

**L-Dex<sup>®</sup>** becoming  
the standard of  
care for all cancer  
patients at risk  
of developing  
Lymphoedema.

For personal use only



# Company Directory

## Directors

C Hirst AO, Chairman  
D Adams (appointed 11 November 2013)  
M Bridges (retired 11 November 2013)  
G Brown (resigned 30 September 2013)  
J Hazel  
M Kriewaldt (retired 12 July 2013)  
M Panaccio  
S Ward (appointed 12 July 2013)

## Company Secretary

S Denaro

## Registered office

Unit 1, 50 Parker Court  
Pinkenba QLD 4008

## Principal places of business

Unit 1, 50 Parker Court  
Pinkenba QLD 4008 Australia  
Phone: +61 7 3860 3700

5900 Pasteur Court, Suite 125  
Carlsbad CA 92008 U.S.A.  
Phone: +1 760 585-2100

## Share Register

Link Market Services  
Level 15, 324 Queen Street  
Brisbane QLD 4000  
Phone: +61 7 3320 2200

ImpediMed Limited shares are listed on the Australian Securities Exchange (ASX): ASX code "IPD".

## Solicitors

Corrs Chambers Westgarth  
Level 35, 1 Eagle Street  
Brisbane QLD 4000

Sheppard Mullin Richter & Hampton LLP  
12275 El Camino Real, Suite 200  
San Diego CA 92130-2006 U.S.A.

## Bankers

Commonwealth Bank of Australia  
240 Queen Street  
Brisbane QLD 4000

Bank of America  
450 B Street, Suite 1500  
San Diego CA 92101-8001 U.S.A.

## Auditors

Ernst & Young  
Level 51, 111 Eagle Street  
Brisbane QLD 4000

## Remuneration Advisors to the Board of Directors

Barney & Barney LLC  
9171 Towne Centre Drive Suite 500  
San Diego CA 92122 U.S.A.



## Annual General Meeting

The Annual General Meeting of the Company will be held at 2.00 pm on Thursday 30 October 2014 at the offices of Corrs Chambers Westgarth in Brisbane. Further details will be sent out to all shareholders in the Notice of Annual General Meeting.

# Chairman's Report

**Dr. Cherrell Hirst, AO**  
**Chairman of the Board**

On behalf of my fellow directors I am pleased to present the Annual Report for ImpediMed Limited ("ImpediMed" or the "Company") for the 2013/2014 financial year. The year was marked by many significant achievements, including continued sales growth momentum for the Company, which has put ImpediMed in a strong position heading in to the 2014/2015 financial year.

Under the leadership of President and CEO Rick Carreon, ImpediMed has demonstrated a targeted and disciplined approach during the year and I am very proud of the many goals achieved by Rick and his team. Not only was the team able to deliver on key milestones of the Company, but in many cases, they were able to deliver these results ahead of internal expectations. They include:

- growing our lymphoedema business 34% compared to the prior financial year;
- achieving acceptance by the American Medical Association (AMA) of the addition of Category I Current Procedural Terminology (CPT®) code 93702, which becomes effective for use 1 January 2015;
- announcing the Principal Investigators for the five year, international, multi-centre post-approval clinical trial – led by Professor Sheila H. Ridner, PhD, FAAN of the Vanderbilt University School of Nursing and Dr Frank Vicini, MD, FACP;
- commencing the post-approval clinical trial six months ahead of schedule, which will look to enrol 1,100 patients and establish the clinical utility of the ImpediMed's L-Dex device; and
- raising \$10.5 million through the combination of an oversubscribed share placement for new and existing investors and a Share Purchase Plan for existing investors.

Each of these achievements is critical to the business and exemplify the dedication and capability that our core team has shown over the last two years. Further detail as to each of these significant achievements can be found in the body of the Annual Report.

As promised, we continued our work in refreshing the Board, with a key goal being to expand knowledge and experience of the U.S. medical device and healthcare industries through the appointment of U.S.-based directors. ImpediMed was indeed disappointed to lose the services of Non-Executive Directors Martin Kriewaldt in July 2013 and Mel Bridges in November 2013 and Executive Director Greg Brown in September 2013. As I mentioned in my report last year, Martin and Mel were both capable and dedicated directors throughout their time of service. ImpediMed thanks them for their contributions, particularly Mel's significant initiative in founding the Company. ImpediMed also thanks Greg Brown for his tireless efforts during his years of service with the Company.

We are thrilled with the appointments of Scott Ward in July 2013 and David Adams in November 2013 as U.S.-based directors. Both Scott and Dave bring to ImpediMed extensive knowledge of and experience in the U.S. medical device and healthcare industries.



**Cherrell Hirst AO** Chairman

### The Year Ahead

As we enter 2015, we are very excited about our future and the upcoming year. With the AMA's release of the CPT Category I Code descriptor for bioimpedance derived spectroscopy for extracellular fluid analysis in September 2014, it marks a transformational event for the company. The receipt of this Category I Code descriptor means that reimbursement for ImpediMed's L-Dex device is not limited to breast cancer patients, but rather significantly expands the market opportunity for L-Dex to all cancer patients who are at risk of developing lymphoedema.

This results in a market opportunity that is now four times greater, which allows ImpediMed's L-Dex technology to reach a much larger at-risk group of cancer patients. This is an exciting time as we begin to expand our lymphoedema business not only with Medicare reimbursement but in both the breast cancer and wider oncology markets.

On behalf of the Board, I thank all our team members for their loyalty, continued hard work and significant achievements. I pay tribute to the expertise and service of my fellow directors. Together, the whole ImpediMed team looks forward to the opportunities and work that lie ahead. We will maintain our targeted and disciplined approach and remain true to our goal of delivering success to shareholders as we continue in our goal to make L-Dex the standard of care for all cancer related patients around the world.

**“ImpediMed's L-Dex technology is to reach a much larger at-risk group of cancer patients. This is an exciting time as we begin to expand our lymphoedema business not only with Medicare reimbursement but in both the breast cancer and wider oncology markets.”**





## President and Chief Executive Officer's Letter

### Mr. Richard Carreon President and Chief Executive Officer

It is extremely gratifying to write this report and reflect on a year punctuated by the achievement of major milestones, growing sales momentum and the valuable external validation of our technology. At the time of going to print, the American Medical Association (AMA) had just released the CPT® Category I Code descriptor for bioimpedance spectroscopy (BIS) - code 93702 - which describes the Company's L-Dex procedure for the assessment of lymphoedema.

As noted in the Chairman's Report, this is a defining moment for ImpediMed, and significantly expands the market opportunity for L-Dex. It is also a major achievement for a company of our size - CPT Category I codes are the most sought after government reimbursement codes available in the U.S. In 2014, there were 183 applications for a CPT1 code. Of those, only 17 unique codes were awarded, only six of which were for a new technology. This is a leap forward in our commercialisation strategy and an immense achievement in just two years.

In the lead up to 1 January 2015 when the reimbursement code comes into effect, the business will focus on activity to support commercialisation of the L-Dex device. Ultimately our goal is to encourage widespread and routine use of L-Dex to assess and monitor cancer patients for lymphoedema. This includes engaging key opinion leaders and securing leading cancer sites with survivorship programs as customers.

We also continue to invest in sales and marketing to accelerate market adoption, including the appointment of the Company's first Chief Medical Officer, Dr Frank A. Vicini, MD, FACR.

L-Dex already has the endorsement of leading clinicians in the U.S., Australia and other markets. At the May 2014 special symposium held at the American Society of Breast Cancer Surgeons annual meeting, five of the United States' leading lymphoedema experts presented new data on the use of L-Dex technology, highlighting the role that L-Dex can play in improving patient outcomes.

Our post-approval clinical trial has also secured leading sites and renowned clinical investigators, including Vanderbilt-Ingram Cancer Centre and Macquarie University Cancer Institute. The inclusion of these sites is an excellent endorsement of the L-Dex technology and is congruent with our efforts to drive market adoption. The trial itself is being undertaken to further investigate the clinical utility of L-Dex in the early detection of lymphoedema and will be useful in establishing L-Dex as the standard of care.

While much of the current customer base is in the breast cancer segment, this presents a solid foundation for us to now engage across the broader cancer market.

Financially, we are in a sound position. As of 30 June 2014 we had a cash balance of \$10.8 million, which provides the working capital and funds to invest in the sales and marketing of the L-Dex device and drive growth in this pivotal year ahead. We are confident of building on the sales momentum achieved in the past financial year, in which we saw our lymphoedema revenue increase by 34%, contributing to \$3.58 million in revenue from ordinary activities.

I'm excited about the future of ImpediMed. In the immediate term we are absolutely focused on the core business of lymphoedema and maximising the opportunity ahead of us. Over the longer term, I believe there are other excellent opportunities for ImpediMed to maintain a competitive advantage by developing next generation products and other applications for our BIS technology.

Finally, I would like to thank our shareholders for their continued support. I look forward to seeing you at our Annual General Meeting (AGM) on 30 October 2014 and to an exciting year ahead.



**Richard Carreon** President and  
Chief Executive Officer

# Board of Directors and Executives

## Board



**Cherrell Hirst AO**  
Chairman,  
Non-executive  
Director



**David Adams**  
Non-executive  
Director



**Jim Hazel**  
Non-executive  
Director



**Michael Panaccio**  
Non-executive  
Director



**Scott Ward**  
Non-executive  
Director

## Executives



**Richard Carreon**  
President and  
Chief Executive  
Officer



**Morten Vigeland**  
Chief Financial  
Officer



**Catherine  
Kingsford**  
Vice President  
Regulatory,  
Clinical Affairs  
and Intellectual  
Property



**Dennis Schlaht**  
Vice President  
Product  
Development,  
Quality, and  
Marketing



**Mike Schreiber**  
Vice President  
Global  
Commercialisation

Directors' profiles appear on pages 2 and 3 of the Directors' Report.

