IMPEDIMED LIMITED

ABN 65 089 705 144

Financial Report

For the year ended 30 June 2007

Corporate Information

ABN: 65 089 705 144

This financial report covers the consolidated entity comprising ImpediMed Limited and its subsidiaries. The Group's functional and presentation currency is AUD ($).

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the directors' report. The directors' report is not part of the financial report.

Directors

M Bridges (Chairman)
G Brown (Chief Executive)
M Kriewaldt
C Hirst
J Hazel (appointed 27 November 2006)
M Panaccio (appointed 25 January 2007)

Company Secretary

P Auckland
S Denaro

Registered office

Building 4B, Garden City Office Park
2404 Logan Road
Eight Mile Plains QLD 4113

Principal place of business

Building 4B, Garden City Office Park
2404 Logan Road
Eight Mile Plains QLD 4113

Share Register

Link Market Services
Level 22
300 Queen Street
Brisbane QLD 4000

Solicitors

Corrs Chambers Westgarth
Waterfront Place
1 Eagle Street
Brisbane QLD 4000

McCullough Robertson
Level 11, Central Plaza Two
66 Eagle Street
Brisbane Qld 4000

Bankers

ANZ Bank
Garden City Branch
Logan & Kessels Roads
Upper Mt Gravatt QLD 4122

Auditors

Ernst & Young
Level 5, 1 Eagle Street,
Waterfront Place
Brisbane QLD 4000

Directors' Report

Your directors submit their report for the year ended 30 June 2007.

DIRECTORS

The names and details of the company's directors in office during the year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Mel Bridges, B.Sc FAICD - Chairman

Mel Bridges is a co-founder and significant shareholder in ImpediMed Limited and has over 30 years of international business experience in the healthcare industry. Presently, he is the Chairman of ImpediMed Limited and its Nomination committee and serves on the remuneration committee and the audit committee. Mel is also Chairman of ASX listed Peptech Ltd, Alchemia Ltd and DelvTech Int. Pty Ltd and director of Farmacule Bioindustries Pty Ltd, Catapult Genetics (Australia) Pty Ltd, Imbcom Pty Ltd and Parma Corporation Pty Ltd.

Greg Brown, B.Sc MBA - Executive Director and Chief Executive Officer

Greg Brown has over 20 years of business experience in the healthcare industry in Australia, the USA and in Europe. He joined ImpediMed Limited in April 2004 as Chief Executive Officer and is a major shareholder in ImpediMed Limited. Greg is also a director of Impedance Cardiology Systems, Inc and of Cintra Consulting Pty Ltd.

Martin Kriewaldt, BA LLB (Hons) FAICD - Non-executive Director

Martin Kriewaldt joined ImpediMed Limited as a non-executive director in March 2005 and was a former partner of law firm Allen Allen and Hemsley (now Allen Arthur Robinson). Martin chairs the remuneration committee and serves on the audit committee and nomination committee of the company. Martin is a non-executive director of ASX listed Peptech Ltd, Suncorp-Metway Ltd, Campbell Brothers Ltd, GWA International Ltd and Oil Search Ltd.

Cherrell Hirst, AO MBBS BEdSt DUniv FAICD - Non-executive Director

Cherrell Hirst joined ImpediMed Limited as a non-executive director in August 2005. Cherrell is a medical doctor and was a leading practitioner in the area of breast cancer diagnosis. Cherrell serves on the remuneration committee, the audit committee, and the nomination committee. She is Chairman of ASX listed Peplin Ltd and a non-executive director of Suncorp Metway Ltd, director of Avant Mutual and Avant Insurance Ltd, deputy chair of Queensland BioCapital Funds and a director of MBF Ltd.

Jim Hazel, B.Ec, F Fin, FAICD - Non-executive Director

Jim Hazel joined ImpediMed Limited as a non-executive director in November 2006. Jim chairs the audit committee and serves on the remuneration committee and nomination committee. Jim had an extensive career in retail and investment banking and was former chief general manager of Adelaide Bank Ltd. Jim is the Chairman of Elders Rural Bank Limited, Chairman of Becton Living Pty Ltd and a director of ASX listed Terramin Australia Ltd.

Michael Panaccio, BSC (Hons), MBA, PhD, FAICD - Non-executive Director

Michael Panaccio joined ImpediMed Limited as a non-executive director in January 2007. Michael is an investment principal and founder of leading Australian venture capital firm Starfish Ventures, a fund with more than $150m in funds under management. In addition, Michael is chairman of the Australian Biotechnology Advisory Committee. Michael's experience also includes more than five years with Singapore based venture capital firm Nomura/AFCO investment (Asia) Limited.

Michael Finney, MBA BE (Hons) JD FAICD (Non-executive Director)

Michael Finney is the Vice President Commercial Development of IMBcom Pty Ltd was a non-executive director of ImpediMed Limited from September 1999. Michael served as the Chairman of the board of directors until March 2004, and was chairing the audit committee of the company until his resignation from the board on 5 July 2006. Michael retired as part of a restructure initiated as part of the Venture capital investment.

Directors' Report

COMPANY SECRETARY

Phillip Auckland, B.Bus, FCPA (CFO and COO)

Phil Auckland joined ImpediMed Limited in June 2004 as Chief Financial Officer and was appointed Company Secretary in November 2004 and Chief Operating Officer in November 2006. Before joining ImpediMed Limited, he was Chief Financial Officer and Company Secretary of ASX listed PANBIO Ltd. In 2002 he completed the Columbia University (NY) Executive Program. Phil also holds a Graduate Diploma in Company Secretarial Practice.

Stephen Denaro, B.Bus, CA, GDip Corp Governance

Stephen Denaro joined ImpediMed Limited as Company Secretary in March 2003. Stephen has experience in the roles of CFO and Company Secretary in a number of listed companies. Stephen is a principal in Trio Business Intermediaries, a consulting practice through which he performs the role of Company Secretary part-time in a variety of early stage companies. Stephen is a Chartered Accountant and has a Graduate Diploma in Corporate Governance.

Interest in the shares and options of the company and related body corporate

As at the date of this report, the interests of the directors in ImpediMed Limited were:

	Preference A1 Shares	Preference A2 Shares	Convertible Notes	Ordinary Shares	Options
M Bridges	-	-	500	4,235,000	-
G Brown	-	814,386	-	3,035,000	747,673
M Kriewaldt	-	-	500	41,148	-
C Hirst	-	-	500	-	-
J Hazel	-	-	-	171,098	-
M Panaccio	1,444,718	1,221,579	70,000	-	-

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the year were the development, manufacture and sale of bio-impedance instruments to direct customers and distributors.

OPERATING AND FINANCIAL REVIEW

Group Overview

ImpediMed Limited was founded in 1999 by Mel and Lucille Bridges and Uniquest Pty Limited, built on the research work done by Professor Leigh Ward of the University of Queensland, Professor Bruce Cornish and Professor Brian Thomas of the Queensland University of Technology.

At balance date, the group had two subsidiaries, ImpediMed Inc which commenced operations in the United States on 1 July 2006, and Mesa Acquisiition Corp which was incorporated on 8 May 2007.

Aorora Technologies Pty Ltd which was acquired by ImpediMed in June 2005 was sold to Impedance Cardiology Systems (ICS), a wholly owned US subsidiary of ImpediMed Limited, incorporated in Delaware on 5 July 2006 as Impedance Cardiology Systems (ICS), on 7 July 2006. On 30 October 2006 ICS de-merged from ImpediMed Limited through capital reduction and distribution of ICS shares to the shareholders of ImpediMed Limited.

Mesa Acquisition Corp was incorporated for the purpose of being merged with Xitron Technologies Inc through the closing process of the acquisition contemplated in the agreement signed between ImpediMed Limited and Xitron Technologies Inc and its shareholders signed on 5 July 2007, which is expected to close in late October or early November 2007, following ImpediMed's planned Initial Public Offering on the ASX.

Directors' Report

Profit and Loss

The consolidated net loss after income tax for the year ended 30 June 2007 is $10,126,577. Set out below is the income statement in a form showing Earnings before interest and tax (EBIT).

	2007 (audited) $	2006 (audited) $
Continuing operations		
Sale of goods and services	1,213,596	1,070,973
Other income	726,542	4,470
Total Income	**1,940,138**	**1,075,443**
Cost of sales	-628,653	-521,880
Operating and administrative expenses	-8,145,128	-5,837,353
Depreciation and amortisation	-163,631	-193,783
EBIT	**-6,997,274**	**-5,477,573**
Interest income	205,236	33,082
Interest expense - Converting Notes	-7,564,999	-2,602,383
Interest expense - Preference Shares	-2,579,824	0
Interest expense - other	-63,516	-75,294
Profit/(loss) from continuing operations before income tax	**-17,000,377**	**-8,122,168**
Income tax	-14,371	343,415
Profit/(loss) from continuing operations after income tax	**-17,014,748**	**-7,778,753**
Discontinued operations		
Profit /(loss) from discontinued operations	6,888,171	78,218
Net profit /(loss) for the period	**-10,126,577**	**-7,700,535**

The net loss for the years ended 30 June 2006 and 30 June 2007 included significant items outside the course of normal operations which are outlined below:

- A non-cash accounting profit of $6,888,516 was generated on the transfer of the assets of the company's cardiography business to Impedance Cardiology Systems Inc prior to its de-merger to ImpediMed's shareholders on 30 October 2006.

- Through the course of raising operating capital to fund the business during 2005, 2006 and 2007, the company issued series 1, 2 and 3 convertible notes, Preference A1 shares, and Preference A2 shares. Under AIFRS upon the conversion of these instruments significant non-cash accounting expenses are generated reflecting discounts between the value of the instrument they were converting into which are classified as interest.

    - For the year ended 30 June 2007 interest expense relating to converting notes was $7,564,999 versus $2,602,383 for the year ended 30 June 2006.

    - For the year ended 30 June 2007 interest expense relating to preference A1 and A2 shares amounted to $2,585,147 versus a nil expense for the year ended 30 June 2006.

Looking at the EBIT line in the restated consolidated income statement, the above non-cash expenses are isolated, and the negative EBIT of $6,997,274 for the year ended 30 June 2007 is a closer reflection of the operating loss generated in supporting the commercialisation of the products for Lymphoedema and Hydration / Medical body composition.

Directors' Report

Commercialisation Progress

With respect to progress in the Group's commercialisation activities, the directors highlight the following:

- During the year ended 30 June 2007, a total of 362 instruments were sold (2006: 357) with sales revenue of $1,185,282 (2006: $1,053,046)
- In April 2007 FDA Clearance was received for the company's Imp XCA product for use in the clinical assessment of Unilateral Lymphoedema of the arm. This is the company's first FDA clearance relating to the company's largest market opportunity in the early detection and monitoring of Lymphoedema.
- The translation of the product firmware, software, and manuals was completed for the Imp DF50, Imp XCA and Imp SFB7 which was a requirement for market acceptance in Europe. The market launch of the translated products through the company's European distributor EDN has commenced and the Group received a significant order for starting inventory during the year
- Manufacturing of the Imp SFB7 has been transitioned to a new manufacturer resulting in a significant decrease in manufacturing cost, and a dramatic increase in manufacturing capacity. The company has also transferred manufacture of the Imp DF50 and Imp XCA to the same manufacturer, and will achieve significant savings in manufacturing costs on these products.
- To date end user purchases of the instruments are in the main to researchers and early adopters. The company is working with these groups along with regulators and health care payers to establish the conditions necessary to support more widespread adoption in clinical practice. Management believes that the Imp XCA is now ready for the clinical market and will be focusing in FY2008 on driving its use into clinical practice. The version of the XCA being launched in the US is a second generation device incorporating extensive clinical feedback from early users of the device in Australia.
- The company continues to invest substantially more in developing its products and markets than early sales are generating in gross margins. The directors believe that the company's expectations for future sales revenues from the significant market opportunities that its products are addressing support the funding of operating losses during the company's expansion phase. The Group's business plan and outlook continues to attract investors and pass due diligence.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

As a result of the accounting loss, impacted by the significant non-cash interest expense, total liabilities increased to $22,045,961 at 30 June 2007 (2006: $9,308,932) and total equity decreased to $(17,788,316) (2006: $(4,678,974)).

During the year ended 30 June 2007, the Group raised capital as follows:

- $1,000,000 through the issue of series 2 converting notes
- $2,970,840 through the issue of preference A1 and A2 shares
- $7,150,000 through the issue of series 3 converting notes

Cash at hand increased from $21,741 at 30 June 2006 to $1,643,162 at 30 June 2007.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Other than:

- the signing on 5 July 2007 an agreement to acquire all of the shares in San Diego based Xitron Technologies Inc (Xitron) from its shareholders. The acquisition is conditional upon the successful achievement of a major capital raising of at least $10,000,000 and the signing of an amendment to the license agreement between Xitron Technologies and Fresenius Medical Care AG, Germany whereby Fresenius Medical Care returns the rights to certain markets to Xitron Technologies. In addition the acquisition is subject to usual conditions with respect to material adverse changes. The acquisition must close by 30th November 2007. The expected cost of the acquisition is estimated at $2,144,637, payable in ImpediMed Limited ordinary shares with the issue of 2,132,509 ordinary shares to occur on closing and 846,154 ordinary shares in respect of a milestone payment early in 2008 which it is expected will be achieved. In addition, the agreement contains further contingent consideration totaling $3,000,000 payable on achievement of three further milestones based on Xitron sales for financial years 2008, 2009 and 2010, for which escalating stretch goals have been set.

Directors' Report

- the signing on 5 July 2007 of a second amendment to the license agreement between Xitron Technologies and Fresenius Medical Care for a consideration of US $1,000,000 payable by Xitron, being one of the conditions to the acquisition of the shares in Xitron Technologies Inc.

- a Board resolution on 31 July approving the issue of 500,000 options over ordinary shares with an exercise price of $0.91 and 500,000 options over ordinary shares with an exercise price of $1.03 to the Chief executive, with vesting of both offers one third at grant date, one third in one year and one third in two years, subject to the completion of the IPO Offer at 72 cents per ordinary share,

- the signing of a deed of variation to the series 3 convertible notes facility deed extending the maturity date of the notes from 31 August 2007 to 31 December 2007,

- the signing of an agreement with the University of Graz for a joint research program which ImpediMed will fund with a three year commitment of 50,000 Euro per annum plus a 15% administration fee,

no matter or circumstance has arisen since the end of the year that has significantly affected, or may significantly affect the consolidated entity's operation, the results of those operations or the consolidated entities state of affairs, in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The following are expected developments in the business of ImpediMed Limited likely to impact its financial results in the near term:

- With the progress in the Group's market clearance and launch processes in the US and in Europe, the company expects additional sales to come from those regions as penetration in these markets grows

- Sales revenues for the Imp XCA product are expected to increase significantly now that FDA clearance for the US market has been received

- The Group is in discussions and negotiations with a number of major global health care and medical device companies which in the mid term could result in major supply contracts for ImpediMed to provide products that they would sell through their networks

- If the planned ASX IPO is successful the company expects to raise significant operating capital to fund the ongoing commercialisation of its products and markets

- Following its IPO the company would expect an increase in its operating costs as a listed company and an increase in investments in commercialisation that may increase its operating losses in the short to mid-term.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The consolidated entity's operations are not subject to any particular and significant environmental regulation under a law of the Commonwealth or a State or Territory.

SHARE OPTIONS

Unissued shares

As at the date of this report, there were 2,337,673 unissued ordinary shares under options. Refer to note 24 of the financial statements for further details of options outstanding.

Shares issued as a result of the exercise of options

During the financial year, no options have been exercised by employees or by the Chief Executive.

Directors' Report

DIVIDENDS

No dividends were paid or proposed to be paid to members for the year ended 30 June 2007.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The company has agreed to indemnify all the directors for any breach of law by the company for which they may be held personally liable.

For the year ended 30 June 2007, the company has paid premiums in respect of a Director's and Officer's insurance policy.

REMUNERATION REPORT

This report outlines the remuneration arrangement in place for directors and executives of ImpediMed Limited.

KEY MANAGEMENT PERSONNEL

(a) Details of key management personnel

(i) Directors

M Bridges	Chairman
G Brown (i)	Chief Executive Officer
M Finney	Non-executive director - resigned 5 July 2006
M Kriewaldt	Non-executive director
C Hirst	Non-executive director
J Hazel	Non-executive director - appointed 27 November 2006
M Panaccio	Non-executive director - appointed 25 January 2007

(ii) Executives

P Auckland	Chief Financial Officer, Company Secretary and Chief Operating Officer
B Robinson	VP International Marketing and Sales
J Butler (ii)	VP Business Development US
R Render (iii)	VP Quality and Regulatory Affairs
S Chetham	Chief Scientific Advisor
N Bertwistle (iv)	VP Operations

(i) G Brown became an employee of ImpediMed Limited with effect 1 July 2006. Prior to this date, he worked as a consultant to the company.

(ii) J Butler became an employee of ImpediMed Inc with effect 1 October 2006. Prior to this date, he worked as a consultant to the company.

(iii) R Render became an employee of ImpediMed Limited with effect 1 August 2006. Prior to this date, he worked as a part time consultant to the company.

(iv) N Bertwistle left the company on 30 June 2007.

(b) Remuneration of key management personnel

(i) Remuneration Policy

The performance of the Group depends upon the quality of its directors and executives. To prosper, the Group must attract, motivate and retain highly skilled directors and executives. To this end, the Group provides competitive rewards and links executive rewards to meeting pre-determined performance benchmarks.

The board of directors has established a remuneration committee which periodically reviews remuneration policies for the organisation, along with the specific remuneration for the CEO. Salaries are reviewed annually in conjunction with performance in December, with salary increments having effect from 1 January.

Directors' Report

All executives are entitled to annual bonuses payable upon the achievement of individual performance objectives. The structure of non-executive director and executive compensation is separate and distinct, in accordance with best practice corporate governance.

