

# **IMPEDIMED LIMITED**

**ABN 65 089 705 144**

## **Financial Report**

**For the half year ended 31 December 2007**

## Corporate Information

ABN: 65 089 705 144

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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  
M Panaccio

### 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

ImpediMed Ltd shares are listed on the Australian Stock Exchange

### Solicitors

Corrs Chambers Westgarth  
Waterfront Place  
1 Eagle Street  
Brisbane QLD 4000

Sheppard Mullin  
12275 El Camino Real  
Suite 300  
San Diego CA 92130

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

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Directors' Report submitted for the half year ended 31 December 2007.

### 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.

#### **Mel Bridges, B.Sc FAICD - Chairman**

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

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

Greg Brown has over 21 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 substantial shareholder in ImpediMed Limited. Greg is also a director of Impedance Cardiology Systems, Inc and of Cintra Consulting Pty Ltd.

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

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

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

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

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

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

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

Michael Panaccio joined ImpediMed Limited as a non-executive director in January 2007. Michael is an investment principal and founder of leading Australian venture capital firm Starfish Ventures, a fund with more than \$150m in funds under management, which is a substantial shareholder in ImpediMed. 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.

## Directors' Report

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### COMPANY SECRETARY

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

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

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

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

### REVIEW AND RESULTS OF OPERATIONS

#### Group Overview

ImpediMed Limited was founded in 1999. It is seeking to create significant global markets for its range of Medical Devices, starting initially with their application to the early detection of Lymphoedema among cancer survivors enabling clinicians to pre-emptively prescribe a treatment to prevent the onset of severe Lymphoedema.

The products have been 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, and are supported by a patent family of 17 patents.

At balance date, the group had two subsidiaries, ImpediMed Inc and Xitron Technologies Inc (acquired effective 1 October 2007).

#### Results of Operations

- Sales of Goods and Services for the reporting period were \$893,266, up 12.9% versus the comparative period total of \$791,143.
- As a result of capital raising activities, and in connection with conversion discounts on convertible notes and Preference Shares both in the reporting period and the comparative period, the group incurred significant expenses which are classified by AIFRS as Interest. For the reporting period this expense was \$1,681,893 and for the comparative period it was \$892,457. All of the discounts on conversion related to the period prior to the company's listing on the ASX on 24 October 2007, and were non-cash expenses.
- Expenses related to this non-cash interest are shown below EBITDA for continuing operations.
- EBITDA for continuing operations for the reporting period was (\$3,715,097) – as opposed to the net loss for the reporting period of (\$5,552,155). EBITDA is a better indication of the results of the operating business.

Referring to the Cash Flow Statement, the net cash outflow from operations for the period was \$4,359,484. This cash outflow from operations remains consistent with the directors expectations that supported the assumptions in the company's prospectus dated 11 September 2007, that the funds raised under the company's initial public offering, in conjunction with the revenue generated from anticipated sales will be sufficient to fund the company's operations for 18 months.

On 1 October 2007 the company completed the acquisition of Xitron Technologies, Inc. The main benefits of the acquisition were described in the company's prospectus dated 11 September 2007. Of significance to a discussion on operations is that the acquired entity is operating at/around a break even. In addition, the acquisition delivers to ImpediMed a much increased base of operations for the US in San Diego which will significantly enhance the group's ability to support the US market. The integration of the Xitron business with ImpediMed is well under way, with ImpediMed gaining significant leverage from the Xitron cost base which was already covered in a break even business.

# Directors' Report

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The directors append to the Directors' Report the declaration from the auditor of ImpediMed Limited.

Signed in accordance with a resolution of the directors.

Handwritten signature of Mel Bridges in black ink.

Mel Bridges  
Chairman

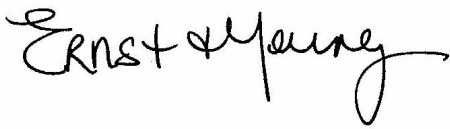
Brisbane  
26 February 2008

Handwritten signature of Greg Brown in black ink.

Greg Brown  
Managing Director

## **Auditor's Independence Declaration to the Directors of ImpediMed Limited**

In relation to our review of the financial report of ImpediMed Limited for the half-year ended 31 December 2007, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.