# Financial Report

## Contents

<b>Corporate Information</b>	<b>1</b>
<b>Directors' Report</b>	
Directors	2
Company Secretary	5
Dividends	5
Principal activities	5
Operating and financial review	5
Significant changes in the state of affairs	6
Significant events after the balance date	7
Likely developments and expected results	7
Significant risks to the business	8
Environmental regulations and performance	8
Share options	9
Indemnification and insurance of directors and officers	9
Indemnification of auditors	9
Employees	9
Diversity	10
Corporate governance	10
Remuneration report (audited)	10
Directors' meetings	18
Rounding	19
Auditors' independence declaration and non-audit services	21
<b>Corporate Governance Statement</b>	<b>22</b>
<b>Financial Statements</b>	
Consolidated Statement of Comprehensive Income	27
Consolidated Balance Sheet	28
Consolidated Cash Flow Statement	29
Consolidated Statement of Changes in Equity	30
<b>Notes to the Financial Statements</b>	<b>31</b>
<b>Audit Report</b>	<b>74</b>
<b>Shareholder Information (unaudited)</b>	<b>76</b>

## Corporate Information

ABN: 65 089 705 144

This financial report covers the consolidated entity comprising ImpediMed Limited (“the Parent”) with its wholly-owned subsidiaries (the “Group” or “Company”). The Parent’s functional and presentational currency and the Group’s presentational currency is the Australian dollar (AUD or \$). A description of the Group’s operations and of its principal activities is included in the operating and financial review in the Directors’ Report. The Directors’ Report is not part of the financial report.

### Directors

C Hirst AO, Chairman  
D Adams (appointed 11 November 2013)  
M Bridges (retired 11 November 2013)  
G Brown (resigned 30 September 2013)  
J Hazel  
M Kriewaldt (retired 12 July 2013)  
M Panaccio  
S Ward (appointed 12 July 2013)

### Company Secretary

S Denaro

### Registered office

Unit 1, 50 Parker Court  
Pinkenba QLD 4008

### Principal places of business

Unit 1, 50 Parker Court  
Pinkenba QLD 4008 Australia  
Phone: +61 7 3860 3700

5900 Pasteur Court, Suite 125  
Carlsbad CA 92008 U.S.A.  
Phone: +1 760 585-2100

### Share Register

Link Market Services  
Level 15, 324 Queen Street  
Brisbane QLD 4000  
Phone: +61 7 3320 2200

ImpediMed Limited shares are listed on the Australian Securities Exchange (ASX): ASX code “IPD”.

### Solicitors

Corrs Chambers Westgarth  
Level 35, 1 Eagle Street  
Brisbane QLD 4000

Sheppard Mullin Richter & Hampton LLP  
12275 El Camino Real, Suite 200  
San Diego CA 92130-2006 U.S.A.

### Bankers

Commonwealth Bank of Australia  
240 Queen Street  
Brisbane QLD 4000

Bank of America  
450 B Street, Suite 1500  
San Diego CA 92101-8001 U.S.A.

### Auditors

Ernst & Young  
Level 51, 111 Eagle Street  
Brisbane QLD 4000

### Remuneration Advisors to the Board of Directors

Barney & Barney LLC  
9171 Towne Centre Drive Suite 500  
San Diego CA 92122 U.S.A.



## Directors' Report

Your Directors submit their report for the year ended 30 June 2014.

### Directors

The names and details of the Group's Directors (the "Board") in office during the year and until the date of this report are outlined below.

#### **Cherrell Hirst AO, FTSE, MBBS, BEdSt, DUniv, FAICD – Non-executive Chairman**

Cherrell Hirst AO is a medical doctor and was a leading practitioner in the area of breast cancer screening and diagnosis. Cherrell serves as the Chairman of the Board. Cherrell was appointed Deputy Chairman on 12 July 2011 and Chairman on 8 November 2011. Presently, she is also the Chair of ImpediMed Limited's Nomination Committee and serves on the Remuneration Committee and the Audit and Risk Committee. She is a Non-executive Director of Tissue Therapies Limited and Medibank Private Ltd. During the year Cherrell resigned as Non-executive Director of Telesso Technologies Ltd.

Cherrell's areas of experience include medical practice, with extensive experience as a breast cancer clinician, the medical/biotechnology industry and corporate governance.

#### **Listed company directorships held since 1 July 2011:**

Company Name	Appointed	Retired/Resigned
ImpediMed Limited	01-Aug-2005	-
Tissue Therapies Limited	30-Jun-2009	-
Telesso Technologies Limited	3-Oct-2012	29-Oct-2013

#### **David Adams, Juris Doctorate, BSc – Non-executive Director**

David Adams was appointed to the Board on 11 November 2013. David is Chief Operating Officer at InnerSpace Neuro Solutions, Inc. He has extensive experience in the healthcare industry, including previous roles as Vice President of Corporate Integration and Divestitures and Vice President of Cardiovascular Business Development at Medtronic, Inc.

David serves on both the Nomination Committee and the Audit and Risk Committee.

#### **Listed company directorships held since 1 July 2011:**

Company Name	Appointed	Retired/Resigned
ImpediMed Limited	11-Nov-2013	-

#### **Mel Bridges, BSc, Honorary Doctorate, FAICD – Non-executive Director**

Mel Bridges, a shareholder and co-founder of ImpediMed Limited, resigned from the Board on 11 November 2013. Mel has over 30 years of international business experience in the healthcare industry.

Mel's areas of experience include the medical/biotechnology industry, ASX listed companies, investor relations, mergers and acquisitions and corporate governance and he is a former CEO of several companies.

#### **Listed company directorships held since 1 July 2011:**

Company Name	Appointed	Retired/Resigned
ImpediMed Limited	27-Sep-1999	11-Nov-2013
Alchemia Limited	11-Sep-2003	15-Jul-2013
Benitec Limited	12-Oct-2007	19-Jun-2014
Tissue Therapies Limited	13-Mar-2009	-
ALS Limited (formerly Campbell Brothers Limited)	29-Sep-2009	-
Leaf Energy Limited	11-Aug-2010	12-Sep-2012
Genetic Technologies Limited	16-Dec-2011	1-Nov-2012

## Directors' Report

### Directors (continued)

#### Jim Hazel, BEc, SF Fin, FAICD – Non-executive Director

Jim Hazel chairs the Audit and Risk Committee and serves on the Nomination Committee. Jim had an extensive career in retail and investment banking and was formerly Chief General Manager of Adelaide Bank Limited. Jim is a Director of Bendigo & Adelaide Bank Limited, Rural Bank Limited, Centrex Metals Limited, Coopers Brewery Limited and Motor Accident Commission. Jim is the Chairman of the Board of Ingenia Communities Group.

Jim's areas of experience include finance and accounting, ASX listed companies, former CEO, chairman of audit committees and corporate governance.

#### Listed company directorships held since 1 July 2011:

Company Name	Appointed	Retired/Resigned
ImpediMed Limited	27-Nov-2006	-
Bendigo & Adelaide Bank Limited	1-Mar-2010	-
Centrex Metals Limited	16-Jul-2010	-
Ingenia Communities Group	1-Mar-2012	-

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

Martin Kriewaldt retired from the Board on 12 July 2013. Until his retirement, Martin served as Chairman of the Remuneration Committee and a member of the Audit and Risk Committee and Nomination Committee. Martin is Non-executive Chairman of unlisted Hyne Timber and InterioCo, and a Non-executive Director of unlisted Golding Contractors and Prime Pacific Seafood. He was formerly a lawyer, specialising in banking and insurance law. Martin has served as Chairman of Suncorp Insurance and Finance, Infratil Ltd and Opera Queensland and director of numerous ASX listed companies. He is the former Queensland President of the Australian Institute of Company Directors.

Martin's areas of experience include legal, ASX listed companies, chairman of remuneration, audit, risk, environment, sustainability and investment committees, corporate governance and contracts.

#### Listed company directorships held since 1 July 2011:

Company Name	Appointed	Retired/Resigned
ImpediMed Limited	24-Mar-2005	12-Jul-2013
ALS Limited (formerly Campbell Brothers Limited)	12-Jun-2001	26-Jul-2011
Oil Search Limited	16-Apr-2002	8-May-2012
Macarthur Coal Limited	13-Oct-2008	21-Oct-2011
BrisConnections Unit Trusts	24-Oct-2008	19-Feb-2013

#### Michael Panaccio, PhD, MBA, BSc (Hons), FAICD – Non-executive Director

Michael Panaccio was appointed Chairman of the Remuneration Committee in July 2013 and serves on the Nomination Committee. Michael is an investment principal and founder of leading Australian venture capital firm Starfish Ventures, a venture capital manager focusing on investments in medical devices, therapeutics and IT companies. Michael and entities he is associated with including funds managed by Starfish Ventures hold approximately 10.4% of ImpediMed Limited's ordinary shares.

Michael's experience includes more than five years with Singapore based venture capital firm Nomura/JAFCO investment (Asia) Limited and 13 years at Starfish Ventures. Michael has experience in capital raising, ASX listed companies, medical/biotechnology industry, mergers and acquisitions and corporate governance.

