



KarmelSonix Limited

Quarterly Report For The 3 Months **Ended 30 September 2008**

Company Update

As a direct consequence of the continuing deterioration in Capital Markets, especially as a result of events over the last 2 months, and associated difficulties in being able to access new sources of capital, the Company has undertaken a full review of all activities and, as a consequence, has taken several important steps designed to secure its future.

These steps can be summarised as follows:

- immediately further reduce the overall expenditure rate, so that total the Group expenditure amounts to no more than US\$120k per month, which will ensure that the Company has funding to last well into 2009 (without utilising the Trafalgar Capital facility or other funding);
- utilise funds received and to be received from BIRD and Vistech grants, as well as from product sales, to preserve cash resources and ensure cash is used as optimally as possible;
- where possible, remunerate staff on a part-cash, part-equity basis, including payments to Directors;
- focus activities on marketing of the PulmoTrack, especially in the US, and complete development work for the WHolter. (The manufacturing costs for the WHolter are similar to the Personal Wheezometer but the margins will be much larger for the WHolter);
- the path to market for the WHolter is faster (not being an OTC product) and there is now significant interest for this product emerging from doctors, particularly in the U.S. market. This shift in emphasis is seen as commercially appropriate and will ensure that the Company's second product should be released to the market with funds currently on hand;
- as a consequence of the above, and in the absence of any further funding being received by the Company, there will be delays to the work currently being undertaken on the Personal Wheezometer. It was decided to delay this work due to the substantial costs associated with the development of the manufacturing and marketing programs. These programs are an essential part of the regulatory process, however, it is vital to minimise any downside risk in the event the Regulatory Approval Cycle for this product takes longer than anticipated. In the event that additional funds become available, the work can be quickly recommenced as the Company has already completed a working prototype and a substantial amount of the technical dossier and other papers required to be lodged as part of the submission;

+ See chapter 19 for defined terms.

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

- the Company has commenced a proactive search for a corporate / strategic partner, with the capacity to bring additional corporate, financial and product distribution capability to the Company. At this stage, no definite comment can be made regarding the timing of any such arrangement or whether one will in fact be concluded;
- The Trafalgar Capital Equity Credit Facility and Loan Facility arrangements remain in place but have not been used. Given that this is an expensive source of funding, the decision has been made to make all the necessary budget and staff cuts described above and utilise the Trafalgar facility on a 'stand by' basis only.

The Board views the above as difficult yet important, prudent and necessary steps in the current economic environment.

The Board would also like to take this opportunity to thank shareholders for their continued support during what have been unprecedented times in the commercial and capital markets.

+ See chapter 19 for defined terms.

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, 2008

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	15	15
1.2 Payments for		
(a) staff costs	(544)	(544)
(b) advertising and marketing	(199)	(199)
(c) research and development	(436)	(436)
(d) leased assets	(62)	(62)
(e) other working capital	(422)	(422)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	26	26
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Other (R&D Tax Refund)	-	-
Net operating cash flows	(1,622)	(1,622)

+ 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)	(1,622)	(1,622)
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	-	-
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	-	-
1.14 Total operating and investing cash flows	(1,622)	(1,622)
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)	(168)	(168)
Net financing cash flows	(168)	(168)
Net increase (decrease) in cash held	(1,790)	(1,790)
1.21 Cash at beginning of quarter/year to date	3,370	3,370
1.22 Exchange rate adjustments to item 1.21	256	256
1.23 Cash at end of quarter	1,836	1,836

+ 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	113
1.25	Aggregate amount of loans to the parties included in item 1.11	
1.26	Explanation necessary for an understanding of the transactions	
Salaries, directors' fees and consulting fees at normal commercial rates.		

Non-cash financing and investing activities

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

During the period the following equity was issued:

- 4,765,251 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

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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
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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	1,836	3,370
4.2 Deposits at call	-	-
4.3 Bank overdraft	-	-
4.4 Other (provide details)	-	-
Total: cash at end of quarter (item 1.23)	1,836	3,370

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: 31st October, 2008

Print name: Brad Slade

The CFO Solution
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+ See chapter 19 for defined terms.

Notes

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

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