Ernst & Young



Winna Brown  
Partner  
26 February 2008

**Income Statement**

FOR THE PERIOD ENDED 31 DECEMBER 2007

|  |    | <i>Consolidated</i> |                    |
|--|----|---------------------|--------------------|
|  |    | 2007                | 2006               |
|  |    | \$                  | \$                 |
| <b>Continuing operations</b>   |    |                     |                    |
| Sale of goods  |    | 839,269             | 782,332            |
| Rendering of services  |    | 53,997              | 8,811              |
| Finance income   |    | 272,349             | 83,806             |
| Revenue  | 3a | <b>1,165,615</b>    | <b>874,949</b>     |
| Other income   | 3b | 325,722             | 392,767            |
| Cost of sales  |    | (319,358)           | (357,581)          |
| Salaries and benefits  | 3f | (1,978,887)         | (1,205,040)        |
| Advertising and promotion  |    | (144,020)           | (53,764)           |
| Consultants fees   | 3h | (474,329)           | (316,536)          |
| Rent and property expenses   | 3g | (121,016)           | (86,551)           |
| Research and development   |    | (637,353)           | (388,283)          |
| Travel expenses  |    | (383,449)           | (253,881)          |
| Other expenses   | 3i | (1,148,022)         | (1,051,173)        |
| <b>Profit/(loss) from continuing operations before Interest expense, Tax, Depreciation, and Amortisation (Continuing EBITDA)</b> |    | <b>(3,715,097)</b>  | <b>(2,445,093)</b> |
| Interest expense - converting notes and preference shares  | 3c | (1,681,893)         | (892,457)          |
| Other finance costs  | 3d | (13,088)            | (44,170)           |
| Depreciation and amortisation  | 3e | (142,077)           | (73,201)           |
| Income tax   |    | -                   | (14,371)           |
| <b>Profit/(loss) from continuing operations after Interest expense, Tax, Depreciation, and Amortisation</b>                      |    | <b>(5,552,155)</b>  | <b>(3,469,292)</b> |
| <b>Discontinued operations</b>   |    |                     |                    |
| Profit/(loss) from discontinued operations   |    | -                   | (345)              |
| Gain/(loss) on disposal of assets constituting the discontinued operations   |    | -                   | 6,888,516          |
| <b>Net profit/(loss) for the period</b>  |    | <b>(5,552,155)</b>  | <b>3,418,879</b>   |

**Income Statement**

FOR THE PERIOD ENDED 31 DECEMBER 2007

**Earnings Per Share – Basic and Diluted**

|  | <b>2007</b>  | <b>2006</b>  |
|--|--------------|--------------|
|  | <b>Cents</b> | <b>Cents</b> |
| <b>Loss per share from continuing operations attributable to the ordinary equity holders</b> |              |              |
| Basic loss per share   | (0.12)       | (0.15)       |
| Diluted loss per share   | (0.12)       | (0.15)       |
| <b>Loss per share for profit attributable to the ordinary equity holders</b>                 |              |              |
| Basic loss per share   | (0.12)       | 0.15         |
| Diluted loss per share   | (0.12)       | 0.14         |



