in 2010.

iSonea has been successful in attracting pulmonologists as key opinion leaders who are testing and purchasing small quantities of its products. The Company's Pulmotrack product has secured placements at leading US, Australian and European hospitals and is helping iSonea reach its target audience of pulmonary specialists and primary care physicians.

The current standard of care for asthma diagnosis and monitoring is spirometry. However, spirometry is expensive ($1,500 to $2,500 per test), uncomfortable, difficult to use and the instruments are not easily portable. A less expensive alternative is the peak flow meter, which patients can use in the home. Although inexpensively priced at $30 to $50 per unit, peak flow meters are notoriously unreliable and give readings that are difficult for physicians to interpret. Because of their drawbacks, neither of these technologies facilitates continuous asthma monitoring.

ARM technology represents a superior and most cost-effective solution for monitoring asthma. In clinical studies, ARM devices have demonstrated diagnostic precision and accuracy comparable to spirometry at a much lower cost to the patient. A personal ARM

device can be purchased for as little as $350 whereas a spirometry test can easily cost $2,000 or more. Over the next 12 months, iSonea plans to run pivotal trials that will further validate the efficacy of ARM technology by enabling better adherence to therapy regimens, reduced ER visits and hospitalizations and fewer unscheduled physician office visits. This data will be used to move the technology's Category III CPT code to a Category I code, which will enable full reimbursement from Medicare and other third party insurance payers. Longer-term, the Company may also undertake clinical trials evaluating ARM technology in additional applications such as sleep apnea and COPD.

Intellectual Property

The Company's intellectual property portfolio is broad and covers applications for acoustic respiratory technology in monitoring and diagnosing lung function. iSonea has issued and pending patents covering its core technology in the United States, Europe and Australia. There is also expertise that would be difficult for competitors to replicate associated with iSonea's proprietary sensor design and algorithms. The Company's broad patent protection clears a path for the development of future products with applications in additional respiratory areas such as cough and COPD.

iSonea is headquartered in Millersville, Maryland USA and also has offices in Sydney, Australia and a manufacturing facility in Haifa, Israel, where product assembly, testing and quality control are done. Sub-assembly manufacturing and component sourcing is outsourced to firms in Vietnam and China. The Company currently has 12 full-time employees, which includes workers at its Haifa product assembly site.

Financial Overview

iSonea has an impressive track record of raising capital, with more than AU$19 million raised during the past two years. At present, iSonea had cash on hand of approximately AU$4 million. A rights offering to Australian investors closed in December raising AU$4.6 million of additional capital. This offering has already been underwritten for AU$3.7 million by Patersons, a leading Australian stockbrokerage. The Company's pro forma balance sheet adjusted to reflect the capital infusion from the rights offering increases iSonea's cash position to AU$5.3 million.

The additional funding provides iSonea with an operating runway to achieve specific milestones over the next 12-24 months in product, business and clinical development as well as sales and marketing. These actions are the steps necessary to advance ARM technology and commercialize the Company's wheeze monitoring devices in the United States, Asia Pacific and other key asthma markets. Product development priorities include securing FDA clearance for an over-the-counter version of WheezoMeter, re-engineering product platforms for lower COGS and submitting an application to the FDA for a next generation product – a personal wheeze monitor with smart phone applications that iSonea will also sell over-the-counter. The Company plans to conduct bench tests to support FDA submissions for the two over-the-counter devices and also commence short duration studies that will lay the foundation for U.S. reimbursement and CPT code conversion. iSonea estimates it will take six to nine months to complete the additional studies.

The Company's net loss for the June 2011 fiscal year was AU$6.6 million or $0.85 per share on modest revenues of AU$332,100. iSonea's main source of cash during the year was net proceeds of AU$4.4 million from debt and equity offerings. These proceeds, along with available cash, were used to fund AU$5.4 million spent on operations during

the year. Because the December rights offering is fully subscribed, iSonea will begin 2012 with resources that include cash of AU$4.3 million, working capital of AU$5.2 million, total assets of AU$7.3 million, and equity of AU$6.1 million. At fiscal year-end 2011, the Company has issued capital of AU$67.5 million and accumulated losses of AU$66.5 million since its original founding in 2000.

While iSonea generated a modest gross profit in 2011, the Company is re-engineering its technology platform in order to lower COGS and reduce average selling prices. iSonea anticipates being able to achieve the high 70-80% gross margins typical for medical device companies once device sales reach critical mass.

Because of its novel technology, iSonea is likely to emerge as an attractive acquisition target for a larger medical device company once expanded ARM clinical data becomes available in the next few months. Large companies that already participate in the respiratory products and services space include Philips, GE Medical, Johnson and Johnson, ResMed, Covidien, Alere, and CareFusion, among others. Any of these companies may potentially be interested in ARM devices and technology.

ARM technology has the ability to alert patients of oncoming asthma events and risks, stimulating their use of rescue therapy or signaling the need for dose adjustments. These features may be particularly attractive to major pharmaceutical companies with asthma therapies, who would benefit from offering patients a convenient and effective monitoring tool.

Products/Technology Overview

iSonea acoustic respiratory monitoring (ARM) devices combine high accuracy and ease of use with greater affordability.

iSonea's core ARM (Acoustic Respiratory Monitoring) technology consists of proprietary sensors, signal conditioning hardware and an extensive array of signal processing algorithms for the automatic detection and quantification of wheezes, cough and respiration. The technology also includes filters that protect the device signal against interference from background noises found in many Pulmonary Function Testing (PFT) laboratories. iSonea devices quantify wheeze based on duration, which is the percentage of time the patient wheezes during one minute. For example, a wheeze rate of 20% means the patient wheezes 12 seconds during one minute (12/60=0.20). The wheeze rate correlates with the degree of airway narrowing and other conventional measures of asthma.

The Company is leveraging ARM technology by commercializing a broad suite of monitoring products that address a full range of physician and patient needs – from hospital to home and from mild to severe disease. iSonea also has devices for measuring the patient's condition during exercise (exercise-induced asthma) and during sleep (nocturnal asthma). The Company's products and their intended applications are described below.

The Company is working on a next generation wheeze monitoring device that will incorporate smart phone technology.

WheezoMeter™: This handheld device is the Company's flagship product. It is the only point-of-care bronchial sound measurement device for physician office or in-home use. The WheezoMeter is placed against the patient's neck with its sensor over the trachea. The instrument analyzes breath sounds, determines whether wheeze is present and measures the wheeze rate over 30 seconds. If the wheeze rate is determined to be high, the patient is instructed to seek medical assistance. iSonea completed its prototype of the personal WheezoMeter in June 2008 and first introduced this product at the annual meeting of the American Thoracic Society (ATS) in May 2009. The European introduction was made four months later in September 2009 at the European Respiratory Society (ERS) annual convention. The WheezoMeter has secured European CE Mark Clearance, Australian TGA approval and FDA approval in the United States.

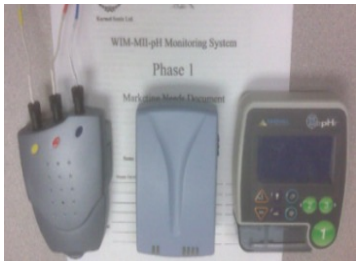
The product is highly accurate, easier to use than traditional asthma management tools such as spirometers and peak flow meters and more affordable at a suggested retail price of $350. WheezoMeter has already secured FDA approval as a prescription device and iSonea is also working on an over-the-counter version of the WheezoMeter that can be marketed directly to consumers.

In adidition, iSonea is developing a portable wheeze monitor that will incorporate smart phone technology. This personal device will allow real-time GPS-enabled patient monitoring of asthma symptoms. Tracking of patient data will allow physicians to

monitor the frequency and severity of asthma episodes and adjust the patient's medication accordingly for optimal management. The smart phone-enabled wheeze monitor will be unique to iSonea and integral to the U.S. market launch. iSonea plans to market the smart phone device over-the-counter since this path minimizes regulatory hurdles, accelerates the time to revenues and maximizes gross margins.