#### Listed company directorships held since 1 July 2011:

Company Name	Appointed	Retired/Resigned
ImpediMed Limited	25-Jan-2007	-
dorsaVi	1-May-2008	-

## Directors' Report

### Directors (continued)

#### Scott R. Ward, MS, BSc – Non-executive Director

Scott R. Ward was appointed to the Board on 12 July 2013. He is a Managing Director at SightLine Partners, a venture capital firm focused on direct, secondary investments in later stage medical device companies. He is also President of Raymond Holdings, a firm founded in 2011, with activities in venture capital, strategy and transactional advisory services. Scott has over 30 years of experience in the healthcare industry, including 15 years as an operating business leader. He was most recently Senior Vice President and President of the CardioVascular business of Medtronic Inc., responsible for all worldwide operations of the CardioVascular Business including the Coronary, Peripheral, Endovascular, Structural Heart Disease and Revascularization and Surgical Therapies Businesses. Previously, Mr Ward served as Senior Vice President and President of Medtronic Neurological and Diabetes, with responsibility for the global Neurological, Neurologic Technologies, Diabetes, Gastroenterology and Urology businesses; Vice President and General Manager of the Medtronic Drug Delivery Business; and Director of Medtronic NeuroVentures.

Scott is Chairman of the Board of Surmodics, Inc and Creganna-Tactx Medical and serves on the Board of Cardiovascular Systems, Inc. Scott serves on both the Nomination Committee and the Remuneration Committee for ImpediMed.

#### Listed company directorships held since 1 July 2011:

Company Name	Appointed	Retired/Resigned
ImpediMed Limited	12-Jul-2013	-
Surmodics Incorporated (i)	21-Sep-2010	-
Cardiovascular Systems Incorporated (i)	13-Nov-2013	-

(i) US-based publicly traded company.

#### Greg Brown, BSc, MBA – Executive Director

Greg Brown resigned from the Board as Executive Director on 30 September 2013, but remained involved with the Group through an executive consultancy agreement assisting in the development of the Australian Lymphoedema market. Greg has over 20 years of business experience in the healthcare industry in Australia, Japan, the U.S. and Europe.

Greg's areas of experience include the medical/biotechnology industry, U.S. and European medical markets, product commercialisation and sales and marketing.

#### Listed company directorships held since 1 July 2011:

Company Name	Appointed	Retired/Resigned
ImpediMed Limited (i)	14-Dec-2001	30-Sep-2013
Genetic Technologies Limited	24-Jul-2012	1-Nov-2012

(i) Resigned as Executive Director (30 September 2013; Executive Director (10 July 2012 to 30 September 2013); Managing Director and Chief Executive Officer (1 April 2004 to 9 July 2012); Non-executive Director (14 December 2001 to 31 March 2004).

#### Interest in the shares and options of the Group and related body corporate

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

	Ordinary Shares	CEO Options
C Hirst AO	1,055,591	-
D Adams	125,000	-
J Hazel	755,933	-
M Panaccio	24,795,788	-
S Ward	225,000	-

# Directors' Report

## Company Secretary

### Stephen Denaro, B.Bus, CA, MAICD – Company Secretary

Stephen has extensive experience in mergers and acquisitions, business valuations, accountancy services, and income tax compliance gained from positions as Company Secretary and Chief Financial Officer of various public companies and with major chartered accountancy firms in Australia and the United Kingdom. He provides company secretarial services for a number of start-up technology and public companies.

Stephen has a Bachelor of Business in Accountancy, Graduate Diploma in Applied Corporate Governance and is a member of the Institute of Chartered Accountants in Australia and the Australian Institute of Company Directors.

## Dividends

No dividends were paid or proposed to be paid to shareholders for the year ended 30 June 2014.

## Principal activities

The principal activities of the Group during the year were the development, manufacture and sale of bioimpedance instruments and consumables and the sale of electronic test and measurement devices.

## Operating and financial review

### Group overview

ImpediMed Limited was founded in Brisbane, Australia in October 1999, and was listed on the ASX on 24 October 2007.

The Group consists of three entities:

- ImpediMed Limited, the Parent company operating in medical markets in regions outside the U.S.; incorporated in 1999 and listed on the ASX on 24 October 2007.
- ImpediMed, Inc, a Delaware corporation operating in medical markets in North America.
- XiTRON Technologies, Inc, a California corporation operating in power test and measurement markets globally. XiTRON Technologies, Inc was acquired by ImpediMed Limited on 1 October 2007.

### Operating results for the year

The loss from continuing operations after income tax and the net loss for the year ended 30 June 2014 was \$7.9 million (2013 \$8.4 million). The decreased loss, when compared with the prior year, is primarily attributed to an increase in gross profit for the Group of \$0.4 million, or 22%.

The average exchange rate for the reporting period was U.S. dollar (USD) 0.918 to the AUD \$1.00 (2013 USD 1.027). During 2014, the Group incurred an unrealised mark-to-market foreign currency translation loss of \$0.01 million (2013 \$0.04 million loss).

Revenue related to goods and services increased for the year ended 30 June 2014 to \$3.5 million (2013 \$2.7 million), an increase of \$0.8 million year over year. The change by operating segment was an increase of \$0.6 million in Medical, and a \$0.2 million increase in Test & Measurement (T&M). The \$0.6 million increase in the Medical segment was due to a \$0.2 million increase in body composition and veterinary products, while total lymphoedema product revenue increased by \$0.4 million, or 34% year over year.

In the U.S. lymphoedema market, the Group uses a mix of outright device sales and placements of its L-Dex U400® using a Product Supply Agreement (PSA). Under a PSA, the device is placed with the customer and revenue is generated through the sale of electrode packages/consumables. The PSA defines the terms of use in which the customer receives the device and orders consumables at set prices to use for their Patient Readings. The PSA is a customary sales method in the U.S. medical practice market place.

In the Australian and New Zealand market, the Group continued its agent agreement with 3M (signed February 2013) and its promotion with the Australasian Lymphology Association (signed March 2013). Under this program, the Group's L-Dex U400 device is sold at a discounted price, and the consumables pricing depends on ordering volume levels.



## Directors' Report

### Operating and financial review (continued)

#### Operating results for the year (continued)

Salaries and benefits decreased to \$4.7 million, a decrease of 4% (2013 \$4.9 million). The employee headcount at 30 June 2014 was 30 (2013 24). Wages and salaries decreased due to severance payments made in connection with the reductions in force in FY2013, otherwise expense increased by 12% during the year due to higher headcount as we expanded our sales team.

Rent and property expenses decreased \$0.1 million or 29% to \$0.3 million in 2014 (2013 \$0.4 million) as the US entities moved offices in the prior year and negotiated better lease rates.

Travel expense increased to \$0.6 million in 2014 (2013 \$0.4 million) as the Group expanded the US sales team. Consultants and professional fees increased to \$1.4 million in 2014 (2013 \$1.3 million) as the Group expanded consulting work with reimbursement consultants, clinical trial consultants and investor relations consultants. Specifically, the Group increased consulting services in support of clinical trial design, publication strategy and the development of academic presentations on clinical performance of ImpediMed's product range.

Other expense for the financial year was \$0.3 million (2013 \$0.4 million). The decrease was due to hosting fees from IT ERP system, which reduced in expense by \$0.1 million during the year. In addition, the non-cash expense of share-based payments decreased to \$0.7 million (2013 \$1.0 million) as option grants from previous years continued to vest.

### Significant changes in the state of affairs

#### Review of financial condition – liquidity and capital resources

Cash and cash equivalents increased to \$10.8 million at 30 June 2014 (2013 \$7.3 million). Net cash used in operating activities during 2014 was \$6.8 million, a decrease of \$0.9 million (2013 \$7.7 million).

#### Raised capital – share issues during the year

Cash flow from financing activities generated \$10.6 million in 2014 (2013: nil). The Group completed a Capital Raise ("Placement") in March 2014, along with a subsequent Share Purchase Plan ("SPP") in April 2014. Due to the Placement and SPP, issued capital increased to \$116.6 million at 30 June 2014 (2013: \$106.1 million). Total equity increased to \$13.5 million at 30 June 2014 (2013: \$10.6 million). Total liabilities increased to \$1.4 million at 30 June 2014 (2013 \$1.2 million).

The following outlines the capital raised during the years ended 30 June 2014 and 30 June 2013.

- \$2.2 million, net of transaction costs, on 24 April 2014 through the issue of 12,051,483 ordinary shares under a Share Placement Plan to existing investors at \$0.195 per share.
- \$8.3 million, net of transaction costs, on 25 March 2014 through the issue of 45,307,264 ordinary shares under a share Placement to institutional investors and sophisticated investors at \$0.195 per share
- No capital raise for financial year 2013.

#### Dynamics of the business

The Parent and its wholly owned subsidiary, ImpediMed, Inc., are the entities that generate the bioimpedance spectroscopy (BIS) revenue for the Group. These companies either sell the L-Dex® U400 device to customers or enter into agreements to place the L-Dex U400 device with customers. Customers then order electrode consumables based on their individual needs. Pricing for customers will vary depending upon the purchase price of the device and the number of packages of electrode consumables being purchased.

Under a PSA agreement or an operating lease, ImpediMed retains title to the device and carries it in property, plant and equipment, depreciating the device over 3 years. As the U.S. marketplace business continues to scale up, the investment in L-Dex U400 devices is expected to have some impact on the working capital needs of the Group which are expected to be offset by revenue and profitability.

Revenue is generated through the sale of devices and consumable electrodes in both the lymphoedema and body composition areas of the medical segment, as well as through device sales and service revenue from the test and measurement segment in XiTRON Technologies, Inc.

## Directors' Report

### Significant changes in the state of affairs (continued)

#### Dynamics of the business (continued)

Financial year 2014 revenue was led by U.S. lymphoedema revenue, which increased by 55% over the same twelve-months in the prior year. This growth was primarily due to the addition of new customers, as well as the continued expansion of programs with larger, multi-site customers.