**Balance Sheet**

AS AT 31 DECEMBER 2007

|                                      |    | Consolidated<br>as at 31 Dec 2007<br>\$ | Consolidated<br>as at 30 June 2007<br>\$ |
|--------------------------------------|----|---|--|
| <b>CURRENT ASSETS</b>                |    |   |  |
| Cash and cash equivalents            | 5  | 12,562,650                              | 1,612,462                                |
| Restricted cash assets               | 5  | 43,700                                  | 30,700                                   |
| Trade and other receivables          |    | 623,660                                 | 754,186                                  |
| Inventories                          | 9  | 1,331,789                               | 415,673                                  |
| Prepayments                          |    | 226,034                                 | 844,844                                  |
| Other financial assets               |    | 108,004                                 | 117,129                                  |
| <b>Total Current Assets</b>          |    | <b>14,895,837</b>                       | <b>3,774,994</b>                         |
| <b>NON-CURRENT ASSETS</b>            |    |   |  |
| Other financial assets               |    | 93,549                                  | 93,550                                   |
| Plant and equipment                  |    | 230,504                                 | 204,316                                  |
| Intangible assets                    |    | 1,230,355                               | 184,785                                  |
| Goodwill                             | 8  | 2,040,175                               | -  |
| <b>Total Non-Current Assets</b>      |    | <b>3,594,583</b>                        | <b>482,651</b>                           |
| <b>TOTAL ASSETS</b>                  |    | <b>18,490,420</b>                       | <b>4,257,645</b>                         |
| <b>CURRENT LIABILITIES</b>           |    |   |  |
| Trade and other payables             |    | 920,558                                 | 979,044                                  |
| Interest-bearing loans               |    | 88,758                                  | 83,082                                   |
| Provisions                           |    | 539,787                                 | 319,096                                  |
| Converting notes                     |    | -                                       | 13,879,763                               |
| <b>Total Current Liabilities</b>     |    | <b>1,549,103</b>                        | <b>15,260,985</b>                        |
| <b>NON-CURRENT LIABILITIES</b>       |    |   |  |
| Interest-bearing loans               |    | 18,181                                  | 64,023                                   |
| Provisions                           |    | 322,175                                 | 48,935                                   |
| Preference A Shares                  |    | -                                       | 6,672,018                                |
| <b>Total Non-Current Liabilities</b> |    | <b>340,356</b>                          | <b>6,784,976</b>                         |
| <b>TOTAL LIABILITIES</b>             |    | <b>1,889,459</b>                        | <b>22,045,961</b>                        |
| <b>NET ASSETS</b>                    |    | <b>16,600,961</b>                       | <b>(17,788,316)</b>                      |
| <b>EQUITY</b>                        |    |   |  |
| Issued capital                       | 10 | 50,404,234                              | 11,151,629                               |
| Reserves                             |    | 1,470,551                               | 1,186,782                                |
| Shares to be issued                  |    | 405,058                                 | -  |
| Accumulated losses                   |    | (35,678,882)                            | (30,126,727)                             |
| <b>TOTAL EQUITY</b>                  |    | <b>16,600,961</b>                       | <b>(17,788,316)</b>                      |

**Cash Flow Statement**

FOR THE PERIOD ENDED 31 DECEMBER 2007

|   | Notes | Consolidated       |                    |
|---|-------|--------------------|--------------------|
|   |       | 2007               | 2006               |
|   |       | \$                 | \$                 |
| <b>Cash flows from operating activities</b>         |       |                    |                    |
| Receipts from customers                             |       | 741,839            | 934,428            |
| Receipts from grants                                |       | 647,981            | -                  |
| Payments to suppliers and employees                 |       | (5,938,822)        | (3,351,693)        |
| Interest received                                   |       | 202,606            | 56,444             |
| Interest paid                                       |       | (13,088)           | (44,170)           |
| R&D tax offset received                             |       | -                  | 339,612            |
| <b>Net cash flows used in operating activities</b>  |       | <b>(4,359,484)</b> | <b>(2,065,379)</b> |
| <b>Cash flows from investing activities</b>         |       |                    |                    |
| Cash inflow (outflow) from acquisitions             | 8     | 73,920             | -                  |
| Proceeds from sale of plant and equipment           |       | -                  | 10,892             |
| Investment in de-merged entity                      |       | -                  | (1,185,450)        |
| Transaction costs on investment in de-merged entity |       | -                  | (399,254)          |
| Purchase of plant and equipment                     |       | (56,321)           | (68,452)           |
| Purchase of patent                                  |       | (1,144,024)        | (13,817)           |
| <b>Net cash flows from investing activities</b>     |       | <b>(1,126,425)</b> | <b>(1,656,081)</b> |
| <b>Cash flows from financing activities</b>         |       |                    |                    |
| Proceeds from issue of IPO - Public Offer           |       | 9,792,000          | -                  |
| Proceeds from issue of IPO - Redemption Issue       |       | 8,208,000          | -                  |
| Proceeds from issue of series 2 converting notes    |       | -                  | 1,000,000          |
| Proceeds from issue of series 3 converting notes    |       | -                  | 7,150,000          |
| Proceeds from issue of Preference A shares          |       | -                  | 2,970,840          |
| Transaction costs from capital raise                |       | (991,016)          | -                  |
| Transaction costs on issue of converting notes      |       | -                  | (56,540)           |
| Transaction costs on issue of Preference A shares   |       | -                  | (6,269)            |
| Transaction costs on issue of ordinary shares       |       | -                  | (694,366)          |
| Repayment of loans from related parties             |       | -                  | (350,000)          |
| Repayment of borrowings                             |       | (602,998)          | (35,199)           |
| Repayment of finance lease principal                |       | -                  | (10,024)           |
| Other costs from financing activities               |       | (589)              | -                  |
| <b>Net cash flows from financing activities</b>     |       | <b>16,405,397</b>  | <b>9,968,442</b>   |
| <b>Net increase / (decrease) in cash held</b>       |       | <b>10,919,488</b>  | <b>6,246,982</b>   |
| Cash at beginning of period                         |       | 1,643,162          | (601,298)          |
| <b>Cash at close of period</b>                      | 5     | <b>12,562,650</b>  | <b>5,645,684</b>   |