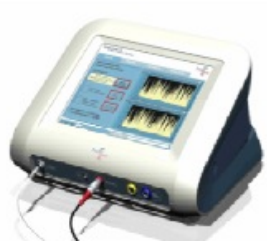
WHolter™ This ARMs device is the first 24-hou r ambulatory digital data logger and recorder. Its intended use is evaluating nocturnal asthma, occupational asthma and persistent cough and asthma attacks triggered by allergens in the patient's home. iSonea completed development work on the product in mid-2009 and introduced WHolter at the European Respiratory Society Conference in Vienna in September. iSonea has regulatory clearance to market the device in the United States, Europe and Australia and has begun selling and/or leasing the device to PFT labs and sleep labs. A major selling point of WHolter is its ability to generate recurring revenues for sleep labs and physicians through long-term monitoring of asthma patients.

PulmoTrack®: This ARM device facilitates continuous, real-time monitoring in a lab or hospital environment. It can be used to monitor a variety of respiratory illnesses, where wheeze or cough serve as clinical parameters. PulmoTrack can be used for bronchodilation and bronchoprovocation tests and for pulmonary testing to identify and quantify the presence of wheeze. Like WheezoMeter and Wholter, this device requires minimal exertion from the patient, making PulmoTrack ideal for testing children and the elderly. PulmoTrack captures quantitative patient data by precisely measuring wheeze rate, and can also archive and retrieve previous reports. Access to previous readouts allows physicians to better track the patient's symptom trends over time. The device also incorporates a detailed graphic spectral display and acoustic playback that can select specific records to be reviewed for secondary data.



WIM-GER: This device combines ARM technology with a technology developed by Sandhill Scientific for monitoring acid and non-acid reflux. Headquartered in Denver, Colorado, Sandhill Scientific developed and markets the ZePhir Impedance and PH monitor. The WIM-GER is a joint collaboration that was established after a clinical study by iSonea showed a relationship between asthma cough and Gastro-Esophageal Reflux (GER).

Acoustic Severe Asthma Monitor (ASAM): This device provides continuous, minute-by-minute monitoring of severe asthma patients. It is intended for use in ambulances, emergency rooms, intensive care units and during recovery in the pediatric or internal medicine wards. The product combines an iSonea wheeze detection device with an advanced acoustics technology developed by PulmoSonix Pty Ltd in Melbourne, Australia.



Business Strategy

iSonea is enlisting support from pulmonary specialists and other key opinion leaders and laying the groundwork for full insurance reimbursement.

iSonea is laying the groundwork for the successful commercialization of its ARM product line by securing worldwide regulatory and reimbursement clearances and building an extensive network of distributor partners across the United States, Europe and Asia Pacific. The Company is initially targeting the world's major developed markets, which include the U.S. (40% of the world total) and Europe (30% of the total). To support the U.S. rollout, iSonea is establishing sales and clinical support operations in southern California and making ARM devices available to pulmonary and pediatric respiratory specialists to build clinical experience. In Europe, the Company is initiating product sales through a network of respiratory product distributors serving the UK, Germany and other major markets, with iSonea providing pre-sale and post-sale support. The Company has also signed distribution agreements with partners in Australia and India and is seeking regulatory approval for its ARM devices in Japan. Already the world's 2nd largest respiratory market, Japan is experiencing an increasing incidence of COPD and other respiratory conditions.

For the U.S. market, iSonea is implementing a multi-pronged marketing strategy that will push the devices to physicians and create medical demand. The Company is partnering with distributors already serving the respiratory care market, undertaking clinical studies that validate ARM technology as equal to or better than the existing standard of care, laying the groundwork for insurance reimbursement, establishing data portals that connect patients with their physicians and promoting ARM products directly to the medical community. The cornerstone of the Company's consumer strategy is developing a personal wheeze monitor and wheeze monitor with smart phone applications that can be sold over-the-counter. iSonea plans to drive consumer demand through smart phone monitoring tools and applications in asthma, a social media campaign that will educate consumers about ARM technology and build brand awareness and re-engineering its technology platform for lower COGs and average selling prices.

Some of the key steps in the roll-out include the following:

Enlist support of Key Opinion Leaders: Since iSonea is introducing a new paradigm for asthma monitoring, support from key opinion leaders in the medical community is needed to build broad acceptance for the technology. The prescriber audience that the Company must reach in the U.S. includes some 320,000 pulmonary specialists and general practice physicians, thousands of hospitals and testing facilities and 25 million asthma patients. To build credibility with opinion leaders, iSonea is expanding clinical studies validating ARM technology. The Company has already completed multi-center clinical studies of its technology in leading U.S. and Australian medical centers and PFT labs in the U.S., Israel, Australia and Europe. Medical institutions that have been involved in ARM studies include Royal Melbourne Hospital (Australia), the Bromton Hospital (UK), Mass General Hospital (USA) and Oakland Children's Hospital (USA).

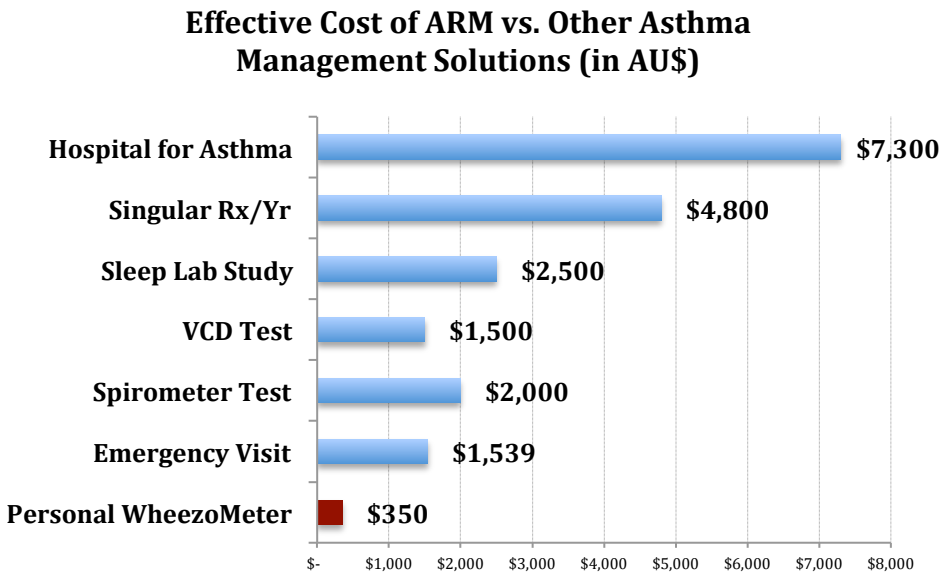
Researchers have detailed the successful results of these studies in scientific papers that have been submitted for publication in prominent respiratory and pulmonary medical society journals. These studies not only confirm the value proposition of ARM devices for asthma monitoring, but set the stage for exploring applications in other respiratory conditions such as Chronic Obstructive Pulmonary Disease (COPD), persistent cough and cystic fibrosis. iSonea has introduced its technology at the conferences of the American Thoracic Society, American College of Chest Physicians, European Respiratory Society, American Academy of Respiratory Care, American Academy of Asthma, Allergy and Immunology, Medica and the Australian Respiratory Society. An article describing the Company's cough validation methods and results recently appeared

in *Cough Journal* and scientists have delivered keynote lectures about ARM technology at national scientific academy and society meetings.

