IMPEDIMED LIMITED

ABN 65 089 705 144

Financial Report

For the half-year ended 31 December 2006

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 half year ended 31 December 2006.

DIRECTORS

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

Names, qualifications, experience and special responsibilities

Melvyn 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, serves on the remuneration committee and the audit committee. Mel also serves as Chairman of the Board of Peptech Ltd and Alchemia Ltd and serves as a director of Cleveland Biosensors Pty Ltd, Farmacule Bioindustries Pty Ltd, Genetic Solutions Pty Ltd, Imbcom Pty Ltd and Parma Corporation Pty Ltd.

Gregory 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 partner of law firm Allen Allen and Hemsley (now Allen Arthur Robinson) for 25 years. Martin chairs the remuneration committee and serves on the audit committee of the company. Martin also serves as a non-executive director of 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 on 1st 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 and the audit committee. She is Chairman of Peplin Ltd, and a non-executive director of Suncorp Metway Ltd, Queensland BioCapital Funds, Australian Medical Insurance Ltd and MBF Australia Ltd.

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

Jim Hazel joined ImpediMed Limited as a non-executive director on 27th November 2006. Jim chairs the audit committee and serves on the remuneration committee. Jim had an extensive career in retail and investment banking, including as chief general manager of Adelaide Bank Ltd. Until recently he was managing director of PrimeLife Ltd and is currently chairman of Elders Rural Bank Limited, chairman of Becton Living Pty Ltd and a director of Terramin Australia Limited.

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

Michael Panaccio joined ImpediMed Limited as a non-executive director on 25th 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, and a director of the Australian Private Equity and Venture Capital Association. 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 and has been a non-executive director of ImpediMed Limited since 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 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	-	-	50,000	4,235,000	-
G Brown	-	-	-	3,035,000	747,673
M Kriewaldt	-	-	50,000	41,148	-
C Hirst	-	-	50,000	-	-
J Hazel	-	-	-	171,098	-
M Panaccio	1,444,718	1,221,579	7,000,000	-	-

PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the half 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 one subsidiary ImpediMed Inc which commenced operations in the United States on 1st July 2006.

Aorora Technologies Pty Ltd which was acquired by ImpediMed in June 2005 was sold to ICS, a wholly owned US subsidiary of ImpediMed Limited, incorporated in Delaware on 5th July 2006 as Impedance Cardiology Systems (ICS), on 7th July 2006. On 31 October 2006 ICS de-merged from ImpediMed Limited through capital reduction and distribution of ICS shares to the shareholders of ImpediMed Limited.

Directors' Report

Profit and Loss

The consolidated net profit after income tax for the half year ended 31 December 2006 is $3,418,879. The following transactions had a significant impact on the result:

- The sale of all cardio assets to ICS generated an accounting profit of $6,888,516 for the Group
- The Group prepared for an Initial Public Offering on the ASX and incurred transaction costs of $769,366 of which $292,248 have been recognised as an expense during the half-year ended 31 December 2006
- The Group also incurred transaction costs of $62,809 in relation to the issue of series 2 and series 3 converting notes and of Preference A shares

Commercialisation Progress

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

- Sales revenues achieved during the half-year $782,332 (2005: $706,836)

- The translation of the product firmware, software, and manuals was completed which is a requirement for acceptance in the European market. 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 half 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 begun the transfer of the Imp DF50 and Imp XCA to the same manufacturer, and will achieve significant savings in manufacturing costs on these products

- During the half-year ended 31 December 2006, a total of 239 instruments were sold, up 42 instruments over the comparative half-year to December 2005

- 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

- The company continues to invest substantially more in developing its products and markets than the early sales are able to generate in gross margins. 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

Total equity decreased marginally to $(4,545,309) from $(4,678,974) at 30 June 2006. During the half-year ended 31 December 2006, 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

As a result, cash at hand increased from $21,741 at 30 June 2006 to $5,645,684 at 31 December 2006.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

Other than:

- the appointment of Dr. Michael Panaccio to the Board of the parent company as a Non-Executive Director on 25th January 2007,

- a Board resolution approving the issue of further 780,000 options over ordinary shares under the ESOP with an exercise price to be set at either 15% off an IPO issue price for an IPO prior to 30 June 2007, or in the alternative $0.71,

Directors' Report

- a Board resolution approving the allocation of up to 579,500 performance shares to eligible employees of the Group for CY2007 performance, with actual entitlements to be assessed in CY2007 performance reviews in the March quarter of 2008,

- the signing of a terms sheet 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,

- the signing of a terms sheet for the acquisition of Xitron Technologies, Inc., based in San Diego USA. The acquisition adds a significant BIS patent to ImpediMed's IP portfolio and gives ImpediMed an established US west coast base of operations, along with revenues expected to be around $US 1.6 Million for calendar year 2007,

- the FDA clearance for the use of the Imp XCA device in the clinical assessment of Unilateral Lymphedema in the United States of America,

no matter or circumstance has arisen since the end of the half-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

- Following the launch of the Imp SFB7 in the US market, the Group has committed to two additional senior staff positions in Sales and Technical support and expects additional sales to come from the US region

- 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

- With plans to proceed to an IPO on the ASX, ImpediMed Limited expects to incur additional capital raising costs during calendar year 2007

- If the 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 1,567,673 unissued ordinary shares under options. Refer to note 24 of the financial statements for further details of options outstanding.

In addition to this, on 29th May 2007 the Board approved the issue of further 780,000 unissued ordinary shares under options.

Shares issued as a result of the exercise of options

Directors' Report

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

DIVIDENDS

No dividends were paid or proposed to be paid to members for the half-year ended 31 December 2006.

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 half-year ended 31 December 2006, the company has paid premiums in respect of a Director's and Officer's insurance policy. Directors and officers contributed a portion to the premium following standard industry practice.

REMUNERATION REPORT

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

Remuneration of key management personnel

(i) Compensation 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 that will periodically review 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.

(ii) Remuneration of key management personnel for the half-year ended 31 December 2006

	Short Term			Post Employment	Share-based	Total
	Salaries & Fees	Cash Bonus	Non-monetary	Superannuation	Options	
	$	$	$	$	$	$
Directors						
M Bridges	30,000	-	-	2,700	-	32,700
G Brown	146,000	-	54,000	18,000	62,356	280,356
M Finney*	685	-	-	62	-	747
M Kriewaldt	25,000	-	-	2,250	-	27,250
C Hirst	25,000	-	-	2,250	-	27,250
J Hazel	8,333	-	-	750	-	9,083
Executives						
P Auckland	67,500	-	20,000	7,875	6,134	101,509
B Robinson	51,282	-	12,500	5,740	1,696	71,218
J Butler	57,010	-	-	-	6,134	63,144
R Render	38,539	-	6,250	2,916	-	47,705
S Chetham	60,110	-	15,000	6,760	-	81,870
	509,459	**-**	**107,750**	**49,303**	**76,320**	**742,832**

** M Finney resigned on 5 July 2006.*

Directors' Report

Remuneration of key management personnel for the half-year ended 31 December 2005

	Short Term			Post Employment	Share-based	Total
	Salaries & Fees	Cash Bonus	Non-monetary	Superannuation	Options	
	$	$		$	$	$
Directors						
M Bridges	30,000	-	-	2,700	-	32,700
G Brown	156,563	-	-	0	-	156,563
M Finney	10,000	-	-	900	-	10,900
M Kriewaldt	25,000	-	-	2,250	-	27,250
C Hirst	25,000	-	-	2,250	-	27,250
Executives						
P Auckland	60,250	-	20,000	7,223	16,704	104,177
B Robinson	45,500	-	12,500	5,220	4,291	67,511
N Bertwistle	52,301	-	-	4,707	5,150	62,158
	404,614	**-**	**32,500**	**25,250**	**26,145**	**488,509**

Remuneration options: Granted and vested during the year

Under the ESOP, options were granted as equity compensation benefits to certain directors and specified executives. The options were issued free of charge. Each option entitles the holder to subscribe for one fully paid ordinary share in the entity at an exercise price as discussed below. The options granted vest proportionally over a three year period.

No options were granted as equity compensation benefits to directors and executives during the year.

	Vested	Granted	Terms and Conditions for each Grant			
31 December 2006	No.	No.	Grant date	Value per option at grant date $	Exercise price per share $	Expiry Date
Directors						
G Brown*	249,225	249,225	10-Nov-04	0.56	0.675	31-Dec-11
G Brown	249,224	249,224	10-Nov-04	0.64	0.675	31-Dec-12
G Brown	249,224	249,224	10-Nov-04	0.68	0.675	31-Dec-13
Executives						
P Auckland	33,334	50,000	30-Jul-04	0.47	0.87	30-Jul-10
P Auckland	66,666	100,000	28-Oct-04	0.47	0.87	28-Oct-10
B Robinson	33,334	50,000	30-Jul-04	0.47	0.87	30-Jul-10
J Butler	100,000	150,000	23-Nov-04	0.47	0.87	23-Nov-10
Total	**981,007**	**1,097,673**				

Directors' Report

31 December 2005	Vested No.	Granted No.	Grant date	Terms and Conditions for each Grant: Value per option at grant date $	Exercise price per share $	Expiry Date
Directors						
G Brown*	249,225	249,225	10-Nov-04	0.53	0.675	31-Dec-09
G Brown	249,224	249,224	10-Nov-04	0.57	0.675	31-Dec-10
G Brown	-	249,224	10-Nov-04	0.60	0.675	31-Dec-11
Executives						
P Auckland	16,667	50,000	30-Jul-04	0.47	0.87	30-Jul-10
P Auckland	33,333	100,000	28-Oct-04	0.47	0.87	28-Oct-10
B Robinson	16,667	50,000	30-Jul-04	0.47	0.87	30-Jul-10
N Bertwistle	20,000	60,000	30-Jul-04	0.47	0.87	30-Jul-10
Total	**585,116**	**1,007,673**				

* Options granted to GW Brown were modified on 19 May 2006 to extend each tranche's useful life by two years. The value per option at grant date disclosed above is the fair value as a modification date.