## Statement of Changes in Equity

FOR THE PERIOD ENDED 31 DECEMBER 2007

|   | Issued<br>Capital | Reserves         | Shares to<br>be Issued | Retained<br>Earnings | Total<br>\$         |
|---|-------------------|------------------|------------------------|----------------------|---------------------|
|   | \$                | \$               | \$                     | \$                   |                     |
| <b>At 1 July 2006</b>                       | <b>7,634,040</b>  | <b>803,950</b>   | <b>-</b>               | <b>(13,116,964)</b>  | <b>(4,678,974)</b>  |
| Foreign currency translation                |                   | 10,783           | -                      |                      | 10,783              |
| Total income recognised 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)         |
| <b>At 31 December 2006</b>                  | <b>11,151,629</b> | <b>884,333</b>   | <b>-</b>               | <b>(16,581,271)</b>  | <b>(4,545,309)</b>  |
| <b>At 1 July 2007</b>                       | <b>11,151,629</b> | <b>1,186,782</b> | <b>-</b>               | <b>(30,126,727)</b>  | <b>(17,788,316)</b> |
| Foreign currency translation                |                   | 50,318           |                        |                      | 50,318              |
| Total income recognised in equity           |                   | 50,318           |                        |                      | 50,318              |
| Profit/(loss) for the period                |                   |                  |                        | (5,552,155)          | (5,552,155)         |
| Total income and expense for the period     |                   | 50,318           |                        | (5,552,155)          | (5,501,837)         |
| Share-based payment                         |                   | 233,451          |                        |                      | 233,451             |
| Conversion of Pref Shares to Ords           | 7,894,450         |                  |                        |                      | 7,894,450           |
| Allotment of IPO - Public Offer Ords        | 9,792,000         |                  |                        |                      | 9,792,000           |
| Allotment under IPO - Redemption Issue      | 8,208,000         |                  |                        |                      | 8,208,000           |
| Allotment on conversion of S3 Conv Notes    | 14,339,223        |                  |                        |                      | 14,339,223          |
| Allotment on acquisition of Xitron Tech.    | 1,156,419         |                  |                        |                      | 1,156,419           |
| Shares to be issued Xitron Tech Milestone 1 |                   |                  | 405,058                |                      | 405,058             |
| Costs of IPO - Capital Raising              | (2,137,487)       |                  |                        |                      | (2,137,487)         |
| <b>At 31 December 2007</b>                  | <b>50,404,234</b> | <b>1,470,551</b> | <b>405,058</b>         | <b>(35,678,882)</b>  | <b>16,600,961</b>   |

## Notes to the Financial Statements

FOR THE PERIOD ENDED 31 DECEMBER 2007

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# Notes to the Financial Statements

FOR THE PERIOD ENDED 31 DECEMBER 2007

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## 1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

### Basis of preparation

This general purpose condensed financial report for the half year ended 31 December 2007 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 30 June 2007 and considered together with any public announcements made by ImpediMed Limited during the half year ended 31 December 2007 in accordance with the continuous disclosure obligations of the ASX listing rules.

Apart from the changes in accounting policy noted below, the accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

### Changes in Accounting Policy

Since 1 July 2007 there were no new accounting Standards or Interpretations which had an impact on the financial position or performance of the Group.

## 2 SEGMENT INFORMATION

The Group is managed on a global basis around two primary geographical areas -- sales and product development both in Australia and in the United States.

### Australia

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

### United States of America

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

Segment revenue and expenses include transfers between the two companies which are eliminated on consolidation.

The 1 October 2007 acquisition of Xitron Technologies added a second base of US operations for the group in San Diego, and a business operating in the Power test and measurement area, which is incidental to ImpediMed's core medical device business, but which brings compatible engineering skills to ImpediMed's US operations that will support the provision of a service function in the US market.