Secure third party reimbursement: Securing third party reimbursement is critical for building a sustainable business model among physician prescribers in the U.S. iSonea technology has already been assigned a temporary reimbursement code (CPT III) by the American Medical Association, which has been given the task of assigning CPT approval codes to medical devices, services and tests. Securing a CPT code is necessary before product sales can begin. A CPT III code means Medicare will track the use of an emerging technology, which must happen before the American Medical Association can recommend reimbursement and approve pricing. iSonea plans to use data from its expanded clinical study to support an upgrade in the CPT code from Category III to Category I, which would allow physicians to prescribe the technology and be reimbursed by insurance payers. The study data will also be used to solidify reimbursement in the EU countries, Japan, India and China.

Reimbursement should cover physician-prescribed device sales and diagnostic services such as sleep studies. At present, reimbursement varies by payer. In some instances, iSonea has been able to obtain up to 40% reimbursement from private insurers, which is a much higher rate than most new medical devices collect. When the Company secures a Category I CPT code, reimbursement will increase significantly. Comparable diagnostic services are reimbursed between $60 and $250 in some developed markets.

Acquisition cost of Personal WheezoMeter is a fraction of the cost of a single emergency room visit or a conventional spirometry tests



The rollout of personal wheeze monitoring devices that can be marketed directly to consumers over-the-counter will accelerate market uptake of ARM technology and allow iSonea to quickly build brand awareness and market share among patients and their physicians.

Build global distribution network: iSonea is establishing a global network of distribution partners anchored by large companies like Omron, and including regional and national companies that can introduce ARM technology to targeted physicians in key markets. The Company has signed agreements with 23 distributors worldwide to-date and

is utilizing those channels to conduct pilot studies so that physicians can gain experience with the devices and software.

The Company's decision to sell through distributors rather than a direct sales force makes good business sense since iSonea needs to preserve cash and allocate available resources for the expanded clinical study. Its relationships with regional firms and large multi-national companies should allow iSonea to reach its targeted audience quickly and cost-effectively. Potential customers for ARM technology include tens of thousands of PTF labs, sleep centers and hospitals, 20,000 pulmonary and allergy physician specialists, 58,000 pediatricians and 250,000 primary care and emergency care physicians.

Develop mobile asthma monitoring device with smart phone applications. iSonea is applying its core strengths in ARM technology, software and algorithms to the mobile health platform by developing health management applications and digital monitoring hardware that can be integrated with smart phones. The Company's next generation smart phone device (Mobi-ARM ™) makes asthma monitoring possible for anyone with a smart phone. This more convenient method for continuous asthma monitoring will enable patients and physicians to effortlessly adhere to global asthma management guidelines that have been recommended by specialists, but are rarely followed in practice. Mobi-ARM will be unique to iSonea – no direct competition in smart phone enabled acoustic respiratory wheeze monitoring exists. As a result, iSonea should be ideally positioned as the first mover in a potentially huge market for mobile asthma monitoring.

The market for smart phones already exceeds billions of dollars and consumer demand for health management applications for these devices is skyrocketing. According to Pew Research Center, the number of health management applications for smart phones has nearly tripled since last year approximately 3,000 to nearly 9,000 today and Pew forecasts 50% growth and more than 13,000 applications by next July. A rising installed base created demand for more apps. There were 500 million smart phones sold globally in 2011 and unit sales are projected to exceed one billion phones sold annually by 2015. Penetrations rates for health management applications for smart phones are especially high in the U.S. where nearly 1/3rd of all adults downloaded a health management app this year. Consumer appetite for health management applications and mobile monitoring creates a receptive audience for the roll out of Mobi-ARM in the U.S.

Market Overview

iSonea is developing acoustic respiratory monitoring devices for the non-invasive management of asthma and related respiratory conditions. Asthma is a common condition that afflicts an estimated 300 million patients worldwide, including nearly 25 million Americans. Asthma attacks can be very severe and lead to more than 150,000 deaths worldwide each year.

Approximately 25 million Americans suffer from asthma, and the condition is on the rise in the U.S. and in other developed countries.

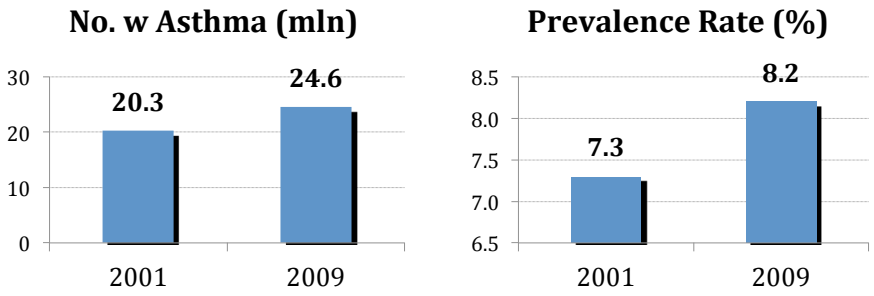
Asthma

Asthma is a disease of the lungs in which airways become blocked or narrowed, making breathing difficult. The condition causes attacks of wheezing, shortness of breath, chest tightness and coughing. Because the inflammation of the breathing passages of the lungs (bronchioles) is chronic, the airways of asthma sufferer are highly sensitive to various "triggers." When inflammation is "triggered" by external and/or internal factors, the airway passages swell and fill with mucus. Also, muscles within the breathing passages contract (bronchospasm), causing even further airway narrowing and making it difficult to exhale air from the lungs.

Asthma is one of a group of chronic obstructive pulmonary diseases (COPD), which also includes chronic bronchitis and emphysema. Asthma can't be cured, but the condition can be successfully managed. Patients have a better chance of controlling the disease if diagnosed early (so treatment can begin immediately) and regularly monitored (so medications can be adjusted). Proper treatment can lessen the incidence and severity of the attacks. Without treatment, attacks can become more frequent and severe and some patients even die. Approximately 5,000 Americans die each year from severe asthma attacks.

Unfortunately, asthma is on the rise in the United States and other developed countries. According to the Centers for Disease Control, the number of Americans afflicted with asthma has increased from 20.3 million in 2001 to 24.6 million in 2009, a greater than 20% increase in just eight years. Scientists estimate the number of asthma sufferers in the U.S. could reach nearly 44 million by 2016, a nearly 80% increase. As a percentage of the U.S. population, asthma sufferers have increased from 7.3% ten years ago to more than 8.2% today. Factors thought to be contributing to the increased incidence are lower exposure to infection than our ancestors, which is weakening our immune systems, more time spent indoors which increases exposure to dust, mold and other known allergens, increasing air pollution and the obesity epidemic. There is strong evidence suggesting a link between obesity and asthma.

Asthma is the most common chronic disease of children, who often present with the most severe form of the disease.



Asthma affects all races, ages and strata of society but is most common in children. It is estimated that more than 40% of children will have at least one wheezing incident before school age. In the U.S., about one-third of asthma sufferers are children, making it the most common chronic disease of children. About 10% of U.S. children have asthma. Children often present with the most severe cases of asthma since the frequency and severity of attacks tend to decrease with age.

Asthma forces thousands of people to compromise their lifestyles to accommodate the disease and is a major cause of work/school absence and lost productivity. It is also one of the most common reasons for emergency room visits and hospitalization. Experts estimate asthma costs the U.S. economy over $56 billion each year in medical expenses (estimated at $3,300 per asthma patient per year), lost productivity and premature deaths.

Asthma Incidence Worldwide

Asthma affects some 300 million people worldwide, including some 100 million living in the developed countries. The number of asthma patients worldwide is expected to reach 400 million by 2025 – a one-third increase. At present, medical expenses just to manage this condition exceed $30 billion annually. A 2007 survey by the Global Initiative for Asthma shows asthma prevalence rates close to 15% in the United Kingdom, Australia, Ireland and Canada. Approximately one-half of the patients interviewed for the survey categorized their asthma as either moderate or severe and more than 40% reported asthma as a limiting factor in their daily activities. During the 12 months leading up to the survey, 45% of those interviewed sought medical assistance, 11% made trips to the hospital and 6% required hospitalization.