Group revenue covering all three revenue segments increased by 29% when compared to the prior year. Group lymphoedema sales increased by 34%, body composition revenue by 22%, and test and measurement by 27%.

ImpediMed remains committed to commercialisation of its products to succeed in the lymphoedema markets of the U.S., Australasian market and selected regions in Europe and Asia. During the year ended 30 June 2014, ImpediMed continued to make substantial progress in increasing the adoption by U.S. physicians through the:

- successful issuance of a clearance for an Indication for Use Statement with the U.S. Food and Drug Administration (FDA). This revision removed the sentence "the device is not intended to diagnose or predict lymphedema of the extremity." The clearance clarified the use of the L-Dex U400 as an aid to the clinical assessment of unilateral lymphedema of the arm and leg in women and the leg in men;
- acceptance by the American Medical Association (AMA) of the addition of Category I Current Procedural Terminology (CPT®) code 937XX2, which becomes effective for use 1 January 2015;
- announcement of the Principal Investigators for the five year, international, multi-centre post-approval clinical trial – led by Professor Sheila H. Ridner, PhD, FAAN of the Vanderbilt University School of Nursing and Dr Frank Vicini, MD, FACR; and
- commencement of this post-approval clinical trial 6 months ahead of schedule, which will look to enrol 1,100 patients and establish the clinical utility of the ImpediMed's L-Dex device.

The Group's achievements and progress during 2014 are planned to continue into the next year as part of the execution of the Company's strategy, primarily surrounding the advancement of the five-year, multi-centre clinical study.

### Significant events after the balance date

On 23 July 2014 the Group announced Macquarie University Cancer Institute ("MCI") in Sydney, Australia as the Australian-based site for the five-year, multi-centre post-approval clinical trial. Inclusion of such major research centres in this trial is expected to drive further market adoption of ImpediMed's L-Dex device. MCI is leading Australian research in all aspects of lymphoedema. MCI is one of only five Australian universities to receive five stars in all categories of the international QS Stars rating system.

Louise Koelmeyer, BAppSc and Professor John Boyages, MD, PhD were named Principal Investigators for the Australian-based site research.

On 22 July 2014 the Group received an R&D Tax Refund relating to the 2013 financial year. The Group received \$128,376 that will be recorded as Other Income in the 2015 financial year.

### Likely developments and expected results

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

Clinician groups targeted for placements are breast and general surgeons, radiation oncologists, radiation oncology centres, academic medical/cancer centres and health management organizations (HMOs). The Group expects Lymphoedema revenue to continue to grow as a result of increased placements and adoption by customers.

The establishment of a Category I Current Procedural Terminology (CPT®) Code in January 2015 will be an important step to expand L-Dex coverage with Medicare and commercial payers in the U.S. Current Procedural Terminology is a listing of descriptive terms and identifying codes for reporting medical services and procedures. The purpose of CPT is to provide a uniform language that accurately describes medical, surgical, and diagnostic services, and thereby serves as an effective means for reliable nationwide communication among physicians and other healthcare providers, patients, and third-parties in the U.S. CPT is the most widely accepted medical nomenclature used to report medical procedures and services under public and private health insurance programs. The Group will continue to monitor the AMA's recommendation to accept the addition of the Category I CPT Code 937XX2 in the coming months, prior to the publication of the CPT descriptor in the second quarter of the 2015 financial year.

## Directors' Report

### Likely developments and expected results (continued)

The Group will put increased focus on the support of clinical trials using our technology to supplement the outcomes data of L-Dex measures being a standardised and objective metric and support the benefits of early detection of lymphoedema. In 2015, we will continue to build publication support and expect to see more outcomes data published as these studies advance.

In the body composition market, the Group will continue to support research being conducted by Fonterra, the University of Auckland, and the University of Queensland. The collaborative work will look to improve our understanding of how to assess the impact of nutrition on the composition of the body through the development of a next generation bioimpedance spectroscopy ("BIS") device.

During the year ended 30 June 2014, the Group had net cash flows used in operating activities of \$6.8 million, as compared with the prior year (2013 \$7.7 million). This \$0.9 million decrease, or 11%, was primarily due to the work completed in the prior financial year to reduce the Group's spend on non-core activities. Due to that focus, there were expense reductions in major expense categories including salaries and benefits, rent and property expenses, and other overhead expenses.

The Group expects to continue to generate a net loss in financial year 2015 while it focuses on expansion of its position in the US lymphoedema market through an increased sales force and the advancement of the five-year, multi-centre clinical trial. The Group expects to fund these losses with current cash and cash equivalents. The Group continues to manage its cash position carefully, and will raise additional capital for growth if needed.

### Significant risks to the business

The Group continues a proactive approach to risk management. During the financial year, the Group identified four major risks to the business in the foreseeable future:

- The availability of capital resources
- The rate of reimbursement by insurers to clinicians for the use of L-Dex technology with their patients
- The adoption of our L-Dex technology among US clinicians
- The patents validity

Management, together with the Board and the Audit & Risk Management Committee, continually assess the key risks and their potential effect on the business.

In assessing the availability of capital resources, the Group concluded an organisational restructuring in the prior financial year that reduced the quarterly cash burn significantly. The restructuring will result in continued lower operating expenses for 2015, which will reduce the use of capital resources. As noted above, the Group continues to manage its cash position carefully, and may raise additional capital for growth if needed.

In assessing the rate of reimbursement by insurers to clinicians, the Group is continuing the consulting work with reimbursement professionals and key medical supporters, as well as continuing its work with managed care consultants on the appeals process for L-Dex users. With the establishment of a CPT Category I code in January 2015, the Group's focus will switch to the rate of reimbursement by insurers to clinicians for the use of the L-Dex technology with their patients. Before the end of the current calendar year, the AMA will publish the full descriptor of the code and the outcome of the Relative Value Scale Update Committee ("RUC") meetings will be released. The Group continues to work with leading professionals in anticipation of the results, which will have a major impact on the Company. The Group is focused on managing the CPT Category I code and safeguarding reimbursement through such endeavours that include building clinical evidence, expanding the CPT I code, getting on medical and clinical guidelines, and educating carrier-advisory committees.

In assessing the adoption of our L-Dex technology, the Group is focused on developing a model for practice integration of the L-Dex device for existing and new accounts. This, together with the value proposition and reimbursement will be critical to the future growth of the business.

The Company uses patents or trade marks to protect its technology and applications from unauthorised use by third parties. The term of patents may expire or may be challenged, invalidated or circumvented. The Company is relying on its patents for commercial protection for its devices.

### Environmental regulations and performance

The Group's activities are subject to licences and regulations under environmental laws that apply in the jurisdictions of its operations. These licenses specify limits for and regulate the management of moving to lead free components. The Group

## Directors' Report

### Environmental regulations and performance (continued)

is supporting the global move towards lead free components in its device electronics and is working with its contract manufacturers to identify lead free replacement parts to substitute into its device designs.

In addition, the Group's Australian operations must comply with the Clean Energy Act 2011 which commenced on 1 July 2012. The Company does not emit over 25,000 tonnes of carbon dioxide equivalent, however, purchases services including electricity from providers who do. The Group uses contract manufacturers for its products and continues to evaluate the indirect impact of the requirements on its operations.

There have been no significant known breaches of the license conditions or other environmental regulations.

ImpediMed has an environmental health and safety management system, which includes regular monitoring, periodic auditing and reporting within the Group. The system is designed to continually improve ImpediMed's performance and systems with training, regular review, improvement plans and corrective action as priorities.

### Share options

Details of options granted to key management personnel and exercised during the year are set out in the Remuneration Report.

### Unissued shares

As at the date of this report and the reporting date, there were unissued ordinary shares under options as outlined below:

	26 August 2014	30 June 2014
CEO options	-	-
ESOP options	19,404,866	19,404,866
Total options	19,404,866	19,404,866

Refer to Note 26 of the financial statements for further details of options outstanding and the value of the options.

Option holders do not have the right, by virtue of the option, to participate in any share issue of the Group or any related body corporate or in the interest issue of any other registered scheme.

During the financial year, no ESOP options have been exercised.

### Indemnification and insurance of directors and officers

The Group has insured its Directors, Secretary and executive officers for the financial year ended 30 June 2014. Under the Group's Directors' and Officers' Liability Insurance Policy, the Group cannot release to any third party or otherwise publish details of the nature of the liabilities insured by the policy or the amount of the premium.

To the extent permitted by law and subject to the restrictions in section 199A and 199B of the Corporations Act 2001, the Group indemnifies every person who is or has been an officer of the Group against any liability (other than for legal costs) incurred by that person as an officer of the Group where the Group requested the officer to accept appointment as Director.

To the extent permitted by law and subject to the restrictions in sections 199A and 199B of the Corporations Act 2001, the Group indemnifies every person who is or has been an officer of the Group against reasonable legal costs incurred in defending an action for a liability incurred by that person as an officer of the Group.

### Indemnification of auditors

To the extent permitted by law, the Group has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

### Employees

As at the 30 June 2014, ImpediMed and its subsidiaries had a total of 30 full and part-time employees (2013: 24 employees).



## Directors' Report

### Diversity

The Group approved a Diversity Policy in 2011. The policy has been developed with a company much larger than the current size of the ImpediMed Group in mind. Accordingly, the policy contains a number of aspirational aspects which the Group may not necessarily be capable of achieve in the short term.

The diversity of an appropriate mix of Australian and U.S. workers / employees and the appropriate qualifications of all staff are of prime concern at present. The purpose of the diversity policy is to acknowledge that a talented and diverse workforce is a key competitive advantage and to show the Group is committed to workplace diversity. Diversity includes, but is not limited to, age, cultural background, disability, ethnicity, gender, marital status, national origin, race, religion, or sexual orientation.

