

Shareholder Update

January 27th, 2011

Dear Shareholder,

As the world embraces the Year 2011 and things return to normal in Australia, there is good reason to take comfort in that Team KarmelSonix has continued its commitment to building long term shareholder value.

Since the AGM held on November 30, 2010, we have devoted our attention to executing the Company's Tripod of success principles and business plan (see my November Letter to Shareholders). Our team has been focused totally on establishing quality manufacturing, meaningful sales planning for CY 2011 and pushing ahead with the clinical work which is concentrated on our Centers of Excellence initiative that expands our current seven clinical sites to ten world renowned clinical sites.

I am pleased to report that we are making significant progress in each of these fronts. As a direct result of the pioneering clinical work with our devices at leading medical institutions such as the Royal Brompton Hospital (UK), Mass General (Boston), Oakland Children (CA), to name a few, the broader medical community is increasingly able to use our devices with specific clinical symptoms in patient populations who suffer from asthma and other lung function limitations. This has resulted in more rapid acceptance of our acoustic respiratory devices in medical practices in the US and Europe.

Additionally, there are early indications that our sales strategy is paying off in a number of important regions. In Europe and the US in particular, we are seeing positive feedback from the market for our devices and a growing advocacy for our WHolter™ service model. We are also continuing with various discussions aimed at accelerating the rollout of our products in key markets.

We have also continued our assessment and qualification of an appropriate strategic manufacturing partner and I am pleased to advise that this work has almost been finalised and we will shortly be in a position to announce this new partnership.

Last October, the professionals at Team KarmelSonix launched a new service designed to test market the WHolter™ home sleep test device in Southern California. The WHolter™ is the world's first approved device to record and quantify the presence of nocturnal wheeze and cough in patients at home. This revolutionary device provides a new means to diagnose and quantify the presence of nocturnal wheeze which is one important cause of sleep apnea in a significant percentage of patients undergoing sleep studies, and therefore represents a very significant market.

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“Wheeze Rate – A New Paradigm in Asthma Management”

Having launched this test, I can report that the interest in our WHolter™ Home Sleep test has been strong and as of this writing, we have recently launched our 10th site in the US with prospects for more in Q1, 2011. The rapid pace of adoption is indeed highly encouraging. The footprint of our WHolter™ service now spans from California to the Midwest to the East Coast of the United States and is currently being established in Australia.

In addition we are seeing an increasingly positive market response to our products in Europe. A number of our European distributors are making new commitments to our products by hiring dedicated clinical and sales specialists to handle our products. We are reciprocating that commitment by providing training for the product specialists in the coming months.

Finally, we are working diligently with medical service providers and medical reimbursement specialists to advance our reimbursement codes from CPT Category III to CPT Category I in the US. By way of background, CPT code is an American Medical Association code system assigned to medical devices, services and tests. A CPT code is a critical issue in generating sales as it is required in order to initiate reimbursement of a new medical device. KarmelSonix has a number of dedicated CPT codes for its products.

Further updates and announcements are expected to be released in the coming weeks.

Thank you for continued interest in and support for KarmelSonix.

Yours sincerely,



Ross Haghighat
Chairman and CEO

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About KarmelSonix : KarmelSonix Ltd focuses on supplying innovative non-invasive acoustic tools for disease management of asthma and related pulmonary disorders. Asthma affects 6-16% of the population in developed countries with a cost exceeding \$US15 billion in the US alone.

Acoustic Asthma Management is a breakthrough in monitoring of the asthmatic patient of all ages, including the very young, very old and others who cannot perform currently available tests. The technology that comes from extensive R&D and clinical validation in the US, Israel and Australia, facilitate continuous monitoring of patients at home, in the ICU and even during sleep. The company is now focussing its efforts on early commercialization of its products particularly in the AsiaPac, European and North American markets.

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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.

KarmelSonix 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.

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