## Notes to the Financial Statements

FOR THE PERIOD ENDED 31 DECEMBER 2007

### 2 SEGMENT INFORMATION (continued)

| (a) Segment revenues             | External Sales   | Inter-segment  | Total            |
|----------------------------------|------------------|----------------|------------------|
|                                  | 2007             | 2007           | 2007             |
|                                  | \$               | \$             | \$               |
| Australia Revenue                | 497,430          | 35,350         | 532,781          |
| United States of America Revenue | 668,185          | -              | 668,185          |
| Consolidated Revenue             | <b>1,165,615</b> | <b>35,350</b>  | <b>1,200,966</b> |
|                                  | <b>2006</b>      | <b>2006</b>    | <b>2006</b>      |
|                                  | \$               | \$             | \$               |
| Australia Revenue                | 779,030          | 141,331        | 920,361          |
| United States of America Revenue | 95,919           | -              | 95,919           |
| Consolidated Revenue             | <b>874,949</b>   | <b>141,331</b> | <b>1,016,280</b> |

| (b) Segment result                     | Total              |                  |
|--|--------------------|------------------|
|  | 2007               | 2006             |
|  | \$                 | \$               |
| Australia Profit (Loss)                | (7,029,368)        | 3,331,155        |
| United States of America Profit (Loss) | (924,669)          | (322,719)        |
| Profit (Loss) before income tax        | (7,954,037)        | 3,008,436        |
| Eliminations                           | 2,401,882          | 424,814          |
| Income tax                             | -                  | (14,371)         |
| Group Profit / (loss) for the period   | <b>(5,552,155)</b> | <b>3,418,879</b> |

## Notes to the Financial Statements

FOR THE PERIOD ENDED 31 DECEMBER 2007

### 3 REVENUE, INCOME AND EXPENSES

|   | Consolidated     |                |
|---|------------------|----------------|
|   | 2007             | 2006           |
|   | \$               | \$             |
| (a) Revenue   |                  |                |
| Sale of goods   | 839,269          | 782,332        |
| Rendering of services   | 53,997           | 8,811          |
| Finance revenue   | 272,349          | 83,806         |
|   | <b>1,165,615</b> | <b>874,949</b> |
| <i>Breakdown of finance revenue</i>                           |                  |                |
| Bank interest -- Bank Deposits                                | 175,049          | 75,771         |
| Bank interest -- Term Deposits                                | 91,895           | -              |
| Investment income receivable                                  | 5,405            | 8,035          |
| <i>Total Finance revenue</i>                                  | <b>272,349</b>   | <b>83,806</b>  |
| (b) Other income  |                  |                |
| Commercial Ready Grants (i)                                   | 304,850          | -              |
| Cost recoupment from ICS (ii)                                 | 33,989           | 389,560        |
| Other   | (13,117)         | 3,207          |
|   | <b>325,722</b>   | <b>392,767</b> |
| (c) Interest expense - converting notes and preference shares |                  |                |
| Expense for discount on series 1 notes                        | -                | 47,857         |
| Expense for discount on series 2 notes                        | -                | 703,031        |
| Expense for discount on series 3 notes                        | 447,924          | -              |
| Expense for Pref A1 Bonus Shares                              | 682,320          | 2,732          |
| Expense for Pref A2 Bonus Shares                              | 503,969          | -              |
| Amortisation of capital raising cost for notes                | 47,680           | 138,837        |
|   | <b>1,681,893</b> | <b>892,457</b> |
| (d) Other finance costs                                       |                  |                |
| Bank loans and overdrafts                                     | 5,014            | 2,324          |
| Other loans   | 7,774            | 41,319         |
| Interest expense on leasehold improvement                     | 300              | 300            |
| Finance charges payable under finance leases                  | -                | 227            |
|   | <b>13,088</b>    | <b>44,170</b>  |
| (e) Depreciation and amortisation                             |                  |                |
| Depreciation of plant and equipment                           | 38,582           | 33,817         |
| Depreciation of Impact Devices                                | 3,478            | -              |
| Amortisation of leasehold improvements                        | 1,014            | 1,014          |
| Amortisation of intangibles                                   | 99,003           | 38,370         |
|   | <b>142,077</b>   | <b>73,201</b>  |