Medical costs for managing asthma exceed $30 billion annually. When costs of lost productivity and premature death are factored in, asthma costs the U.S. approximately $56 billion annually.

Despite being a common chronic disease, approximately 20% of asthma patients cannot be helped by traditional diagnostic and management tools. Patients who can't be managed with conventional treatments include the very young (infants, toddlers and children under the age of 5), the elderly and/or very frail and the intellectually, emotionally or physically disabled. That is because current testing modalities require active cooperation and physical exertion by the patient. For this population, (about 30 million in the developed countries), there are no reliable methods for quantifying the presence and the severity of their disease.

Sleep Apnea

ARM devices may also have applications in the diagnosis of sleep apnea, a serious sleep disorder that occurs when a person's breathing is interrupted during sleep. People with untreated sleep apnea stop breathing repeatedly during sleep, sometimes hundreds of times. This means the brain -- and the rest of the body -- may not be getting adequate oxygen. The condition is seen most frequently in middle-aged males although anyone can suffer from sleep apnea. Other risk factors include being overweight, a family history of sleep apnea, and nasal obstruction due to a deviated septum, allergies or nasal problems.

Despite being a common chronic disease, about 20% of asthma sufferers aren't help by traditional disease monitoring and management tools.

Obstructive sleep apnea (OSA) is the most common form of the disorder. Research has shown that approximately one in five adults has enough sleep apnea to be considered abnormal. This makes sleep apnea twice as common as asthma. Most individuals with sleep apnea have only a mild form of the disease and exhibit no daytime symptoms. However, about one in 20 adults has obstructive sleep apnea so severe that sleep interruptions are frequent and result in excessive daytime sleepiness. It is estimated that 23 million Americans have at least mild disease, and another 16 million have moderate to severe disease.

Left untreated, sleep apnea can cause a number of health problems, which include high blood pressure, stroke, heart failure, diabetes, depression and worsening of ADHD. In addition, untreated sleep apnea may be responsible for poor work performance, motor vehicle accidents and academic underachievement by children and adolescents.

Sleep apnea often goes undiagnosed. Physicians usually can't detect the condition during routine examinations and there are no blood tests for the condition. Most individuals with sleep apnea aren't aware of their condition until a family member and/or bed partner notices symptoms. Like asthma, sleep apnea is a chronic condition that requires long-term monitoring. The condition can often be successfully managed with lifestyle changes, mouthpieces, surgery, and/or breathing devices that reduce or eliminate symptoms in sufferers.

Management & Board of Directors

In September iSonea restructured its board and executive team by installing new board members and officers with extensive prior experience leading profitable healthcare companies. The new corporate officers have backgrounds with companies like Merck, GlaxoSmithKline, Puritan Bennett, Covidien, GE, ResMed, Roche, Kaiser Permanente, Blue Cross Blue Shield, Spire and CareFusion. New Chairman Ross Haghighat has significant venture capital experience, overseeing eight start-ups and three mergers and acquisitions. During his career, Mr. Haghighat has created $1.9 billion in value for investors. The backgrounds of other officers and board members are described below.

Ross Haghighat
Executive Chairman

A serial entrepreneur, Ross Haghighat has more than 25 years of experience in business start-ups and venture financing. He founded and serves as CEO of Triton Systems, a full-service business venturing company with offices in Boston, Washington DC and Fargo, North Dakota. In addition to his role at iSonea, he currently serves on the boards of Triton Systems, Aduro BioTech, SI2 Technologies and FRX Polymers Sensera.

Paul Hopper
Non-Executive Chairman

Paul Hopper has over 20 years of experience in the management and funding of healthcare companies. He is a Managing Director of Los Angeles- based investment bank Cappello Group. He has served on the boards of more than a dozen public companies in the U.S., Australia and Asia. He currently serves on the boards of pSivida Corp., Fibrocell Science and Somnomed and is Chairman of the Board of Viralytics.

Jerry Korten
Non-Executive Director

Jerry Korten brings over 25 years of experience as a private and public company senior executive to iSonea. He is the Vice President of Technology Development for GE Healthcare and earlier in his career served as Chief Executive Officer of Versamed, which was acquired by GE in 2008. Before Versamed, Korten was Chief Executive Officer of Streetbeam and a senior executive of Spacelabs Medical.

Fabio Pannuti
Non-Executive Director

Fabio Pannuti most recently served as Managing Director of Hybrid Card, a financial product joint venture with Zion Bank of Utah. He has also served on the boards of Mobi, a publicly-traded telecom in Australia, and two UK companies – Polonius, a €100 million debt acquisition fund and OME, an outdoor media company that was acquired in 2000.

Michael Thomas
Chief Executive Officer

Michael Thomas became the new Chief Executive Office of iSonea in June 2011. He has over 22 years of healthcare industry experience. He previously served as President and Chief Executive Officer of Appian Partners, a medical devices and healthcare services consulting firm. Earlier in his career, Thomas was President and CEO of Sleep Solutions, a VC-backed medical device manufacturer. He helped raise over $50 million in VC funding for that company and launch a new industry in the $5 billion Sleep Medicine market. Mr. Thomas successfully lobbied the largest Managed Care Organizations (MCOs) and the Centers for Medicare and Medicaid Services (CMS) to alter their medical policy and approve reimbursement for in-home sleep apnea diagnostic services. He has served on the board of AdvaMed, which is the world's largest, most prestigious medical device association. Prior to joining Sleep Solutions, Thomas was Executive Vice President of Sales and Marketing for National Sleep Technologies (NST), where he led acquisitions of more than 80 sleep labs, making NST the largest sleep-testing company in the U.S. NST was later sold to a division of GE Medical. Earlier in his career, Mr. Thomas was Vice President of Sales at Patient InfoSystems (Nasdaq: PATI) and instrumental in taking that company public. He began his career in sales and marketing at Merck and Glaxo Wellcome. Thomas graduated from Cornell University with a degree in Microbiology.

Paul Eisen
Director of Asia Pacific Sales

Paul Eisen has operated as a senior executive in the medical device and healthcare industry across Australia and Asia Pacific for more than 20 years. He holds a degree in Diagnostic Radiography from Sydney Technical Institute and a Graduate Diploma in Marketing from the University of Technology, Sydney.

Steven Tunnell
Senior Vice President of Operations

Steven Tunnell has more than 32 years of healthcare industry experience and is extremely knowledgeable about respiratory disorders. He began his career over 30 years ago as a registered respiratory therapist. During the 1980s, Tunnell served as Technical Director of Pulmonary Services at Sharp Healthcare in California. He joined Mallinckrodt during the 1990s, where he served as General Manager of Nellcor Puritan Bennett's Ventilator Systems division. In 2000 he co-founded and led eVent Medical, a life support business that was later sold.

Jonathan Freudman, MD
Medical Director

Jonathan Freudman has 16 years of experience in general practice medicine for Kaiser in California and over 25 years of healthcare experience. He has been an industry consultant since 2002 assisting early-stage healthcare companies. His clients have included VC-backed medical device companies and biotechs. Dr. Freudman's specialty is reimbursement strategies and he will play a key role over the next 12 months in helping iSonea secure Category I CPT code reimbursement.

Michael A. Cheney
Vice President of Marketing

Michael Cheney has 25 years of 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 considerable experience in the respiratory care/sleep disordered breathing market, increasing the adoption of home sleep tests for diagnosis of sleep apnea.

Jan P. Barker
Vice President of Business Development

Jan 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 6 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 market potential, business plan development, and assisting entrepreneurial ventures in obtaining seed and additional capital rounds.