The diversity policy defines the initiatives which assist the Group with maintaining and improving the diversity of its workforce. To the extent practicable, the Group will address the recommendations and guidance provided in the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (ASX Principles).

### ImpediMed's commitment to workplace diversity

ImpediMed is committed to providing a respectful environment where employees and others in the workplace are treated fairly and all decisions are based on merit, without regard to their differences or similarities. The Board is committed to diversity and promoting a policy to maximise the achievement of corporate goals.

### Details of the number of management level females of the Group as of:

Level	30 June 2014		30 June 2013	
	Female	Total	Female	Total
Board of Directors	1	5	1	6
Vice Presidents and Above	2	6	2	5
Senior Managers and Above	6	10	4	7

### Corporate governance

Details of ImpediMed's corporate governance policies and procedures including information about Board Committees are set out in the section of this report entitled "Corporate Governance".

### Remuneration report (audited)

This remuneration report outlines the director and executive remuneration arrangements of the Group in accordance with the requirements of the *Corporation Act 2001* (the Act) and its Regulations. For the purposes of this report, the key management personnel ("KMP") of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group. This information has been audited as required by section 308(3c) of the Act.

### Details of the key management personnel of the Group:

#### Directors

Cherrell Hirst AO	Chairman, Non-executive Director
David Adams	Non-executive Director (appointed 11 November 2013)
Mel Bridges	Non-executive Director (resigned 11 November 2013)
Jim Hazel	Non-executive Director
Martin Kriewaldt	Non-executive Director (retired 12 July 2013)
Michael Panaccio	Non-executive Director
Scott R. Ward	Non-executive Director (appointed 12 July 2013)
Greg Brown	Executive Director (resigned 30 September 2013)

#### Executives

Richard Carreon	President and Chief Executive Officer
Morten Vigeland	Chief Financial Officer (appointed 30 September 2013)
Catherine Kingsford	Vice President, Regulatory, Clinical Affairs & Intellectual Property
Dennis Schlaht	Vice President, Product Development, Quality & Marketing
Michael Schreiber	Vice President, Global Commercialisation (appointed 1 July 2013)

# Directors' Report

## Remuneration report (audited) (continued)

### Remuneration committee

Other than noted above, there were no other changes after the reporting date and before the date the financial report was authorised for issue.

The Remuneration Committee of the Board of Directors of the Group is responsible for making recommendations to the Board on the remuneration arrangements for each Non-executive Directors (NED), Executive Directors (ED), the CEO and executives reporting to the CEO.

The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of executives on a periodic basis by reference to relevant employment market conditions with the overall objective of maximizing shareholder benefit through the retention of high-quality, high-performing directors and executive team. In determining the level and composition of executive remuneration, the Remuneration Committee may also engage external consultants to provide independent advice.

As of the date of this report, the Remuneration Committee comprises three independent NEDs. The primary responsibilities of the Remuneration Committee are to:

- Recommend to the Board of Directors the amount and form of compensation to be paid to the Chief Executive Officer and the at risk component based on his performance.
- Review the CEO's recommendations of the amount and form of compensation to be paid to the executives reporting to the CEO and the at risk component based on their performance.
- Exercise oversight of the remuneration philosophy, plans and practices for all other employees.
- Exercise oversight and recommend to the Board of Directors any compensation pursuant to the Group's equity compensation plans.
- Recommend to the Board of Directors the amount of and form of compensation arrangements for NEDs and EDs.

Additional information on the Remuneration Committee's roles, responsibilities and membership can be seen at [www.impedimed.com.au](http://www.impedimed.com.au).

### Remuneration strategy

The Remuneration Committee reviews the overall remuneration strategies and recommends the nature and amount of remuneration of directors and certain executives. ImpediMed's remuneration strategy is designed to attract, motivate and retain employees, EDs and NEDs in Australia and the U.S. by identifying and rewarding high performers and recognising the contribution of each employee to the continued growth and success of the Group. To this end, key objectives of the Group's reward framework are to:

- Align remuneration with the Group's business strategy;
- Offer an attractive mix of remuneration benchmarked against the applicable market's region and country practices;
- Provide strong linkage between individual and Group performance and rewards;
- Offer remuneration based on internal equity with other employees' and individuals' skills matching the role requirements with their experience and responsibilities;
- Align the interests of executives and shareholders and share the success of the Company with the employees; and
- Support the corporate mission statement, values and policies through the approach of recruiting, organising and managing people.

### Remuneration structure

The remuneration structure for NEDs and executives is separate and distinct.

#### Remuneration structure of non-executive directors

The maximum aggregate remuneration for NEDs is approved by shareholders. The Remuneration Committee considers the level of remuneration required to attract and retain directors with the necessary skills and experience for the Group's board. This remuneration is reviewed with regard to market practice and director duties and accountability.

NED fees are determined within an aggregate directors' fee pool, approved by shareholders at the annual general meeting (AGM). The maximum aggregate remuneration approved for NEDs was \$600,000 as approved by shareholders in 2006. The sum of NEDs' fees paid in 2014 was \$441,963 (2013: \$479,268). There were no changes in the fee structures during 2014.

## Directors' Report

### Remuneration report (audited) (continued)

#### Remuneration structure of non-executive directors (continued)

In the prior year, the base fee for the Chairman of the Board was reduced to \$140,000 per annum, the base fee for directors was reduced to \$60,000 per annum, and the subcommittee Chairman additional fee was reduced to \$15,000.

The Board will not seek any increase for the NEDs' pool at the 2014 AGM. The remuneration of the NEDs and EDs for the year ended 30 June 2014 is detailed in Table 1 of this section of the report.

#### Remuneration structure of executives and employees

In the financial year 2014, the remuneration structure for executives and employees consisted of the following elements:

- Fixed remuneration or base salary including a comprehensive employee benefits package and
- Variable remuneration – short term cash incentive (STI) in the form of an annual incentive plan(s) and long term equity incentive (LTI).

#### Fixed remuneration / base salary

As an early stage company where cash is constrained, fixed remuneration has historically been targeted at the lower end of the normal range of remuneration. As the Company continues its progress towards entering the emerging growth stage, ImpediMed aims to target its fixed remuneration at the middle of the normal range of remuneration.

The overwhelming majority of the Company's employees are based in the U.S. and are remunerated according to the laws and norms of that country, which differ in many important respects from Australia. For example, North American employees are awarded options which have comparatively small present value, which may deliver comparative large rewards should the Group be successful. In this case the shareholders would have benefited from share price increases. Custom practice in the U.S. is for these options to be seen as part of fixed remuneration and not subject to performance conditions.

ImpediMed aims to set fixed remuneration by reference to market levels for positions of comparable responsibility in both industry and country, based on a formal job evaluation process. Fixed remuneration consists of base salary, superannuation or similar retirement benefits and other entitlement benefits that vary by country and sometimes by state of residence of the employee. Fixed remuneration is not "at risk" as it does not vary with the performance of the Group.

Executive remuneration costs are reviewed periodically by the Remuneration Committee. This review process consists of a review of Group, business unit and individual performance, relevant comparison of remuneration internally and externally and, where appropriate, external independent advice.

The Company endeavours to set remuneration at a normal range for remuneration of similar positions in similar sized companies. It does this based on comparative market information obtained from the remuneration filings from a comparator group of peer companies and from two proprietary surveys of remuneration at similar sized companies across a wider industry grouping. This material is obtained independent of management by the Remuneration Committee, through its Chairman, from remuneration consultants who have no other role with the Company. Based on the material from these surveys, the Board accepted the recommendation from the Remuneration Committee that the salary of certain executives and employees be increased to align them with the Group's remuneration target.

The Remuneration Committee hired Barney & Barney, based out of the U.S., as a remuneration consultant during the year to complete these surveys. The remuneration consultant was paid \$19,000 for their work. The Board is satisfied that the remuneration recommendation was made free from undue influence by any member of the KMP, as the work was overseen by the Remuneration Committee.

#### Variable remuneration - Short-term Incentives (STI)

The fixed remuneration is supplemented by providing short and long term incentives to enable all employees to earn further remuneration based on Group performance, team performance and demonstrated individual performance.

Sales people earn commission based upon performance compared to sales related targets such as placement of L-Dex devices or electrode revenue. Other employees may earn a cash incentive / STI based on the performance of the Company.

The KPIs consist of a set of both financial and non-financial targets for the Group's performance. Those selected represent key drivers for the short-term success of the business and provide a framework for delivering long-term value. There is a minimum level of performance required to earn any of the STI. The STI award period is the financial year in order to align the timing of individual performance incentives with Group-wide operating and financial targets and related results.

## Directors' Report

### Remuneration report (audited) (continued)

#### Variable remuneration - Short-term Incentives (STI) (continued)

For the financial year ended 30 June 2014, STI payments for employees were 10 to 30% of their base salary based on their conditions of employment. Actual STI payments awarded depend on the extent to which specific key performance indicator (KPI) targets are achieved. The Group implemented an overachievement STI plan for financial year 2014 tied to certain key KPI's, which if achieved could increase the STI by up to 40%. For the financial year 2014 all full-time employees achieved a 30% overachievement target, and thus STI's earned were 130% of the 140% potential.