## Notes to the Financial Statements

FOR THE PERIOD ENDED 31 DECEMBER 2007

### 3 REVENUE, INCOME AND EXPENSES (continued)

|  | Consolidated     |                  |
|--|------------------|------------------|
|  | 2007             | 2006             |
|  | \$               | \$               |
| (f) Salaries and benefits                        |                  |                  |
| Wages and salaries                               | 1,646,647        | 1,041,326        |
| Superannuation costs                             | 106,419          | 86,726           |
| Long service leave provision                     | 6,294            | 7,388            |
| Expense of share-based payments                  | 219,527          | 69,600           |
|  | <b>1,978,887</b> | <b>1,205,040</b> |
| (g) Rent and property expenses                   |                  |                  |
| Minimum lease payments - operating lease         | 105,947          | 71,461           |
| Other premises expenses                          | 15,069           | 15,090           |
|  | <b>121,016</b>   | <b>86,551</b>    |
| (h) Consultancy Fees                             |                  |                  |
| Consultancy expenses                             | 458,817          | 316,536          |
| Expenses for share based payments to consultants | 15,512           | -                |
|  | <b>474,329</b>   | <b>316,536</b>   |
| (i) Other expenses                               |                  |                  |
| Trademark and patent expense                     | 163,124          | 45,184           |
| Communication expense                            | 64,936           | 46,861           |
| Legal expense                                    | 60,041           | 519,172          |
| Bad and doubtful debts                           | 294,049          | 5,000            |
| Net loss on disposal of plant and equipment      | -                | 413              |
| Directors fees                                   | 161,998          | 59,018           |
| Other expenses                                   | 403,874          | 375,525          |
|  | <b>1,148,022</b> | <b>1,051,173</b> |
| Other expenses include:                          |                  |                  |
| Net foreign exchange realised (gains) / losses   | 3,209            | (1,673)          |
| Net foreign exchange unrealised (gains) / losses | -                | 24,158           |
|  | <b>3,209</b>     | <b>22,485</b>    |

(i) ImpediMed Limited received government grant income for the development of the Imp SFB9 device. The Imp SFB9 is a novel multiplexed Bioimpedance Spectroscopy device.

(ii) ImpediMed Limited charges ICS for R&D services rendered to ICS.

(iii) During the reporting period ImpediMed has taken up a provision for doubtful debts for \$294,049 against a debt owing from a distributor for a shipment in December 2006 on 180 day terms, which it is working to recover, but for which recovery in full can not be assured.



## Notes to the Financial Statements

FOR THE PERIOD ENDED 31 DECEMBER 2007

### 4 DISCONTINUED OPERATIONS

No components of the entity have been disposed of or classified as held for sale in the current half-year reporting period.

There were no residual effects during the half-year reporting period pertaining to the Group de-merger from ICS during the prior reporting period.

#### (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 Aurora Technologies 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 December 2006 until disposal is presented below:*

|   | <b>Consolidated<br/>2006<br/>\$</b> |
|---|-------------------------------------|
| Revenue   | -                                   |
| Amortisation expense                                  | (345)                               |
| Profit / loss before tax from discontinued operations | <b>(345)</b>                        |
| Income tax  | -                                   |
| Net profit / loss from discontinued operations        | <b>(345)</b>                        |

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

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

|  |                  |
|--|------------------|
| <i>Assets</i>                                      |                  |
| Financial assets                                   | 1,471,413        |
| <i>Liabilities</i>                                 |                  |
|  | -                |
| Net assets attributable to discontinued operations | <b>1,471,413</b> |

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

|                      |   |
|----------------------|---|
| Operating activities | - |
| Net cash outflow     | - |

*Consideration received or receivable:*

|                                    |                  |
|------------------------------------|------------------|
| Return of Share capital            | 1,471,413        |
| less net asset disposal of         | (1,471,413)      |
| Gain on disposal before income tax | 6,888,516        |
| Income tax                         | -                |
| Gain on disposal after income tax  | <b>6,888,516</b> |

## Notes to the Financial Statements

FOR THE PERIOD ENDED 31 DECEMBER 2007

### 5 CASH AND CASH EQUIVALENTS

#### *Consolidated*

|                                       | as at 31 Dec 2007<br>\$ | as at 30 June 2007<br>\$ |
|---------------------------------------|-------------------------|--------------------------|
| Cash at bank and in hand (i)          | 548,179                 | 1,609,805                |
| Short term deposits                   | 14,471                  | 2,657                    |
| Term Deposits (iii)                   | 12,000,000              | -                        |
| <b>Cash and cash equivalents</b>      | <b>12,562,650</b>       | <b>1,612,462</b>         |
| Short term deposits - restricted (ii) | 43,700                  | 30,700                   |
| <b>Restricted cash assets</b>         | <b>43,700</b>           | <b>30,700</b>            |
| <b>Total cash assets</b>              | <b>12,606,350</b>       | <b>1,643,162</b>         |

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

(ii) The restricted short term deposit is made up of (1) a security deposit for the lease and (2) a deposit for the customer Direct Deposit Facility. The lease deposit is made for a period of six months and respective short term interest rate. The Direct Deposit Facility is made for a period of one year and does not earn interest.