(ii) Remuneration of key management personnel for the years ended 30 June 2007 and 30 June 2006

30 June 2007	**Short Term**			**Post Employment**	**Share-based**	**Total**
	Salaries & Fees	Cash Bonus	Non-monetary	Superannuation	Options and Performance Shares	
	$	**$**		**$**	**$**	**$**
Directors						
M Bridges	80,000	-	-	7,200	-	87,200
G Brown	292,000	80,000	108,000	43,200	62,356	585,556
M Finney	685	-	-	62	-	747
M Kriewaldt	52,500	-	-	4,725	-	57,225
C Hirst	50,000	-	-	4,500	-	54,500
J Hazel	38,333	-	-	3,450	-	41,783
M Panaccio	25,000	-	-	-	-	25,000
Executives						
P Auckland	135,000	45,000	40,000	19,800	56,967	296,767
B Robinson	102,564	25,000	25,000	13,731	17,357	183,652
J Butler	168,585	34,041	-	18,236	37,711	258,573
R Render	57,521	10,749	41,015	7,382	17,323	133,990
S Chetham	120,220	15,022	30,000	14,872	3,350	183,464
	1,122,408	**209,812**	**244,015**	**137,158**	**195,064**	**1,908,457**

30 June 2006	**Short Term**			**Post Employment**	**Share-based**	**Total**
	Salaries & Fees	Cash Bonus	Non-monetary	Superannuation	Options and Performance Shares	
	$	**$**		**$**	**$**	**$**
Directors						
M Bridges	80,000	-	-	7,200	-	87,200
G Brown	282,190	119,880	-	-	256,447	658,517
M Finney	35,000	-	-	3,150	-	38,150
M Kriewaldt	50,000	-	-	4,500	-	54,500
C Hirst	50,000	-	-	4,500	-	54,500
Executives						
P Auckland	139,417	35,000	28,333	18,247	27,604	248,601
B Robinson	100,782	25,000	21,000	13,210	7,925	167,917
N Bertwistle	106,484	5,230	-	10,054	9,510	131,278
S Chetham	117,610	8,144	30,000	14,018	-	169,772
	961,483	**193,254**	**79,333**	**74,879**	**301,486**	**1,610,435**

Directors' Report

(iii) Remuneration options: Granted and vested during the year

A total of 490,000 options were granted as equity compensation to executives and a total of 163,333 options granted to executives have vested during the year ended 30 June 2007.

No options were granted as equity compensation to directors and no options granted to directors have vested during the year ended 30 June 2007.

	Granted	**Terms and Conditions for each Grant**				**Vested**
30 June 2007	No	Grant date	Value per option at grant date	Exercise price per option	Expiry Date	No
			$	**$**		
Executives						
P Auckland	66,667	29/05/07	0.35	0.716	29/05/12	66,667
P Auckland	66,667	29/05/07	0.38	0.716	29/05/13	-
P Auckland	66,666	29/05/07	0.41	0.716	29/05/14	-
B Robinson	13,333	29/05/07	0.35	0.716	29/05/12	13,333
B Robinson	13,333	29/05/07	0.38	0.716	29/05/13	-
B Robinson	13,334	29/05/07	0.41	0.716	29/05/14	-
J Butler	50,000	29/05/07	0.35	0.716	29/05/12	50,000
J Butler	50,000	29/05/07	0.38	0.716	29/05/13	-
J Butler	50,000	29/05/07	0.41	0.716	29/05/14	-
R Render	33,333	29/05/07	0.35	0.716	29/05/12	33,333
R Render	33,333	29/05/07	0.38	0.716	29/05/13	-
R Render	33,334	29/05/07	0.41	0.716	29/05/14	-
	490,000					**163,333**

No remuneration options were granted during the year ended 30 June 2006

(iv) Shares issued on exercise of remuneration options

No shares were issued during the years ended 30 June 2007 and 30 June 2006 on the exercise of remuneration options.

Directors' Report

(v) Option holdings of key management personnel

30 June 2007	Balance at 1 July 2006	Granted as remuneration	Net Change other	Balance at 30 June 2007	Not exercisable	Exercisable
Directors						
M Bridges	-	-	-	-	-	-
G Brown	747,673	-	-	747,673	-	747,673
M Finney	-	-	-	-	-	-
M Kriewaldt	-	-	-	-	-	-
C Hirst	-	-	-	-	-	-
J Hazel	-	-	-	-	-	-
M Panaccio	-	-	-	-	-	-
Executives						
P Auckland	150,000	200,000	-	350,000	183,333	166,667
B Robinson	50,000	40,000	-	90,000	43,333	46,667
J Butler	150,000	150,000	-	300,000	150,000	150,000
R Render	-	100,000	-	100,000	66,667	33,333
S Chetham	-	-	-	-	-	-
Total	**1,097,673**	**490,000**	**-**	**1,587,673**	**443,333**	**1,144,340**

30 June 2006	Balance at 1 July 2005	Granted as remuneration	Net Change other	Balance at 30 June 2006	Not exercisable	Exercisable
Directors						
M Bridges	-	-	-	-	-	-
G Brown	747,673	-	-	747,673	249,224	498,449
M Finney	-	-	-	-	-	-
M Kriewaldt	-	-	-	-	-	-
C Hirst	-	-	-	-	-	-
Executives						
P Auckland	150,000	-	-	150,000	100,000	50,000
B Robinson	50,000	-	-	50,000	33,333	16,667
N Bertwistle	60,000	-	-	60,000	40,000	20,000
S Chetham	-	-	-	-	-	-
Total	**1,007,673**	**-**	**-**	**1,007,673**	**422,557**	**585,116**

Directors' Report

(vi) Ordinary shareholdings of key management personnel

30 June 2007	Balance at 1 July 2006	Granted as remuneration	Net Change other	Balance at 30 June 2007
Directors				
M Bridges	4,235,000	-	-	4,235,000
G Brown	3,035,000	-	-	3,035,000
M Finney	30,000	-	-	30,000
M Kriewaldt	-	-	41,148	41,148
C Hirst	-	-	-	-
J Hazel	171,098	-	-	171,098
M Panaccio	-	-	-	-
Executives				
P Auckland	-	-	-	-
B Robinson	206,186	-	-	206,186
J Butler	-	-	-	-
R Render	-	-	-	-
S Chetham	1,260,870	-	-	1,260,870
Total	**8,938,154**	**-**	**41,148**	**8,979,302**

30 June 2006	Balance at 1 July 2005	Granted as remuneration	Net Change other	Balance at 30 June 2006
Directors				
M Bridges	4,235,000	-	-	4,235,000
G Brown	3,035,000	-	-	3,035,000
M Finney	30,000	-	-	30,000
M Kriewaldt	-	-	-	-
C Hirst	-	-	-	-
Executives				
P Auckland	-	-	-	-
B Robinson	30,928	-	-	30,928
N Bertwistle	206,186	-	-	206,186
S Chetham	-	-	1,260,870	1,260,870
Total	**7,537,114**	**-**	**1,260,870**	**8,797,984**

Directors' Report

(vii) Performance share rights of key management personnel *

30 June 2007	Balance at 1 July 2006	Granted as remuneration	Net Change other	Balance at 30 June 2007
Directors				
M Bridges	-	-	-	-
G Brown	-	-	-	-
M Finney	-	-	-	-
M Kriewaldt	-	-	-	-
C Hirst	-	-	-	-
J Hazel	-	-	-	-
M Panaccio	-	-	-	-
Executives				
P Auckland	-	100,000	-	100,000
B Robinson	-	50,000	-	50,000
J Butler	-	100,000	-	100,000
R Render	-	20,000	-	20,000
S Chetham	-	20,000	-	20,000
Total	**-**	**290,000**	**-**	**290,000**

30 June 2006	Balance at 1 July 2005	Granted as remuneration	Net Change other	Balance at 30 June 2006
Directors				
M Bridges	-	-	-	-
G Brown	-	-	-	-
M Finney	-	-	-	-
M Kriewaldt	-	-	-	-
C Hirst	-	-	-	-
Executives				
P Auckland	-	-	-	-
B Robinson	-	-	-	-
N Bertwistle	-	-	-	-
S Chetham	-	-	-	-
Total	**-**	**-**	**-**	**-**

* The performance share rights are quantums of shares made available to be earned for performance in a year, a percentage of which between 0% and 100% will be awarded dependent on the performance of the individual in that year, and which following that performance percentage adjustment will vest 1/3 at the conclusion of the year, 1/3 a year later, and 1/3 two years later dependent on continued employment and adequate performance. These are not yet granted shares.

Directors' Report

(viii) Converting Notes holdings of key management personnel

30 June 2007	Balance at 1 July 2006	Granted as remuneration	Net Change other	Balance at 30 June 2007
Directors				
M Bridges	-	-	500	500
G Brown	2,500	-	(2,500)	-
M Finney	-	-	-	-
M Kriewaldt	250	-	250	500
C Hirst	-	-	500	500
J Hazel	-	-	-	-
M Panaccio	-	-	-	-
Executives				
P Auckland	-	-	-	-
B Robinson	-	-	-	-
J Butler	-	-	-	-
R Render	-	-	-	-
S Chetham	-	-	-	-
Total	**2,750**	**-**	**(1,250)**	**1,500**

30 June 2006	Balance at 1 July 2005	Granted as remuneration	Net Change other	Balance at 30 June 2006
Directors				
M Bridges	-	-	-	-
G Brown	-	-	2,500	2,500
M Finney	-	-	-	-
M Kriewaldt	250	-	-	250
C Hirst	-	-	-	-
Executives				
P Auckland	-	-	-	-
B Robinson	-	-	-	-
N Bertwistle	-	-	-	-
S Chetham	-	-	-	-
Total	**250**	**-**	**2,500**	**2,750**

Directors' Report

DIRECTORS' MEETINGS

The number of meetings of directors (including the meetings of committees of directors) held during the year and the number of meetings attended by each director was as follows:

		Meetings of Committees	
	Directors' Meetings	Audit	Remuneration
Number of meetings held	15	3	1
Number of meetings attended:			
M Bridges	15	3	1
G Brown	15	3	-
M Kriewaldt	14	3	1
C Hirst	15	3	1
J Hazel *	8	2	-
M Panaccio *	6	-	-
M Finney *	1	-	-

No meeting of the nomination committee was held during the year.

* These directors were not directors for the full year but attended those meetings scheduled while they were in office.

Committee membership

At the date of this report, the company had an Audit Committee, a Remuneration Committee and a Nomination Committee of the Board of Directors.

Members acting on the committees of the Board during the year were:

Audit and Risk Management

J Hazel (Chairman)
M Bridges
M Kriewaldt
C Hirst
M Panaccio
M Finney *
* resigned 5 July 2006

Remuneration

M Kriewaldt (Chairman)
M Bridges
C Hirst

Nomination

M Bridges (Chairman)
M Kriewaldt
C Hirst
J Hazel
M Panaccio

Directors' Report

AUDITORS' INDEPENDENCE AND NON-AUDIT SERVICES

The directors received the declaration per page 16 from the auditor of ImpediMed Limited.

Non-Audit Services

The following non-audit services were provided by the entity's auditor, Ernst & Young. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

Services in relation to the anticipated IPO: $80,099
Services in relation to the cardio de-merger: $15,635

Signed in accordance with a resolution of the directors.

Mel Bridges
Chairman

Jim Hazel
Director

Brisbane, 24 August 2007

ERNST & YOUNG

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Australia

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Waterfront Place
Brisbane QLD 4001

Tel 61 7 3011 3333
Fax 61 7 3011 3100
DX 165 Brisbane

Auditor's Independence Declaration to the Directors of ImpediMed Limited

In relation to our audit of the financial report of ImpediMed Limited for the financial year ended 30 June 2007, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Winna Brown

Winna Brown
Partner
24 August 2007

Income Statement

FOR THE YEAR ENDED 30 JUNE 2007

	Notes	Consolidated		Parent	
		2007	2006	2007	2006
		$	$	$	$
Continuing operations					
Sale of goods		1,185,282	1,053,046	1,457,928	1,053,046
Rendering of services		28,314	17,927	20,548	17,927
Finance income		205,236	33,082	205,202	33,082
Revenue	3(a)	**1,418,832**	**1,104,055**	**1,683,678**	**1,104,055**
Other income	3(b)	726,542	4,470	726,542	4,470
Cost of sales		(628,653)	(521,880)	(692,157)	(521,880)
Interest expense - converting notes	4(a)	(7,564,999)	(2,602,383)	(7,564,999)	(2,602,383)
Interest expense – preference shares	4(b)	(2,579,824)	-	(2,579,824)	-
Other finance costs	4(c)	(63,516)	(75,294)	(63,516)	(75,294)
Depreciation and amortisation	4(d)	(163,631)	(191,860)	(153,374)	(191,860)
Salaries and benefits	4(e)	(2,961,138)	(1,882,961)	(2,440,462)	(1,882,961)
Advertising and promotion		(214,894)	(135,631)	(98,542)	(135,631)
Consultants fees		(919,361)	(1,110,859)	(669,205)	(1,110,859)
Rent and property expenses	4(f)	(170,436)	(129,385)	(127,135)	(129,385)
Research and development expense		(1,517,259)	(46,425)	(1,433,832)	(46,425)
Travel expenses		(470,423)	(279,572)	(330,565)	(279,572)
Provision for intercompany receivable		-	-	(1,520,157)	-
Other expenses	4(g)	(1,891,617)	(1,710,911)	(1,779,933)	(1,710,911)
Loss from continuing operations before income tax		**(17,000,377)**	**(7,578,636)**	**(17,043,481)**	**(7,578,636)**
Income tax	5(a)	(14,371)	-	(14,371)	-
Loss from continuing operations after income tax		**(17,014,748)**	**(7,578,636)**	**(17,057,852)**	**(7,578,636)**
Discontinued operations	31	6,888,171	(121,899)	6,881,264	(116,899)
Net loss for the year		**(10,126,577)**	**(7,700,535)**	**(10,176,588)**	**(7,695,535)**
		Cents	**Cents**		
Loss per share from continuing operations attributable to the ordinary equity holders					
Basic and diluted loss per share		(0.85)	(0.45)		
Loss per share for profit attributable to the ordinary equity holders					
Basic and diluted loss per share		(0.50)	(0.44)		

Balance Sheet

AS AT 30 JUNE 2007

	Notes	Consolidated		Parent	
		2007	2006	2007	2006
		$	$	$	$
CURRENT ASSETS					
Cash and cash equivalents	6	1,612,462	21,741	1,569,770	1,572
Restricted cash assets	6	30,700	22,500	30,700	22,500
Trade and other receivables	7	754,186	785,363	690,514	785,363
Inventories	8	415,673	599,028	401,705	599,028
Prepayments	9	844,844	405,414	798,108	405,414
Other financial assets	10	117,129	71,000	117,129	91,166
Total Current Assets		**3,774,994**	**1,905,046**	**3,607,926**	**1,905,043**
NON-CURRENT ASSETS					
Other financial assets	11	93,550	164,550	93,669	2,161,684
Property and equipment	12	204,316	169,287	149,525	169,287
Intangible assets	13	184,785	2,391,075	184,785	399,273
Total Non-Current Assets		**482,651**	**2,724,912**	**427,979**	**2,730,244**
TOTAL ASSETS		**4,257,645**	**4,629,958**	**4,035,905**	**4,635,287**
CURRENT LIABILITIES					
Trade and other payables	15	979,044	1,395,791	954,321	1,395,791
Interest-bearing loans	16	83,082	1,053,698	83,082	1,053,698
Provisions	17	319,096	213,234	250,720	213,234
Converting notes	18	13,879,763	6,462,186	13,879,763	6,462,186
Preference shares	19	6,672,018	-	6,672,018	-
Total Current Liabilities		**21,933,003**	**9,124,909**	**21,839,904**	**9,124,909**
NON-CURRENT LIABILITIES					
Interest-bearing loans	16	64,023	149,272	64,023	149,272
Provisions	17	48,935	34,751	44,477	34,751
Total Non-Current Liabilities		**112,958**	**184,023**	**108,500**	**184,023**
TOTAL LIABILITIES		**22,045,961**	**9,308,932**	**21,948,404**	**9,308,932**
NET LIABILITIES		**(17,888,316)**	**(4,678,974)**	**(17,912,499)**	**(4,673,645)**
EQUITY					
Issued capital	20	11,151,629	7,634,040	11,151,629	7,634,040
Reserves	21	1,186,782	803,950	1,107,280	803,950
Accumulated losses		(30,126,727)	(13,116,964)	(30,171,408)	(13,111,635)
TOTAL EQUITY		**(17,788,316)**	**(4,678,974)**	**(17,912,499)**	**(4,673,645)**

Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2007

	Notes	Consolidated		Parent	
		2007	2006	2007	2006
		$	$	$	$
Cash flows from operating activities					
Receipts from customers		1,640,082	755,867	1,968,634	755,867
Receipts from grants		-	141,329	-	141,329
Payments to suppliers and employees		(8,134,882)	(4,845,128)	(8,548,515)	(4,845,131)
Interest received		200,771	33,862	200,737	33,862
Interest paid		(55,702)	(50,614)	(55,702)	(50,614)
R&D tax offset received		339,612	391,259	339,612	391,259
Net cash flows from operating activities	6	**(6,009,933)**	**(3,573,425)**	**(6,095,234)**	**(3,573,428)**
Cash flows from investing activities					
Proceeds from sale of plant and equipment		14,892	200	14,892	200
Redemption of debentures		71,000	71,000	71,000	71,000
Investment in de-merged entity		(1,185,450)	-	(1,185,450)	-
Transaction costs on investment in de-merged entity		(598,880)	-	(598,880)	-
Transaction costs Xitron acquisition		(138,270)	-	(138,270)	-
Purchase of plant and equipment		(103,237)	(80,680)	(40,459)	(80,680)
Purchase of intangible assets		(45,346)	(82,525)	(45,346)	(82,525)
Purchase of deposits		(8,200)	-	(8,200)	-
Net cash flows from investing activities		**(1,993,491)**	**(92,005)**	**(1,930,713)**	**(92,005)**
Cash flows from financing activities					
Proceeds from loans to related parties		-	350,000	-	350,000
Proceeds from issue of series 1 notes		-	1,215,000	-	1,215,000
Proceeds from issue of series 2 notes		1,000,000	1,000,000	1,000,000	1,000,000
Proceeds from issue of series 3 notes		7,150,000	-	7,150,000	-
Proceeds from issue of preference shares		2,970,840	-	2,970,840	-
Proceeds from cost recoupment for transaction costs		362,138	-	362,138	-
Transaction costs on issue of converting notes		(56,540)	(59,452)	(56,540)	(59,452)
Transaction costs on issue of preference shares		(6,269)	(232,221)	(6,269)	(232,221)
Transaction costs on issue of ordinary shares		(770,159)	(69,486)	(770,159)	(69,486)
Repayment of loans from related parties		(350,000)	-	(350,000)	(20,166)
Repayment of borrowings		(72,802)	(68,192)	(72,802)	(68,192)
Repayment of finance lease principal		(10,024)	(7,202)	(10,024)	(7,202)
Net cash flows from financing activities		**10,217,184**	**2,128,447**	**10,217,184**	**2,108,281**
Net increase/(decrease) in cash held		2,213,760	(1,536,983)	2,191,237	(1,557,152)
Cash at beginning of period		(601,298)	935,685	(621,467)	935,685
Cash at closing of period	6	**1,612,462**	**(601,298)**	**1,569,770**	**(621,467)**

Statement of Changes in Equity
FOR THE YEAR ENDED 30 JUNE 2007

CONSOLIDATED	Issued Capital	Reserves	Retained Earnings	Total
	$	$	$	$
At 1 July 2005	**7,634,040**	**435,712**	**(5,416,429)**	**2,653,323**
Profit / (loss) for the period	-	-	(7,700,535)	(7,700,535)
Cost of share-based payment	-	368,238	-	368,238
At 1 July 2006	**7,634,040**	**803,950**	**(13,116,964)**	**(4,678,974)**
Foreign currency translation	-	79,502	-	79,502
Total income recognised directly in equity	**-**	79,502	-	79,502
Profit / (loss) for the period	**-**	**-**	(10,126,577)	(10,126,577)
Total income and expense for the period	-	79,502	(10,126,577)	(10,047,075)
Cost of share-based payment	-	303,330	-	303,330
Issue of share capital	4,989,002	-	-	4,989,002
Reduction of share capital *	(1,471,413)	-	(6,883,186)	(8,354,599)
At 30 June 2007	**11,151,629**	**1,186,782**	**(30,126,727)**	**(17,788,316)**

PARENT	Issued Capital	Reserves	Retained Earnings	Total
	$	$	$	$
At 1 July 2005	**7,634,040**	**435,712**	**(5,416,100)**	**2,653,652**
Profit / (loss) for the period			(7,695,535)	(7,695,535)
Cost of share-based payment		368,238		368,238
At 1 July 2006	**7,634,040**	**803,950**	**(13,111,635)**	**(4,673,645)**
Profit / (loss) for the period			(10,176,588)	(10,176,588)
Cost of share-based payment		303,330		303,330
Issue of share capital	4,989,002			4,989,002
Reduction of share capital *	(1,471,413)		(6,883,185)	(8,354,598)
At 30 June 2007	**11,151,629**	**1,107,280**	**(30,171,408)**	**(17,912,499)**

* The share capital has been reduced as a result of the de-merger of ICS (refer note 31)

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2007

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

1 CORPORATE INFORMATION

The financial report of ImpediMed Limited for the year ended 30 June 2007 was authorised for issue in accordance with a resolution of the directors on 24 August 2007. ImpediMed Limited is a company limited by shares incorporated in Australia.

The nature of the operations and principal activities of the Group are described in the Director's Report.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and applicable Australian Accounting Standards. The financial report has also been prepared on a historical cost basis. The presentation currency of this report is Australian dollars.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

Except for the amendments to AASB 101 *Presentation of Financial Statements* which the Group has early adopted, Australian Accounting Standards and Interpretations that have been issued or amended but are not yet effective have not been adopted by the Group for the reporting period ended 30 June 2007. These are outlined in the table below:

Reference	Title	Summary	Application date of standard	Impact on Group financial report	Application date for group
AASB 2005-10	Amendments to Australian Accounting Standards [AASB 132, AASB 101, AASB 114, AASB 117, AASB 133, AASB 139, AASB 1, AASB 4, AASB 1023 & AASB 1038]	Amendments arise from the release in August 2005 of AASB 7 *Financial Instruments: Disclosures*	1-Jan-07	AASB 7 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. However, the amendments will result in changes to the financial instrument disclosures included in the Group's financial report.	1-Jul-07
AASB 2007-3	Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038]	Amending standard issued as a consequence of AASB 8 *Operating Segments.*	1 January 2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Company's financial statements. However the standard may have an impact on the Company's segment disclosures the extent of which is yet to be determined.	1 July 2009
AASB 7	*Financial Instruments: Disclosures*	New standard replacing disclosure requirements of AASB 130 *Disclosures in the Financial Statements of Banks and Similar Financial Institutions* and AASB 132 *Financial Instruments: Disclosure and Presentation*.	1 January 2007	Refer to AASB 2005-10 above.	1 July 2007
AASB 8	*Operating Segments*	New standard replacing AASB 114 *Segment Reporting*, which adopts a management approach to segment reporting.	1 January 2009	Refer to AASB 2007-3 above.	1 July 2009

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of ImpediMed Limited and all its subsidiaries as at 30 June 2007 (the Group).

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and loss resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Subsidiary acquisitions are accounted for using the purchase method of accounting.

(d) Significant accounting judgements, estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Share based payment transactions
The Group measures the cost of equity-settled payments at fair value at the grant date using the Black-Scholes formula and the terms and conditions upon which the instruments were granted, as discussed in note 24.

Make good provisions
Provision is made for the anticipated costs of future restoration of leased premises. The future costs estimates are discounted to their present value. The related carrying amounts are disclosed in note 17.

Maintenance warranty
In determining the level of provision required for maintenance warranties, the Group has made reference to historical experience and current knowledge of the performance of the products. The related carrying amounts are disclosed in note 17.

Long service leave
As discussed in note 2(y), the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at balance date. In determining the present value of the liability, attrition rates and pay increases have been taken into account.

(e) Segment Reporting

A business segment is a distinguishable component of the Group that is engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is a distinguishable component of the Group that is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different to those of segments operating in other economic environments.

(f) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods
Revenue is recognised when the significant risks and rewards of ownership have passed to the buyer and can be measured reliably.

Rendering of services
Revenue from the repair of instruments is recognised by reference to the stage of completion. Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours spent on the repair service.

Interest
Revenue is recognised as the interest accrues to the net carrying amount of the financial asset using the effective interest rate method.

Dividends
Revenue is recognised when the shareholders' right to receive the payment is established.

(g) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

(h) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(i) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance Leases
Leases which transfer substantially all the risks and benefits incidental to ownership of the leased item, to the Group, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Operating Leases
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

(j) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an initial maturity of three months or less.

For the purpose of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above excluding outstanding bank overdrafts.

(k) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

Other receivables are recognised and carried at the nominal amount due.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

(l) Trade and other payables

Trade payables and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect to the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(m) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs are assigned on the basis of current costs. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(n) Foreign currency translation

Both the functional and the presentation currency of ImpediMed Limited is Australian dollars ($). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date.

All exchange differences in the consolidated financial report are taken to profit or loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign operation. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in profit or loss. On disposal of a foreign currency operation, the cumulative amount recognised in equity relating to that particular foreign currency operation is recognised in profit or loss. Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

(o) De-recognition of financial assets and liabilities

The de-recognition of a financial instrument takes place when the Group no longer controls the contractual rights that comprise the financial instrument, which is normally the case when the instrument is sold, or all the cash flows attributable to the instrument are passed through to an independent third party.

(p) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items directly in equity are recognised in equity and not in the income statement.
Deferred tax assets and liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same tax entity and the same taxation authority.

(q) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- Where the GST incurred is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable, and

- Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority

(r) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Such cost includes the cost of replacing parts that are eligible for capitalisation when the cost of replacing the parts is incurred. Similarly, when each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement only if it is eligible for capitalisation.

Major depreciation and amortisation periods are:

Plant and equipment	2 to 15 years
Plant and equipment under finance lease	3 years
Leasehold improvements	2 years

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(s) Investments and other financial assets

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.
Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost using the effective interest method.

Amortised cost is calculated by taking into account any discount or premium on acquisition, over the period to maturity. For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

(t) Goodwill

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses recognised for goodwill are not subsequently reversed.

(u) Intangible assets

Acquired separately or from a business combination
Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

The useful lives of these intangible assets are assessed to be either finite or indefinite. Intangible assets with finite useful lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. The amortisation expense on intangible assets with useful life is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Patents and licences have a finite useful life. The useful lives of current patents are 20 years. Licence fees constituting intangible assets are amortised over the lesser of the life of the licence or the period over which the licence is expected to generate future economic benefits. The useful lives of licences are between 10 and 20 years.

Intangible assets, excluding development costs, created within the business are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists and in the case of intangible assets with indefinite live annually, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Research and development costs
Research costs are expensed as incurred. Development costs incurred on an individual project are carried forward when their future recoverability can reasonably be regarded as assured. Following initial recognition, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use or more frequently when an indicator of impairment arises during the reporting year indicating that the carrying value may not be recoverable.

Any development expenditure carried forward is amortised over the period of expected future sales from the related project.
A summary of the policies applied to the Group's intangible assets is as follows:

	Patents and Licences	***Development Costs****
Useful lives	Finite	Finite
Method used	Straight line amortisation	Straight line amortisation
Internally generated/ Acquired	Acquired	Internally generated
Impairment test/ Recoverable amount test	Annually and when an indication of impairment exists	Amortisation method reviewed each year and reviewed annually for impairment indicators

* No development costs have been capitalised as internally generated intangible assets for the years ending 30 June 2007 and 30 June 2006

(v) Impairment of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, recoverable amount is determined for the cash-generating unit to which the asset belongs, unless the asset's value can be estimated to be close to its fair value.

(w) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium at settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised and as well as through the amortisation process.

(x) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

If the effect of time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2007

(y) Employee benefits

Provision is made for benefits accumulated as a result of employees rendering services up to the balance sheet date. These benefits include salaries, post employment benefits (superannuation), leave benefits and share-based payments.

Employee benefits other than share-based payments
Liabilities arising in respect of salaries, annual leave and superannuation payments expected to be settled within twelve months are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled.

Long service leave
The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting period. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity that match, as closely as possible, the estimated future cash outflows.

Share-based payments
The Group provides benefits to employees in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares ("equity-settled transactions"). Plans currently in place providing benefits to executives and employees comprise an Employee Share Options Plan (ESOP), a CEO Option Plan and an Employee Performance Share plan.

The cost of these equity-settled transactions is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an options pricing model. In valuing the options, no account is taken of any performance conditions, other than conditions linked to the share price of ImpediMed Limited.

The cost of these equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the options vest, so that the cumulative expense recognised for the options at each reporting date until vesting date reflects the extent to which the vesting period has expired, and the number of awards that, in the opinion of the directors of the Group, will ultimately vest.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

(z) Converting notes

Converting notes are recognised at amortised cost, net of transaction costs, as a liability as the holders of the notes are not exposed to changes on the fair value of the issuer's equity instruments. In determining the fair value of the converting notes, the discount receivable at conversion date is taken into account. The increase in the liability due to the passage of time is recognised as a finance cost. Refer to note 18 for further details.

(aa) Preference Shares

Preference shares are recognised at amortised cost, net of transaction costs, as a liability as the holders of the shares are not exposed to changes on the fair value of the issuer's equity instruments. In determining the fair value of the preference shares, the discount receivable at conversion date is taken into account. The increase in the liability due to the passage of time is recognised as a finance cost. Refer to note 19 for further details.

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2007

(ab) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Preference shares that exhibit the characteristics of a liability are recognised as a liability in the balance sheet, net of transaction costs. Preference shares are initially recorded at fair value and accreted over time using the effective interest method, with the interest expense being recognised in profit and loss when incurred.

(ac) Going concern

This report has been prepared on the basis that the company and Group are going concerns. The company and the consolidated entity have net liabilities of $17,912,499 and $17,788,316 respectively (30 June 2006: $4,673,645 and $4,678,974 respectively) and realised a loss after income tax of $10,176,588 and $10,126,577 respectively for the year ended 30 June 2007 (2006: loss of $7,612,318 and $7,622,317 respectively).

In the director's opinion, there are reasonable grounds to believe that the company and the consolidated entity will be able to obtain additional equity funding to support its future activities and therefore that the going concern basis is appropriate.

The raising of $7,150,000 through the issue of series 3 converting notes in October 2006 (refer note 18) sustained the cash position of the Group through to the date of this report and resulted in a cash balance of $1,643,162 at 30 June 2007 (30 June 2006: $44,241).

The cash position of the Group is expected to be significantly strengthened through the pending raising of $8,208,000 from the issue of series 4 converting notes which are expected to be drawn down on the signing of an underwriting agreement. In addition the company is in the late stages of finalising an IPO Public Offer of $8,784,000 for which significant institutional support has been obtained and which is expected to result in a listing on the ASX in October 2007. Upon the expected allocation of the shares to be subscribed for under the IPO Public Offer, the Series 4 converting notes would convert to ordinary shares.

With the funds expected to be raised through these two sources the Group believes it will have sufficient working capital to carry out its business objectives and meet its commitments for a period of greater than twelve months.

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2007

3 REVENUE

	Consolidated		Parent	
	2007	2006	2007	2006
	$	$	$	$
(a) Revenue				
Sale of goods	1,185,282	1,053,046	1,457,928	1,053,046
Rendering of services	28,314	17,927	20,548	17,927
Finance revenue	205,236	33,082	205,202	33,082
	1,418,832	**1,104,055**	**1,683,678**	**1,104,055**
Breakdown of finance revenue				
Bank interest	190,998	13,673	190,964	13,673
Investment income receivable	14,238	19,409	14,238	19,409
(b) Other income				
Cost recoupment from ICS (i)	362,138	-	362,138	-
Service income from ICS (ii)	69,716	-	69,716	-
Grant Income (iii)	287,481	-	287,481	-
Other	7,207	4,470	7,207	4,470
	726,542	**4,470**	**726,542**	**4,470**

(i) Recoupment of transaction costs incurred in relation to the incorporation of ICS and asset sale to ICS during the year ended 30 June 2007 from ICS.

(ii) The company charges ICS for R&D services provided to ICS.

(iii) Recognition of income receivable under a Commercial Ready grant from the Commonwealth Government for the year ended 30 June 2007..

4 EXPENSES

	Consolidated		Parent	
	2007	2006	2007	2006
	$	$	$	$
(a) Interest expense - converting notes (i)				
Non- cash expense for discount on conversion of series 1 notes to ordinary shares	47,857	1,867,445	47,857	1,867,445
Non- cash expense for discount on conversion of series 2 notes to preference shares	703,031	533,333	703,031	533,333
Non- cash expense for bonus notes issuable on series 3 notes	6,741,299	-	6,741,299	-
Expense for warrant coverage	2,732	12,785	2,732	12,785
Amortisation of issue costs for series 1 notes	1,838	95,863	1,838	95,863
Amortisation of issue costs for series 2 notes	23,239	92,957	23,239	92,957
Amortisation of issue costs for series 3 notes	45,003	-	45,003	-
	7,564,999	**2,602,383**	**7,564,999**	**2,602,383**

(i) refer to note 18 for further details

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

(b) Interest expense – preference shares (ii)				
Non- cash expense for issue of bonus preference A1 shares	1,398,073	-	1,398,073	-
Non- cash expense for issue of bonus preference A2 shares	976,269	-	976,269	-
Amortisation of issue costs for preference shares	205,482	-	205,482	-
	2,579,824	**-**	**2,579,824**	**-**
(ii) refer to note 19 for further details				
(c) Other finance costs				
Bank loans and overdrafts	2,324	15,350	2,324	15,350
Other loans	60,365	58,121	60,365	58,121
Interest expense on leasehold improvement	600	600	600	600
Finance charges payable under finance leases	227	1,223	227	1,223
	63,516	**75,294**	**63,516**	**75,294**
(d) Depreciation and amortisation				
Depreciation of plant and equipment	79,846	69,550	71,167	69,550
Amortisation of leasehold improvements	2,028	14,205	2,028	14,205
Amortisation of plant and equipment under lease	-	8,000	-	8,000
Amortisation of intangibles	81,757	100,105	80,179	100,105
	163,631	**191,860**	**153,374**	**191,860**
(e) Salaries & benefits				
Wages and salaries	2,484,477	1,410,992	2,033,894	1,410,992
Superannuation costs	194,270	123,017	186,767	123,017
Long service leave provision	10,261	11,892	10,261	11,892
Expense of share-based payments	272,130	337,060	209,540	337,060
	2,961,138	**1,882,961**	**2,440,462**	**1,882,961**
(f) Rent and property expenses				
Minimum lease payments – operating lease	142,848	103,302	103,610	103,302
Other premises expenses	27,588	26,083	23,525	26,083
	170,436	**129,385**	**127,135**	**129,385**
(g) Other expenses				
Trademark and patent expense	127,985	148,646	127,985	148,646
Communication expense	113,420	76,953	92,176	76,953
Legal expense	558,815	385,973	546,554	385,973
Bad and doubtful debts	-	20,461	-	20,461
Net loss on disposal of plant and equipment	16,398	4,788	16,398	4,788
One-off surrender of assignment payment	-	400,000	-	400,000
Directors fees	166,518	135,000	166,518	135,000
Other expenses *	908,481	539,090	830,302	539,090
	1,891,617	**1,710,911**	**1,779,933**	**1,710,911**
* Other expenses include:				
Net foreign exchange realised (gains) / losses	2,164	10,209	(1,007)	10,209
Net foreign exchange unrealised (gains) / losses	125,394	(7,274)	125,394	(7,274)
	127,558	**2,935**	**124,387**	**2,935**

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

5 INCOME TAX EXPENSE

The major components of income tax are:

	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
(a) Income tax expense				
Current income tax				
Current income tax benefit	(14,371)	-	(14,371)	-
Deferred income tax				
Relating to origination and reversal of temporary differences	-	-	-	-
Income tax benefit reported in the Income Statement	(14,371)	-	(14,371)	-

(b) Reconciliation between aggregate tax expense recognised in the income statement and tax expense calculated per the statutory income tax rate.