For the financial year ended 30 June 2014, the details of the STI Plan and KPI targets were set out as below:

Key Performance Indicator Targets	Minimum	Plan	Challenge	Exceptional
Revenue Plan	35%	50%	55%	60%
Key Milestones (i)	30%	30%	50%	50%
Corporate Progress (ii)	10%	20%	25%	30%
Total Achievement Levels	75%	100%	130%	140%

(i) Key Milestones KPI includes goals related to the CPT I Code

(ii) Corporate Progress KPI includes specific goals related to key relationships and partnerships, including Clinical Trials

For the year ended 30 June 2014, the details of the STI payments to the Chief Executive and KMP are as set out below:

Executives	Bonus as percent of salary	STI incentive Awarded (i)	
	%	%	\$
Richard Carreon – President and Chief Executive Officer	30%	130%	161,293
Morten Vigeland - Chief Financial Officer	20%	130%	64,382
Catherine Kingsford - Vice President Regulatory, Clinical Affairs & IP	20%	130%	61,491
Dennis Schlaht - Vice President Product Development, Quality & Marketing	20%	130%	61,491
Mike Schreiber - Vice President Global Commercialisation	20%	130%	89,234

(i) No base STI was forfeited during the financial year.

#### Variable remuneration - Long-term Incentives (LTI)

The Board offers LTIs to reward the performance of KMP in alignment with shareholders' interests and the long term benefit of the Group. LTI awards are made under the employee share option plans and are delivered in the form of share options. Each option entitles the holder to one fully paid ordinary share of ImpediMed Limited at an exercise price set based on the three (3) day Volume Weighted Average Price (VWAP) (fair market value) at close of business when granted. LTIs are granted at the discretion of the Board. The options granted vest over a three year period, in most cases.

Where a LTI participant ceases employment prior to vesting in their award, the options are forfeited unless the Board applies its discretion to allow vesting at or post cessation of employment in appropriate circumstances. In the event of a change of control of the Group, the vesting date will generally be brought forward to the date of the change of control if no performance conditions remain outstanding. This is subject to the discretion of the Board of Directors.

Options were granted under the employee share option plans to a number of executives and employees during financial year 2014 as part of their incentive packages. There were three different award grants during the year: for new employees, promotions, and a global 2014 financial year grant. The options awarded for the new employees and for promotions were issued with certain restrictions on exercisability tied to the share price performance of IPD common stock, as traded on the ASX, in order to align the interest of executives and employees with the shareholders of the Group. Details in respect of the awards are provided in Table 2 in this section of the report. The 2014 financial year award grants were issued without restrictions on exercisability tied to the share price.

#### Consequences of performance on shareholder value

ImpediMed Limited has operated as a listed public company since October 2007. The Company is building revenue in its core medical business and has yet to achieve profitability. The measures outlined in the table below are designed for companies larger than ImpediMed. While the Remuneration Committee gives regard to the following indices in respect of the current and prior financial years, executive remuneration is not directly linked to these indices but rather to building the elements necessary to create shareholder wealth through acceptance and use of the Company's products.



## Directors' Report

### Remuneration report (audited) (continued)

#### Consequences of performance on shareholder value (continued)

Amounts \$	2014	2013	2012	2011	2010
Net loss attributable to equity holders of the parent entity (thousands)	(7,935)	(8,464)	(12,342)	(14,822)	(11,402)
Dividends paid	nil	nil	nil	Nil	nil
Share price at 30 June	0.19	0.09	0.26	0.57	0.56
Change in share price	0.10	(0.17)	(0.31)	0.01	(0.08)

#### Executive contractual arrangements

Remuneration arrangements for the KMP are formalised in employment contracts. Contracts are generally "at will" and outline the remuneration and other key provisions. At-will employment is a term used in U.S. labour law for contractual relationships where an employee can be dismissed by an employer without cause and warning. Certain KMP have negotiated termination provisions as follows:

Executives	Notice Period	Payment in lieu of notice (i)	Treatment of STI on termination (ii)	Treatment of LTI on termination
R Carreon	12 months	12 months (iii)	Unvested awards forfeited.	Unvested awards forfeited.
M Vigeland	9 months	9 months	Unvested awards forfeited.	Unvested awards forfeited.
C Kingsford	6 months	6 months	Unvested awards forfeited.	Unvested awards forfeited.
D Schlaht	6 months	6 months	Unvested awards forfeited.	Unvested awards forfeited.
M Schreiber	6 months	6 months	Unvested awards forfeited.	Unvested awards forfeited.

(i) Payments are made in lieu of notice only if employment comes to an end for reasons other resignation or termination with cause.

(ii) Employment through the end of the financial year is required for the award of STI incentives, unless changed at the discretion of the Board.

(iii) Payment includes health and dental insurance coverage paid on his behalf during the notice period.

#### CEO remuneration

Mr Carreon entered into an employment contract with the Company on 12 June 2012 as President and CEO. The contract specifies annual performance and remuneration reviews. The contract provides base salary, targeted annual bonus, one-time short term performance bonus, notice period, and health, life and disability related insurance premiums. The Company will provide life insurance up to USD 500,000. Mr Carreon's STI is 30% of fixed remuneration and he is also eligible to participate in the LTI remuneration plan. Mr Carreon's base salary under his employment contract for financial year 2013 was USD 375,000 plus non-monetary health benefits. During the current financial year, the Board approved the Remuneration Committee's recommendation to increase Mr Carreon's base salary to USD 379,619.

During the 2014 financial year, the Board issued 1,917,666 share options to Mr Carreon at an exercise price of \$0.21 per share in the Company as part of the ESOP. The options, granted on 24 April 2014 as part of the 2014 employee grant, are cliff vesting and therefore require continuous employment through vesting date, for each respective tranche. The options will vest over a three (3) year period; one-third each at 30 June 2014, 2015 and 2016, respectively.

In the event an offer is made to purchase all the shares in the Company, vesting of these options will fully accelerate.

In the prior year, the Board issued 7,252,561 share options to Mr Carreon as part of the ESOP at an exercise price greater than the fair market value at the time of grant of \$0.35 per share in the Company. The options have a ten (10) year life from date of grant and will vest over a four (4) year period at the following schedule:

- 25% on the one-year anniversary of his employment with the Company;
- and then at a rate of 1/48<sup>th</sup> per month thereafter.

In the event an offer is made to purchase all the shares in the Company, vesting of these options will fully accelerate. In addition, the right to exercise the options have the following restrictions:

- the first 75% of the options are not eligible to exercise unless the share price of the Company's ordinary shares is trading above \$0.50 per share on the ASX at the time Mr Carreon exercises the options;
- the remaining options are not eligible to exercise unless the share price of the Company's ordinary shares is trading above \$0.70 per share on the ASX at the time Mr Carreon exercises the options; and
- Mr Carreon will have 90 days to exercise any vested options if he is no longer an employee of the Company.

In the prior year, the Board also issued 418,100 share options to Mr Carreon as part of the ESOP at an exercise price of \$0.11 per share in the Company on 24 June 2013. The options have a five (5) year life from date of vesting and vest over a three (3) year period; one-third each at 30 June 2013, 2014 and 2015, respectively.

# Directors' Report

## Remuneration report (audited) (continued)

### CEO remuneration (continued)

In the event an offer is made to purchase all the shares in the Company, vesting of these options will fully accelerate. In addition, the right to exercise the options have the following restrictions:

- The options are not eligible to exercise unless the share price of the Company's ordinary shares is trading above \$0.50 per share on the ASX at the time Mr Carreon exercises the options.

### Remuneration of directors and key management personnel of the Group

**Table 1: Remuneration of KMP for the years ended 30 June 2014 and 30 June 2013 (i)**

30 June 2014	Short-term			Post-employment	Share-based	Total	Performance related	
	Salaries & fees	STI	Non-monetary (ii)	Super-annuation	Options (iii)		STI	Options
	\$	\$	\$	\$	\$	\$	%	%
Directors								
C Hirst AO	140,000	-	-	4,444	-	144,444	-	-
D Adams (iv)	42,463	-	-	-	-	42,463	-	-
M Bridges	27,312	-	-	4,050	-	31,362	-	-
G Brown (v)	220,000	-	-	-	-	220,000	-	-
J Hazel	75,000	-	-	6,938	-	81,938	-	-
M Kriewaldt	2,466	-	-	228	-	2,694	-	-
M Panaccio	75,000	-	-	-	-	75,000	-	-
S Ward (iv)	64,063	-	-	-	-	64,063	-	-
Executives								
R Carreon (iv)	409,799	161,293	10,697	13,731	419,791	1,015,311	16	41
M Vigeland (iv)	217,832	64,382	6,557	9,036	54,385	352,192	18	15
C Kingsford (iv)	206,201	61,491	13,654	8,436	28,467	318,249	19	9
D Schlaht (iv)	206,201	61,491	18,575	8,696	28,102	323,065	19	9
M Schreiber (iv)	224,182	89,234	18,906	1,927	31,318	365,567	24	9
	1,910,519	437,891	68,389	57,486	562,063	3,036,348		

30 June 2013	Short-term			Post-employment	Share-based	Total	Performance related	
	Salaries & fees	STI	Non-monetary (ii)	Super-annuation	Options (iii)		STI	Options
	\$	\$	\$	\$	\$	\$	%	%
Directors								
C Hirst AO	151,667	-	-	10,335	-	162,002	-	-
M Bridges (vi)	74,167	-	-	5,775	-	79,942	-	-
J Hazel	78,750	-	-	7,088	-	85,838	-	-
M Kriewaldt	78,750	-	-	7,088	-	85,838	-	-
M Panaccio	62,500	-	-	3,150	-	65,650	-	-
G Brown (v)	288,076	-	-	7,927	-	296,003	-	-
Executives								
P Brooker (iv)(vii)	393,218	-	17,021	6,513	2,079	418,831	-	-
J Butler (iv)(viii)	411,345	-	11,311	6,346	-	429,002	-	-
R Carreon (iv) (ix)	356,976	230,866	7,716	12,553	760,836	1,368,947	17	56
W Gearhart (iv) (x)	357,392	-	22,709	-	11,606	391,707	-	3
M Vigeland (iv)	138,389	38,297	5,504	5,927	38,031	226,148	17	17
C Kingsford (iv)	136,330	41,403	10,321	1,445	41,521	231,020	18	18
D Schlaht (iv)	175,281	42,716	16,178	7,011	41,928	283,114	15	15
	2,702,841	353,282	90,760	81,158	896,001	4,124,042		