(iii) The Term Deposits are made up of three \$4,000,000 deposits spread among three banks. The Term Deposits earn the respective short term interest rate.

#### **Reconciliation of cash**

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

#### *Consolidated*

|                          | as at 31 Dec 2007<br>\$ | as at 31 Dec 2006<br>\$ |
|--------------------------|-------------------------|-------------------------|
| Cash at bank and in hand | 548,179                 | 5,642,977               |
| Short term deposits      | 14,471                  | 2,707                   |
| Term deposits            | 12,000,000              | -                       |
|                          | <b>12,562,650</b>       | <b>5,645,684</b>        |

## Notes to the Financial Statements

FOR THE PERIOD ENDED 31 DECEMBER 2007

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### 6 DIVIDENDS PAID

There were no dividends declared and paid during the half year on ordinary shares.  
There were no dividends proposed and not yet recognised as a liability during the half year.

### 7 COMMITMENTS AND CONTINGENCIES

During the reporting period, the company signed a lease for premises in San Diego, CA for a period of five (5) years and four (4) months commencing 1 April 2008 with a monthly starting commitment of \$19,017. This lease replaces a lease acquired through Xitron that expires at the same time and provides a facility expected to be suitable to support the expansion of ImpediMed's US business over the next 5 years.

### 8 BUSINESS COMBINATION

On 1 October 2007, ImpediMed Limited acquired 100% of the voting shares of Xitron Technologies, Inc., an unlisted private company based in San Diego, California, USA specialising in (1) the manufacture and sale of medical devices and (2) the manufacture and sale of power and ballast test and measurement devices.

The total cost of the combination was \$1,892,622 and comprised the following:

|                             |             |
|-----------------------------|-------------|
| Purchase consideration:     | \$1,092,105 |
| Incidental costs:           | \$ 196,066  |
| Retention:                  | \$ 135,079  |
| Milestone 1 consideration:  | \$ 405,058  |
| Working capital adjustment: | \$ 64,314   |

In addition to the above listed costs of the combination, there are milestone payments due to Xitron upon the successful completion of specified goals.

1) Milestone 1 is linked to a revenue and profit target of Xitron for the financial year 2007 (ending at this reporting period of 31 December 2007) which is considered probable.

2) Milestones 2, 3 and 4, are related to the achievement of revenue targets. These milestones are not considered probable of being achieved.

## Notes to the Financial Statements

FOR THE PERIOD ENDED 31 DECEMBER 2007

### 8 BUSINESS COMBINATION (continued)

The fair value of the identifiable assets and liabilities of Xitron Technologies, Inc as at the date of acquisition are:

|  | Consolidated                       |                         |
|--|------------------------------------|-------------------------|
|  | Recognised on<br>acquisition<br>\$ | Carrying<br>Value<br>\$ |
| Cash and cash equivalents                    | 73,920                             | 73,920                  |
| Trade and other receivables                  | 169,952                            | 169,952                 |
| Inventories                                  | 504,425                            | 529,437                 |
| Other financial assets                       | 13,141                             | -                       |
| <b>Total Current Assets</b>                  | <b>761,438</b>                     | <b>773,309</b>          |
| Plant and equipment                          | 8,893                              | 13,480                  |
| Intangible assets                            | -                                  | 176,135                 |
| <b>Total Non-Current Assets</b>              | <b>8,893</b>                       | <b>189,615</b>          |
| Trade and other payables                     | 218,725                            | 224,728                 |
| Interest-bearing loans                       | 562,829                            | 562,829                 |
| Provisions                                   | 136,330                            | 1,365                   |
| <b>Total Current Liabilities</b>             | <b>917,884</b>                     | <b>788,922</b>          |
| <b>Fair Value of identifiable net assets</b> | <b>(147,553)</b>                   | <b>174,002</b>          |

|  | Consolidated<br>\$ |
|--|--------------------|
| <b>Fair Value of identifiable net assets</b> | <b>(147,553)</b>   |
| <b>Goodwill arising on acquisition</b>       | <b>2,040,175</b>   |
|  | <b>1,892,622</b>   |