Shares issued on exercise of remuneration options

No shares were issued during the period to key management personnel on the exercise of remuneration options.

Option holdings of key management personnel

31 December 2006	Balance at 1 July 2006	Granted as remuneration	Net Change other	Balance at 31 Dec 2006	Not exercisable	Exercisable
Directors						
M Bridges	-	-	-	-	-	-
G Brown	747,673	-	-	747,673	-	747,673
M Finney*	-	-	-	-	-	-
M Kriewaldt	-	-	-	-	-	-
C Hirst	-	-	-	-	-	-
J Hazel	-	-	-	-	-	-
Executives						
P Auckland	150,000	-	-	150,000	50,000	100,000
B Robinson	50,000	-	-	50,000	16,666	33,334
J Butler	150,000	-	-	150,000	50,000	100,000
R Render	-	-	-	-	-	-
S Chetham	-	-	-	-	-	-
Total	**1,097,673**	**-**	**-**	**1,097,673**	**116,666**	**981,007**

* *M Finney resigned on 5 July 2006.*

Directors' Report

31 December 2005	Balance at 1 July 2005	Granted as remuneration	Net Change other	Balance at 31 Dec 2005	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
Total	**1,007,673**	**-**	**-**	**1,007,673**	**422,557**	**585,116**

Shareholdings of key management personnel

31 December 2006	Balance at 1 July 2006	Granted as remuneration	Net Change other	Balance at 31 December 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	-	-	41,148	41,148
C Hirst	-	-	-	-
J Hazel	171,098	-	-	171,098
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**

** M Finney resigned on 5 July 2006.*

Directors' Report

31 December 2005	Balance at 1 July 2005	Granted as remuneration	Net Change other	Balance at 31 December 2005
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
Total	**7,537,114**	**-**	**-**	**7,537,114**

Converting Note holdings of key management personnel

31 December 2006	Balance at 1 July 2006	Granted as remuneration	Net Change other	Balance at 31 December 2006
Directors				
M Bridges	-	-	500	500
G Brown	2,500	-	-	2,500
M Finney*	-	-	-	-
M Kriewaldt	250	-	250	500
C Hirst	-	-	500	500
J Hazel				
Executives				
P Auckland	-	-	-	-
B Robinson	-	-	-	-
J Butler	-	-	-	-
R Render	-	-	-	-
S Chetham	-	-	-	-
Total	**2,750**	**-**	**1,250**	**4,000**

** M Finney resigned on 5 July 2006.*

Directors' Report

31 December 2005	Balance at 1 July 2005	Granted as remuneration	Net Change other	Balance at 31 December 2005
Directors				
M Bridges	-	-	-	-
G Brown	-	-	-	-
M Finney	-	-	-	-
M Kriewaldt	250	-	-	250
C Hirst	-	-	-	-
Executives				
P Auckland	-	-	-	-
B Robinson	-	-	-	-
N Bertwistle	-	-	-	-
Total	**250**	**-**	**-**	**250**

DIRECTORS' MEETINGS

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

		Meetings of Committees	
	Directors' Meetings	Audit	Remuneration
Number of meetings held	9	2	-
Number of meetings attended:			
M Bridges	9	2	-
G Brown	9	2	-
M Kriewaldt	8	2	-
C Hirst	9	2	-
J Hazel *	2	1	-
M Finney*	1	-	-

* These directors were not directors for the full half 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 and a Remuneration 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 Finney

Remuneration

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

Directors' Report

AUDITORS' INDEPENDENCE AND NON-AUDIT SERVICES

The directors received the declaration per page 13 from the auditor of ImpediMed Limited.

Signed in accordance with a resolution of the directors.

Melvyn Bridges
Chairman

Brisbane 30th May, 2007

ERNST & YOUNG

1 Eagle Street
Brisbane QLD 4000
Australia

PO Box 7878
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 six months ended 31 December 2006, 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

Winna Brown
Partner
30 May 2007

Income Statement
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	Notes	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Continuing operations					
Sale of goods		782,332	706,836	828,805	706,836
Rendering of services		8,811	8,007	7,769	8,007
Finance income		83,806	22,967	83,787	22,967
Revenue	3(a)	**874,949**	**737,810**	**920,361**	**737,810**
Other income	3(b)	392,767	-	392,767	-
Cost of sales		(357,581)	(326,036)	(380,728)	(326,036)
Interest expense - converting notes	4(a)	(892,457)	(880,648)	(892,457)	(880,648)
Other finance costs	4(b)	(44,170)	(19,116)	(44,170)	(19,116)
Depreciation and amortisation	4(c)	(73,201)	(92,141)	(72,726)	(92,141)
Salaries and benefits	4(d)	(1,205,040)	(795,975)	(1,112,328)	(795,975)
Advertising and promotion		(53,764)	(101,794)	(34,837)	(101,794)
Consultants fees		(316,536)	(502,174)	(200,837)	(502,174)
Rent and property expenses	4(e)	(86,551)	(63,383)	(62,832)	(63,383)
Research and development expense		(388,283)	(108,414)	(388,283)	(108,414)
Travel expenses		(253,881)	(180,253)	(194,455)	(180,253)
Doubtful debt for intercompany receivable		-	-	(470,889)	-
Other expenses	4(f)	(1,051,173)	(500,322)	(1,010,618)	(500,322)
Profit/(loss) from continuing operations before income tax		**(3,454,921)**	**(2,832,446)**	**(3,552,032)**	**(2,832,446)**
Income tax	5(a)	(14,371)	18,174	(14,371)	18,174
Profit/(loss) from continuing operations after income tax		**(3,469,292)**	**(2,814,272)**	**(3,566,403)**	**(2,814,272)**
Discontinued operations	31				
Profit/(loss) from discontinued operations		(345)	80,695	-	83,217
Gain on disposal of assets constituting the discontinued operations		6,888,516	-	6,883,187	-
Net profit/(loss) for the period		**3,418,879**	**(2,733,577)**	**3,316,784**	**(2,731,055)**

Balance Sheet
AS AT 31 DECEMBER 2006

	Notes	Consolidated		Parent	
		as at 31 Dec 2006 $	as at 30 June 2006 $	as at 31 Dec 2006 $	as at 30 June 2006 $
CURRENT ASSETS					
Cash and cash equivalents	6	5,645,684	21,741	5,582,409	1,572
Restricted cash assets	6	22,500	22,500	22,500	22,500
Trade and other receivables	7	698,514	785,363	653,966	785,363
Inventories	8	380,652	599,028	373,770	599,028
Prepayments	13	572,469	405,414	565,769	405,414
Other financial assets	9	119,822	71,000	119,822	91,166
Total Current Assets		**7,439,641**	**1,905,046**	**7,318,236**	**1,905,043**
NON-CURRENT ASSETS					
Other financial assets	10	164,550	164,550	164,551	2,161,684
Property and equipment	11	195,635	169,287	158,418	169,287
Intangible assets	12	196,643	2,391,075	196,643	399,273
Total Non-Current Assets		**556,828**	**2,724,912**	**519,612**	**2,730,244**
TOTAL ASSETS		**7,996,469**	**4,629,958**	**7,837,848**	**4,635,287**
CURRENT LIABILITIES					
Trade and other payables	15	655,576	1,395,791	607,605	1,395,791
Interest-bearing loans	16	77,772	1,053,698	77,772	1,053,698
Provisions	17	356,464	213,234	356,464	213,234
Converting notes	18	7,105,394	6,462,186	7,105,394	6,462,186
Total Current Liabilities		**8,195,206**	**9,124,909**	**8,147,235**	**9,124,909**
NON-CURRENT LIABILITIES					
Interest-bearing loans	16	106,936	149,272	106,936	149,272
Provisions	17	45,614	34,751	42,514	34,751
Preference A Shares	19	4,194,022	-	4,194,022	-
Total Non-Current Liabilities		**4,346,572**	**184,023**	**4,343,472**	**184,023**
TOTAL LIABILITIES		**12,541,778**	**9,308,932**	**12,490,707**	**9,308,932**
NET ASSETS		**(4,545,309)**	**(4,678,974)**	**(4,652,859)**	**(4,673,645)**
EQUITY					
Issued capital	20	11,151,629	7,634,040	11,151,629	7,634,040
Reserves	21	884,333	803,950	873,550	803,950
Accumulated losses		(16,581,271)	(13,116,964)	(16,678,038)	(13,111,635)
TOTAL EQUITY		**(4,545,309)**	**(4,678,974)**	**(4,652,859)**	**(4,673,645)**

