

KarmelSonix Limited

**Quarterly Report
for the 3 Months Ended 30th September 2010**

Highlights for the Quarter ended 30th September, 2010

The quarter ending 30 September marked an important transition period for the company. A series of important and lasting changes were introduced that lay the foundation for a strong 4th Quarter 2010 and fiscal year 2011.

Some of the important highlights to be noted included:

- The granting of FDA Clearance for the WHolterTM Recorder. This is an important anchor in enabling the company's trailing revenue business model.
- Finalisation of the business process surrounding the WHolterTM monitoring service;
- Continuation of the clinical education program in relation to the use of the Personal WheezometerTM;
- Securing of additional product sales. Given the Northern Summer holiday period occupied a significant part of this quarter, the lower sales recorded for this quarter are expected to be made up in the current quarter with the quarterly run rate expected to accelerate during 2011;
- The Company announced a major Board and management restructuring exercise on 20th October. This has brought a range of additional highly skilled and experienced personnel to the Board. Ross Haghighat has agreed to continue to act in the capacity of interim CEO pending the appointment of a new, permanent CEO.
- As the Company recently announced, several of the key objectives for the current quarter are:
 - finalisation of the new management team;
 - completion of several new distribution agreements in key markets;
 - a very clear focus on the scaling up of manufacturing activities, including the outsourcing of these where it makes sense, and so that all orders can be fulfilled in a timely manner;
 - the roll out model for the WHolterTM service in key markets and the validation of this model as a key long-term revenue generator for the company;

KarmelSonix Ltd. (KSX)

Suite 2, 1233 High Street
Armada VIC 3143
Australia

Suite 2.03, 25 Solent Circuit
Norwest Business Park,
Baulkham Hills NSW 2153
Australia

KarmelSonix (Israel) Ltd.

16 Palyam Avenue
Haifa, 33095
Israel

KarmelSonix USA.

8599 Haven Avenue
Alta Loma, CA 91701
USA

“Wheeze Rate – A New Paradigm in Asthma Management”

- the commercial launch of the Wheezometer™ into key markets via distribution partners and other networks;
- continued acceptance of the Company's acoustic respiratory monitoring (ARM) technology and products as the new paradigm for the monitoring and management of asthma and related diseases by the broader medical fraternity and key opinion leaders in particular.
- a clear focus on generating increased sales activity via the established distribution network and working aggressively on building the cash flow.

For and on behalf of the board



Ross Haghighat
Director & Interim CEO
29th October, 2010

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.

“Wheeze Rate – A New Paradigm in Asthma Management”

<i>KarmelSonix Ltd. (KSX)</i>	<i>KarmelSonix (Israel) Ltd.</i>	<i>KarmelSonix USA.</i>
Suite 2, 1233 High Street Armada VIC 3143 Australia	Suite 2.03, 25 Solent Circuit Norwest Business Park, Baulkham Hills NSW 2153 Australia	16 Palyam Avenue Haifa, 33095 Israel
		8599 Haven Avenue Alta Loma, CA 91701 USA

Appendix 4C – 1st 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")

30th September, 2010

Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (3 months) \$A'000
1.1 Receipts from customers	114	114
1.2 Payments for		
(a) staff costs	(634)	(634)
(b) advertising and marketing	(169)	(169)
(c) research and development	(157)	(157)
(d) leased assets	(64)	(64)
(e) other working capital	(499)	(499)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	15	15
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (R&D Tax Refund & Grants)	87	87
Net operating cash flows	(1,307)	(1,307)

+ 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 (3 months) \$A'000
1.8 Net operating cash flows (carried forward)	(1,307)	(1,307)
Cash flows related to investing activities		
1.9 Payment for acquisition of:		
(a) businesses (item 5)	(5)	(5)
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	-
(e) other non-current assets	(3)	(3)
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	(8)	(8)
1.14 Total operating and investing cash flows	(1,315)	(1,315)
Cash flows related to financing activities		
1.15 Proceeds from issues of shares, options, etc.	-	-
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)	(2)	(2)
Net financing cash flows	(2)	(2)
Net increase (decrease) in cash held	(1,317)	(1,317)
1.21 Cash at beginning of quarter/year to date	2,297	2,297
1.22 Exchange rate adjustments to item 1.21	(96)	(96)
1.23 Cash at end of quarter	884	884

+ 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	146
1.25	Aggregate amount of loans to the parties included in item 1.11	
1.26	Explanation necessary for an understanding of the transactions <div style="border: 1px solid black; padding: 5px; margin-top: 5px;"> Salaries, directors' fees and consulting fees at normal commercial rates. </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

- 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	-	-
3.2 Credit standby arrangements	-	-

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	884	2,297
4.2	Deposits at call	-	-
4.3	Bank overdraft	-	-
4.4	Other (provide details)	-	-
Total: cash at end of quarter (item 1.23)		884	2,297

Acquisitions and disposals of business entities

	Acquisitions (Item 1.9(a))	Disposals (Item 1.10(a))
5.1	Name of entity	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 October, 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.