A reconciliation between tax expense and the accounting profit before income tax multiplied by the Group's applicable tax rate is as follows:

	Consolidated 2007 $	Consolidated 2006 $	Parent 2007 $	Parent 2006 $
Accounting profit/(loss) before tax from continuing operations	(17,000,377)	(7,578,636)	(17,043,481)	(7,578,636)
Accounting profit/(loss) before tax from discontinued operations	6,888,171	(121,899)	6,881,264	(116,899)
Accounting profit / (loss) before income tax	(10,112,206)	(7,700,535)	(10,162,217)	(7,695,535)
Prima facie tax on profit / (loss)	(3,033,662)	(2,310,160)	(3,048,665)	(2,308,660)
Adjustment for current income tax of previous years	(14,371)	(18,174)	(14,371)	(18,174)
Expenditure not allowable for income tax purposes	4,623,674	1,126,115	4,623,673	1,124,615
Other assessable income	5,120	1,603	5,120	1,603
Not assessable income	(2,154,751)	(5,120)	(2,154,751)	(5,120)
Other deductible expenses	(186,580)	(100,712)	(186,580)	(100,712)
Additional deduction for R&D	(332,810)	(84,782)	(332,810)	(84,782)
R&D tax offset	-	565,630	-	565,630
Tax losses utilised	-	(325,241)	-	(325,241)
Tax losses not recognised	1,079,009	1,150,841	1,094,013	1,150,841
Income tax reported in the Income Statement	(14,371)	-	(14,371)	-

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2007

	Balance Sheet		Income Statement	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
(c) Recognised deferred tax assets and liabilities				
Deferred income tax at 31 December relates to the following:				
CONSOLIDATED				
Deferred tax assets				
Employee entitlements	77,719	65,567	-	
S40-880 costs	414,987	114,299	-	
Deferred rent	3,053	3,393	-	
Patent costs	62,306	70,163	-	
Sundry creditors and accruals	392,250	22,248	-	
Losses available for offset against future taxable income	10,800,412	7,503,158	-	
Deferred tax assets not recognisable	**11,750,727**	**(7,778,828)**	**-**	

	Balance Sheet		Income Statement	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
PARENT				
Deferred tax assets				
Employee entitlements	77,719	65,567	-	
S40-880 costs	414,987	114,299	-	
Deferred rent	3,053	3,393	-	
Patent costs	62,306	70,163	-	
Sundry creditors and accruals	392,250	22,248	-	
Losses available for offset against future taxable income	10,800,412	7,503,158	-	
Deferred tax assets not recognisable	**11,750,727**	**7,778,828**	**-**	

(d) Tax losses

The group has tax losses in Australia of $10,800,412 (2006: $7,503,703) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose, subject to satisfying the relevant income tax loss carry forward rules.

(e) Reclassification

The Company has recorded income tax benefits totalling $343,415 for the year ended 30 June 2006. These benefits relate to research and development refunds which the Company, being eligible, elected to receive this income tax deduction as an immediate cash payment, rather than increasing tax losses for a future benefit.

In regards to compliance with AIFRS, as these income tax benefits are not defined within AIFRS, the Company elected to classify these receipts as an income tax benefit. The Company has now determined that although the tax incentive is described as a tax credit, its amount is not dependable on the taxable income of the Company and as a result, it would improve the relevance and reliability of the financial statements if the tax credit is accounted for as a government grant in accordance with AASB 120 Accounting for Government Grants and Disclosure of Government Assistance. As the Company charges its research and development expenditure directly to income, this tax credit should be credited against research and development expenditure rather than as an income tax benefit. This reclassification has a nil impact on the Company's financial results for the Consolidated Income Statement and Parent Entity Income Statement for the year ended 30 June 2006.

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2007

6 CASH, CASH EQUIVALENTS AND RESTRICTED CASH ASSETS

	Consolidated		*Parent*	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
Cash at bank and in hand	1,609,805	20,523	1,568,478	354
Short term deposits	2,657	1,218	1,292	1,218
Cash and cash equivalents	**1,612,462**	**21,741**	**1,569,770**	**1,572**
Short term deposits – restricted	30,700	22,500	30,700	22,500
Restricted cash assets	**30,700**	**22,500**	**30,700**	**22,500**

Reconciliation of cash

	Consolidated		*Parent*	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
Cash at bank and in hand	1,609,805	20,523	1,568,478	354
Short term deposits	2,657	1,218	1,292	1,218
Bank overdraft	-	(623,039)	-	(623,039)
	1,612,462	**(601,298)**	**1,569,770**	**(621,467)**

Reconciliation from net loss after tax to net cash flow from operations

	Consolidated		*Parent*	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
Net loss after tax	(10,126,577)	(7,700,535)	(10,176,588)	(7,695,535)
Adjustments for:				
Depreciation and amortisation expense	163,631	198,783	153,374	193,783
Gain on disposal of cardio assets	(6,888,171)	-	(6,881,264)	-
Loss on disposal of plant and equipment	16,398	4,788	16,398	4,788
Doubtful debt expense	3,283	5,000	3,283	5,000
Interest expense converting notes	7,564,999	2,602,383	7,564,999	2,602,383
Interest expense preference shares	2,579,824	-	2,579,824	-
Deferred expense transaction costs	895,586	301,707	903,198	301,707
Issuance of converting notes for termination of royalty agreement	-	400,000	-	400,000
Deferred rent expense	2,646	2,616	(1,135)	2,616
Share-based payment expense	303,330	368,238	240,740	368,238
Changes in assets and liabilities:				
(Increase)/decrease in inventories	183,355	(289,467)	197,323	(289,467)
(Increase)/decrease in receivables	27,894	(273,376)	91,566	(273,376)
(Increase)/decrease in prepayments	(439,430)	(272,600)	(392,694)	(272,600)
(Decrease)/increase in payables	(416,747)	936,223	(441,470)	936,223
(Decrease)/increase in provisions	120,046	142,815	47,212	142,812
Net cash from operating activities	**(6,009,933)**	**(3,573,425)**	**(6,095,234)**	**(3,573,428)**

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

7 TRADE AND OTHER RECEIVABLES

	Consolidated		*Parent*	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
Trade receivables (i)	429,864	373,857	366,192	373,857
Allowance for doubtful debts	(8,283)	(5,000)	(8,283)	(5,000)
	421,581	368,857	357,909	368,857
R&D tax offset receivables	-	325,241	-	325,241
GST receivables (ii)	36,182	83,223	36,182	83,223
Other receivables (iii)	296,423	8,042	296,423	8,042
	754,186	**785,363**	**690,514**	**785,363**

(i) Trade receivables are non-interest bearing and on 30-day terms. An allowance for doubtful debts is made when there is objective evidence that a trade receivable is impaired. An allowance of $8,283 has been recognised as an expense for the year for a specific debtor for whom such evidence exists.

(ii) GST receivables are due upon lodgement of quarterly BAS statements in July, October, January, and April of each year.

(iii) Other receivables comprise principally of a grant receivable due within twelve months.

8 INVENTORIES

	Consolidated		*Parent*	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
Finished goods	118,628	336,733	110,075	336,733
Components and consumables	297,045	265,160	291,630	265,160
Less: Provision for obsolete stock	-	(2,865)	-	(2,865)
	415,673	**599,028**	**401,705**	**599,028**

Finished goods and components and consumables are measured at the lower of cost and net realisable value.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

9 PREPAYMENTS AND DEFERRED EXPENSES

	Consolidated		*Parent*	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
Prepayment for goods and services (i)	64,272	103,707	17,536	103,707
Deferred Preference share expenses (ii)	-	232,221	-	232,221
Deferred IPO expenses (iii)	642,302	69,486	642,302	69,486
Deferred Xitron expenses (iv)	138,270	-	138,270	-
	844,844	**405,414**	**798,108**	**405,414**

(i) Prepayments for up to 12 months are made for some goods and services to obtain better purchase terms.

(ii) Deferred expenses in relation to the issue of Preference shares were incurred for legal and other professional services.

(iii) Deferred expenses in relation to the issue of Ordinary shares in the anticipation of an IPO during the year ended 30 June 2007..

(iv) Deferred expenses in relation to the proposed acquisition of Xitron (expected to be completed prior to 31 December 2007) were incurred during the year ended 30 June 2007 for legal and other professional services.

10 OTHER FINANCIAL ASSETS (CURRENT)

	Consolidated		*Parent*	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
Debentures - at cost (i)	71,000	71,000	71,000	71,000
Intercompany loan account (ii)	-	-	1,520,157	20,166
Less: Provision for intercompany loan	-	-	(1,520,157)	-
Loan account ICS (iii)	46,129	-	46,129	-
	117,129	**71,000**	**117,129**	**91,166**

(i) The debentures are repayable at 7 March 2008 and earn interest at a yearly rate of 7.50% payable in arrears.

(ii) The loan account is an intercompany clearing account between ImpediMed Limited and ImpediMed Inc. The account is non-interest bearing.

(iii) The ICS loan is non-interest bearing.

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2007

11 OTHER FINANCIAL ASSETS (NON-CURRENT)

	Consolidated		*Parent*	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
Debentures - at cost (i)	71,000	142,000	71,000	142,000
Security deposit for office lease	22,550	22,550	22,550	22,550
	93,550	**164,550**	**93,550**	**164,550**
Shares in controlled entities (ii)	-	-	119	1,997,134
	-	**-**	**119**	**1,997,134**
	93,550	**164,550**	**93,669**	**2,161,684**

(i) The debentures are repayable at 7 March 2009 and earn interest at a yearly rate of 7.6% payable in arrears.

(ii) Shares in controlled entities comprise:

	Country of Incorporation	*Percentage of equity interest*	*Investment*	
			2007	**2006**
			$	**$**
ImpediMed, Inc.	USA	100	1	1
Mesa Acquisition Corp, Inc	USA	100	118	-
Aorora Technologies Pty Ltd	Australia	-	-	1,997,133
			119	**1,997,134**

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12 PLANT AND EQUIPMENT

	Consolidated		Parent	
	2007	2006	2007	2006
	$	$	$	$
Plant and equipment				
At cost	392,507	289,270	329,729	289,270
Accumulated depreciation	(191,581)	(133,401)	(183,594)	(133,401)
Net carrying amount	200,926	155,869	146,135	155,869
Leasehold improvements				
At cost	43,622	43,622	43,622	43,622
Accumulated depreciation	(40,232)	(38,204)	(40,232)	(38,204)
Net carrying amount	3,390	5,418	3,390	5,418
Plant and equipment under lease				
At cost	-	24,000	-	24,000
Accumulated depreciation	-	(16,000)	-	(16,000)
Net carrying amount	-	8,000	-	8,000
Total plant and equipment				
At cost	436,129	356,892	373,351	356,892
Accumulated depreciation	(231,813)	(187,605)	(223,826)	(187,605)
Net carrying amount	**204,316**	**169,287**	**149,525**	**169,287**
Reconciliations				
Plant and equipment				
Carrying amount at beginning	155,869	149,727	155,869	149,727
Additions	136,895	80,680	74,117	80,680
Disposals	(12,684)	(4,988)	(12,684)	(4,988)
Depreciation expense	(79,154)	(69,550)	(71,167)	(69,550)
Carrying amount at end	200,926	155,869	146,135	155,869
Leasehold Improvements				
Carrying amount at beginning	5,418	19,623	5,418	19,623
Additions	-	-	-	-
Disposals	-	-	-	-
Amortisation expense	(2,028)	(14,205)	(2,028)	(14,205)
Carrying amount at end	3,390	5,418	3,390	5,418
Plant and equipment under lease				
Carrying amount at beginning	8,000	16,000	8,000	16,000
Additions	-	-	-	-
Disposals	(8,000)	-	(8,000)	-
Amortisation expense	-	(8,000)	-	(8,000)
Carrying amount at end	-	8,000	-	8,000

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13 INTANGIBLE ASSETS AND GOODWILL

	Consolidated		Parent	
	2007	2006	2007	2006
	$	$	$	$
Software				
At cost	238,966	193,620	238,966	193,620
Accumulated amortisation	(190,174)	(163,417)	(190,174)	(163,417)
Net carrying amount	48,792	30,203	48,792	30,203
Licences				
At cost	525,000	705,000	525,000	705,000
Accumulated amortisation	(389,007)	(335,930)	(389,007)	(335,930)
Net carrying amount	135,993	369,070	135,993	369,070
Patents and patent applications				
At cost	-	100,000	-	-
Accumulated amortisation	-	(5,329)	-	-
Net carrying amount	-	94,671	-	-
Goodwill				
At cost	-	1,897,131	-	-
Accumulated amortisation	-	-	-	-
Net carrying amount	-	1,897,131	-	-
Total intangible assets				
At cost	763,966	2,895,751	763,966	898,620
Accumulated amortisation	(579,181)	(504,676)	(579,181)	(499,347)
Net carrying amount	**184,785**	**2,391,075**	**184,785**	**399,273**

Reconciliations

	Consolidated 2007	Consolidated 2006	Parent 2007	Parent 2006
Software				
Carrying amount at beginning	30,203	72,783	30,203	72,783
Additions	45,346	2,525	45,346	2,525
Disposals	-	-	-	-
Amortisation expense	(26,757)	(45,105)	(26,757)	(45,105)
Carrying amount at end	48,792	30,203	48,792	30,203
Licences				
Carrying amount at beginning	369,070	245,993	369,070	245,993
Additions	-	180,000	-	180,000
Disposals	(177,732)	-	(177,732)	-
Amortisation expense	(55,345)	(56,923)	(55,345)	(56,923)
Carrying amount at end	135,993	369,070	135,993	369,070

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	Consolidated		Parent	
	2007	2006	2007	2006
	$	$	$	$
Reconciliations (continued)				
Patents and patent applications				
Carrying amount at beginning	94,671	99,671	-	-
Additions	-	-	-	-
Disposals	(94,671)	-	-	-
Amortisation expense	-	(5,000)	-	-
Carrying amount at end	-	94,671	-	-
Goodwill				
Carrying amount at beginning	1,897,131	1,897,131	-	-
Additions	-	-	-	-
Disposals	(1,897,131)	-	-	-
Amortisation expense	-	-	-	-
Carrying amount at end	-	1,897,131	-	-

For the year ended 30 June 2007, no development costs have been capitalised as internally generated intangible assets.

Licences and patents have a useful life of between 5 and 20 years. No impairment loss has been recognised for the year ended 30 June 2007.

14 IMPAIRMENT TEST OF INTANGIBLE ASSETS

For the purpose of impairment testing, the Group has determined one cash generating unit (CGU) as at 30 June 2007 and corporate assets. All cardio assets constituting a second CGU as at 30 June 2006 have been sold to ICS on 7 July 2006.

The remaining CGU comprises software and licences which are classified as intangible assets with a finite useful life. No goodwill is part of the CGU.

The impairment triggers used by the Group did not show any indication of impairment as at 30 June 2007. As a result, no impairment has been formally estimated and no impairment loss has been recognised.

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FOR THE YEAR ENDED 30 JUNE 2007

15 TRADE AND OTHER PAYABLES

	Consolidated		Parent	
	2007	2006	2007	2006
	$	$	$	$
Trade payables (i)	709,336	753,175	688,403	753,175
Interest payable (ii)	-	24,080	-	24,080
Other accruals and payables (iii)	198,206	598,370	194,416	598,370
Related party payables (iv)	71,502	20,166	71,499	20,166
	979,044	**1,395,791**	**954,321**	**1,395,791**

(i) Trade payables are non-interest bearing and normally settle on 30 day terms.

(ii) Interest payable on director's loans is payable at the term of the loan.

(iii) Other accruals and payables are non-interest bearing and normally settle on 30 day terms.

(iv) Related party payables to employees and directors are non-interest bearing and normally settle on 30 day terms.

16 INTEREST-BEARING LOANS

	Effective Interest Rate	Maturity	Consolidated		Parent	
			2007	2006	2007	2006
	%		$	$	$	$
Current						
Bank overdraft (i)	15.00		-	623,039	-	623,039
Loans from Directors (ii)	15.00		-	350,000	-	350,000
Lease liability (iii)	8.75		-	7,858	-	7,858
CSS Loan 1 (iv)	13.40	Feb-09	71,702	62,754	71,702	62,754
CSS Loan 2 (v)	15.00	Apr-09	11,380	10,047	11,380	10,047
			83,082	**1,053,698**	**83,082**	**1,053,698**
Non-current						
Lease liability (i)	8.75		-	2,166	-	2,166
CSS Loan 1(ii)	13.40	Feb-09	53,395	125,098	53,395	125,098
CSS Loan 2 (iii)	12.52	Apr-09	10,628	22,008	10,628	22,008
			64,023	**149,272**	**64,023**	**149,272**

(i) The bank overdraft was secured by a guarantee from the Chairman of the group and has been cancelled on 19 December 2006.