Cash Flow Statement

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	Notes	Consolidated 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Cash flows from operating activities					
Receipts from customers		935,922	427,870	575,178	427,870
Receipts from grants		-	83,218	-	83,218
Payments to suppliers and employees		(3,353,187)	(2,762,247)	(3,073,549)	(2,783,224)
Interest received		56,444	12,337	56,425	12,337
Interest paid		(44,170)	(19,116)	(44,170)	(19,116)
R&D tax offset received		339,612	391,259	339,612	391,259
Net cash flows from operating activities		**(2,065,379)**	**(1,866,679)**	**(2,146,504)**	**(1,887,656)**
Cash flows from investing activities					
Proceeds from sale of plant and equipment		10,892	-	10,892	-
Investment in de-merged entity		(1,185,450)	-	(1,185,450)	-
Transaction costs on investment in de-merged entity		(399,254)	-	(399,254)	-
Purchase of plant and equipment		(68,452)	(64,613)	(30,433)	(64,613)
Purchase of intangible assets		(13,817)	-	(13,817)	-
Purchase of deposits		-	(22,500)	-	(22,500)
Net cash flows from investing activities		**(1,656,081)**	**(87,113)**	**(1,618,062)**	**(87,113)**
Cash flows from financing activities					
Proceeds from issue of series 1 converting notes		-	1,215,005	-	1,215,005
Proceeds from issue of series 2 converting notes		1,000,000	-	1,000,000	-
Proceeds from issue of series 3 converting notes		7,150,000	-	7,150,000	-
Proceeds from issue of Preference A shares		2,970,840	-	2,970,840	-
Transaction costs on issue of converting notes		(56,540)	-	(56,540)	-
Transaction costs on issue of Preference A shares		(6,269)	-	(6,269)	-
Transaction costs on issue of Ordinary shares		(694,366)	-	(694,366)	-
Repayment of loans from related parties		(350,000)	-	(350,000)	-
Repayment of borrowings		(35,199)	(33,447)	(35,199)	(33,447)
Repayment of finance lease principal		(10,024)	(3,522)	(10,024)	(3,522)
Net cash flows from financing activities		**9,968,442**	**1,178,036**	**9,968,442**	**1,178,036**
Net increase/(decrease) in cash held		6,246,982	(775,756)	6,203,876	(796,733)
Cash at beginning of period		(601,298)	935,684	(621,467)	935,684
Cash at closing of period	6	**5,645,684**	**159,928**	**5,582,409**	**138,951**

Statement of Changes in Equity

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

CONSOLIDATED	**Issued Capital**	**Reserves**	**Retained Earnings**	**Total**
	$	**$**	**$**	**$**
At 1 July 2005	**7,634,040**	**435,712**	**(5,416,426)**	**2,653,326**
Profit / (loss) for the period	-	-	(2,733,577)	(2,733,577)
Cost of share-based payment	-	147,694	-	147,694
At 31 December 2005	**7,634,040**	**583,406**	**(8,150,003)**	**67,443**
Profit / (loss) for the period	-	-	(4,966,961)	(4,966,961)
Cost of share-based payment	-	220,544	-	220,544
At 30 June 2006	**7,634,040**	**803,950**	**(13,116,964)**	**(4,678,974)**
Foreign currency translation	-	10,783	-	10,783
Total income recognised directly in equity		10,783		10,783
Profit / (loss) for the period	-	-	3,418,879	3,418,879
Total income and expense for the period		10,783	3,418,879	3,429,662
Cost of share-based payment	-	69,600	-	69,600
Issue of share capital	4,989,002	-	-	4,989,002
Reduction of share capital	(1,471,413)	-	(6,883,186)	(8,354,599)
At 31 December 2006	**11,151,629**	**884,333**	**(16,581,271)**	**(4,545,309)**

PARENT	**Issued Capital**	**Reserves**	**Retained Earnings**	**Total**
	$	**$**	**$**	**$**
At 1 July 2005	**7,634,040**	**435,712**	**(5,416,098)**	**2,653,654**
Profit / (loss) for the period	-	-	(2,731,055)	(2,731,055)
Cost of share-based payment	-	147,694	-	147,694
At 31 December 2005	**7,634,040**	**583,406**	**(8,147,153)**	**70,293**
Profit / (loss) for the period	-	-	(4,964,482)	(4,964,482)
Cost of share-based payment	-	220,544	-	220,544
At 30 June 2006	**7,634,040**	**803,950**	**(13,111,636)**	**(4,673,645)**
Profit / (loss) for the period	-	-	3,316,784	3,316,784
Cost of share-based payment	-	69,600	-	69,600
Issue of share capital	4,989,002	-	-	4,989,002
Reduction of share capital	(1,471,413)	-	**(6,883,187)**	(8,354,600)
At 31 December 2006	**11,151,629**	**873,550**	**(16,678,039)**	**(4,652,859)**

Notes to the Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

Note	Contents	Page

Notes to the Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

1 CORPORATE INFORMATION

The financial report of ImpediMed Limited for the half-year ended 31 December 2006 was authorised for issue in accordance with a resolution of the directors on 29 May 2007. ImpediMed Limited is a company limited by shares incorporated in Australia.

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 half-year reporting period ended 31 December 2006. 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 7	*Financial Instruments: Disclosures*	New standard replacing disclosure requirements of AASB 132	1-Jan-07	As above	1-Jul-07
UIG 8	Scope of AASB 2 *Share-based Payment*	Clarifies that the scope of AASB 2 includes transactions in which the entity cannot identify specifically some or all of the goods or services received as consideration for the equity Instruments of the entity or other share-based payment.	1-May-06	Unless the Group enters into share-based payment arrangements unrelated to employee services in future reporting periods, these amendments are not expected to have any impact on the Group's financial report.	1-Jul-07

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of ImpediMed Limited and all its subsidiaries as at 31 December 2006 (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:

Impairment of goodwill
The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which goodwill are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill are discussed in note 14.

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.

(e) 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.

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

(f) 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.

(g) Borrowing costs

Borrowing costs are recognised as an expense when incurred.

(h) 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.

(i) 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.

(j) 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.

(k) 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.

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

(l) 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.

(m) 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.

(n) 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.

(o) 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.

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

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.

(p) 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

(q) Property, 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:

	2006	**2005**
Plant and equipment	2 to 15 years	2 to 15 years
Plant and equipment under finance lease	3 years	3 years
Leasehold improvements	2 years	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.

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

(r) 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.

(s) 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.

(t) 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. Where amortisation is charged on assets with finite lives, the expense is taken to the income statement through the depreciation and amortisation line. Patents that are capitalised are amortised on a straight line basis over their useful lives. 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.

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.

Notes to the Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

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 indicator of impairment exists	Amortisation method reviewed each year and reviewed annually for impairment indicators

(u) 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.

(v) 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.

(w) 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 HALF-YEAR ENDED 31 DECEMBER 2006

(x) 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.

All other liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the balance sheet date. In determining the present value of future cash outflows, the market yield of national government bonds at balance sheet date, which have maturity approximating the terms of the related liability, are used. Employee benefits are recognised against profits in the income statement.

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”). There is currently an Employee Share Option Plan (ESOP) in place which provides benefits to executives and employees, plus a CEO option arrangement outside the ESOP.

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.

The Group has applied the requirements of AASB 1 ‘First-time Adoption of Australian Equivalents to International Financial Reporting Standards’ in respect of equity-settled awards and has applied AASB 2 ‘Share-Based Payments’ only to equity instruments granted after 7 November 2002 and that had not vested on or before 1 January 2005.

(y) 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.

(z) 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.

Notes to the Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

(aa) Going concern

This report has been prepared on the basis that the Group is a going concern. The company and the consolidated entity have net liabilities of $4,652,859 and $4,545,309 respectively (30 June 2006: $4,673,645 and $4,678,974 respectively) and realised a profit after income tax of $3,316,784 and $3,418,879 respectively for the half-year ended 31 December 2006 (2005: loss of $2,731,055 and $2,733,577 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) significantly improved the cash position of the Group and resulted in a cash balance of $5,645,684 and total assets of $7,996,469 at 31 December 2006.

The consolidated profit after tax of $3,418,879 for the half-year ended 31 December 2006, primarily a result of the profit on sale of the Group's cardio assets to ICS, contributed to the strengthening of the Balance sheet.

The Group has also started to prepare for an IPO during the second half of calendar year 2007 with the aim to secure a major capital raising. Due diligence and prospectus are well advanced. Alternatively, the Group is also pursuing the option of further equity funding from Venture capital investors, and negotiations are in an advanced status. Should the Venture capital investment be concluded in the short term, the Group might forego the IPO capital raising option.

However, given the generation of negative cash flows from operating activities which is not expected to change in the near future, the Group is reliant on capital raising to meet its obligations as they fall due, and if it was unable to secure funding, the company and the consolidated entity may not be able to continue as a going concern. No adjustments have been made relating to the recoverability and classification of assets and liabilities that might be necessary should the company and/or the consolidated entity not continue as going concerns.

3 REVENUE

	Consolidated		*Parent*	
	2006 $	**2005 $**	**2006 $**	**2005 $**
(a) Revenue				
Sale of goods	782,332	706,836	828,805	706,836
Rendering of services	8,811	8,007	7,769	8,007
Finance revenue	83,806	22,967	83,787	22,967
	874,949	**737,810**	**920,361**	**737,810**
Breakdown of finance revenue				
Bank interest	75,771	12,337	75,752	12,337
Investment income receivable	8,035	10,630	8,035	10,630
(b) Other income				
Cost recoupment from ICS *	389,560	-	389,560	-
Other	3,207	-	3,207	-
	392,767	**-**	**392,767**	**-**

* ImpediMed Limited has recouped a part of the transaction costs incurred in relation to the incorporation of ICS and asset sale to ICS during financial year 2006 from ICS. The company also charges ICS for R&D services provided to ICS.