Competition

Asthma can often be managed with drugs that treat symptoms, but there is no known cure. The market for asthma drugs is dominated by inhaled medications such as GlaxoSmithKline's drug Advair and AstraZenaca's product Symbicort, which lessen the frequency and severity of attacks. These drugs contain a corticosteroid to reduce airway swelling and a bronchodilator. Advair generates $5.3 billion in annual sales and Symicort sales exceed $2.7 billion a year. The drug market also includes leukotriene modifiers such as Merck's Singulair, which prevent symptoms for up to 24 hours by blocking immune system chemicals associated with asthma symptoms. Singulair generates nearly $5 billion in annual sales.

Before any of these medications can be prescribed, physicians must first establish the severity of the patient's asthma by identifying and quantifying wheeze (a whistling sound produced in the chest when respiratory airways are blocked). While physicians using a stethoscope sometimes make diagnosis, this is not optimal since findings are subjective and dependent on the physician's skill. More commonly, asthma is diagnosed using a respiratory monitoring device.

Respiratory Diagnostic and Monitoring Market

A 2011 research report by MarketsandMarkets estimated the value of the global respiratory care market at $8.8 billion in 2010 and forecast market growth to $13.5 billion by 2015, implying a compound annual growth rate of 8.8% over five years. The U.S. market is valued at nearly $5 billion and accounts for the lion's share of the global respiratory care market.

The market for respiratory monitoring devices is growing because of a rising incident of related diseases, technology advances and an increasing emphasis on home-based monitoring.

The market consists of therapeutic devices, diagnostic devices and monitoring devices and disposables. Positive airway pressure devices account for the largest share of the therapeutic device market with sales forecast to reach $5.2 billion by 2015. The most common monitoring devices are pulse oximeters (which measure oxygen saturation in the blood), with sales forecast to hit $1.7 billion in 2015. Spirometers dominate the diagnostic device segment, with sales expected to hit $500 million by 2015.

The U.S. market for respiratory care devices has grown significantly in recent years and is poised for steady expansion because of an aging population, rising incidence of Chronic Obtrusive Pulmonary Diseases (COPD), technical advances that are leading to better respiratory care devices, and tighter healthcare budgets, which are making cost-effective diagnosis and care a higher priority.

Technical advances such as portability, and increased battery life have facilitated the development of monitoring products suitable for home use and are opening up new sales channels for device manufacturers. The greater convenience and comfort afforded by a home environment and significantly cost advantages are creating growth opportunities in the home segment of respiratory care.

Spirometry

Spirometry is the current gold standard for asthma assessment. A spirometer is a device that measures how quickly and how much air a patient expels. Spirometers measure FEV1 (forced expiratory volume), which is the maximum amount of air forcefully exhaled in one second. The patient is asked to take the deepest breath possible, and then exhale as forcefully as possible into the device sensor for as long as possible, preferably

at least six seconds. This measurement is sometimes followed by a rapid inhalation (inspiration) test, in particular when assessing possible upper airway obstruction.

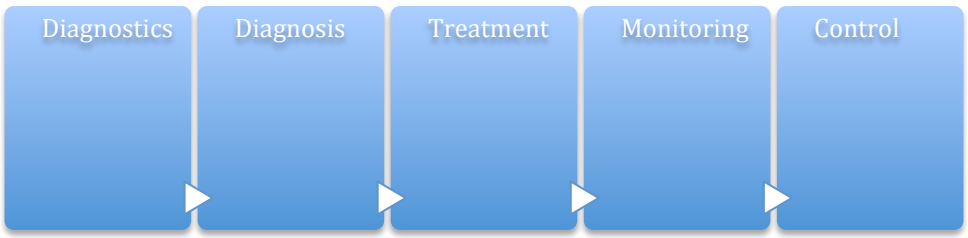
Several companies manufacture spirometers, including Pfizer, BTL, Medline, and MRI. Despite spirometry's common use as a diagnostic tool, there are drawbacks to the technology. For example, spirometry is highly dependent on the patient's cooperation and effort, and must normally be repeated at least three times to ensure reproducibility. Since results require active participation from the patient, spirometry can only be used on children old enough to follow instructions. The test is not suitable for patients who are unconscious, heavily sedated, or who have physical issues that interfere with vigorous respiratory efforts.

Spirometers are the standard of care, but their usefulness is limited by high cost, reliance on effort from the patient and lack of portability, which makes them unsuitable for home use.

Another shortcoming of the technology is that intermittent or mild asthma patients often produce normal spirometry test results between attacks, which limits its usefulness as a diagnostic tool. Spirometers are large, heavy instruments, suitable for use only in physician offices or lab settings. Lack of portability means the device can't be used for continuous monitoring, which is considered crucial for successful asthma management and is part of international care guidelines. Spirometers provide "snap shot readings" and can't assess asthma patients in their home or work environments. For asthma attacks that occur outside the lab, physicians must rely on symptom reports by patients or parents that are often inconsistent and unreliable.

The costs of spirometry are significant, typically ranging from $1,500 to $2,000 per test. There are a few smaller spirometer models available for home use, but these are expensive as well, typically selling for more than $1,000.

Traditional asthma management techniques can leave major gaps in patient coverage and chronic management



- **Stethoscpe is subjective & depends on MD skill**
- **Spirometers & peak flow meters require patient effort**
- **Patient/ parent report of symptoms often inconsistent and inaccurate**
- **"Snapshot" readings in office don't provide data from home on work environment**
- **No chronic monitoring – crucial for successful Asthma Action Plans and adherence to international care guidelines (e.g. GINA)**

Peak Flow Meter

An alternative device for assessing asthma is the peak flow meter, an inexpensive, handheld device. Unlike, spirometers, peak flow meters can be purchased over the counter and without a prescription. These devices range in price from $15 to $50 per unit

and are manufactured by well-known companies like Philips Respironics, Clement Clark, Health Scan and Galamed.

Peak flow meters work by measuring how fast air comes out of the lungs when a patient exhales forcefully after taking a deep breath. This measure is called "peak expiratory flow," or "PEF." Patients track PEF to assess whether their asthma symptoms are under control or worsening. To use the device, the patient must stand or sit up straight, take a deep breath that fills the lungs completely and blast air out in a single exhalation. The procedure is repeated three times and the highest of the readings is recorded as peak expiratory flow.

Like spirometry, there are limits on the usefulness of peak flow meters. Test results are dependent on the patient's effort and ability. To ensure that readings are comparable, the peak flow meter must be used exactly the same way each time. Another drawback is that peak flow meters only measure airflow from the large airways of the lungs. Changes in airflow from the small airways (which also occurs with asthma) are not detectable.

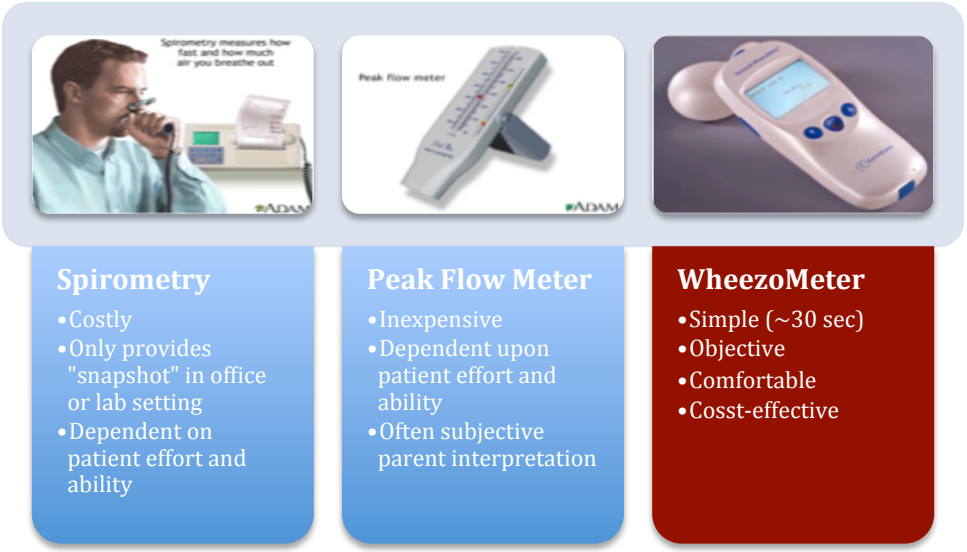
These devices are notorious for their unreliability and there is conflicting data regarding the efficacy of peak flow rate monitoring for improving asthma outcome. Some studies have suggested that patients who use peak flow meters routinely underestimate the severity of their condition and use medication inappropriately.