(ii) The loans from directors were unsecured and have been repaid on 7 July and on 26 July 2006.

(iii) The lease liability was secured by the rights to the lease assets and has been repaid on 11 July 2006 in conjunction with the sale of the leased asset.

(iv) The CSS loans are secured by a charge over the debentures held by the company, which were invested with Elderslie Finance a company associated with CSS to facilitate security for the loan. One of the two debentures at $71,000 each matures March each year and will be repaid to the company reducing the value of debentures subject to a charge.

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Financing facilities available

At reporting date, the following financing facilities had been negotiated and were available:

	Consolidated		Parent	
	2007	2006	2007	2006
	$	$	$	$
Total bank overdraft	-	800,000	-	800,000
Overdraft used at reporting date*	-	623,039	-	623,039
Overdraft unused at reporting date*	-	**176,961**	-	**176,961**

* The overdraft facility used as at 30 June 2006 is no longer in place as at 30 June 2007.

17 PROVISIONS

	Consolidated		Parent	
	2007	2006	2007	2006
	$	$	$	$
Current				
Employee benefits (i)	305,286	206,667	236,910	206,667
Warranty provision (ii)	13,810	6,567	13,810	6,567
	319,096	**213,234**	**250,720**	**213,234**
Non-current				
Deferred rent liability (iii)	14,633	11,310	10,175	11,310
Employee benefits (i)	22,152	11,891	22,152	11,891
Office lease - make good provision (iv)	12,150	11,550	12,150	11,550
	48,935	**34,751**	**44,477**	**34,751**

(i) Employee benefits comprise accrued entitlements for annual leave, performance pay and superannuation contributions (all current) and for long service leave (non-current).

(ii) A provision for warranty is recognised for expected warranty claims on products sold during the last year, based on past experience of the level of repairs and returns. It is expected that these costs will be incurred in the next financial year.

Assumptions used to calculate the provision for warranties were based on current information available about returns based on the 12 months warranty period for all instruments sold.

An amount of $7,243 has been provided during the year ended 30 June 2007, and no amount has been used and no amount reversed during the year.

(iii) A provision for deferred rent is recognised for fixed increases in the office lease and for rent free periods for the term of the office leases.

(iv) To comply with the office lease agreement, the Group must restore the leased premises to its original condition at the end of the lease term. An incremental provision of $600 (2006: $600) was made in respect of the Group's make good obligation during the year ended 30 June 2007.

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FOR THE YEAR ENDED 30 JUNE 2007

18 CONVERTING NOTES

	Consolidated		*Parent*	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
Series 1 Convertible Notes (i)	-	4,941,145	-	4,941,145
Series 2 Convertible Notes (ii)	-	1,533,333	-	1,533,333
Series 3 Convertible Notes (iii)				-
Face value of notes issued	7,150,000	-	7,150,000	-
Accreted expense for bonus shares	6,741,299	-	6,741,299	-
Total	**13,891,299**	**6,474,478**	**13,891,299**	**6,474,478**
Deferred transaction costs	(56,540)	(213,896)	(56,540)	(213,896)
Accumulated amortisation of deferred transaction costs	45,003	188,819	45,003	188,819
	(11,537)	**(25,077)**	**(11,537)**	**(25,077)**
Warrant Shares (ii)	-	**12,785**	-	**12,785**
	13,879,763	**6,462,186**	**13,879,763**	**6,462,186**

(i) Converting notes series 1

In financial year 2005 the parent company issued converting notes series 1. Set out below are the terms of the converting notes.

Issue Price $100 per converting note.

Subordinated The converting notes are subordinated obligations of ImpediMed. On a winding up, note-holders will be treated like a class of preference shareholders, ranking in priority to the claims of all other shareholders. They will rank behind all other creditors of the company, unless those creditors' claims are expressed to rank behind or equally with the claims of note holders.
On a winding up, the notes will rank in priority to the ordinary shares.

Term The converting notes are perpetual (unless converted in accordance with these terms).

Coupon rate No interest will be paid on the converting notes.

Conversion Each converting note will convert into ordinary shares, at the time ImpediMed first issues shares, other than under an ESP Issue, after the date the converting notes are issued.
On conversion, each note-holder will be issued $100 worth of ordinary shares (being the Issue Price of the converting note). Ordinary shares will be issued at the Conversion Price.
Therefore, for each converting note, note-holders will be issued with the number of ordinary shares calculated in accordance with the following formula: $\frac{\$100}{\text{Conversion Price}}$

Conversion price The price at which ordinary shares are issued to note-holders on conversion will be:

(a) if shares are first issued as a result of ImpediMed making a public offering under a disclosure document and listing on a stock exchange (IPO), the pre-IPO money valuation of the ordinary shares determined by ImpediMed (acting reasonably and on appropriate advice) and notified to note-holders; and
(b) in all other cases:
(i) if ordinary shares are issued, the price at which the ordinary shares are issued; or
(ii) if preference shares are issued, the issue price of the preference shares, adjusted (by ImpediMed acting reasonably and on appropriate advice) to reflect the value of any preferential rights attached to those preference shares, less the conversion discount.

Conversion discount There are two groups of converting notes.

1. Holders with a conversion discount exactly as described in ImpediMed's Information Memorandum dated March 2005.
   For these "type 1"convertible notes the conversion discount will be:
(a) if the issue of shares occurs as a result of an issue of shares under a IPO, 35% of the pre-IPO money valuation of the shares; and
(b) in all other cases 3% of the Round B Price per month (or part thereof) for every month (or part thereof) between the date of issue of the converting notes and the date of conversion of the converting notes, to a maximum discount of 35% to the Round B Price.

2. Holders with a greater conversion discount than the one offered in ImpediMed's Information Memorandum dated March 2005, in exchange for a commitment to a $2,000,000 investment, with the additional $1,200,000 to be received by September 2005.
   For these "type 2" convertible notes the conversion discount will be the greater of the discount determined above for "type 1" note holders plus a further discount to reduce the effective conversion price to 10% below "the conversion price of "type 1" notes and a discount yielding a conversion price of 97 cents.

Reconstruction If ImpediMed undertakes a reconstruction, consolidation, division or reclassification of its share capital into a lesser or greater number of securities during the period from the date of issue of the converting notes to the date of their conversion, the conversion price or number of shares to be issued on conversion or both must be adjusted by ImpediMed to ensure unit holders are in an economic position in relation to the converting notes that is as similar as reasonably practicable to the economic position of the note holders prior to the occurrence of the event that gave rise to the need for adjustment.

Conversion Mechanics On the date of conversion, ImpediMed must redeem for the Issue Price the converting notes, issue to the note holder the number of shares that the converting notes convert into in accordance with these terms, apply the proceeds of the redemption to the subscription price for the shares, and set-off the subscription price for the shares against the money payable by ImpediMed to the note holder on the redemption of the converting notes.

Future issues ImpediMed reserves the right to issue further converting notes and to issue other debt instruments that could rank ahead of or equally with the converting notes.

Rights Prior to conversion of the converting notes, note holders do not have any right to participate in future issues by ImpediMed, whether the issues be of equity, debt or some other instrument. Converting notes do not carry a right to vote at a general meeting of ImpediMed.

For the period from 1 July 2006 to 7 July 2006, the company incurred a non-cash expense of $47,857 relating to the discount on series 1 converting notes bringing the total carrying value of these notes to $4,989,002. On 7 July 2006, all of the 30,737 notes on issue converted into 5,337,527 ordinary shares increasing the value of share capital by $4,989,002 (refer note 20). No series 1 notes were on issue on 30 June 2007.

(ii) Converting notes series 2

In financial year 2006, the parent company issued converting notes series 2. Set out below are the terms of the converting notes.

Issue Price $100 per converting note.

Maturity date In respect of each Converting Note the maturity date is the later of:

(a) six months from the date of issue; or
(b) the latest date approved by the Pooled Development Fund Registration Board for continued eligibility of the Converting Notes an eligible investment under the Tax Act,

but in any event, no later than 12 months from the date of issue of the Converting Note.

Status The Converting Notes rank:

(a) equally without preference amongst themselves;
(b) above all other notes and securities issued by the Company; and
(c) above all claims expressed by their terms to be subordinated to a Note holder's claim with respect to the outstanding amount owed by the Company in relation to the Converting Note.

Interest/Warrant Shares

Entitlement Converting Note holders will be granted, for nil consideration, warrants to acquire warrant shares (meaning preference shares unless the Company is otherwise prohibited). The value of the warrant shares is to be calculated at a fixed rate of 10% per annum of the face value of the Converting Notes accruing from day to day from and including the issue date of the Note.

If the Converting Notes are redeemed by the Company on or before the maturity date the warrants automatically lapse and are no longer exercisable. The Company must pay to the Note holder an amount equal to the value of the warrant shares over which the warrants could have been exercised.

Redemption The Converting Notes will be redeemed by the Company on the maturity date or on issue of a default notice by a Note holder requiring that the Converting Notes be redeemed by payment to the Note holder of the face value of each Converting Note.

Conversion Each Converting Note will convert into preference shares in the Company unless:

(i) the Company is admitted on the ASX or any other recognised exchange for public trading of securities; or
(ii) is otherwise prohibited from issuing Preference Shares,

in which case the Converting Notes will convert into fully paid ordinary shares in the capital of the Company.

Conversion may occur in three circumstances:

(a) **Elective conversion**: A note holder may choose to convert their notes if the Company undertakes an equity capital raising other than an IPO to raise a minimum of $5M or upon the happening of an Exit Event (including the liquidation, winding up, merger, consolidation or other corporate re-organisation of the Company or otherwise on the happening of a transaction or series of related transactions in which substantially all the assets of the Company are sold or at least 90% of the Company shares on issue are transferred to any person).

(b) **Maturity date**: Each Note holder may convert their Notes by giving the Company notice at least 15 days before the maturity date.

(c) **Automatic conversion**: If at any time prior to the maturity date, an IPO occurs or the Company undertakes an equity capital raising in which entities who hold or control the holders of 50% or more of the Converting Notes invest at least $1M then the Converting Notes held by the Note holders will be redeemed by the Company and the Company must issue to each Note holder preference shares equal to their conversion share equivalent.

Conversion Basis The number of preference shares issued to Note holders on the conversion of their Converting Notes (conversion share equivalent) will be determined in accordance with the following:

(a) In the case of an equity capital raising of $5M or more other than an IPO, the conversion share amount will be calculated as follows:
(i) $100.00 divided by:
(A) the lesser of 60% of the price per share based on a Company valuation of US$18.5M calculated on a fully diluted basis as at the date of the fund raising event; and
(B) 60% of the price at which the shares are to be issued pursuant to the fund raising event;
(ii) in all other cases 60% of the price per share based on a Company valuation of US$18.5M calculated on a fully diluted basis.

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(b) Conversion on maturity date: The Convertible Note conversion share equivalent will be determined by dividing the face value of each Convertible Note ($100.00) by 60% of the price per share based on a Company valuation of US$18.5M calculated on a fully diluted basis as at the maturity date.

(c) Automatic conversion: The conversion share equivalent will be determined by dividing the face value of each Convertible Note ($100.00) by the lesser of:

(i) 60% of the price per share based on a Company valuation of US$18.5M calculated on a fully diluted basis as at the date of the IPO; and

(ii) an equity capital raising by the Company in which entities who hold or control the holders of 50% or more of the Convertible Note invest at least $1M and 60% of the price per ordinary share payable pursuant to the IPO or that fund raising event.

Exercise of Warrants If the Company redeems the Convertible Notes and issues conversion preference shares as at the date of the redemption and conversion, the Note holder is deemed to exercise the warrants and the Company must issue to the Note holder the warrant share equivalent.

The warrant share equivalent is equal to the number of warrant shares calculated by the value of the warrant shares over which the warrants apply divided by the price at which the conversion shares were issued by the Company.

Cancellation of Notes All Convertible Notes repaid or converted will automatically be cancelled and will not be reissued.

Reconstruction If the Company undertakes a bonus share issue or reorganisation of the issued share capital of the Company, including any consolidation, subdivision, reduction, cancellation or return, then the number of Convertible Notes issued to each Note holder will be adjusted by the Company as appropriate and consistent with the reorganisation. This will ensure that the proportion which the conversion shares, to be issued to that Note holder under the terms of the Note after the bonus issue or reorganisation has occurred bears to the total shares on issue, is the same as it would have been had the bonus issue or reorganisation not occurred.

Conversion Mechanics On the date of conversion, the Company must redeem for the issue price of the Convertible Notes, issue to the Note holder the number of shares that the Converting Notes would convert into and in accordance with these terms, apply the proceeds of the redemption to the subscription price for the shares, and set-off the subscription price for the shares against the money payable by the Company to the Note holder on the redemption of the Converting Notes.

Future issues If the Company proposes to raise further funds by way of the issue of securities other than pursuant to a proposed or possible equity capital raising by the Company other than by the way of an IPO to raise a minimum of $5M, the Company must give to each Note holder written notice of the terms of the proposed capital raising and extend to each Note holder an offer for it to participate in the capital raising on the same terms offered to other participates in the capital raising.

Assignment A Note holder cannot transfer or assign ownership of all or part of their Convertible Notes to any third party without the prior written consent of the Company.

Exit event The Company, the founders of the Company and Starfish Technology Fund 1, LP, Versant Venture Capital III, L.P. and Versant Side Fund III, L.P. must use their commercially reasonable efforts to achieve a trade sale or IPO of the Company on or before 23 May 2011. The terms of the IPO and the appointment of its financial advisers and underwriters and other advisers in connection with the IPO or trade sale must be approved by the Investors.

On 7 July 2006 the company issued 10,000 notes having a face value of $100 per note for a total of $1,000,000 in convertible notes. For the period from 1 July 2006 to 7 July 2006, the company incurred a non-cash expense of $703,031 relating to the discount on series 2 converting notes bringing the total carrying value of all notes on hand to $2,236,364.

On 7 July 2006, all of the 20,000 notes on issue converted into 3,242,000 preference A2 shares and all warrant shares converted to 15,544 preference A2 shares resulting in a total of 3,257,544 preference A2 shares with a carrying value of $3,251,881 being issued on conversion of series 2 notes and warrants (refer note 19). No series 2 notes were on issue on 30 June 2007.

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(iii) Converting notes series 3

During the year ended 30 June 2007, the parent company issued converting notes series 3. Set out below are a summary of the terms of the converting notes:

Issue Price $100 per converting note.

Status The notes rank:

(a) in all respects equally without any preference among themselves
(b) in all respects equally with Preference A shares
(c) above all other notes and securities issued by the Company, and
(d) above all claims expressed by their terms to be subordinated to the note-holders claims with respect to the outstanding amount.

Maturity date Maturity date of the notes is 31st August 2007 or such later date agreed in writing by the Company and the holders of 75% of the notes unless converted earlier.

Interest Each note will accrue interest, calculated at 10% per annum on the face value, which will be accrued from and including the issue date, but excluding the redemption date, and paid on repayment of the convertible note.

Conversion **Automatic conversion on IPO**

If, at any time prior to the Maturity Date, an IPO occurs, the Convertible Notes held by the Note holders will be redeemed by the Company and the Company must issue to each Note holder the Conversion Share Equivalent number of Conversion Shares on the IPO occurring, and enter in the Company's register of members the names of each holder of those Conversion Shares.

Automatic Conversion on Maturity Date

If they have not been otherwise converted:
(i) on the Maturity Date; and
(ii) subject to the Company obtaining the approval of its shareholders by the necessary majority to the issue of the Conversion Shares (if required),

the Convertible Notes held by the Note holders will be redeemed by the Company and the Company must issue to each Note holder the Conversion Share Equivalent number of Conversion Shares and enter in the Company's register of members the names of each holder of those Conversion Shares.

Elective Conversion on Exit Event

If the Company becomes aware of a proposed or possible Exit Event, each Note holder may convert any of their Convertible Notes into Conversion Shares by giving the Company a Conversion Notice which the company must comply with at the completion of the Exit Event.

If the proposed or possible Exit Event does not occur before:
(i) if there is no Revised Date, the Expiry Date; or
(ii) otherwise, on the Revised Date,

the Company will be deemed not to have given any notice in relation to that proposed or possible Exit Event and the Note holders will be deemed not to have given any Conversion Notice.

An Exit Event is defined as being any liquidation, winding up, merger, consolidation, share exchange or other form of corporate reorganisation involving the Company or a transaction or series of related transactions in which substantially all the assets of the Company are sold or at least 90% of the Company's shares are issued or transferred to any person.

Conversion Share Equivalent **Conversion on Maturity**

For conversion on maturity the Conversion Share Equivalent is equal to the number of Conversion Shares calculated in accordance with the following formula:

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$$\frac{FV}{A}$$

Where:
FV is the Face Value of each Convertible Note to be converted.
A is the lower of:
(a) $0.7160718; and
(b) the lowest issue price per ordinary share at which the Company has issued ordinary shares after the date of issue of the Convertible Note other than an issue:
    (i) pursuant to the conversion of Preference Shares;
    (ii) pursuant to the exercise of an option issued to employees, consultants or officers as part of their remuneration package approved by the Board;
    (iii) to employees, consultants or officers of any member of the Group as part of their remuneration package approved by the Board;
    (iv) pursuant to the conversion of securities on issue on the date of issue of the Convertible Note; or
    (v) the lowest exercise price per option issued by the Company after the date of issue of the Convertible Note other than an option issued to employees, consultants or officers of any member of the Group as part of their remuneration package approved by the Board.

Conversion on IPO to 30 June 2007

If an IPO occurs on or before 30 June 2007, the Conversion Share Equivalent is equal to the number of Conversion Shares calculated in accordance with the following formula:

$$\frac{FV}{(A \times 0.85)}$$

Where:
FV is the Face Value of each Convertible Note to be converted.
A is the issue price of the shares to the public under the IPO.