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

4 EXPENSES

	Consolidated		Parent	
	2006 $	2005 $	2006 $	2005 $
(a) Interest expense - converting notes				
Expense for discount on series 1 notes	47,857	842,869	47,857	842,869
Expense for discount on series 2 notes	703,031	-	703,031	-
Expense for warrant coverage	2,732	-	2,732	-
Amortisation of capital raising cost for notes	138,837	37,779	138,837	37,779
	892,457	**880,648**	**892,457**	**880,648**
(b) Other finance costs				
Bank loans and overdrafts	2,324	-	2,324	-
Other loans	41,319	18,126	41,319	18,126
Interest expense on leasehold improvement	300	300	300	300
Finance charges payable under finance leases	227	690	227	690
	44,170	**19,116**	**44,170**	**19,116**
(c) Depreciation and amortisation				
Depreciation of plant and equipment	33,817	28,551	32,997	28,551
Amortisation of leasehold improvements	1,014	9,389	1,014	9,389
Amortisation of plant and equipment under lease	-	4,000	-	4,000
Amortisation of intangibles	38,370	50,201	38,715	50,201
	73,201	**92,141**	**72,726**	**92,141**
(d) Salaries & benefits				
Wages and salaries	1,041,326	583,673	948,614	583,673
Superannuation costs	86,726	56,980	86,726	56,980
Long service leave provision	7,388	7,628	7,388	7,628
Expense of share-based payments	69,600	147,694	69,600	147,694
	1,205,040	**795,975**	**1,112,328**	**795,975**
(e) Rent and property expenses				
Minimum lease payments – operating lease	71,461	51,805	51,805	51,805
Other premises expenses	15,090	11,578	11,027	11,578
	86,551	**63,383**	**62,832**	**63,383**
(f) Other expenses				
Trademark and patent expense	45,184	68,453	45,184	68,453
Communication expense	46,861	40,199	38,991	40,199
Legal expense	519,172	50,806	508,715	50,806
Bad and doubtful debts	5,000	(675)	5,000	(675)
Net loss on disposal of plant and equipment	413	-	413	-
Directors fees	59,018	110,000	59,018	110,000
Other expenses *	375,525	231,539	353,297	231,539
	1,051,173	**500,322**	**1,010,618**	**500,322**
* Other expenses include:				
Net foreign exchange realised (gains) / losses	(1,673)	(368)	(4,585)	(368)
Net foreign exchange unrealised (gains) / losses	24,158	(1,773)	24,158	(1,773)
	22,485	**(2,141)**	**19,573**	**(2,141)**

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

5 INCOME TAX EXPENSE

The major components of income tax are:

	Consolidated		Parent	
	2006 $	**2005 $**	**2006 $**	**2005 $**
(a) Income tax expense				
Current income tax				
Current income tax benefit	(14,371)	18,174	(14,371)	18,174
Deferred income tax				
Relating to origination and reversal of temporary differences	-	-	-	-
Income tax benefit reported in the Income Statement	**(14,371)**	**18,174**	**(14,371)**	**18,174**

(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 2006 $	Consolidated 2005 $	Parent 2006 $	Parent 2005 $
Accounting profit/(loss) before tax from continuing operations	(3,454,921)	(2,832,446)	(3,552,032)	(2,832,446)
Accounting profit/(loss) before tax from discontinued operations	6,888,171	80,695	6,883,187	83,217
Accounting profit / (loss) before income tax	**3,433,250**	**(2,751,751)**	**3,331,155**	**(2,749,229)**
Prima facie tax on profit / (loss)	1,029,975	(825,525)	999,347	(824,769)
Adjustment for current income tax of previous years	14,371	(18,174)	14,371	(18,174)
Expenditure not allowable for income tax purposes	1,280,421	379,901	1,656,960	379,145
Other assessable income	5,120	1,603	5,120	1,603
Not assessable income	(2,189,832)	(6,152)	(2,428,303)	(6,152)
Other deductible expenses	(117,027)	(40,908)	(117,027)	(40,908)
Additional deduction for R&D	(49,211)	(8,616)	(49,211)	(8,616)
R&D tax offset	-	103,700	-	103,700
Tax losses utilised	40,554	-	(66,886)	-
Tax losses not recognised	-	395,997	-	395,997
Income tax reported in the Income Statement	**14,371**	**(18,174)**	**14,371**	**(18,174)**

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	Balance Sheet		Income Statement	
	2006 $	2005 $	2006 $	2005 $
(c) Recognised deferred tax assets and liabilities				
Deferred income tax at 31 December relates to the following:				
CONSOLIDATED				
Deferred tax assets				
Employee entitlements	109,282	42,160	-	
S40-880 costs	107,701	64,892	-	
Deferred rent	4,346	3,600	-	
Patent costs	65,388	53,080	-	
Sundry creditors and accruals	6,950	1,390	-	
Losses available for offset against future taxable income	2,172,843	1,500,390	-	
Deferred tax assets not recognisable	(2,466,509)	(1,665,512)	-	

	Balance Sheet		Income Statement	
	2006 $	2005 $	2006 $	2005 $
PARENT				
Deferred tax assets				
Employee entitlements	109,282	42,160	-	
S40-880 costs	107,701	64,892	-	
Deferred rent	3,416	3,600	-	
Patent costs	65,388	53,080	-	
Sundry creditors and accruals	6,950	1,390	-	
Losses available for offset against future taxable income	2,079,225	1,500,390	-	
Deferred tax assets not recognisable	(2,371,962)	(1,665,511)	-	

(d) Tax losses

The group has tax losses in Australia of $6,930,750 (2005: $5,001,299) 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.

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

6 CASH, CASH EQUIVALENTS AND RESTRICTED CASH ASSETS

	Consolidated		*Parent*	
	as at 31 Dec 2006 $	**as at 30 June 2006 $**	**as at 31 Dec 2006 $**	**as at 30 June 2006 $**
Cash at bank and in hand (i)	5,642,977	20,523	5,581,155	354
Short term deposits	2,707	1,218	1,254	1,218
Cash and cash equivalents	**5,645,684**	**21,741**	**5,582,409**	**1,572**
Short term deposits – restricted (ii)	22,500	22,500	22,500	22,500
Restricted cash assets	**22,500**	**22,500**	**22,500**	**22,500**

(i) Cash at bank and in hand does not earn interest.

(ii) The restricted short term deposit, held as security for the lease, is made for a period of six months and earns interest at the respective short term interest rate.

At 31 December 2006, the Group had no overdraft facility in place and did not use any overdraft (30 June 2006: $623,039 overdraft used)

Reconciliation of cash

For the purposes of the Cash Flow Statement, cash and cash equivalents comprise the following:

Cash at bank and in hand	5,642,977	58,776	5,581,155	37,799
Short term deposits	2,707	101,152	1,254	101,152
	5,645,684	**159,928**	**5,582,409**	**138,951**

Notes to the Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

7 TRADE AND OTHER RECEIVABLES

	Consolidated		*Parent*	
	as at 31 Dec 2006 $	**as at 30 June 2006 $**	**as at 31 Dec 2006 $**	**as at 30 June 2006 $**
Trade receivables (i)	555,082	373,857	510,534	373,857
Allowance for doubtful debts	(10,000)	(5,000)	(10,000)	(5,000)
	545,082	368,857	500,534	368,857
R&D tax offset receivables	-	325,241	-	325,241
GST receivables (ii)	104,766	83,223	104,766	83,223
Other receivables (iii)	48,666	8,042	48,666	8,042
	698,514	**785,363**	**653,966**	**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 $5,000 has been recognised as an expense for the half year for specific debtors 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 are principally interest receivable due within twelve months.

8 INVENTORIES

	Consolidated		*Parent*	
	as at 31 Dec 2006 $	**as at 30 June 2006 $**	**as at 31 Dec 2006 $**	**as at 30 June 2006 $**
Finished goods	132,160	336,733	127,789	336,733
Components and consumables	248,492	265,160	245,981	265,160
Less: Provision for obsolete stock	-	(2,865)	-	(2,865)
	380,652	**599,028**	**373,770**	**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 HALF-YEAR ENDED 31 DECEMBER 2006

9 OTHER FINANCIAL ASSETS (CURRENT)

	Consolidated		Parent	
	as at 31 Dec 2006 $	as at 30 June 2006 $	as at 31 Dec 2006 $	as at 30 June 2006 $
Debentures - at cost (i)	71,000	71,000	71,000	71,000
Intercompany loan account (ii)	-	-	470,889	20,166
Less: Provision for doubtful debt	-	-	(470,889)	-
Loan account ICS (iii)	48,822	-	48,822	-
	119,822	**71,000**	**119,822**	**91,166**

(i) The debentures are repayable at 7 March 2007 and earn interest at a yearly rate of 7.35% 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.