To be effective, patients or caregivers must keep detailed records of PEF trends, but this rarely occurs in practice. One study of inner city children showed a 30% decline in monitoring over the course of just three weeks. The usefulness of peak flow meters is also limited by the ability of clinicians to interpret the data in an objective and meaningful way. Numerous scales and charts are available, but many are difficult to interpret.

Advantages of ARM Technology

ARM devices can be used with any patient, including children, the elderly and the infirm and are more affordable than spirometers, the existing standard of care.

Because ARM technology doesn't require cooperation from the patient, ARM devices can be used to monitor asthma in children, the elderly and infirm and other scenarios where spirometers and peak flow meters are simply not feasible. Two peer-reviewed clinical studies confirm a statistically high correlation between wheeze rate, which is measured acoustically by ARM devices, and FEV1, which is measured by spirometry. The high correlation between wheeze rate and FEVl and comparable diagnostic accuracy increases the likelihood that physicians and insurance payers will embrace ARM technology as a cost-effective alternative to spirometry.



Acquisition costs for a personal ARM device are a fraction of the cost of a single emergency room visit, sleep lab study or spirometry test. The WheezoMeter retails for approximately $350. This compares to spirometry test costs, which run as high as $2,000 per test and require the expertise of a trained specialist at a hospital, clinic or physician office. Even the lowest priced spirometer costs more than $1,000 and none has the practicality and portability of the personal WheezoMeter device.

The costs of not monitoring a patient's asthma can be catastrophic. A single visit to the Emergency Room visit often costs more than $1,500 and the average cost of hospitalization for asthma treatment is over $7,300.

Sleep Study Economics

Costs of sleep lab studies to assess nocturnal asthma can run as high as $2,500. Depending on the duration and the nature of the study, a comparable study done with WHolter can cost as little as $360. iSonea has developed a business model for WHolter allowing sleep labs and physician offices to develop familiarity with the technology. Lower cost models for sleep monitoring should help iSonea rapidly gain a foothold in the sleep study market. A major health insurance company payer, United Healthcare, is taking the lead by mandating more cost-effective home testing for sleep apnea, and other insurers are likely to follow suit.

Milestones

Obtains FDA, Australian and CE Market Approval for ARM Devices

iSonea received FDA approval of PulmoTrack in November 2007 and CE Mark approval in January 2008. Australian approval came three months later in March 2008. WheezoMeter secured European marketing approval in January 2009, Australian approval in May 2009 and FDA clearance in July 2010.

Wins Frost & Sullivan Product Innovation Awards Two Years in a Row

iSonea won the 2009 European asthma monitoring product innovation award from Frost & Sullivan in April 2009 for PulmoTrack and the North American patient monitoring new product innovation award from Frost & Sullivan in November 2010 for WheezoMeter.

iSonea put in place a new management team and medical advisory board, refined its clinical development and launch strategies and raised much needed capital this year.

Replaces Management Team and Medical Advisory Board

iSonea recruited a new management team led by Michael Thomas in 2011. Thomas has over 22 years of healthcare industry experience and formerly served as CEO of Sleep Solutions, a VC-backed medical device manufacturer. The new team has moved quickly to reduce the cash burn rate, re-assess clinical development and launch strategies and raise much needed capital.

Signs Distribution Agreements with U.S., European and Asian Partners

iSonea signed distribution agreement with various partners in the U.S. and Asia Pacific in 2010 and in May 2011 entered into an agreement with Omron Healthcare to become the exclusive distributor of WheezoMeter in multiple foreign countries.

Secures OTCOX Quotation

iSonea has secured a U.S. quotation on the OTCOX International marketplace, which will greatly improve the Company's access to capital markets. iSonea's ADRs begin trading in the U.S. on January 3, 2012 under the ticker "ISOAY".

Secures $5.6 Million of New Capital from U.S. Institutional Investor and Australian Rights Offering

In December, iSonea raised an additional $4.6 million from Australian investors through a rights offering. The new funding provides iSonea with a 24-month runway when the Company can focus on fostering medical adoption of its technology, building the business and creating shareholder value.

Investment Risks

Early stage of commercializing products
iSonea is introducing a new paradigm in non-invasive asthma monitoring and thus faces an uphill battle in convincing physicians, hospitals, third-party payers and patients of the efficacy of ARM technology. Also, because the current standard of care consists of products with long life cycles (spirometers), iSonea must make a persuasive argument for shifting to a new technology by demonstrating superior efficacy and cost effectiveness.

Commercial success depends on broad-based market acceptance
iSonea must reach a large end-user audience that includes thousands of test centers, hospitals, clinics and specialty and general practice physicians in the U.S. and abroad. The Company's long-term success depends on the acceptance of its technology and products by the medical community. iSonea is minimizing out-of-pocket costs and start-up risk by selling ARM devices through regional distributors and multi-national healthcare companies.

iSonea is commercializing a new and still unproven technology for asthma monitoring and must convince physicians, insurance companies and patients of the efficacy of its ARM technology.

Clinical study risk
iSonea plans to undertake clinical studies to establish the efficacy and clinical utility of its technology vis-à-vis the existing standard of care (i.e. spirometry and peak flow meters). While earlier studies have shown equivalent or superior outcomes, the possibility exists that results from new clinical trials may fall short of expectations. If that is the case, the value of iSonea shares could plummet.

Reimbursement risk
A key component of iSonea's business model is obtaining Category I CPT code approval for its prescription products, which would support reimbursement by Medicare and insurance payers. One of the purposes of current studies is to gather data that will support a code upgrade from Category III to Category I. However, there is no guarantee that the Company's technology will be approved for a Category I CPT code. Also, a delay in the approval process, which could take longer than one year, would slow the sales ramp-up for ARM products.

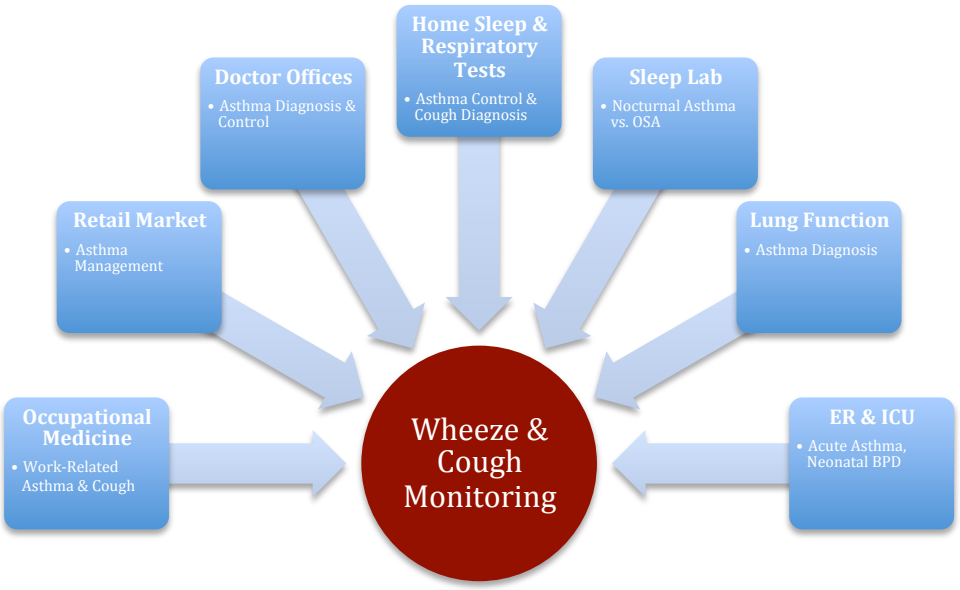
Financing risk
iSonea has secured a $10.6 million funding commitment from an institutional investor and raised $4.3 million from a rights offering to Australian investors. While management believes current funding is sufficient to implement the Company's near-term business plan, the possibility exists that the Company's cash burn rate will be higher than expected and that iSonea will be required to seek additional funding. Failure to obtain sufficient financing or control the cash burn rate could delay the progress of clinical trials and the successful commercialization of ARM products.