Conversion on IPO after 30 June 2007

If an IPO occurs after 30 June 2007, the Conversion Share Equivalent is equal to the number of Conversion Shares calculated in accordance with the following formula:

$$\frac{FV}{A} + \frac{FV}{B}$$

Where:

FV is the Face Value of each Convertible Note to be converted.
A is the lower of:
(a) $0.7160718; and
(b) the lowest issue price per ordinary share at which the Company has issued ordinary shares after the date of issue of the Convertible Note other than an issue:
    (i) pursuant to the conversion of Preference Shares;
    (ii) pursuant to the exercise of an option issued to employees, consultants or officers as part of their remuneration package approved by the Board;
    (iii) to employees, consultants or officers of any member of the Group as part of their remuneration package approved by the Board;
    (iv) pursuant to the conversion of securities on issue on the date of issue of the Convertible Note; or
    (v) the lowest exercise price per option issued by the Company after the date of issue of the Convertible Note other than an option issued to employees, consultants or officers of any member of the Group as part of their remuneration package approved by the Board.

B is the issue price of the shares to the public under the IPO.

Conversion on Exit Event

For a conversion in the case that an Event occurs, the Conversion Share Equivalent is equal to the number of Conversion Shares calculated in accordance with the following formula:

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FOR THE YEAR ENDED 30 JUNE 2007

$$\frac{FV}{A} + \frac{FV}{C}$$

Where:
FV is the Face Value of each Convertible Note to be converted.

A is the lower of:
(u) $0.7160718; and

(v) the lowest issue price per ordinary share at which the Company has issued ordinary shares after the date of issue of the Convertible Note other than an issue:

(i) pursuant to the conversion of Preference Shares;
(ii) pursuant to the exercise of an option issued to employees, consultants or officers as part of their remuneration package approved by the Board;
(iii) to employees, consultants or officers of any member of the Group as part of their remuneration package approved by the Board;
(iv) pursuant to the conversion of securities on issue on the date of issue of the Convertible Note; or
(v) the lowest exercise price per option issued by the Company after the date of issue of the Convertible Note other than an option issued to employees, consultants or officers of any member of the Group as part of their remuneration package approved by the Board.

Effect of reconstruction of share capital If there is any bonus issue of shares or reorganisation of the issued share capital of the Company, including any consolidation, subdivision, reduction, cancellation or return (other than the De-merger already taken into account) then, the number of Convertible Notes issued to each note-holder will be adjusted by the Company as appropriate and consistent with the reorganisation to ensure that the proportion which the Conversion Shares to be issued to that note-holder of these Note Terms after the bonus issue or reorganisation has occurred bears to the total Shares on issue, is the same as it would have been had the bonus issue or reorganisation not occurred.

Assignment A note-holder must not transfer, by way of assignment or otherwise, ownership of all or part of their Convertible Notes to any third party, without the prior written consent of the Company.

Capital Raising If the Company proposes to raise further funds by way of any issue of securities, other than pursuant to a proposed or possible IPO the Company must give each note-holder written notice of the terms of the proposed Capital Raising and extend to each note-holder an offer for it to participate in the Capital Raising on the same terms offered to other participants in the Capital Raising

During the year ended 30 June 2007, holders of 71,500 series 3 notes with a face value of $7,150,000 have been issued.

Transaction costs for the converting notes are recognised as a contra-liability. These costs are ultimately charged to the Income Statement by virtue of the converting notes being subsequently measured at amortised cost using the effective interest rate method. As a result of an Initial Public Offering not having occurred prior to 30 June 2007, bonus convertible notes are now issuable to the series 3 note holders resulting in a non-cash bonus expense.of $6,741,299 being recognised in the year ended 30 June 2007.

The maturity date of these notes was extended to 31 December 2007 in a variation deed (refer note 26).

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19 PREFERENCE SHARES

	Consolidated		Parent	
	2007	2006	2007	2006
	$	$	$	$
Preference A1 Shares (i)	3,467,117	-	3,467,117	-
Preference A2 Shares (ii)	3,241,044	-	3,241,044	-
	6,708,161	**-**	**6,708,161**	**-**
Deferred transaction costs	(241,625)	-	(241,625)	-
Accumulated amortisation of deferred transaction costs	205,482	-	205,482	-
	(36,143)	**-**	**(36,143)**	**-**
	6,672,018	**-**	**6,672,018**	**-**

During the year ended 30 June 2007, the company issued Preference A1 and A2 Shares. The Preference A1 and A2 Shares have the following rights:

(a) **Voting**: The Preference Shares will have the same voting rights as the existing Ordinary Shares and will vote on an as-converted basis.

(b) **Dividends**: The Preference Shares participate pari-passu in dividends with the Ordinary Shares.

(c) **Preference Amount**: The Preference Shares will rank in priority to Ordinary Shares until the purchase price is repaid ("the Preference Amount"), in the event of winding up, liquidation, merger, or sale of the Company. Thereafter any remaining capital amounts will be distributed pro rata among the holders of the Preference Shares and the Ordinary Shares on an as-converted basis.

(d) **Redemption**: The holders of the Preference Shares will have the right to redeem their shares for the Preference Amount if the Company is not sold or listed within five years of the completion date. The redemption amount is the only difference between the Preference A1 and A2 Shares. The Preference A1 Shares redeem at $0.716 and the Preference A2 Shares redeem at $0.43.

(e) **Conversion**: The holders of the Preference Shares will have the right to convert the Preference Shares to Ordinary shares at any time, and all outstanding shares of Preference Shares may be converted to Ordinary Shares upon the election of the holders of 66⅔ % of the Preference shares (the "Majority Holders"). The initial conversion ration will be one to one, subject to any adjustments set out herein.

(f) **Anti-dilution**: The holders of the Preference Shares will enjoy anti-dilution protection should the Company issue additional shares or rights to shares at a price per share less than the then current conversion price for the Preference Shares. The conversion price of the Preference Shares would be subject to adjustment on a full ratchet basis for shares issuances at a purchase price less than the original purchase price, with a carve-out for any issuances of shares or options under a shares option plan or programme approved by the Board or issuances related to a merger or acquisition. The conversion price of the Preference Shares will be subject to proportional adjustment for shares splits, dividends and the like.

The following Preference A1 and A2 Shares have been issued during the year:

(i) Preference A1 Shares

On 7 July 2006, the parent company issued 2,889,436 Preference A1 shares to two Venture capital investors for a cash investment of $2,970,840, giving rise to a preference A1 share liability of $2,970,840.

On 30 October 2006, the preference A1 share liability was reduced by $901,796 following the de-merger of ICS from ImpediMed Limited.

As a result of the IPO not having occurred prior to 31 December 2006, interest expense for the issue of bonus shares of $1,398,073 was charged to the Income Statement for the period from 1 January 2007 to 30 June 2007. As a result, the carrying amount of the preference A1 share liability as at 30 June 2007 was increased to $3,467,117.

(ii) Preference A2 Shares

On 7 July 2006 all of the 20,000 converting notes series 2 and all outstanding warrant shares (refer note 18) converted into 3,257,544 Preference A2 shares, giving rise to a preference A2 share liability of $3,251,881.

On 30 October 2006, the preference A2 share liability was reduced by $987,106 following the de-merger of ICS from ImpediMed Limited decreasing the carrying value of the preference A2 share liability to $2,264,775.

As a result of the IPO not having occurred prior to 31 December 2006, interest expense for the issue of bonus shares of $976,269 was charged to the Income Statement for the period from 1 January 2007 to 30 June 2007. As a result, the carrying amount of the preference A2 share liability as at 30 June 2007 was increased to $3,241,044.

20 ISSUED CAPITAL

(a) Issued and paid up capital

	Consolidated		*Parent*	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
Ordinary shares fully paid	10,243,165	6,404,941	10,243,165	6,404,941
Ordinary shares under escrow - fully paid	908,464	1,229,099	908,464	1,229,099
	11,151,629	**7,634,040**	**11,151,629**	**7,634,040**

The parent company does not have authorised capital nor par value in respect of its issued shares. Fully paid ordinary shares and fully paid ordinary shares under escrow carry one vote per share and carry the right to dividends.

(b) Movements in shares on issue

	Number	**$**
Ordinary shares fully paid		
At 1 July 2005	15,451,835	6,404,941
Issued during the period	-	-
At 1 July 2006	15,451,835	6,404,941
Issued during the period as a result of:		
Conversion of Series 1 Converting Notes	5,337,526	4,989,002
Ordinary shares released from escrow	521,740	320,635
De-merger of ICS (i)	-	(1,471,413)
At 30 June 2007	**21,311,101**	**10,243,165**

(i) Decrease in share capital was a result of the de-merger of ICS. Refer to note 31 for further details.

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FOR THE YEAR ENDED 30 JUNE 2007

	Number	$
Ordinary shares under escrow - fully paid		
At 1 July 2005	2,000,000	1,229,099
Issued during the period	-	-
At 1 July 2006	2,000,000	1,229,099
Issued during the period	-	-
Ordinary shares released from escrow	(521,740)	(320,635)
At 30 June 2007	**1,478,260**	**908,464**
Ordinary shares - total	**22,789,361**	**11,151,629**

The company has two share based payment option schemes under which options to subscribe for the company's shares have been granted to employees (ESOP) and the Chief Executive Officer, and one share plan under which employees can earn performance share rights (refer note 24).

21 RESERVES

	Consolidated		*Parent*	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
Share options reserve (i)				
Balance at beginning	803,950	435,712	803,950	435,712
Additions	224,678	368,238	224,678	368,238
Balance at end	**1,028,628**	**803,950**	**1,028,628**	**803,950**
Performance share reserve (ii)				
Balance at beginning	-	-	-	-
Additions	78,652	-	78,652	-
Balance at end	**78,652**	**-**	**78,652**	**-**
Foreign exchange translation reserve (iii)				
Balance at beginning	-	-	-	-
Additions	79,502	-	-	-
Balance at end	**79,502**	**-**	**-**	**-**
	1,186,782	**803,950**	**1,107,280**	**803,950**

(i) An employee share and option scheme was adopted during the financial year ending 30 June 2004. Further details are provided in note 24.

At 30 June 2007 there were 2,337.673 (30 June 2006: 1,587,673) unissued ordinary shares in respect of which options were outstanding.

(ii) The Group adopted a Performance share plan to eligible employees in February 2007. Further details are provided in note 24.

(iii) The translation of the financial statements of ImpediMed Limited into the functional currency of the Group gives rise to a foreign exchange translation reserve.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

22 SEGMENT INFORMATION

The Group is managed on a global basis around one business segment, the development, manufacture and sale of bio-impedance instruments. The business is operated in two separate geographical areas with separate corporate and operational structures.

Australia

Australia is the home country of the Group and the domiciliation of its main assets, all research and product development activities and all corporate services.

United States of America

Since 1 July 2006, ImpediMed Inc has been the operating entity of the Group for all marketing and sales activities in the US. Transfer prices between ImpediMed Limited and ImpediMed Inc. are set on an arms' length basis in a manner similar to transactions with third parties. Segment revenue and expenses include transfers between the two companies and are eliminated on consolidation.

Prior to 1 July 2006, ImpediMed Limited carried out its US business directly from Australia, with only one business development consultant based in the US.

(1) Segment revenues

	External Sales		*Inter-segment*		*Total*	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**	**$**	**$**
Australia	921,570	1,070,973	556,906	-	1,478,476	1,070,973
United States of America	292,026	-	-	-	292,026	-
Consolidated	**1,213,596**	**1,070,973**	**556,906**	**-**	**1,770,502**	**1,070,973**

All segment revenues were derived from continuing operations.

(2) Segment result

	Continuing Operations	**Discontinued Operations**	**Total 2007**
			$
Australia	(17,050,388)	6,888,171	(10,162,217)
United States of America	(1,190,599)	-	(1,190,599)
Profit / (loss) before income tax	(18,240,987)	6,888,171	(11,352,816)
Eliminations	1,240,610	-	1,240,610
Income tax	(14,371)	-	(14,371)
Profit / (loss) for the period	(17,014,748)	6,888,171	**10,126,577**

	Continuing Operations	**Operations**	**2006**
			$
Australia	(7,573,636)	(121,899)	(7,695,535)
United States of America	(181,581)	-	(181,581)
Profit / (loss) before income tax	(7,755,217)	(121,899)	(7,877,116)
Eliminations	176,581	-	176,581
Income tax	-	-	-
Profit / (loss) for the period	(7,578,636)	(121,899)	**(7,700,535)**

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2007

(3) Segment assets and liabilities

2007	*Assets*			*Liabilities*		
	Continuing Operations	**Discontinued Operations**	**Total 2007 $**	**Continuing Operations**	**Discontinued Operations**	**Total 2007 $**
Australia	4,035,905	-	4,035,905	21,948,404	-	21,948,404
United States of America	506,736	-	506,736	1,617,832	-	1,617,832
Total all segments	4,542,641	-	4,542,641	23,566,236	-	23,566,236
Eliminations	(284,996)	-	(284,996)	(1,520,275)	-	(1,520,275)
Consolidated	**4,257,645**	**-**	**4,257,645**	**22,045,961**	**-**	**22,045,961**

2006	*Assets*			*Liabilities*		
	Continuing Operations	**Discontinued Operations**	**Total 2006 $**	**Continuing Operations**	**Discontinued Operations**	**Total 2006 $**
Australia	2,460,079	2,169,879	4,629,958	7,420,030	1,888,902	9,308,932
United States of America	-	-	-	-	-	-
Total all segments	2,460,079	2,169,879	4,629,958	7,420,030	1,888,902	9,308,932
Eliminations	-	-	-	-	-	-
Consolidated	2,460,079	2,169,879	**4,629,958**	7,420,030	1,888,902	**9,308,932**

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

(4) Other segment information

2007	***Australia***			***United States (i)***
	Continuing Operations	**Discontinued Operations**	**Total 2007**	**2007**
			$	**$**
Acquisition of assets	78,507	-	78,507	62,778
Depreciation and amortisation of assets	155,297		155,297	8,679
Depreciation and amortisation of leased assets	-	346	346	-
Share-based payment expense	209,540	-	209,540	62,590
Rent expense	103,610	-	103,610	39,238
Interest expense	63,516	-	63,516	-
Employee benefits	2,230,922		2,230,922	458,086
Gain / (loss) on sale of non-current assets	(16,398)	-	(16,398)	--

(i) there were no discontinued operations located in the United States

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

2006	Australia		
	Continuing Operations	Discontinued Operations	Total 2006 $
Acquisition of assets	64,613	-	64,613
Depreciation and amortisation of assets	178,860	6,923	185,783
Depreciation and amortisation of leased assets	8,000	-	8,000
Share-based payment expense	368,238	-	368,238
Rent expense	103,302	-	103,302
Interest expense	75,294	-	75,294
Employee benefits	1,547,264	125,753	1,673,377
Gain / (loss) on sale of non-current assets	(4,788)	-	(4,788)

There were no operations in the United States in 2006

23 COMMITMENTS AND CONTINGENCIES

(1) Operating lease commitments

The Group has entered into two commercial leases for its office premises in Brisbane and in Rochester, NY.

The lease for the Brisbane office has a five year term commencing 1 March 2004 with an initial annual lease payment of $89,000 increasing by CPI annually. The current annual lease payment is $100,113.

The lease for the Rochester office has a two year term commencing 1 December 2006 with a fixed annual lease payment of US $32,028 for the term of the lease. The first two months of the lease are rent free.

Future minimum rentals payable under non-cancellable operating leases as at 30 June 2007 are as follows:

	Consolidated		Parent	
	2007	2006		
	$	$	$	$
Within one year	139,181	97,546	101,448	97,546
After one year but not more than five years	85,134	170,859	69,412	170,859
More than five years	-	-	-	-
	224,315	**268,405**	**170,859**	**268,405**

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

(2) Finance lease commitments

The company had a finance lease for one item of plant and equipment which was terminated on 11 July 2006. The lease had a three year term which commenced 4 July 2004, with an initial liability of $24,000.

Future minimum lease payments under finance leases and present value of the net minimum lease payments are as follows:

	2007		2006	
	Minimum payments $	Present value of payments $	Minimum payments $	Present value of payments $
Consolidated				
Within one year	-	-	9,307	7,858
After one year but not more than five years	-	-	2,400	2,166
More than five years	-	-	-	-
Total minimum lease payments	**-**	**-**	**11,707**	**10,024**
Less: future finance charges	-	-	(1,683)	-
Representing lease liability	**-**	**-**	**10,024**	**10,024**
Current	-		7,858	
Non-Current	-		2,166	
	-		**10,024**	

	2007		2006	
	Minimum payments $	Present value of payments $	Minimum payments $	Present value of payments $
Parent				
Within one year	-	-	9,307	7,858
After one year but not more than five years	-	-	2,400	2,166
More than five years	-	-	-	-
Total minimum lease payments	**-**	**-**	**11,707**	**10,024**
Less: future finance charges	-	-	(1,683)	-
Representing lease liability	**-**	**-**	**10,024**	**10,024**
Current	-		7,858	
Non-Current	-		2,166	
	-		**10,024**	

(3) Contingent liabilities

The consolidated entity has contingent liabilities at 30 June 2007 of $43,106 (30 June 2006: nil) relating to contingent legal fees associated with the preparation of an IPO.

(4) Expenditure commitments

At 30 June 2007 the Group has commitments of $202,269 (30 June 2006: $1,477,914) relating to the funding of various research and development projects.

	Consolidated		Parent	
	2007 $	2006 $	2007 $	2006 $
Within one year	**202,969**	**357,914**	**122,687**	**357,914**
After one year but not more than five years	**-**	**1,120,000**	**-**	**1,120,000**

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

(5) Royalty commitments

At 30 June 2007 the Group has commitments for the payment of royalties as follows:

(i) Royalties of 0.75% are due on all product sales and leases. Royalties due, but not yet paid at 30 June 2007, have been accrued and recognised in the Balance Sheet.