10 OTHER FINANCIAL ASSETS (NON-CURRENT)

	Consolidated		Parent	
	as at 31 Dec 2006 $	as at 30 June 2006 $	as at 31 Dec 2006 $	as at 30 June 2006 $
Debentures - at cost (i)	142,000	142,000	142,000	142,000
Security deposit for office lease	22,550	22,550	22,550	22,550
	164,550	**164,550**	**164,550**	**164,550**
Shares in controlled entities (ii)	-	-	1	1,997,134
	-	**-**	**1**	**1,997,134**
	164,550	**164,550**	**164,551**	**2,161,684**

(i) Debentures comprise three tranches of debentures with maturity dates 7 March 2007, 7 March 2008 and 7 March 2009. They earn interest at rates of 7.35%, 7.5% and 7.6% respectively, and are payable in arrears.

(ii) Shares in controlled entities comprise:

	Country of Incorporation	Percentage of equity interest	Investment	
			as at 31 Dec 2006 $	as at 30 June 2006 $
ImpediMed, Inc.	USA	100	1	1
Aorora Technologies Pty Ltd	Australia	-	-	1,997,133
			1	**1,997,134**

Notes to the Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

11 PROPERTY, PLANT AND EQUIPMENT

	Consolidated		*Parent*	
	as at 31 Dec 2006	**as at 30 June 2006**	**as at 31 Dec 2006**	**as at 30 June 2006**
	$	**$**	**$**	**$**
Plant and equipment				
At cost	357,722	289,270	319,703	289,270
Accumulated depreciation	(166,491)	(133,401)	(165,689)	(133,401)
Net carrying amount	191,231	155,869	154,014	155,869
Leasehold improvements				
At cost	43,622	43,622	43,622	43,622
Accumulated depreciation	(39,218)	(38,204)	(39,218)	(38,204)
Net carrying amount	4,404	5,418	4,404	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 property, plant and equipment				
At cost	401,344	356,892	363,325	356,892
Accumulated depreciation	(205,709)	(187,605)	(204,907)	(187,605)
Net carrying amount	**195,635**	**169,287**	**158,418**	**169,287**
Reconciliations				
Plant and equipment				
Carrying amount at beginning	155,869	149,727	155,869	149,727
Additions	69,179	80,680	31,142	80,680
Disposals	-	(4,988)	-	(4,988)
Depreciation expense	(33,817)	(69,550)	(32,997)	(69,550)
Carrying amount at end	191,231	155,869	154,014	155,869
Leasehold Improvements				
Carrying amount at beginning	5,418	19,623	5,418	19,623
Additions	-	-	-	-
Disposals	-	-	-	-
Amortisation expense	(1,014)	(14,205)	(1,014)	(14,205)
Carrying amount at end	4,404	5,418	4,404	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

Notes to the Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

12 INTANGIBLE ASSETS AND GOODWILL

	Consolidated		*Parent*	
	as at 31 Dec 2006 $	**as at 30 June 2006 $**	**as at 31 Dec 2006 $**	**as at 30 June 2006 $**
Software				
At cost	207,437	193,620	207,437	193,620
Accumulated amortisation	(173,911)	(163,417)	(173,911)	(163,417)
Net carrying amount	33,526	30,203	33,526	30,203
Licences				
At cost	525,000	705,000	525,000	705,000
Accumulated amortisation	(361,883)	(335,930)	(361,883)	(335,930)
Net carrying amount	163,117	369,070	163,117	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	732,437	2,895,751	732,437	898,620
Accumulated amortisation	(535,794)	(504,676)	(535,794)	(499,347)
Net carrying amount	**196,643**	**2,391,075**	**196,643**	**399,273**

Reconciliations

Software				
Carrying amount at beginning	30,203	72,783	30,203	72,783
Additions	13,817	2,525	13,817	2,525
Disposals	-	-	-	-
Amortisation expense	(10,494)	(45,105)	(10,494)	(45,105)
Carrying amount at end	33,526	30,203	33,526	30,203
Licences				
Carrying amount at beginning	369,070	245,993	369,070	245,993
Additions	-	180,000	-	180,000
Disposals	(178,077)	-	(178,077)	-
Amortisation expense	(27,876)	(56,923)	(27,876)	(56,923)
Carrying amount at end	163,117	369,070	163,117	369,070

Notes to the Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	Consolidated		Parent	
	as at 31 Dec 2006 $	as at 30 June 2006 $	as at 31 Dec 2006 $	as at 30 June 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 half-year ended 31 December 2006, 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 half year ended 31 December 2006.

13 PREPAYMENTS AND DEFERRED EXPENSES

	Consolidated		Parent	
	as at 31 Dec 2006 $	as at 30 June 2006 $	as at 31 Dec 2006 $	as at 30 June 2006 $
Prepayment for goods and services (i)	95,351	103,707	88,651	103,707
Deferred Preference share expenses (ii)	-	232,221	-	232,221
Deferred IPO expenses (iii)	477,118	69,486	477,118	69,486
	572,469	**405,414**	**565,769**	**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. Expenses were deferred as at 30 June 2006 as no preference shares had been issued prior to year end. Refer to Note 19 for details of deferred transaction costs as at 31 December 2006 which are being amortised over the expected life of issued preference shares.

(iii) Deferred expenses in relation to the issue of Ordinary shares in the anticipation of an IPO during 2007 were incurred for legal and other professional services.

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

14 IMPAIRMENT TEST OF INTANGIBLE ASSETS

For the purpose of impairment testing, the Group has determined one cash-generating unit (CGU) with largely independent cash flows as at 31 December 2006 and corporate assets. All cardio assets forming part of a second CGU as at 30 June 2006 have been sold to ICS on 7 July 2006.

The remaining CGU "SFU / MFU" (single frequency and mutlifrequency instruments) comprises software and two licences which are intangible assets with a finite useful live. No goodwill is part of the CGU.

As the impairment triggers used by the Group did not show any indication of impairment at 31 December 2006, no impairment has been formally estimated for the CGU and no impairment loss has been recognised.

15 TRADE AND OTHER PAYABLES

	Consolidated		***Parent***	
	as at 31 Dec 2006 $	**as at 30 June 2006 $**	**as at 31 Dec 2006 $**	**as at 30 June 2006 $**
Trade payables (i)	413,357	753,175	368,734	753,175
Interest payable (ii)	-	24,080	-	24,080
Other accruals and payables (iii)	223,099	598,370	223,099	598,370
Related party payables (iv)	19,120	20,166	15,772	20,166
	655,576	**1,395,791**	**607,605**	**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.

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

16 INTEREST-BEARING LOANS

	Effective Interest Rate %	Maturity	Consolidated as at 31 Dec 2006 $	Consolidated as at 30 June 2006 $	Parent as at 31 Dec 2006 $	Parent as at 30 June 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)	12.52	Feb-09	67,079	62,754	67,079	62,754
CSS Loan 2 (v)	15.00	Apr-09	10,693	10,047	10,693	10,047
			77,772	**1,053,698**	**77,772**	**1,053,698**
Non-current						
Lease liability (i)	8.75		-	2,166	-	2,166
CSS Loan 1(ii)	13.40	Feb-09	90,440	125,098	90,440	125,098
CSS Loan 2 (iii)	12.52	Apr-09	16,496	22,008	16,496	22,008
			106,936	**149,272**	**106,936**	**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 three 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.

Financing facilities available

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

	Consolidated as at 31 Dec 2006 $	Consolidated as at 30 June 2006 $	Parent as at 31 Dec 2006 $	Parent as at 30 June 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**

Notes to the Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

17 PROVISIONS

	Consolidated		Parent	
	as at 31 Dec 2006 $	as at 30 June 2006 $	as at 31 Dec 2006 $	as at 30 June 2006 $
Current				
Employee benefits (i)	344,995	206,667	344,995	206,667
Warranty provision (ii)	11,469	6,567	11,469	6,567
	356,464	**213,234**	**356,464**	**213,234**
Non-current				
Deferred rent liability (iii)	14,485	11,310	11,385	11,310
Employee benefits (i)	19,279	11,891	19,279	11,891
Office lease - make good provision (iv)	11,850	11,550	11,850	11,550
	45,614	**34,751**	**42,514**	**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 $4,902 has been provided during the half-year ended 31 December 2006, 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 $300 (2005: $300) was made in respect of the Group's make good obligation during the half year ended 31 December 2006.

18 CONVERTING NOTES

	Consolidated		Parent	
	as at 31 Dec 2006 $	as at 30 June 2006 $	as at 31 Dec 2006 $	as at 30 June 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)	7,150,000	-	7,150,000	-
	7,150,000	**6,474,478**	**7,150,000**	**6,474,478**
Deferred transaction costs	(56,540)	(213,896)	(56,540)	(213,896)
Accumulated amortisation of deferred transaction costs	11,934	188,819	11,934	188,819
	(44,606)	**(25,077)**	**(44,606)**	**(25,077)**
Warrant Shares (ii)	-	**12,785**	-	**12,785**
	7,105,394	**6,462,186**	**7, 105,394**	**6,462,186**

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

(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

Notes to the Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

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.

On 7 July 2007, all of the 30,737 notes on issue converted into ordinary shares (refer note 20). No series 1 notes were on issue on 31 December 2006.

(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.

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

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.

(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.

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

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 2007, all of the 10,000 notes on issue converted into preference A2 shares (refer note 19). No series 2 notes were on issue on 31 December 2006.

(iii) Converting notes series 3

During the half year ended 31 December 2006, 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.

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

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:

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

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;

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

(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:

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

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

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 half-year ended 31 December 2006, holders of 71,500 series 3 notes with a face value of $7,150,000 have subscribed notes.

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.