Intellectual property risk
iSonea's commercial success depends on its ability to obtain patents and enforce and defend its intellectual property against third-party challengers. At present, the Company is not a party in any lawsuits, but future challenges to its patents cannot be ruled out. Defending a challenge to its patents would be both costly and time-consuming and iSonea may be at a disadvantage to a potential challenger because of limited financial resources.

Summary

iSonea is commercializing asthma monitoring devices based on a breakthrough new technology that is non-invasive, user-friendly and affordable. The Company's ARM devices address a large unmet medical need for asthma monitoring, which has been recommended by pulmonary specialists but is rarely done in practice due to unsuitable technology. Unlike spirometry, which is the current standard of care, ARM devices require no active cooperation from the patient and are thus suitable for diagnosing asthma in children, the elderly and the infirm. This population, which represents about 20% of asthma sufferers, cannot be diagnosed with spectrometry.

The market for asthma monitoring devices is enormous and growing. Worldwide, some 300 million people suffer from asthma and this population is forecast to grow to 400 million within 15 years. The U.S. market includes nearly 25 million asthma sufferers and their numbers are predicted to grow to nearly 44 million within five years. An aging population, the obesity epidemic and air pollution are all factors contributing to a rising incidence of asthma in the world's developed countries. If left unmanaged, the costs of treating asthma can be catastrophic. Asthma costs the U.S. $56 billion annually for medical expenses, lost productivity and premature death. Drugs treat the symptoms, but don't cure the disease so the recommended course of treatment is continuous monitoring, which allows medication levels to be periodically adjusted for optimal results.



iSonea has three prescription ARM devices approved in the U.S., EU and Australia is developing an over-the-counter version of WheezoMeter that will be marketed direct to consumers. Also in the pipeline is a portable wheeze monitor device with smart phone technology and applications that will also be marketed over-the-counter. The two over-the-counter devices will lay the cornerstone for the U.S. market launch by creating awareness and demand for ARM technology among consumers. The smart phone-enabled asthma monitor will also provide iSonea with first mover competitive advantages in a potentially huge market for mobile asthma monitoring.

iSonea's goals over the next 12-24 months are as follows:

Product development:

- Secure FDA clearance of an over-the-counter version of WheezoMeter;
- Re-engineer the product platform for lower COGs and ASP and higher gross margin;
- Submit a compact personal wheeze monitor with smart phone applications to the FDA.

Business development:

- Complete strategic collaboration agreements with global distribution partners;
- Strengthen distribution channels in the U.S., EU and Asia Pacific.

Clinical development:

- Commence bench tests to support FDA submissions for over-the-counter versions of the WheezoMeter and a smart phone-enabled asthma monitoring device;
- Begin short duration studies to build a foundation for insurance reimbursement and CPT code conversion.

Sales and marketing:

- Conduct market research in the U.S. that includes beta testing of the new smart phone-enabled asthma monitor;
- Commence an Internet-based social media campaign to educate consumers about ARM technology and create demand.

A new group of executives, led by CEO Michael Thomas, joined iSonea in 2011 and will complete the Company's transition from development-stage to profitable operation. The new team has restructured the company, re-assessed the commercial status of the products and raised capital to carry out its new vision and plan. Thomas has considerable healthcare CEO experience and has been responsible for raising over $100 million in financing for his companies. He has also overseen multiple start-ups and acquisitions. With Thomas at the helm, iSonea has secured nearly $15 million in new funding and a quotation in the United States.

iSonea believes it has a superior solution for asthma monitoring and plans to be accumulate additional clinical data in the coming months to further validate the efficacy of ARM technology. Successful outcomes from expanded clinical studies could make iSonea attractive as an acquisition target to a large respiratory products company. Because of the early stage of the Company's sales efforts, assigning a takeover Price/Sales multiple for iSonea is premature. However, management believes they are building the platform for potentially achieving $100 million in sales within five years. Emerging medical device companies with similar revenue potential based on a novel technology, successful clinical trial results and partnership opportunities trade at double-digit or even triple-digit Price/Sales multiples. iSonea is likely to emerge as a new technology leader in the asthma monitoring market and could realize significant share price appreciation over the next 12 to 24 months if the Company achieves its near-term goals of developing an over-the-counter version of WheezoMeter and an asthma monitor with smart phone technology, solidifies strategic partnerships and secures reimbursement code approval.

Income Statement

For the Fiscal Period Ending *Currency*	12 months Jun-30-2006 *USD*	12 months Jun-30-2007 *USD*	Reclassified 12 months Jun-30-2008 *USD*	12 months Jun-30-2009 *USD*	12 months Jun-30-2010 *USD*	12 months Jun-30-2011 *USD*
Revenue	0.034	0.19	-	0.23	0.356	0.34
Other Revenue	-	0.142	-	-	-	-
Total Revenue	**0.034**	**0.331**	**-**	**0.23**	**0.356**	**0.34**
Cost Of Goods Sold	-	-	-	0.302	0.276	0.245
Gross Profit	**0.034**	**0.331**	**-**	**(0.071)**	**0.08**	**0.094**
Selling General & Admin Exp.	0.699	2.442	9.621	4.641	4.598	5.386
R & D Exp.	0.006	1.349	3.089	2.072	1.483	1.436
Depreciation & Amort.	0.001	0.026	0.09	0.082	0.079	0.05
Amort. of Goodwill and Intangibles	0.175	-	0.092	0.191	0.181	0.178
Other Operating Expense/(Income)	-	-	-	-	-	-
Other Operating Exp., Total	**0.881**	**3.817**	**12.891**	**6.986**	**6.341**	**7.05**
Operating Income	**(0.847)**	**(3.486)**	**(12.891)**	**(7.057)**	**(6.261)**	**(6.956)**
Interest Expense	-	-	-	-	-	-
Interest and Invest. Income	-	-	0.705	0.072	0.121	0.056
Net Interest Exp.	**-**	**-**	**0.705**	**0.072**	**0.121**	**0.056**
Other Non-Operating Inc. (Exp.)	-	-	0.247	0.134	0.068	0.073
EBT Excl. Unusual Items	**(0.847)**	**(3.486)**	**(11.939)**	**(6.851)**	**(6.072)**	**(6.826)**
Impairment of Goodwill	(0.35)	(1.752)	-	-	-	-
Other Unusual Items	-	-	-	-	-	-
EBT Incl. Unusual Items	**(1.197)**	**(5.238)**	**(11.939)**	**(6.851)**	**(6.072)**	**(6.826)**
Income Tax Expense	-	-	-	-	-	-
Earnings from Cont. Ops.	**(1.197)**	**(5.238)**	**(11.939)**	**(6.851)**	**(6.072)**	**(6.826)**
Earnings of Discontinued Ops.	(0.021)	(0.001)	-	-	-	-
Extraord. Item & Account. Change	-	-	-	-	-	-
Net Income to Company	**(1.218)**	**(5.239)**	**(11.939)**	**(6.851)**	**(6.072)**	**(6.826)**
Minority Int. in Earnings	-	-	-	-	-	-
Net Income	**(1.218)**	**(5.239)**	**(11.939)**	**(6.851)**	**(6.072)**	**(6.826)**
Pref. Dividends and Other Adj.	-	-	-	-	-	-
NI to Common Incl Extra Items	**(1.218)**	**(5.239)**	**(11.939)**	**(6.851)**	**(6.072)**	**(6.826)**
NI to Common Excl. Extra Items	**(1.197)**	**(5.238)**	**(11.939)**	**(6.851)**	**(6.072)**	**(6.826)**
Per Share Items						
Basic EPS	($0.036)	($0.032)	($0.036)	($0.017)	($0.009)	($0.009)
Basic EPS Excl. Extra Items	(0.035)	(0.032)	(0.036)	(0.017)	(0.009)	(0.009)
Weighted Avg. Basic Shares Out.	33.972	166.097	330.385	395.246	644.605	783.706
Diluted EPS	($0.036)	($0.032)	($0.036)	($0.017)	($0.009)	($0.009)
Diluted EPS Excl. Extra Items	(0.035)	(0.032)	(0.036)	(0.017)	(0.009)	(0.009)
Weighted Avg. Diluted Shares Out.	33.972	166.097	330.385	395.246	645.626	785.566
Normalized Basic EPS	($0.016)	($0.013)	($0.023)	($0.011)	($0.006)	($0.005)