(ii) Royalties are due a sub-manufacturer on the sale of multi-frequency instruments, capped at a total of $200,000, of which $55,000 have already been paid.

(iii) In conjunction with the sale of cardio assets to ICS, royalty commitments to Aorora on the future sale of cardio instruments have been transferred from ImpediMed Limited to ICS.

24 SHARE-BASED PAYMENT PLANS

(a) Recognised share-based payment expenses

The expense recognised for share-based payments during the year is shown in the table below:

	Consolidated		*Parent*	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
Expense arising from equity-settled share-based payment transactions	303,330	368,238	240,740	368,238
Expense arising from cash-settled share-based payment transactions	-	-	-	-
Total expense arising from share-based payment transactions	**303,330**	**368,238**	**240,740**	**368,238**

(b) Types of share-based payment plans

1. Employee Share Option Plan (ESOP)

Share options are granted to eligible employees of the Group at the discretion of the Board of directors. In granting the options, which are issued for nil consideration, the directors evaluate potential participants with respect to their abilities, experience, responsibilities and their contribution to the company.

When a participant ceases to be eligible for the plan prior to vesting of the share options, the share options are forfeited. The Board may however in its absolute discretion allow a participant that has ceased to be eligible, to exercise some or all options which have vested before the participant ceased to be an eligible participant. In the event of a change of control of the Group, all options vest immediately.

All share options issued in 2004 vest in three tranches at the first, second and third anniversary of the grant. Options from a tranche once vested may be exercised within five years. Options cannot be transferred and will not be quoted after an IPO.

All share options issued in 2007 vest in three tranches at the grant date, at the first and the second anniversary of the grant. Options from a tranche once vested may be exercised within five years. Options cannot be transferred and will not be quoted after an IPO.

2. Chief Executive Options Plan

Options issued to the Chief Executive are issued outside the ESOP as a participation in the ESOP would bring his shareholdings above the 5% limit under the ESOP plan.

Notes to the Financial Statements

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3. Performance Share Plan

Performance shares are issued to eligible employees in recognition of their contribution to the performance of the Group and are subject to meeting individual performance hurdles. All performance shares are issued at the discretion to the Board of directors and are issued for nil consideration.

Performance shares granted in 2007 vest in three tranches at 31 December 2007, 31 December 2008 and 31 December 2009 respectively. In the event of a change of control of the Group, employees who will not retain an equivalent role will have all unvested performance shares vest.

(c) Summary of options and performance shares granted

1. Employee Share Option Plan (ESOP)
The following table illustrates the number (No) and weighted average exercise price (WAEP) of share options under the ESOP:

	2007		*2006*	
	No	**WAEP**	**No**	**WAEP***
Balance at the beginning of the year	840,000	0.870	840,000	1.250
Granted during the year	780,000	0,716	-	-
Forfeited during the year	(30,000)	0.870	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Balance at the end of the year	**1,590,000**	**0.794**	**840,000**	**1.250**
Exercisable at 30 June	**800,002**	**0.820**	**280,001**	**1.250**

*The WAEP was adjusted down following the de-merger of ICS on 30 October 2006.

The year end balance is represented by:

Number of options	Exercise price ($)	Exercisable until
86,668	0.870	30/07/10
50,000	0.870	28/10/10
83,333	0.870	23/11/10
50,000	0.870	24/12/10
86,668	0.870	30/07/11
50,000	0.870	28/10/11
83,333	0.870	23/11/11
50,000	0.870	24/12/11
260,000	0.716	29/05/12
86,664	0.870	30/07/12
50,000	0.870	28/10/12
83,334	0.870	23/11/12
50,000	0.870	24/12/12
260,000	0.716	29/05/13
260,000	0.716	29/05/14
1,590,000		

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2. Chief Executive Options Plan

The following table illustrates the number (No) and weighted average exercise price (WAEP) of share options under the Chief Executive Option Plan:

	2007		*2006*	
	No	**WAEP**	**No**	**WAEP**
Balance at the beginning of the year	747,673	0.675	747,673	0.675
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Balance at the end of the year	**747,673**	**0.675**	**747,673**	**0.675**
Exercisable at 30 June	**747,673**	**0.675**	**747,673**	**0.675**

The year end balance is represented by:

Number of options	Exercise price ($)	Exercisable until
249,225	0.675	31/12/11
249,224	0.675	31/12/12
249,224	0.675	31/12/13
747,673		

3. Performance Share Plan

The following table illustrates the number of performance shares under the Performance Share Plan:

	2007	**2006**
Balance at the beginning of the year	-	-
Granted during the year	469,500	-
Forfeited during the year	-	-
Expired during the year	-	-
Balance at the end of the year	**469,500**	**-**

(d) Weighted average remaining contractual life

1. Employee Share Option Plan (ESOP)

The weighted average remaining contractual life for the share options outstanding as at 30 June 2007 is 5.10 years.

2. Chief Executive Options Plan

The weighted average remaining contractual life for the share options outstanding as at 30 June 2007 is 5.51 years.

(e) Range of exercise prices

1. Employee Share Option Plan (ESOP)

The range of exercise prices for options outstanding as at 30 June 2007 is $0.716 - $0.87.

2. Chief Executive Options Plan

The exercise prices for options outstanding as at 30 June 2007 is $0.675.

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(f) Weighted average fair value

1. Employee Share Option Plan (ESOP)
The weighted average fair value of options outstanding as at 30 June 2007 is $0.45.

2. Chief Executive Options Plan
The weighted average fair value of options outstanding as at 30 June 2007 is $0.63.

3. Performance Share Plan
The weighted average fair value of performance shares granted as at 30 June 2007 is $0.716.

(g) Option pricing model

The fair value of the equity-settled share options granted under the ESOP and the Chief Executive Option Plan is estimated as at the date of grant using the Black Scholes option valuation model.

The following table lists the inputs in the model used for the years ended 30 June 2007 and 30 June 2006:

	ESOP Issue 2004	ESOP Issue 2007	Chief Executive Issue 2004 (1)	Performance Share Plan Issue 2007
Expected volatility (%)				
Tranche 1	50	50	48	50
Tranche 2	50	50	53	50
Tranche 3	50	50	59	50
Risk free interest rate (%)				
Tranche 1	5.50	6.10	5.66	6.10
Tranche 2	5.50	6.07	5.67	6.07
Tranche 3	5.50	6.02	5.68	6.02
Expected life of option (years)				
Tranche 1	6.0	4.5	7.0	4.5
Tranche 2	7.0	5.5	8.0	5.5
Tranche 3	8.0	6.5	9.0	6.5
Option exercise price ($)				
Tranche 1	0.870	0.716	0.675	0.716
Tranche 2	0.870	0.716	0.675	0.716
Tranche 3	0.870	0.716	0.675	0.716
Calculated fair value ($)				
Tranche 1	0.47	0.35	0.56	0.716
Tranche 2	0.51	0.38	0.64	0.716
Tranche 3	0.55	0.41	0.68	0.716

(1) The terms of the options issued in 2004 to the Chief Executive have been modified on 17 May 2006. The time to maturity has been extended from 5 years from vesting to 7 years from vesting date. These changes were part of an agreement to rectify financial disadvantages to the Chief Executive that resulted from delays in establishing an option plan to meet commitments made to him when he first joined the Board in 2001.

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2007

25 KEY MANAGEMENT PERSONNEL

(a) Details of key management personnel

Directors

M Bridges	Chairman
G Brown (i)	Chief Executive Officer
M Finney	Non-executive director - resigned 5 July 2006
M Kriewaldt	Non-executive director
C Hirst	Non-executive director
J Hazel	Non-executive director - appointed 27 November 2006
M Panaccio	Non-executive director - appointed 25 January 2007

Executives

P Auckland	Chief Financial Officer, Company Secretary and Chief Operating Officer
B Robinson	VP International Marketing and Sales
J Butler (ii)	VP Business Development US
R Render (iii)	VP Quality and Regulatory Affairs
S Chetham	Chief Scientific Advisor
N Bertwistle (iv)	VP Operations

(i) G Brown became an employee of ImpediMed Limited with effect 1 July 2006. Prior to this date, he worked as a consultant to the company

(ii) J Butler became an employee and key management executive of ImpediMed Inc with effect 1 October 2006. Prior to this date, he worked as a consultant to the company

(iii) R Render became an employee and key management executive of ImpediMed Limited with effect 1 August 2006. Prior to this date, he worked as a part time consultant to the company

(iv) N Bertwistle left the company on 30 June 2007

(b) Remuneration of key management personnel

(i) Remuneration Policy

The performance of the Group depends upon the quality of its directors and executives. To prosper, the Group must attract, motivate and retain highly skilled directors and executives. To this end, the Group provides competitive rewards and links executive rewards to meeting pre-determined performance benchmarks.

The board of directors has established a remuneration committee which periodically reviews remuneration policies for the organisation, along with the specific remuneration for the CEO. Salaries are reviewed annually in conjunction with performance in December, with salary increments having effect from 1 January.

All executives are entitled to annual bonuses payable upon the achievement of individual performance objectives. The structure of non-executive director and executive compensation is separate and distinct, in accordance with best practice corporate governance.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

(ii) Remuneration of key management personnel for the years ended 30 June 2007 and 30 June 2006

30 June 2007	Short Term			Post Employment	Share-based	Total
	Salaries & Fees	Cash Bonus	Non-monetary	Superannuation	Options	
	$	$	$	$	$	$
Directors						
M Bridges	80,000	-	-	7,200	-	87,200
G Brown	292,000	80,000	108,000	43,200	62,356	585,556
M Finney	685	-	-	62	-	747
M Kriewaldt	52,500	-	-	4,725	-	57,225
C Hirst	50,000	-	-	4,500	-	54,500
J Hazel	38,333	-	-	3,450	-	41,783
M Panaccio	25,000	-	-	-	-	25,000
Executives						
P Auckland	135,000	45,000	40,000	19,800	56,967	296,767
B Robinson	102,564	25,000	25,000	13,731	17,357	183,652
J Butler*	168,585	34,041	-	18,236	37,711	258,573
R Render	57,521	10,749	41,015	7,382	17,323	133,990
S Chetham	120,220	15,022	30,000	14,872	3,350	183,464
	1,122,408	**209,812**	**244,015**	**137,158**	**195,064**	**1,908,457**

* All figures shown in AU$, although remuneration paid in US$

30 June 2006	Short Term			Post Employment	Share-based	Total
	Salaries & Fees	Cash Bonus	Non-monetary	Superannuation	Options	
	$	$		$	$	$
Directors						
M Bridges	80,000	-	-	7,200	-	87,200
G Brown	282,190	119,880	-	-	256,447	658,517
M Finney	35,000	-	-	3,150	-	38,150
M Kriewaldt	50,000	-	-	4,500	-	54,500
C Hirst	50,000	-	-	4,500	-	54,500
Executives						
P Auckland	139,417	35,000	28,333	18,247	27,604	248,601
B Robinson	100,782	25,000	21,000	13,210	7,925	167,917
N Bertwistle	106,484	5,230	-	10,054	9,510	131,278
S Chetham	117,610	8,144	30,000	14,018	-	169,772
	961,483	**193,254**	**79,333**	**74,879**	**301,486**	**1,610,435**

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

(iii) Remuneration options: Granted and vested during the year

A total of 490,000 options were granted as equity compensation benefits to executives and a total of 163,333 options granted to executives have vested during the year ended 30 June 2007.

No options were granted as equity compensation to directors and no options granted to directors have vested during the year ended 30 June 2007.

	Granted	**Terms and Conditions for each Grant**				**Vested**
30 June 2007	No	Grant date	Value per option at grant date	Exercise price per option	Expiry Date	No
			$	**$**		
Executives						
P Auckland	66,667	29/05/07	0.35	0.716	29/05/12	66,667
P Auckland	66,667	29/05/07	0.38	0.716	29/05/13	-
P Auckland	66,666	29/05/07	0.41	0.716	29/05/14	-
B Robinson	13,333	29/05/07	0.35	0.716	29/05/12	13,333
B Robinson	13,333	29/05/07	0.38	0.716	29/05/13	-
B Robinson	13,334	29/05/07	0.41	0.716	29/05/14	-
J Butler	50,000	29/05/07	0.35	0.716	29/05/12	50,000
J Butler	50,000	29/05/07	0.38	0.716	29/05/13	-
J Butler	50,000	29/05/07	0.41	0.716	29/05/14	-
R Render	33,333	29/05/07	0.35	0.716	29/05/12	33,333
R Render	33,333	29/05/07	0.38	0.716	29/05/13	-
R Render	33,334	29/05/07	0.41	0.716	29/05/14	-
	490,000					**163,333**

No remuneration options were granted during the year ended 30 June 2006.

(iv) Shares issued on exercise of remuneration options

No shares were issued during the years ended 30 June 2007 and 30 June 2006 on the exercise of remuneration options.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

(v) Option holdings of key management personnel

30 June 2007	Balance at 1 July 2006	Granted as remuneration	Net Change other	Balance at 30 June 2007	Not exercisable	Exercisable
Directors						
M Bridges	-	-	-	-	-	-
G Brown	747,673	-	-	747,673	-	747,673
M Finney	-	-	-	-	-	-
M Kriewaldt	-	-	-	-	-	-
C Hirst	-	-	-	-	-	-
J Hazel	-	-	-	-	-	-
M Panaccio	-	-	-	-	-	-
Executives						
P Auckland	150,000	200,000	-	350,000	183,333	166,667
B Robinson	50,000	40,000	-	90,000	43,333	46,667
J Butler	150,000	150,000	-	300,000	150,000	150,000
R Render	-	100,000	-	100,000	66,667	33,333
S Chetham	-	-	-	-	-	-
Total	**1,097,673**	**490,000**	**-**	**1,587,673**	**443,333**	**1,144,340**

30 June 2006	Balance at 1 July 2005	Granted as remuneration	Net Change other	Balance at 30 June 2006	Not exercisable	Exercisable
Directors						
M Bridges	-	-	-	-	-	-
G Brown	747,673	-	-	747,673	249,224	498,449
M Finney	-	-	-	-	-	-
M Kriewaldt	-	-	-	-	-	-
C Hirst	-	-	-	-	-	-
Executives						
P Auckland	150,000	-	-	150,000	100,000	50,000
B Robinson	50,000	-	-	50,000	33,333	16,667
N Bertwistle	60,000	-	-	60,000	40,000	20,000
S Chetham	-	-	-	-	-	-
Total	**1,007,673**	**-**	**-**	**1,007,673**	**422,557**	**585,116**

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2007

(vi) Ordinary shareholdings of key management personnel

30 June 2007	Balance at 1 July 2006	Granted as remuneration	Net Change other	Balance at 30 June 2007
Directors				
M Bridges	4,235,000	-	-	4,235,000
G Brown	3,035,000	-	-	3,035,000
M Finney	30,000	-	-	30,000
M Kriewaldt	-	-	41,148	41,148
C Hirst	-	-	-	-
J Hazel	171,098	-	-	171,098
M Panaccio	-	-	-	-
Executives				
P Auckland	-	-	-	-
B Robinson	206,186	-	-	206,186
J Butler	-	-	-	-
R Render	-	-	-	-
S Chetham	1,260,870	-	-	1,260,870
Total	**8,938,154**	**-**	**41,148**	**8,979,302**

30 June 2006	Balance at 1 July 2005	Granted as remuneration	Net Change other	Balance at 30 June 2006
Directors				
M Bridges	4,235,000	-	-	4,235,000
G Brown	3,035,000	-	-	3,035,000
M Finney	30,000	-	-	30,000
M Kriewaldt	-	-	-	-
C Hirst	-	-	-	-
Executives				
P Auckland	-	-	-	-
N Bertwistle	30,928	-	-	30,928
B Robinson	206,186	-	-	206,186
S Chetham	-	-	1,260,870	1,260,870
Total	**7,537,114**	**-**	**1,260,870**	**8,797,984**

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2007

(vii) Performance share rights of key management personnel

30 June 2007	Balance at 1 July 2006	Granted as remuneration	Net Change other	Balance at 30 June 2007
Directors				
M Bridges	-	-	-	-
G Brown	-	-	-	-
M Finney	-	-	-	-
M Kriewaldt	-	-	-	-
C Hirst	-	-	-	-
J Hazel	-	-	-	-
M Panaccio	-	-	-	-
Executives				
P Auckland	-	100,000	-	100,000
B Robinson	-	50,000	-	50,000
J Butler	-	100,000	-	100,000
R Render	-	20,000	-	20,000
S Chetham	-	20,000	-	20,000
Total	**-**	**290,000**	**-**	**290,000**

All share performance rights were granted on 27 February 2007 and have a fair value of $0.716 per share on grant date.