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

19 PREFERENCE SHARES

	Consolidated		Parent	
	as at 31 Dec 2006 $	as at 30 June 2006 $	as at 31 Dec 2006 $	as at 30 June 2006 $
Preference A1 Shares (i)	2,069,044	-	2,069,044	-
Preference A2 Shares (ii)	2,264,775	-	2,264,775	-
	4,333,819	**-**	**4,333,819**	**-**
Deferred transaction costs	(241,625)	-	(241,625)	-
Accumulated amortisation of deferred transaction costs	101,828	-	101,828	-
	(139,797)	**-**	**(139,797)**	**-**
	4,194,022	**-**	**4,194,022**	**-**

During the half-year ended 31 December 2006, 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 half 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 16 October 2006, the preference A1 share liability was reduced by $901,796 following the de-merger of ICS from ImpediMed Limited. As a result the carrying amount of the preference A1 share liability as at 31 December 2006 was reduced to $2,069,044.

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

(ii) Preference A2 Shares

On 7 July 2006 all of the 200 converting notes series 2 (refer note 18) converted into 3,257,544 Preference A2 shares, giving rise to a preference A2 share liability of $3,251,881.

On 16 October 2006, the preference A2 share liability was reduced by $987,106 following the de-merger of ICS from ImpediMed Limited. As a result the carrying amount of the preference A2 share liability as at 31 December 2006 was reduced to $2,264,775.

20 ISSUED CAPITAL

(a) Issued and paid up capital

	Consolidated		*Parent*	
	as at 31 Dec 2006 $	**as at 30 June 2006 $**	**as at 31 Dec 2006 $**	**as at 30 June 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 31 December 2006	**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.

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	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 31 December 2006	**1,478,260**	**908,464**

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 (refer note 24).

21 RESERVES

	Consolidated		*Parent*	
	as at 31 Dec 2006 $	**as at 30 June 2006 $**	**as at 31 Dec 2006 $**	**as at 30 June 2006 $**
Share options reserve (i)				
Balance at beginning	803,950	435,712	803,950	435,712
Additions	69,600	368,238	69,600	368,238
Balance at end	**873,550**	**803,950**	**873,550**	**803,950**
Foreign exchange translation reserve (ii)				
Balance at beginning	-	-	-	-
Additions	10,783	-	-	-
Balance at end	**10,783**	**-**	**-**	**-**
	884,333	**803,950**	**873,550**	**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 31 December 2006 there were 1,587,673 (30 June 2006: 1,587,673) unissued ordinary shares in respect of which options were outstanding.

The employee share and option scheme allows for options on unissued shares up to a maximum of 15% of fully vested ordinary shares. All options issued under the scheme must be issued with an exercise price no less than fair market value. The actual exercise price will be determined by a committee of directors. No options provide dividend or voting rights to the holders.

(ii) 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 HALF-YEAR ENDED 31 DECEMBER 2006

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 is 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 manager based in the US.

(1) Segment revenues

	External Sales		*Inter-segment*		*Total*	
	2006 $	**2005 $**	**2006 $**	**2005 $**	**2006 $**	**2005 $**
Australia and rest of world	779,030	737,810	141,331	-	920,361	737,810
United States of America	95,900	-	-	-	95,919	-
Consolidated	**874,949**	**737,810**	**141,331**	**-**	**1,016,280**	**737,810**

(2) Segment result

	Total	
	2006 $	**2005 $**
Australia and rest of world	3,331,155	(2,751,751)
United States of America	(322,719)	-
Profit / (loss) before income tax	3,008,436	(2,751,751)
Eliminations	424,814	-
Income tax	(14,371)	18,174
Profit / (loss) for the period	**3,418,879**	**(2,733,577)**

Notes to the Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

(3) Segment assets and liabilities

	Assets		*Liabilities*	
	2006 $	**2005 $**	**2006 $**	**2005 $**
Australia and rest of world	7,977,645	4,006,919	12,630,504	8,685,893
United States of America	210,025	-	521,960	-
Total all segments	8,187,670	4,006,919	13,152,464	8,685,893
Eliminations	(51,404)	-	(470,889)	-
Consolidated	**8,136,266**	**4,006,919**	**12,681,575**	**8,685,893**

(4) Other segment information

	Australia		*United States*	
	2006 $	**2005 $**	**2006 $**	**2005 $**
Acquisition of assets	41,223	64,613	41,046	-
Depreciation and amortisation of assets	66,865	88,141	6,681	-
Depreciation and amortisation of leased assets	-	4,000	-	-
Share-based payment expense	69,600	147,694	-	-
Rent expense	51,805	51,805	19,656	-
Interest expense	44,170	19,116	-	-
Employee benefits	1,112,328	795,975	92,712	-
Gain / (loss) on sale of non-current assets	(413)	-	-	-

Notes to the Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 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 of $89,000 increasing by CPI annually. The current lease at 31 December 2006 is $96,262.

The lease for the Rochester office has a two year term commencing 1 December 2006 with a fixed annual lease 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 31 December are as follows:

	Consolidated		*Parent*	
	as at 31 Dec 2006 $	**as at 30 June 2006 $**	**as at 31 Dec 2006 $**	**as at 30 June 2006 $**
Within one year	136,666	97,546	99,471	97,546
After one year but not more than five years	164,760	170,859	120,803	170,859
More than five years	-	-	-	-
	301,426	**268,405**	**220,274**	**268,405**

(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:

	as at 31 Dec 2006		*as at 30 June 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**	

Notes to the Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	as at 31 Dec 2006		*as at 30 June 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 a contingent liability at 31 December 2006 of $43,106 (30 June 2006: nil).

The contingent liability relates to legal fees incurred for the preparation of an IPO and not yet charged to the company. The fees will be payable upon a successful IPO capital raising.

Although the Group prepares for an IPO during the second half of financial year 2007, alternative capital raising options and/or adverse capital market conditions might result in cancelling the scheduled IPO. In this case, management believes there is no liability for the payment of the legal fees.

(4) Expenditure commitments

At 31 December 2006 the Group has commitments of $998,696 (30 June 2006: $1,477,914) relating to the funding of various research and development projects.

		Consolidated		*Parent*	
		as at 31 Dec 2006 $	**as at 30 June 2006 $**	**as at 31 Dec 2006 $**	**as at 30 June 2006 $**
Within one year					
(i)	UQ	54,000	25,000	54,000	25,000
(ii)	UQ	15,000	15,000	15,000	15,000
(iii)	Invetech	660,000	26,000	660,000	26,000
(iv)	QUT	-	280,000	-	280,000
(v)	Boston Healthcare	121,622	-	-	-
(vi)	University of Wisconsin	117,117	-	-	-
(vii)	ST&D	5,957	11,914	5,957	11,914
(viii)	IMC	25,000	-	25,000	-
After one year but not more than five years					
(iv)	QUT	-	1,120,000	-	1,120,000
		998,696	**1,477,914**	**759,957**	**1,477,914**

Notes to the Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

(ii) Under a copyright licence agreement with the University of Queensland, the Group has committed to fund research projects directed by Professor Ward with $54,000 for calendar year 2007.

(iii) Under an addendum to the copyright licence agreement with UQ, the Group has committed additional funds of $30,000, payable upon request of UQ. A first payment of $15,000 has been made in April 2005; the second instalment has not been requested for payment yet.

(iv) The Group signed various agreements with Invetech for the further development of its multi-frequency BIS device. After the completion of preliminary projects at the end of 2006, an implementation project will start in 2007 with an expense commitment of $660,000.

(v) After the assignment of the QUT agreement to ICS on 7 July 2006 and the de-merger of ICS on 26 October 2006, the Group has no more research expense commitments with QUT.

(vi) The Group has committed payments for consulting services to Boston Healthcare of a total of US $144,000, payable in 12 monthly instalments of $12,000 starting in September 2006.

(vii) The Group has committed to fund clinical trials at the University of Wisconsin for an amount of US $92,444 payable at the commencement of the trials which will be in February 2007.

(viii) The development project carried out by ST&D was completed in December 2006. The remaining balance of GBP 2,395 was paid in January 2007.

(ix) The Group has signed a consulting agreement with IMC for the preparation of a Commercial Ready grant application with a minimum fee payable of $25,000. No work has been carried out during the half-year ended 31 December 2006.

(5) Royalty commitments

At 31 December 2006 the Group has commitments for the payment of royalties as follows:

(i) Uniquest: Royalties on sales revenue are due on the sale of products using lymphoedema patents developed by UQ and the IP of Dr. Leigh Ward. Royalties due, but not yet paid at 31 December 2006, have been accrued and recognised in the Balance Sheet.

(ii) Intellidesign: Royalties are due to Intellidesign on the sale of multi-frequency instruments, capped at a total of $200,000, of which $48,000 have already been paid to Intellidesign.

(iii) Aorora: 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.

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

24 EMPLOYEE BENEFITS

(a) Employee share option plan

An employee share option plan (ESOP) has been established where ImpediMed Limited may, at the discretion of the directors, grant options over the ordinary shares of ImpediMed Limited to directors and employees of the company. 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.

The options vest in three tranches at the first, second and third anniversaries of the grant. Options from a tranche once vested may be exercised for a term of five years. The options cannot be transferred and will not be quoted after a possible IPO. If an option holder ceases to be an eligible employee, all options which have not yet vested automatically lapse. There are 16 employees eligible for the ESOP.

All options have been valued using the Black & Scholes option valuation model assuming a risk free rate of 5.5% and a volatility of 50%.