# Directors' Report

## Remuneration report (audited) (continued)

### Remuneration of directors and key management personnel of the Group (continued)

**Table 1: Remuneration of KMP for the years ended 30 June 2014 and 30 June 2013 (i) (continued)**

- (i) The figures in Table 1 represent the amounts expensed in the relevant reporting period.
- (ii) Non-monetary benefits for U.S. based employees include the payment of certain health and disability related insurance premiums as is customary in the U.S. market.
- (iii) The fair value of the equity-settled share options granted under the ESOP schemes is estimated as at the date of grant using either the Black Scholes option valuation model or the Monte Carlo Simulation if there is a restriction on the share price for exercisability of the option.
- (iv) All figures shown in AUD although remuneration paid in USD. Share-based compensation includes the expense during the financial year of all options regardless of the financial year awarded.
- (v) In 2014, G Brown's salaries and fees included fees paid to him as a consultant under a consulting agreement entered into as part of his transition from Executive Director to an executive sales consultant role. In 2013, the salaries and fees included fees paid as a consultant while transitioning from CEO to Executive Director.
- (vi) M Bridges worked with the Group to access certain business opportunities and was compensated AUD 10,000 for this role for the financial year ended 30 June 2013.
- (vii) P Brooker resigned as COO & CFO on 15 March 2013. Mrs Brooker's 2013 salaries and fees include severance pay of AUD 183,169. Share-based payments include a modification to extend the expiry date of vested options offset by forfeiture of unvested options.
- (viii) J Butler was terminated on 15 March 2013. Mr Butler's 2013 salaries and fees include severance pay of AUD 218,242. Share-based payments include modifications to extend the expiry date of vested options offset by forfeiture of unvested options.
- (ix) R Carreon received AUD 97,379 sign-on bonus, in addition to the STI bonus for the financial year ended 30 June 2013.
- (x) W Gearhart was terminated on 15 March 2013. Mr Gearhart's 2013 salaries and fees include severance pay of AUD 167,978. Share-based payments include modifications to extend the expiry date of vested options offset by forfeiture of unvested options.

Note: Refer to page 10, details of key management personnel, for dates of new appointments and resignations.

**Table 2: Remuneration options: granted and vested during the year**

30 June 2014	Granted	Terms and Conditions for each Grant				Vested
	No.	Grant date	Value per option at grant date	Exercise price per option	Expiry date for options vested during year	Number of Shares
			\$	\$		
<b>Executives</b>						
R Carreon (i) (ii)	-	9-Jul-12	0.18	0.35	9-Jul-22	3,475,185
R Carreon (i)	-	24-Jun-13	0.05	0.11	30-Jun-19	139,367
R Carreon (iii)	1,917,666	24-Apr-14	0.11	0.21	30-Jun-19	639,222
M Vigeland (iii)	-	2-May-11	0.41	0.68	30-Jun-19	16,666
M Vigeland (iii)	-	7-Oct-11	0.35	0.46	31-Dec-18	25,000
M Vigeland (i)	-	24-Jun-13	0.05	0.11	30-Jun-19	229,800
M Vigeland (i)	-	24-Jun-13	0.05	0.11	30-Jun-19	50,000
M Vigeland (i)	300,000	3-Oct-13	0.13	0.18	31-Dec-18	100,000
M Vigeland (iii)	284,850	24-Apr-14	0.11	0.21	30-Jun-19	94,950
C Kingsford (iii)	-	7-Oct-11	0.35	0.46	31-Dec-18	8,334
C Kingsford (iii)	-	7-Oct-11	0.35	0.46	30-Jun-19	28,334
C Kingsford (iii)	-	7-Oct-11	0.35	0.46	30-Jun-19	16,666
C Kingsford (i)	-	24-Jun-13	0.05	0.11	30-Jun-19	229,800
C Kingsford (i)	-	24-Jun-13	0.05	0.11	30-Jun-19	50,000
C Kingsford (iii)	209,850	24-Apr-14	0.11	0.21	30-Jun-19	69,950
D Schlaht (iii)	-	7-Oct-11	0.35	0.46	31-Dec-18	23,334
D Schlaht (iii)	-	7-Oct-11	0.35	0.46	30-Jun-19	33,334
D Schlaht (i)	-	24-Jun-13	0.05	0.11	30-Jun-19	229,800
D Schlaht (i)	-	24-Jun-13	0.05	0.11	30-Jun-19	50,000
D Schlaht (iii)	209,850	24-Apr-14	0.11	0.21	30-Jun-19	69,950
M Schreiber (i)	700,000	01-Jul-13	0.09	0.11	30-Jun-19	233,333
M Schreiber (iii)	175,000	24-Apr-14	0.11	0.21	30-Jun-19	58,333
	<b>3,797,216</b>					<b>5,871,358</b>

# Directors' Report

## Remuneration report (audited) (continued)

### Remuneration of directors and KMP of the Group (continued)

**Table 2: Remuneration options: granted and vested during the year (continued)**

- (i) Certain options granted during the current financial year and the past financial year are not eligible for exercise unless the share price of the Company's ordinary shares is trading above \$0.50 or \$0.70 per share on the ASX at the time the options are exercised. These options have a five-year exercise period unless otherwise noted.
- (ii) Certain options granted during the current financial year and the past financial year have a ten-year exercise period.
- (iii) Options granted outside of footnote (i) do not contain a hurdle rate to become eligible for exercise. These options have a five-year exercise period unless otherwise noted.

**Table 3: Remuneration options: options held by key management personnel**

30 June 2014	Held at the start of period (i)	Granted during period	Exercised during period	Options from other changes (ii)	Held at the end of period	Options vested and exercisable	Options vested and unexercisable
	No.	No.	No.	No.	No.	No.	No.
R Carreon	7,670,661	1,917,666	-	-	9,588,327	639,222	3,753,918
M Vigeland	964,400	584,850	-	-	1,549,250	219,950	659,600
C Kingsford	1,117,734	209,850	-	(23,751)	1,303,833	324,533	559,600
D Schlaht	1,215,651	209,850	-	(37,750)	1,387,751	408,451	559,600
M Schreiber	-	875,000	-	-	875,000	58,333	233,333
G Brown (ii)	1,492,557	-	-	(1,492,557)	-	-	-
	<b>12,461,003</b>	<b>3,797,216</b>	<b>-</b>	<b>(1,554,058)</b>	<b>14,704,161</b>	<b>1,650,489</b>	<b>5,766,051</b>

- (i) Options held at the start of the period by former KMP of the Group, under a modification of remuneration options, lapsed during the current financial year. Refer to page 19 of the Remuneration report for the details of these options.
- (ii) Options from other changes include expired, forfeited and lapsed options
- (iii) Options relate to the Chief Executive Option Plan

**Table 4: Shareholdings of key management personnel**

30 June 2014	Held at the start of period (i)	Granted as remuneration	On exercise of options	Net change other (ii)	Held at the end of period	Held nominally
	No.	No.	No.	No.	No.	No.
<b>Directors</b>						
C Hirst AO	743,667	-	-	311,924	1,055,591	1,055,591
D Adams	-	-	-	125,000	125,000	125,000
J Hazel	679,009	-	-	76,924	755,933	755,933
M Panaccio	24,641,940	-	-	153,848	24,795,788	24,795,788
S Ward	-	-	-	225,000	225,000	225,000
<b>Executives</b>						
R Carreon	341,996	-	-	110,862	452,858	452,858
M Vigeland	129,100	-	-	116,924	246,024	246,024
C Kingsford	50,000	-	-	76,924	126,924	126,924
D Schlaht	174,382	-	-	76,924	251,306	251,306
	<b>26,760,094</b>	<b>-</b>	<b>-</b>	<b>1,275,330</b>	<b>28,034,424</b>	<b>28,034,424</b>

- (i) Shares held at the start of period included shares of M Bridges (5,880,557), M Kriewaldt (620,825) and G Brown (4,952,092). Movements in shares for these individuals were excluded from the above table as they were not KMP as of the end of the financial year, and their respective holdings cannot be confirmed.
- (ii) All shareholding movements during the period related to shares purchased by the KMP through the open market or the Share Purchase Plan (SPP) and not through compensation



## Directors' Report

### Remuneration report (audited) (continued)

#### Remuneration of directors and KMP of the Group (continued)

##### Modifications of remuneration options

At 30 June 2014, no modifications of remuneration options existed.

In the prior year, the Board applied its discretion to allow an extension of an expiry date of certain options for Key Management Personnel that were terminated or resigned during the previous financial year. These options had an exercise price between \$0.46 and \$0.70 and the underlying price for IPD shares at the time of modification was \$0.09 per share. There was no incremental expense for 2013 relating to the modification of these options. All of these options have since been forfeited during the current financial year.

##### Lapse of remuneration options

The value of options forfeited during the year is calculated at the market price of shares of the Group on the ASX as at close of trading on the date the options were forfeited after deducting the price payable to exercise the option. During the year options of key management personnel or former key management personnel lapsed or were forfeited as follows:

- P Brooker 740,000 (200,000 at \$0.5598, 300,000 at \$0.5700, and 240,000 at \$0.2600)
- G Brown 1,492,557 (333,333 at \$0.8912; 333,333 at \$1.0112; 249,224 at \$0.6562; 500,000 at \$1.0000; 76,667 at \$0.6000)
- J Butler 504,167 (50,000 at \$0.4772, 212,500 at \$0.4959, 135,000 at \$0.5598, and 106,667 at \$0.2600)
- W Gearhart 533,333 (500,000 at \$0.5700 and 33,333 at \$0.2600)
- C Kingsford 23,751 (8,333 at \$0.5160 and 15,417 at \$0.4997)
- D Schlaht 37,750 at \$0.4997

##### Shares issued on exercise of remuneration options

No shares were issued during the years ended 30 June 2014 and 30 June 2013 on the exercise of remuneration options.