30 June 2006	Balance at 1 July 2005	Granted as remuneration	Net Change other	Balance at 30 June 2006
Directors				
M Bridges	-	-	-	-
G Brown	-	-	-	-
M Finney	-	-	-	-
M Kriewaldt	-	-	-	-
C Hirst	-	-	-	-
J Hazel	-	-	-	-
M Panaccio	-	-	-	-
Executives				
P Auckland	-	-	-	-
N Bertwistle	-	-	-	-
B Robinson	-	-	-	-
S Chetham	-	-	-	-
Total	**-**	**-**	**-**	**-**

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2007

(viii) Converting note holdings of key management personnel

30 June 2007	Balance at 1 July 2006	Granted as remuneration	Net Change other	Balance at 30 June 2007
Directors				
M Bridges	-	-	500	500
G Brown	2,500	-	(2,500)	-
M Finney	-	-	-	-
M Kriewaldt	250	-	250	500
C Hirst	-	-	500	500
J Hazel	-	-	-	-
M Panaccio	-	-	-	-
Executives				
P Auckland	-	-	-	-
B Robinson	-	-	-	-
J Butler	-	-	-	-
R Render	-	-	-	-
S Chetham	-	-	-	-
Total	**2,750**	**-**	**(1,250)**	**1,500**

30 June 2006	Balance at 1 July 2005	Granted as remuneration	Net Change other	Balance at 30 June 2006
Directors				
M Bridges	-	-	-	-
G Brown	-	-	2,500	2,500
M Finney	-	-	-	-
M Kriewaldt	250	-	-	250
C Hirst	-	-	-	-
Executives				
P Auckland	-	-	-	-
B Robinson	-	-	-	-
N Bertwistle	-	-	-	-
S Chetham	-	-	-	-
Total	**250**	**-**	**2,500**	**2,750**

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

26 EVENTS AFTER BALANCE SHEET DATE

Other than:

- the signing on 5 July 2007 an agreement to acquire all of the shares in San Diego based Xitron Technologies Inc (Xitron) from its shareholders. The acquisition is conditional upon the successful achievement of a major capital raising of at least $10,000,000 and the signing of an amendment to the license agreement between Xitron Technologies and Fresenius Medical Care AG, Germany whereby Fresenius Medical Care returns the rights to certain markets to Xitron Technologies. In addition the acquisition is subject to usual conditions with respect to material adverse changes. The acquisition must close by 30th November 2007. The expected cost of the acquisition is estimated at $2,144,637, payable in ImpediMed Limited ordinary shares with the issue of 2,132,509 ordinary shares to occur on closing and 846,154 ordinary shares in respect of a milestone payment early in 2008 which it is expected will be achieved. In addition, the agreement contains further contingent consideration totaling $3,000,000 payable on achievement of three further milestones based on Xitron sales for financial years 2008, 2009 and 2010, for which escalating stretch goals have been set.

- the signing on 5 July 2007 of a second amendment to the license agreement between Xitron Technologies and Fresenius Medical Care for a consideration of US $1,000,000 payable by Xitron, being one of the conditions to the acquisition of the shares in Xitron Technologies Inc.

- a Board resolution on 31 July approving the issue of 500,000 options over ordinary shares with an exercise price of $0.91 and 500,000 options over ordinary shares with an exercise price of $1.03 to the Chief executive, with vesting of both offers one third at grant date, one third in one year and one third in two years, subject to the completion of the IPO Offer at 72 cents per ordinary share,

- the signing of a deed of variation to the series 3 convertible notes facility deed extending the maturity date of the notes from 31 August 2007 to 31 December 2007,

- the signing of an agreement with the University of Graz for a joint research program which ImpediMed will fund with a three year commitment of 50,000 Euro per annum plus a 15% administration fee,

no matter or circumstance has arisen since the end of the year that has significantly affected, or may significantly affect the consolidated entity's operation, the results of those operations or the consolidated entities state of affairs, in future financial years.

27 AUDITOR'S REMUNERATION

	Consolidated		***Parent***	
	2007	**2006**	**2007**	**2006**
	$	**$**	**$**	**$**
Amounts received or due and receivable by				
Ernst & Young Australia for:				
audit of financial reports of the entity	96,145	96,179	96,145	96,179
other services to the entity	95,734	-	95,734	-
	191,879	**96,179**	**191,879**	**96,179**

The audit fees have been unusually high due to conducting full audits at each half year in preparation for use of figures in prospectus, versus the usual practice of a review at half year.

Other services to the entity comprise services for the Investigating Accountants Report in relation to the proposed IPO and advice in relation to the cardio de-merger.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

28 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, debentures, convertible notes, finance leases, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations.

The Group has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are credit risk and interest rate risk. The board reviews and agrees policies for managing credit risk and interest rate risk which are summarised below.

Credit risk

The Group trades only with recognised, creditworthy third parties. It is the Group policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

With respect to credit risk arising from other financial assets of the Group, the exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

There are no significant concentrations of credit risk within the Group.

Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to the Group's non-current investments in debentures and debt obligations.

The Group does not enter into interest rate swaps, designated to hedge underlying assets or debt obligations, to manage the interest rate risk.

At 30 June 2007, all investments in debentures and all borrowings of the Group are at a fixed rate of interest.

Foreign currency risk

The Group has transactional currency exposure resulting from significant sales activities into the United States and into Europe, and from its wholly owned subsidiary ImpediMed Inc whose operations are denominated in a currency other than the functional currency of the Group.

The Group does not enter into any forward contract or any other instrument to hedge the currency exposure.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

29 FINANCIAL INSTRUMENTS

(a) Fair values

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the financial statements at other than fair values.

	Carrying amount		*Fair value*	
	2007	**2006**	**2007**	**2006**
	$	$	$	$
Consolidated				
Financial assets				
Cash	1,643,162	44,241	1,643,162	44,241
Trade and other receivables	859,671	785,363	859,671	785,363
Other financial assets	210,798	235,550	210,798	235,550
	2,713,631	**1,065,154**	**2,713,631**	**1,065,154**
Financial liabilities				
Trade and other payables	979,044	1,395,791	979,044	1,395,791
Obligations under finance lease	-	10,024	-	10,024
Borrowings	147,105	1,192,946	147,105	1,192,946
Convertible notes	13,879,763	6,462,186	13,879,763	6,462,186
Preference shares	6,672,018	-	6,672,018	-
	21,677,930	**9,060,947**	**21,677,930**	**9,060,947**
Parent				
Financial assets				
Cash	1,600,470	24,072	1,600,470	24,072
Trade and other receivables	795,999	785,363	795,999	785,363
Other financial assets	210,798	2,252,850	210,798	2,252,850
	2,607,267	**3,062,285**	**2,607,267**	**3,062,285**
Financial liabilities				
Trade and other payables	954,321	1,395,791	954,321	1,395,791
Obligations under finance lease	-	10,024	-	10,024
Fixed rate borrowings	147,105	1,192,946	147,105	1,192,946
Convertible notes	13,879,763	6,462,186	13,879,763	6,462,186
Preference shares	6,672,018	-	6,672,018	-
	21,653,207	**9,060,947**	**21,653,207**	**9,060,947**

Fair values have been determined as follows:

Cash	The carrying amount approximates fair value because of the short-term to maturity.
Trade receivables and payables	The carrying amount approximates fair value.
Other financial assets	By reference to the current market value of another instrument which is substantially the same or is calculated based on expected cash flows or the underlying net asset base of the financial asset.
Short-term borrowings	The carrying amount approximates fair value because of the short-term to maturity.
Long-term borrowings	Discounted cash flow analysis, based on current incremental borrowing rates for similar types of borrowing arrangements.

Notes to the Financial Statements
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(b) Interest rate risk

The following table sets out the carrying amounts, by maturity, of the financial instruments that are exposed to the interest rate risk:

30 June 2007	< 1 year $	1-2 years $	2-3 years $	3-4 years $	4-5 years $	Total $
Consolidated						
Fixed rate						
7.50 % Debentures	71,000	-	-	-	-	71,000
7.60 % Debentures	-	71,000	-	-	-	71,000
13.40 % Loan CSS	(71,702)	(53,395)	-	-	-	(125,097)
12.52 % Loan CSS	(11,380)	(10,628)	-	-	-	(22,008)
Floating rate						
Cash assets	1,643,162	-	-	-	-	1,643,162
Weighted average effective Interest rate	5.7%					
Parent						
Fixed rate						
7.50 % Debentures	71,000	-	-	-	-	71,000
7.60 % Debentures	-	71,000	-	-	-	71,000
13.40 % Loan CSS	(71,702)	(53,395)	-	-	-	(125,097)
12.52 % Loan CSS	(11,380)	(10,628)	-	-	-	(22,008)
Floating rate						
Cash assets	1,600,470	-	-	-	-	1,600,470
Weighted average effective Interest rate	5.9%					

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

30 June 2006	< 1 year $	1-2 years $	2-3 years $	3-4 years $	4-5 yrs $	Total $
Consolidated						
Fixed rate						
7.35 % Debentures	71,000	-	-	-	-	71,000
7.50 % Debentures	-	71,000	-	-	-	71,000
7.60 % Debentures	-	-	71,000	-	-	71,000
15.00% Loan from Directors	(350,000)	-	-	-	-	(350,000)
8.75 % Finance lease	(7,857)	(2,167)	-	-	-	(10,024)
13.40 % Loan CSS	(62,754)	(71,702)	(53,395)	-	-	(187,851)
12.52 % Loan CSS	(10,047)	(11,380)	(10,629)	-	-	(32,056)
15.00% Bank overdraft	(623,039)	-	-	-	-	(623,039)
Floating rate						
Cash assets	44,241	-	-	-	-	44,241
Weighted average effective Interest rate	(5.4%)					
Parent						
Fixed rate						
7.35 % Debentures	71,000	-	-	-	-	71,000
7.50 % Debentures	-	71,000	-	-	-	71,000
7.60 % Debentures	-	-	71,000	-	-	71,000
15.00% Loan from Directors	(350,000)	-	-	-	-	(350,000)
8.75 % Finance lease	(7,857)	(2,167)	-	-	-	(10,024)
13.40 % Loan CSS	(62,754)	(71,702)	(53,395)	-	-	(187,851)
12.52 % Loan CSS	(10,047)	(11,380)	(10,629)	-	-	(32,056)
15.00% Bank overdraft	(623,039)	-	-	-	-	(623,039)
Floating rate						
Cash assets	24,072	-	-	-	-	24,072
Weighted average effective Interest rate	(5.45%)					

Interest on financial instruments classified as floating rate is repriced at intervals of less than one year. Interest on financial instruments classified as fixed is fixed until maturity of the instrument.

The other financial instruments of the entity that are not included in the above tables are non-interest bearing and are therefore not subject to interest rate risk.

(c) Hedging activities

The entity did not enter any cash flow or fair value hedge during the reporting period and did not have any outstanding hedges at 30 June 2007.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

30 RELATED PARTY DISCLOSURE

(a) Subsidiaries

The consolidated financial statements include the financial statements of ImpediMed Limited and the subsidiaries listed in the following table:

Name	*Country of incorporation*	% Equity interest		Investment ($)	
		2007	2006	2007	2006
ImpediMed Inc.	United States	100	100	1	1
Mesa Acquisition Corp, Inc.	United States	100	-	118	-
Aorora Pty Ltd	Australia	-	100	-	1,997,133
				119	1,997,134

(b) Ultimate parent

ImpediMed Limited is the ultimate Australian parent entity.

(c) Key management personnel

Details relating to key management personnel, including remuneration paid, are included in note 25.

(d) Transactions with related parties

The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year (for information regarding outstanding balances on related party trade receivables and payables, refer to note 9):

Related party		Sales to related parties $	Purchases from related parties $	Other transactions with related parties $
Parent entity				
Sale of inventory to ImpediMed Inc.	**2007**	**556,906**	**-**	**-**
	2006	-	-	-

Terms and conditions of transactions with related parties:
Sales to and purchases from related parties are made in arm's length transactions both at normal market prices and on normal commercial terms. Outstanding balances at year end are unsecured and interest free.

(e) Transactions with Directors

On 7 July 2006, a loan of $250,000 provided by the Chief Executive to the parent company was converted into Series 3 Convertible notes. Interest of $11,826 was paid on 11 July 2006 to the Chief Executive at a rate of 15%.

On 10 July 2006, the parent company repaid a loan provided by Klemzig Pty Ltd (an entity associated with M. Kriewaldt) of $100,000. Interest of $5,055 was paid on 11 July 2006 to Klemzig Pty Ltd at a rate of 15%.

On 20 October 2006, the following transactions occurred in relation to the issue of the series 3 convertible notes:

- M Bridges: subscription of 500 notes for a consideration of $50,000
- M Kriewaldt: subscription of 500 notes for a consideration of $50,000
- C Hirst: subscription of 500 notes for a consideration of $50,000

During the year, $47,142 was recorded as a non-cash expense for bonus notes issued on series 3 convertible notes in respect of each director’s 500 notes held (refer to note 18 for further details)

No interest was paid or is payable on the convertible notes for the year ended 30 June 2007.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

In November 2006, a personal guarantee of $800,000 provided by the chairman of the Group for the ANZ overdraft facility in January 2006 was terminated in conjunction with the termination of the overdraft facility. An interest payment of $34,884 was made on 30 November 2006. This payment was calculated by reference to a benchmark interest rate for unsecured loans of 15% and the company paid the difference versus what ANZ charged to the Chairman for the risk.

31. DISCONTINUED OPERATIONS

(a) Details of discontinued operations

In July 2006, the Group incorporated ICS, a wholly owned subsidiary incorporated in Delaware, and transferred all of its cardio assets, comprising its wholly owned subsidiary Aroroa Pty Ltd and various licence and patent rights, to ICS.

In October 2006, the Group de-merged ICS Inc through a distribution of ICS shares having a total fair value of $8,354,600 to its shareholders and a share capital reduction of ImpediMed Limited.

(b) Financial performance of discontinued operations

The result of the discontinued operations for the period until disposal is presented below:

	Consolidated		*Parent*	
	2007 $	**2006 $**	**2007 $**	**2006 $**
Revenue	-	52,038	-	52,038
Employee benefits		(127,296)		(127,296)
Travel expenses	-	(39,718)		(39,718)
Amortisation expense	(346)	(6,923)	(1,923)	1,923
Gain on disposal of discontinued operations (note 31c)	6,888,517	-	6,883,187	-
Loss before tax from discontinued operations	**6,888,171**	(121,899)	**6,881,264**	(116,899)
Income tax	-	-	-	-
Loss from discontinued operations	**6,888,171**	(121,899)	**6,888,264**	(116,899)

(c) Assets and liabilities and cash flow of discontinued operations

The major classes of assets and liabilities of the discontinued operations are as follows:

	Consolidated	*Parent*
	2007 $	**2007 $**
Assets		
Cash	1,185,450	1,185,450
Licenses and patents	272,403	177,732
Investments in subsidiaries	-	1,997,133
Goodwill	1,897,131	-
Liabilities		
Preference share liability	(1,888,902)	1,888,902
Net assets attributable to discontinued operations	**1,466,082**	**1,471,413**

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

The net cash flow of the discontinued operations is as follows:

	2007 $
Operating activities	-
Net cash outflow	-

Consideration received or receivable:

	Consolidated		Parent	
	2007 $	2006 $	2007 $	2006 $
Return of Share capital	1,471,413	-	1,471,413	-
Reduction of Retained Earnings	6,883,186		6,883,186	
less net asset disposal of	(**1,466,082**)	-	(1,471,413)	-
Gain on disposal before income tax	6,888,517	-	6,883,187	-
Income tax	-	-	-	-
Gain on disposal after income tax	**6,888,517**	**-**	**6,883,187**	-

32. EARNINGS PER SHARE

The following reflects the income used in the basic and diluted earnings per share compilations:

(a) Earnings used in calculating earnings per share

	CONSOLIDATED	
	2007 $	2006 $
For basic earnings per share		
Net loss from continuing operations attributable to ordinary equity holders of the parent	(17,014,748)	(7,578,636)
Profit/(loss) attributable to discontinued operations	6,888,171	(121,899)
Net profit/(loss) attributable to ordinary equity holders of the parent	**(10,126,577)**	**(7,700,535)**

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2007

(b) Weighted average number of shares

	2007 *Thousands*	2006 *Thousands*
Weighted average number of ordinary shares for basic earnings per share	20,121	17,452
Effect of dilution:		
Share options	1,963	1,588
Performance shares	235	-
Weighted average number of ordinary shares adjusted for dilution	**22,318**	**19,040**
Weighted average number of exercised, forfeited or expired potential ordinary shares included in diluted earnings per share	**15**	**-**

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

c) Dilutive earnings per share

Diluted earnings per share has been determined to be the same as basic earnings per share as the actual calculation is anti-dilutive for both periods presented. The instruments considered in the calculations of diluted earnings per share include convertible notes, preference shares, share options and performance shares.

Directors' Declaration

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In accordance with a resolution of the directors of ImpediMed Limited, we state that:

In the opinion of the directors:

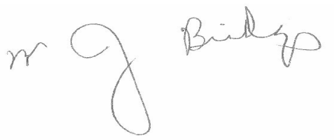
(a) the financial statements and notes of the consolidated entity:

I. give a true and fair view of the financial position as at 30 June 2007 and the performance for the year end on that date of the consolidated entity; and

II. comply with Accounting Standards and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts when they become due and payable.

On behalf of the Board



Mel Bridges
Chairman

Jim Hazel
Director

Brisbane, 24 August 2007

ERNST & YOUNG

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To the members of ImpediMed Limited

Independent auditor's report to the members of ImpediMed Limited

We have audited the accompanying financial report of ImpediMed Limited and the entities it controlled during the year ended 30 June 2007, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report
The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2(b), the directors also state that the financial report, comprising the consolidated financial statements and notes, complies with Australian Equivalents to International Financial Reporting Standards.

Auditor's Responsibility
Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence
In conducting our audit we have met the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion
In our opinion:
1. the financial report of ImpediMed Limited is in accordance with:
(a) the Corporations Act 2001, including:
(i) giving a true and fair view of the financial position of ImpediMed Limited and the consolidated entity at 30 June 2007 and of their performance for the year ended on that date; and
(ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations); and
(b) other mandatory financial reporting requirements in Australia.

2. the consolidated financial report also complies with Australian Equivalents to International Financial Reporting Standards as disclosed in Note 2(b).

Inherent Uncertainty Regarding Continuation of Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of the matters described in Note 2(ac) "Going Concern" to the financial statements, there is significant uncertainty whether the company and the consolidated entity will be able to continue as going concerns and therefore whether they will be able to pay their debts as and when they fall due and realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to the amounts and classification of liabilities that might be necessary should the company and the consolidated entity not continue as going concerns.

Ernst & Young

Ernst & Young

Winna Brown
Partner
Brisbane
24 August 2007