Options that have been issued to the Chief Executive have been issued outside the ESOP due to his shareholdings being in excess of the 5% maximum allowed under the plan.

The following table illustrates the number (No) and weighted average exercise price (WAEP) of share options under the ESOP.

	2006		*2005*	
	No	**WAEP**	**No**	**WAEP**
Balance at 1 July	840,000	0.87	840,000	0.87
Granted during the half-year	-	-	-	-
Forfeited during the half-year	(20,000)	0.87	-	-
Exercised during the half-year	-	-	-	-
Expired during the half-year	-	-	-	-
Balance at 31 December	**820,000**	**0.87**	**840,000**	**0.87**
Exercisable at 31 December	**546,668**	**0.87**	**280,001**	**0.87**

No options under the ESOP have been granted, expired or exercised during the half-year ended 31 December 2006. 20,000 options have been forfeited for one employee who left the company during the half-year ended 31 December 2006.

The weighted average contractual life for the options outstanding at 31 December 2006 is between 4 years and 6 years.

Notes to the Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

The following table summarises information about share options issued under the ESOP and outstanding at 31 December 2006:

Grant Date	Vesting Date	Expiry Date	WAEP ($)	No
30-Jul-04	30-Jul-05	30-Jul-10	0.87	90,001
30-Jul-04	30-Jul-06	30-Jul-11	0.87	90,001
30-Jul-04	30-Jul-07	30-Jul-12	0.87	89,998
28-Oct-04	28-Oct-05	28-Oct-10	0.87	50,000
28-Oct-04	28-Oct-06	28-Oct-11	0.87	50,000
28-Oct-04	28-Oct-07	28-Oct-12	0.87	50,000
23-Nov-04	23-Nov-05	23-Nov-10	0.87	83,333
23-Nov-04	23-Nov-06	23-Nov-11	0.87	83,333
23-Nov-04	23-Nov-07	23-Nov-12	0.87	83,334
24-Dec-04	24-Dec-05	24-Dec-10	0.87	50,000
24-Dec-04	24-Dec-06	24-Dec-11	0.87	50,000
24-Dec-04	24-Dec-07	24-Dec-12	0.87	50,000
				820,000

(b) Options issued to the Chief Executive

The share options issued outside the ESOP to the CEO on 10 November 2004 have an exercise price equal to the previous round of share issues. The arrangement honoured the commitments by the company to issue options at a much earlier date when the share price was significantly lower, which for administrative reasons could not be fulfilled earlier.

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

As a result, the company has remeasured the fair value of the options, using the Black Scholes option valuation model with the following assumptions current at the modification date:

- Fair value of share price $1.02
- Risk free rate 5.66% to 5.68%
- Volatility from 48% to 59%

The following table illustrates the number (No) and weighted average exercise price (WAEP) of share options for the CEO:

	2006		*2005*	
	No	**WAEP ($)**	**No**	**WAEP ($)**
Balance at 1 July	747,673	0.675	747,673	0.675
Granted during the half-year	-	-	-	-
Forfeited during the half-year	-	-	-	-
Exercised during the half-year	-	-	-	-
Expired during the half-year	-	-	-	-
Balance at 31 December	**747,673**	**0.675**	**747,673**	**0.675**
Exercisable at 31 December	**747,673**	**0.675**	**498,449**	**0.675**

No options to the CEO have been granted, forfeited, exercised or expired during the half-year ending 31 December 2006.

Notes to the Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

The following table summarises information about share options issued to the CEO and outstanding at 31 December 2006.

Grant Date	Vesting Date	Expiry Date	WAEP ($)	No
10-Nov-04	31-Dec-04	31-Dec-11	0.675	249,225
10-Nov-04	31-Dec-05	31-Dec-12	0.675	249,224
10-Nov-04	31-Dec-06	31-Dec-13	0.675	249,224
Total				**747,673**

25 EVENTS AFTER BALANCE SHEET DATE

Other than:

- the appointment of Dr. Michael Panaccio to the Board of the parent company as a Non-Executive Director on 25th January 2007,
- a Board resolution approving the issue of further 780,000 options over ordinary shares under the ESOP with an exercise price to be set at either 15% off an IPO issue price for an IPO prior to 30 June 2007, or in the alternative $0.71,
- a Board resolution approving the allocation of up to 579,500 performance shares to eligible employees of the Group for CY2007 performance, with actual entitlements to be assessed in CY2007 performance reviews in the March quarter of 2008,
- the signing of a terms sheet with the University of Graz for a joint research program which ImpediMed will fund with a 3 year commitment of 50,000 Euro per annum plus a 15% administration fee,
- the signing of a terms sheet for the acquisition of Xitron Technologies, Inc., based in San Diego USA. The acquisition adds a significant BIS patent to ImpediMed's IP portfolio and gives ImpediMed an established US west coast base of operations, along with existing revenues expected to be around $US 1.6 Million for calendar 2007,
- the FDA clearance for the use of the Imp XCA device in the clinical assessment of Unilateral Lymphedema in the United States of America,

no matter or circumstance has arisen since the end of the half-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.

26 AUDITOR'S REMUNERATION

	Consolidated		*Parent*	
	2006 $	**2005 $**	**2006 $**	**2005 $**
Amounts received or due and receivable by				
Ernst & Young Australia for:				
audit of financial report of the entity	53,328	34,180	53,328	34,180
other services to the entity*	57,367	-	57,367	-
	110,695	**34,180**	**110,695**	**34,180**

* Fees charged for the investigating accountants report in preparation of the planned IPO

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

27 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)

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	Project Director Cardiography
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 ceased to be a key management executive on 30 June 2006

(b) Remuneration of key management personnel

(i) Compensation 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 that will periodically review 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 HALF-YEAR ENDED 31 DECEMBER 2006

(ii) Remuneration of key management personnel for the half-year ended 31 December 2006

	Short Term			Post Employment	Share-based	Total
	Salaries & Fees	Cash Bonus	Non-monetary	Superannuation	Options	
	$	$	$	$	$	$
Directors						
M Bridges	30,000	-	-	2,700	-	32,700
G Brown	146,000	-	54,000	18,000	62,356	280,356
M Finney*	685	-	-	62	-	747
M Kriewaldt	25,000	-	-	2,250	-	27,250
C Hirst	25,000	-	-	2,250	-	27,250
J Hazel	8,333	-	-	750	-	9,083
Executives						
P Auckland	67,500	-	20,000	7,875	6,134	101,509
B Robinson	51,282	-	12,500	5,740	1,696	71,218
J Butler	57,010	-	-	-	6,134	63,144
R Render	38,539	-	6,250	2,916	-	47,705
S Chetham	60,110	-	15,000	6,760	-	81,870
	509,459	**-**	**107,750**	**49,303**	**76,320**	**742,832**

** M Finney resigned 5 July 2006*

(iii) Remuneration of key management personnel for the half-year ended 31 December 2005

	Short Term			Post Employment	Share-based	Total
	Salaries & Fees	Cash Bonus	Non-monetary	Superannuation	Options	
	$	$		$	$	$
Directors						
M Bridges	30,000	-	-	2,700	-	32,700
G Brown	156,563	-	-	0	-	156,563
M Finney	10,000	-	-	900	-	10,900
M Kriewaldt	25,000	-	-	2,250	-	27,250
C Hirst	25,000	-	-	2,250	-	27,250
Executives						
P Auckland	60,250	-	20,000	7,223	16,704	104,177
B Robinson	45,500	-	12,500	5,220	4,291	67,511
N Bertwistle	52,301	-	-	4,707	5,150	62,158
	404,614	**-**	**32,500**	**25,250**	**26,145**	**488,509**

(c) Remuneration options of key management personnel

Under the ESOP, options were granted as equity compensation benefits to certain directors and specified executives. The options were issued free of charge. Each option entitles the holder to subscribe for one fully paid ordinary share in the entity at an exercise price as discussed below. The options granted vest proportionally over a three year period.

No options were granted as equity compensation benefits to directors and executives during the year.

Notes to the Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

	Vested	**Granted**		**Terms and Conditions for each Grant**		
31 December 2006	**No.**	**No.**	**Grant date**	**Value per option at grant date $**	**Exercise price per share $**	**Expiry Date**
Directors						
G Brown*	249,225	249,225	10-Nov-04	0.56	0.675	31-Dec-11
G Brown	249,224	249,224	10-Nov-04	0.64	0.675	31-Dec-12
G Brown	249,224	249,224	10-Nov-04	0.68	0.675	31-Dec-13
Executives						
P Auckland	33,334	50,000	30-Jul-04	0.47	0.87	30-Jul-10
P Auckland	66,666	100,000	28-Oct-04	0.47	0.87	28-Oct-10
B Robinson	33,334	50,000	30-Jul-04	0.47	0.87	30-Jul-10
J Butler	100,000	150,000	23-Nov-04	0.47	0.87	23-Nov-10
Total	**981,007**	**1,097,673**				

	Vested	**Granted**		**Terms and Conditions for each Grant**		
31 December 2005	**No.**	**No.**	**Grant date**	**Value per option at grant date $**	**Exercise price per share $**	**Expiry Date**
Directors						
G Brown*	249,225	249,225	10-Nov-04	0.53	0.675	31-Dec-09
G Brown	249,224	249,224	10-Nov-04	0.57	0.675	31-Dec-10
G Brown	-	249,224	10-Nov-04	0.60	0.675	31-Dec-11
Executives						
P Auckland	16,667	50,000	30-Jul-04	0.47	0.87	30-Jul-10
P Auckland	33,333	100,000	28-Oct-04	0.47	0.87	28-Oct-10
B Robinson	16,667	50,000	30-Jul-04	0.47	0.87	30-Jul-10
N Bertwistle	20,000	60,000	30-Jul-04	0.47	0.87	30-Jul-10
Total	**585,116**	**1,007,673**				

* Options granted to G Brown were modified on 19 May 2006 to extend each tranche's useful life by two years. The value per option at grant date disclosed above is the fair value as a modification date.