Balance Sheet

Balance Sheet as of:	Jun-30-2006	Jun-30-2007	Jun-30-2008	Jun-30-2009	Jun-30-2010	Jun-30-2011
Currency	*USD*	*USD*	*USD*	*USD*	*USD*	*USD*
ASSETS						
Cash And Equivalents	0.425	0.601	3.446	3.025	2.351	1.341
Total Cash & ST Investments	**0.425**	**0.601**	**3.446**	**3.025**	**2.351**	**1.341**
Accounts Receivable	0.005	0.416	0.384	0.226	0.391	0.283
Total Receivables	**0.005**	**0.416**	**0.384**	**0.226**	**0.391**	**0.283**
Inventory	-	-	0.063	0.079	0.248	0.395
Prepaid Exp.	-	0.106	0.021	0.148	0.101	0.04
Other Current Assets	-	-	-	-	0.0	-
Total Current Assets	**0.43**	**1.124**	**3.914**	**3.479**	**3.091**	**2.059**
Gross Property, Plant & Equipment	0.003	0.27	0.395	0.409	0.561	0.581
Accumulated Depreciation	(0.001)	(0.082)	(0.174)	(0.262)	(0.34)	(0.382)
Net Property, Plant & Equipment	**0.002**	**0.188**	**0.221**	**0.146**	**0.221**	**0.199**
Other Intangibles	0	1.789	1.751	1.571	1.372	1.159
Other Long-Term Assets	-	0.02	0.01	0.019	0.014	0.011
Total Assets	**0.432**	**3.121**	**5.896**	**5.215**	**4.698**	**3.428**
LIABILITIES						
Accounts Payable	-	0.514	0.76	0.697	0.75	0.502
Accrued Exp.	-	0.03	0.018	0.016	0.032	0.023
Curr. Port. of LT Debt	-	-	-	0.331	0.046	-
Unearned Revenue, Current	-	0.023	0.027	-	-	-
Other Current Liabilities	0.035	0.092	0.127	0.148	0.205	0.23
Total Current Liabilities	**0.035**	**0.659**	**0.932**	**1.192**	**1.033**	**0.756**
Unearned Revenue, Non-Current	-	-	-	0.618	0.724	0.516
Pension & Other Post-Retire. Benefits	-	0.002	0.004	0.006	0.01	-
Other Non-Current Liabilities	-	-	-	-	-	-
Total Liabilities	**0.035**	**0.661**	**0.935**	**1.817**	**1.767**	**1.272**
Common Stock	35.063	42.23	52.953	57.835	63.279	68.986
Additional Paid In Capital	-	-	-	-	-	-
Retained Earnings	(34.776)	(40.015)	(51.954)	(58.804)	(64.877)	(67.994)
Treasury Stock	-	-	-	-	-	-
Comprehensive Inc. and Other	0.11	0.244	3.962	4.369	4.528	1.165
Total Common Equity	**0.397**	**2.459**	**4.961**	**3.399**	**2.931**	**2.157**
Total Equity	**0.397**	**2.459**	**4.961**	**3.399**	**2.931**	**2.157**
Total Liabilities And Equity	**0.432**	**3.121**	**5.896**	**5.215**	**4.698**	**3.428**

Cash Flow

For the Fiscal Period Ending *Currency*	12 months Jun-30-2006 *USD*	12 months Jun-30-2007 *USD*	12 months Jun-30-2008 *USD*	Restated 12 months Jun-30-2009 *USD*	12 months Jun-30-2010 *USD*	12 months Jun-30-2011 *USD*
Net Income	**(1.218)**	**(5.239)**	**(11.939)**	**(6.851)**	**(6.072)**	**(6.826)**
Depreciation & Amort.	0.001	0.026	0.09	0.083	0.085	0.06
Amort. of Goodwill and Intangibles	-	-	0.092	0.191	0.181	0.178
Depreciation & Amort., Total	**0.001**	**0.026**	**0.182**	**0.275**	**0.267**	**0.238**
(Gain) Loss On Sale Of Invest.	0.525	-	-	-	-	-
Asset Writedown & Restructuring Costs	-	1.752	-	-	-	-
Stock-Based Compensation	0.074	1.021	5.788	2.408	0.723	1.321
Other Operating Activities	-	-	(0.288)	0.188	0.005	0.012
Change in Acc. Receivable	(0.004)	(0.204)	0.032	0.158	(0.165)	0.108
Change In Inventories	-	-	(0.063)	(0.016)	(0.169)	(0.147)
Change in Acc. Payable	(0.048)	0.364	0.285	(0.068)	0.107	(0.222)
Change in Other Net Operating Assets	-	(0.06)	0.074	(0.127)	0.068	0.042
Cash from Ops.	**(0.671)**	**(2.339)**	**(5.93)**	**(4.032)**	**(5.236)**	**(5.474)**
Capital Expenditure	(0.001)	(0.171)	(0.125)	(0.014)	(0.168)	(0.027)
Sale of Property, Plant, and Equipment	-	-	-	-	0.002	-
Cash Acquisitions	-	0.118	-	-	-	-
Divestitures	-	-	-	-	-	-
Invest. in Marketable & Equity Securt.	-	-	-	-	-	-
Net (Inc.) Dec. in Loans Originated/Sold	-	(0.197)	-	-	-	-
Other Investing Activities	-	(0.02)	-	-	(0.001)	0.003
Cash from Investing	**(0.001)**	**(0.271)**	**(0.125)**	**(0.014)**	**(0.167)**	**(0.024)**
Short Term Debt Issued	-	-	-	-	-	-
Long-Term Debt Issued	-	-	-	1.07	-	2.299
Total Debt Issued	**-**	**-**	**-**	**1.07**	**-**	**2.299**
Short Term Debt Repaid	-	-	-	-	-	-
Long-Term Debt Repaid	-	-	-	-	-	-
Total Debt Repaid	**-**	**-**	**-**	**-**	**-**	**-**
Issuance of Common Stock	-	3.059	9.251	2.486	5.168	2.222
Total Dividends Paid	**-**	**-**	**-**	**-**	**-**	**-**
Special Dividend Paid	-	-	-	-	-	-
Other Financing Activities	(0.004)	(0.293)	(0.353)	0.067	(0.442)	(0.029)
Cash from Financing	**(0.004)**	**2.767**	**8.897**	**3.623**	**4.726**	**4.492**
Foreign Exchange Rate Adj.	-	0.02	0.002	0.003	0.003	(0.004)
Net Change in Cash	**(0.676)**	**0.177**	**2.844**	**(0.421)**	**(0.674)**	**(1.01)**

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