#### Cost of the combination:

|  |                  |
|--|------------------|
| Shares issued at fair value (2,041,318 shares) | 1,092,105        |
| Milestone 1 consideration (757,118 shares)     | 405,058          |
| Retention                                      | 135,079          |
| Incidental costs of acquisition (i)            | 196,066          |
| Working Capital adjustment (120,212 shares)    | 64,314           |
| <b>Total cost of the combination</b>           | <b>1,892,622</b> |

#### The cash inflow (outflow) on acquisition to date is as follows:

|                                       |               |
|---------------------------------------|---------------|
| Net cash acquired with the subsidiary | 73,920        |
| Cash paid                             | -             |
| <b>Net cash inflow (outflow)</b>      | <b>73,920</b> |

## Notes to the Financial Statements

FOR THE PERIOD ENDED 31 DECEMBER 2007

### 8 BUSINESS COMBINATION (continued)

The excess of the consideration paid over the net liabilities acquired was attributed to goodwill. This acquisition brings an increased base of operations in San Diego which will significantly enhance the Group's ability to support the US market.

From the date of acquisition, Xitron Technologies, Inc has contributed (\$49,524) to the net loss of the Group. That loss included amortisation of the cost to Xitron of amending its license with Fresenius Medical Corporation to return rights to Xitron's patent for markets outside dialysis, for which the period expense was \$55,895.

If the combination had taken place at the beginning of the half year, the loss for the Group would have been (\$5,622,974) and revenue from continuing operations would have been \$1,537,263.

(i) The incidental costs of acquisition encompass the legal, financial, technical and tax due diligence expenses associated with the acquisition of Xitron. Of the \$196,066 in incidental costs, ImpediMed incurred \$138,270 of those costs during financial year 2007, with them being recognized as deferred expenses in the financial statement at 30 June 2007. The remaining \$57,796 in incidental costs have been incurred during financial year 2008.

### 9 INVENTORY

Inventory increased during period as a result of the acquisition of Xitron as well the Group increasing the stock of components on hand to reduce lead time to producing finished goods.

### 10 ISSUED CAPITAL

The movement in issued capital for the period in the table below:

|  | Number of shares  | 31 December 2007<br>\$ |
|--|-------------------|------------------------|
| Beginning balance 30 June 2007                         | 22,789,361        | 11,151,629             |
| Conversion of Preference A1 and A2 shares              | 10,964,511        | 7,894,450              |
| Issue of shares on redemption of S3 convertible notes  | 19,915,588        | 14,339,223             |
| Issue of shares on redemption of IPO Convertible notes | 11,400,000        | 8,208,000              |
| Issue of shares pursuant to public offer               | 13,600,000        | 9,792,000              |
| Xitron consideration shares on closing                 | 2,041,318         | 1,092,106              |
| Xitron consideration working capital adjustment        | 120,212           | 64,313                 |
| Costs of IPO   | -                 | (2,137,487)            |
| <b>TOTAL</b>   | <b>80,830,990</b> | <b>50,404,234</b>      |

### 11 EVENTS AFTER THE BALANCE SHEET DATE

At the meeting of the Board of Directors on 29 January 2008, the Board approved a proposed US Equity Incentive Plan to be put to Shareholders for their approval at an extraordinary general meeting scheduled for 9 April 2008.

## Notes to the Financial Statements

FOR THE PERIOD ENDED 31 DECEMBER 2007

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

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
  - I. give a true and fair view of the financial position as at 31 December 2007 and the performance for the year end on that date of the consolidated entity; and
  - II. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Mel Bridges  
Chairman



Greg Brown  
Managing Director

Brisbane, 26 February 2008

To the members of ImpediMed Limited

## **Report on the Condensed Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of ImpediMed Limited, which comprises the condensed balance sheet as at 31 December 2007, and the condensed income statement, condensed statement of changes in equity and condensed cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

### *Directors' Responsibility for the Half-Year 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 establishing and maintaining 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 a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* and other mandatory financial reporting requirements in Australia. As the auditor of ImpediMed Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

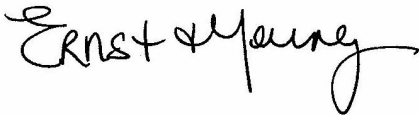
*Independence*

In conducting our review, we have complied with 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.


*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of ImpediMed Limited is not in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
- (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



Winna Brown  
Partner  
Brisbane  
26 February 2008