(d) Shares issued on exercise of remuneration options

No shares were issued during the period to specified directors or specified executives on the exercise of remuneration options.

Notes to the Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

(e) Option holdings of key management personnel

31 December 2006	Balance at 1 July 2006	Granted as remuneration	Net Change other	Balance at 31 Dec 2006	Not exercisable	Exercisable
Directors						
M Bridges	-	-	-	-	-	-
G Brown	747,673	-	-	747,673	-	747,673
M Finney*	-	-	-	-	-	-
M Kriewaldt	-	-	-	-	-	-
C Hirst	-	-	-	-	-	-
J Hazel	-	-	-	-	-	-
Executives						
P Auckland	150,000	-	-	150,000	50,000	100,000
B Robinson	50,000	-	-	50,000	16,666	33,334
J Butler	150,000	-	-	150,000	50,000	100,000
R Render	-	-	-	-	-	-
S Chetham	-	-	-	-	-	-
Total	**1,097,673**	**-**	**-**	**1,097,673**	**116,666**	**981,007**

* M Finney resigned 5 July 2006.

31 December 2005	Balance at 1 July 2005	Granted as remuneration	Net Change other	Balance at 31 Dec 2005	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
Total	**1,007,673**	**-**	**-**	**1,007,673**	**422,557**	**585,116**

Notes to the Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

(f) Shareholdings of key management personnel

31 December 2006	Balance at 1 July 2006	Granted as remuneration	Net Change other	Balance at 31 December 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	-	-	41,148	41,148
C Hirst	-	-	-	-
J Hazel	171,098	-	-	171,098
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**

* HMG Finney resigned on 5 July 2006.

31 December 2005	Balance at 1 July 2005	Granted as remuneration	Net Change other	Balance at 31 December 2005
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
Total	**7,537,114**	**-**	**-**	**7,537,114**

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

(g) Converting Note holdings of key management personnel

31 December 2006	Balance at 1 July 2006	Granted as remuneration	Net Change other	Balance at 31 December 2006
Directors				
M Bridges	-	-	500	500
G Brown	2,500	-	-	2,500
M Finney*	-	-	-	-
M Kriewaldt	250	-	250	500
C Hirst	-	-	500	500
J Hazel				
Executives				
P Auckland	-	-	-	-
B Robinson	-	-	-	-
J Butler	-	-	-	-
R Render	-	-	-	-
S Chetham	-	-	-	-
Total	**2,750**	**-**	**1,250**	**4,000**

* HMG Finney resigned 5 July 2006.

31 December 2005	Balance at 1 July 2005	Granted as remuneration	Net Change other	Balance at 31 December 2005
Directors				
M Bridges	-	-	-	-
G Brown	-	-	-	-
M Finney	-	-	-	-
M Kriewaldt	250	-	-	250
C Hirst	-	-	-	-
Executives				
P Auckland	-	-	-	-
B Robinson	-	-	-	-
N Bertwistle	-	-	-	-
Total	**250**	**-**	**-**	**250**

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

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 2006, 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 the wholly owned subsidiary ImpediMed Inc whose operations are denominated in a currency other than the functional currency of the Group, and from its sales activities in Europe which are also denominated in a currency other than the Group's functional currency.

Approximately 12% of the Group's sales are denominated in USD and 37% denominated in EUR whilst .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 HALF-YEAR ENDED 31 DECEMBER 2006

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	
	as at 31 Dec 2006 $	as at 30 June 2006 $	as at 31 Dec 2006 $	as at 30 June 2006 $
Consolidated				
Financial assets				
Cash	5,668,184	44,241	5,668,184	44,241
Trade and other receivables	698,514	785,363	698,514	785,363
Other financial assets	284,372	235,550	284,372	235,550
	6,651,070	**1,065,154**	**6,651,070**	**1,065,154**
Financial liabilities				
Trade and other payables	655,576	1,395,791	655,576	1,395,791
Obligations under finance lease	-	10,024	-	10,024
Borrowings	184,708	1,192,946	184,708	1,192,946
Convertible notes	7,105,394	6,462,186	7,105,394	6,462,186
	7,945,678	**9,060,947**	**7,945,678**	**9,060,947**
Parent				
Financial assets				
Cash	5,604,909	24,072	5,604,909	24,072
Trade and other receivables	653,966	785,363	653,966	785,363
Other financial assets	284,373	2,252,850	284,373	2,252,850
	6,543,248	**3,062,285**	**6,543,248**	**3,062,285**
Financial liabilities				
Trade and other payables	607,605	1,395,791	607,605	1,395,791
Obligations under finance lease	-	10,024	-	10,024
Fixed rate borrowings	184,708	1,192,946	184,708	1,192,946
Convertible notes	7,105,394	6,462,186	7,105,394	6,462,186
	7,897,707	**9,046,656**	**7,897,707**	**9,046,656**

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

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

(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:

31 December 2006	< 1 year $	1-2 years $	2-3 years $	3-4 years $	4-5 years $	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
13.40 % Loan CSS	(67,079)	(76,643)	(13,797)	-	-	(157,519)
12.52 % Loan CSS	(10,693)	(12,111)	(4,384)			(27,188)
Floating rate						
Cash assets	5,668,184	-	-	-	-	5,668,184
Weighted average effective Interest rate	5.8%					
Parent						
Fixed rate						
7.35 % Debentures	71,000	-	-	-	-	71,000
7.50 % Debentures	-	71,000	-	-	-	71,000
7.60 % Debentures	-	-	71,000	-	-	71,000
13.40 % Loan CSS	(67,079)	(76,643)	(13,797)	-	-	(157,519)
12.52 % Loan CSS	(10,693)	(12,111)	(4,384)	-	-	(27,188)
Floating rate						
Cash assets	5,604,909	-	-	-	-	5,604,909
Weighted average effective Interest rate	5.9%					

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

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 31 December 2006.

Notes to the Financial Statements

FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

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 ($)	
		2006	2005	2006	2005
ImpediMed Inc.	United States	100	100	1	1
Aorora Pty Ltd	Australia	-	100	-	1,997,133
				1	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 27.

(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.	**2006**	**141,331**	**0**	**0**
	2005	0	0	0

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 half-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.

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.

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. An interest payment of $34,884 was made on 30 November 2006.

Notes to the Financial Statements
FOR THE HALF-YEAR ENDED 31 DECEMBER 2006

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 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 half-year until disposal is presented below:

	Consolidated		Parent	
	2006 $	2005 $	2006 $	2005 $
Revenue	-	83,218	-	83,217
Amortisation expense	(345)	(2,523)	-	-
Profit / loss before tax from discontinued operations	**(345)**	**80,695**	**-**	**83,217**
Income tax	-	-	-	-
Net profit / loss from discontinued operations	**(345)**	**80,695**	**-**	**83,217**

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

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

	2006 $
Assets	
Financial assets	1,471,413
Liabilities	-
Net assets attributable to discontinued operations	**1,471,413**

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

	2006 $
Operating activities	-
Net cash outflow	-

Consideration received or receivable:

	Consolidated		Parent	
	2006 $	2005 $	2006 $	2005 $
Return of Share capital	1,471,413	-	1,471,413	-
less net asset disposal of	(1,471,413)	-	(1,471,413)	-
Gain on disposal before income tax	6,888,516	-	6,883,187	-
Income tax	-	-	-	-
Gain on disposal after income tax	**6,888,516**	**-**	**6,883,187**	-

Directors' Declaration

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 31 December 2006 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

Melvyn Bridges
Chairman

Brisbane 30th May, 2007

ERNST & YOUNG

1 Eagle Street
Brisbane QLD 4000
Australia

PO Box 7878
Waterfront Place
Brisbane QLD 4001

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

To the members of ImpediMed Limited

Report on the Half-Year Financial Report

We have audited the accompanying half year financial report of ImpediMed Limited and the entities it controlled during the half year, which comprises the balance sheet as at 31 December 2006, and the income statement, statement of changes in equity and cash flow statement for the half year ended on that date, other selected 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 half year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes the design, implementation and maintenance of internal controls relevant to the preparation and fair presentation of the half year 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.

Auditor's Responsibility
Our responsibility is to express an opinion on the half year 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 performed procedures to assess whether in all material respects the half year financial report presents fairly, in accordance with the *Corporations Act 2001*, including compliance with Accounting Standard AASB 134 *Interim Financial Reporting*, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the consolidated entity's financial position, and of its performance as represented by the results of its operations and cash flows. 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 the half year financial report of ImpediMed Limited is in accordance with:

(a) the *Corporations Act 2001*, including:
   (i) giving a true and fair view of the consolidated entity's financial position of ImpediMed Limited as at 31 December 2006 and of its performance for the six months ended on that date; and
   (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and

(b) other mandatory financial reporting requirements in Australia.

Inherent Uncertainty Regarding Continuation as a 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(aa) "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

Winna Brown
Partner
Brisbane
30 May 2007