#### Other transactions and balances with key management personnel and their related parties

##### Purchases

For the year ended 30 June 2014, David Adams was paid \$8,000 as a consultant to the Group prior to joining the Board in November 2013. No other transactions with Directors occurred that would be considered related party transactions.

In the prior year, the Group entered in to an executive consultancy contract with Cintra Consulting, a consulting agency led by former director Greg Brown. The fees related to this contract are included in remuneration paid to Directors in the accompanying Directors Report. In addition, in the prior year \$10,000 was paid to former director Mel Bridges for consulting services related to access to certain business opportunities.

### Directors' meetings

The number of meetings of directors (including the meetings of committees of directors) held during the year and the number of meetings attended by each director are detailed in the table below. This includes meetings attended on invite of the committee, when not a member of a respective committee.

	Directors' Meetings	Meetings of Committees		
		Audit/ Risk	Remuneration	Nomination
Number of meetings held:	11	4	6	1
Number of meetings attended:				
C Hirst AO	11	4	6	1
D Adams	7	3	3	-
M Bridges	4	1	3	1
J Hazel	11	4	6	1
M Panaccio	11	4	6	1
S Ward	11	4	6	1
G Brown	3	1	2	-

## Directors' Report

### Directors' meetings (continued)

#### Committee membership

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

Members acting on the committees of the Board as of the date of this report are:

	<b>Audit and Risk Committee</b>	<b>Remuneration Committee</b>	<b>Nomination Committee</b>
C Hirst AO	Member	Member	<b>Chairman</b>
D Adams (appointed 11 November 2013)	Member	-	Member
J Hazel	<b>Chairman</b>	-	Member
M Panaccio	-	<b>Chairman (i)</b>	Member
S Ward (appointed 12 July 2013)	-	Member	Member

(i) M Panaccio was appointed Chairman of the Remuneration Committee upon M Kriewaldt's retirement.

### Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable and where noted (\$'000)) under the option available to the Company under ASIC CO 98/100. The Company is an entity to which the Class Order applies.

## Directors' Report

---

### Auditors' independence declaration and non-audit services

The directors received the declaration on page 21 from the auditor of the Group and have resolved the auditor is independent.

#### Non-audit services

No non-audit services were provided.

Signed in accordance with a resolution of the directors.



Cherrell Hirst AO  
Chairman



Jim Hazel  
Director

Brisbane, 26 August 2014

For personal use only



Building a better  
working world

Ernst & Young  
111 Eagle Street  
Brisbane QLD 4000 Australia  
GPO Box 7878 Brisbane QLD 4001

Tel: +61 7 3011 3333  
Fax: +61 7 3011 3100  
ey.com/au

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

In relation to our audit of the financial report of ImpediMed Limited for the financial year ended 30 June 2014, 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

Kellie McKenzie  
Partner  
26 August 2014

A member firm of Ernst & Young Global Limited  
Liability limited by a scheme approved under Professional Standards Legislation



## Corporate Governance Statement

ImpediMed Limited is committed to protecting and enhancing shareholder value. Through adopting best practice governance policies and procedures this commitment is followed up by firm actions of the Board and executive leadership of the Group. The Directors are responsible for the corporate governance practices of the Group. At a minimum, the Group strives to meet all regulatory requirements and maintain ethical standards. ImpediMed adheres to the substantive and procedural recommendations of the ASX Corporate Governance Council's Corporate Governance Principles and recommendations. This statement sets out the main corporate governance practices of the Group that the Directors, management and employees are required to follow. Comprehensive information about the Group's corporate governance policies can be found on our website at [www.impedimed.com.au](http://www.impedimed.com.au).

### Role of the Board of Directors

The ImpediMed Limited Board of Directors (Board) is ultimately responsible for the success of the Group through setting its strategic goals, establishing resources and overseeing its management processes. Its aim is to create and deliver shareholder value by maximising the performance of the business. The primary roles of the Board include:

- Protect the interests of shareholders.
- Appoint the Chief Executive Officer (CEO) and monitor performance of the CEO and senior Executives.
- Formulate and establish the strategic direction of the Group and monitor its execution.
- Monitor and optimise business performance in light of risks.
- Monitor the Group's implemented internal controls systems together with appropriate monitoring of compliance activities.
- Establish proper succession plans for management of the Group.
- Approve the Group's external financial reporting.

The division of responsibilities between the Board and management is set out in the Board Charter and in accordance with the approved framework of delegated authority to management. The executive team is responsible for providing the Board with quality, timely information to enable the Board to fulfil its responsibilities. A copy of the Board Charter is available on the Group's website.

***This complies with Principle 1.***

### Board composition and independence

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report are included in the Directors' Report. Directors of ImpediMed Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

In the context of director independence, "materiality" is considered from both the Group and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount.

Qualitative factors considered include whether a relationship is strategically important or whether the competitive landscape, the nature of the relationship and contractual or other arrangements governing the relationship affect the ability of the director in question to shape the direction of the Company's loyalty.

ImpediMed Limited finished the financial year with five Directors, all of which are NEDs (including the Chairman). Directors are subject to re-election by rotation every three years. There are no maximum terms for NED appointments. The Board assesses Director independence on an annual basis, or more often if it feels it is warranted, depending on disclosures made by individual Directors.

Of the five directors, one is not independent (if the tests of independence in the ASX Guidelines were adopted as a definition). Dr Michael Panaccio, the Principal of Starfish Ventures, is a substantial shareholder and holds approximately 10.4% of the ordinary shares in the Group.

The Board considers independence to be a state of mind, of independence from management, which is evidenced by the director's course of conduct in deliberations at the Board table. This independence allows the director to fulfil the duties of a director untrammelled by considerations of relationship or attachment to management or their

# Corporate Governance Statement

## Board composition and independence (continued)

proposals or existing business plans. On this basis, the Board is of the opinion that Michael Panaccio is truly independent, despite his connection to the Group being deeper than most shareholders. His shareholdings, at stake in the Group, sharpen his value-for-shareholders focus.

Dr. Michael Panaccio, through his affiliation as Principal of Starfish Ventures, owns approximately 10.4% of the Group and has been a significant investor in the Company since 2007. The Board is satisfied that Dr. Panaccio is able to operate independently as a Director; and is satisfied, through his demonstrated history of participation in direct and forthright Board debates and decisions, that there is no interference with the independent exercise of his judgement. Dr. Panaccio provides valuable guidance to the Board and management, and thus the shareholders, on capital raising matters.

The Company has utilised proper meeting procedures to provide all members of the Board the opportunity to put forward views and discuss issues in a constructive environment. To assist that Board members are properly informed on relevant issues in a timely manner, detailed Board papers are prepared and distributed. Draft minutes of meetings are circulated within a reasonable period after each meeting allowing for proper follow up and informed reporting of issues discussed and resolutions passed at Board meetings. Directors must advise the Board immediately of any interests that could potentially conflict with those of ImpediMed.

The roles of Chairman and Chief Executive Officer are exercised by different individuals, providing for clear division of responsibility at the head of the Group. Their roles and responsibilities, and the division of responsibilities between them, are clearly defined and understood and there is regular communication between them.

Any Director may take such independent legal, financial or other advice as they consider necessary at the Company's cost. Any Director seeking independent advice must first discuss the request with the Chairman who will facilitate obtaining such advice.

The Board has a Nomination Committee, constituted by all NED members of the Board.

With the continuing orientation of the business to one with a strong U.S. market focus, the Committee successfully added two U.S. based directors to the Board during the financial year. Scott Ward joined the Board on 12 July 2013 and David Adams joined the Board on 11 November 2013. For additional details on their respective backgrounds and talents, please refer to our accompanying Directors Report.

For additional details regarding Board appointments, please refer to our website.

***The Company's Board structure is compliant with Principles 2.1, 2.2, 2.3 and 2.4.***

## Review of board performance

The Board performs periodic self-review of Board performance and has concluded the 2014 review and nominations. This process involves a self-assessment of Board performance, its committees and individuals which requires the completion and evaluation of detailed questionnaires on business and management matters. The results of this assessment are reviewed by the Board and are used to establish new performance objectives.

## Access to information

To help Directors maintain their understanding of the business and to assess business performance, Directors are briefed regularly by members of the Executive team. Directors also have access to other employees at all levels. Directors receive comprehensive monthly reports from management and have unrestricted access to Group records and information. All Directors have direct access to the Company Secretary who is accountable to the Board on all corporate governance matters.

## Board committees

ImpediMed's Board has established three standing committees to assist in meeting its responsibilities — the Audit & Risk Management Committee, the Remuneration Committee and the Nomination Committee. These committees review matters on behalf of the Board and make recommendations for consideration by the entire Board. Copies of the charters of these committees can be accessed from our website.

# Corporate Governance Statement

## Board committees (continued)

### Remuneration Committee

The Board has established a Remuneration Committee, which operates under a charter approved by the Board and meets regularly throughout the year. The Remuneration Committee comprises the following NEDs:

- Michael Panaccio (Chairman)
- Cherrell Hirst AO
- Scott Ward

The Remuneration Committee is responsible for making recommendations to the Board on the remuneration arrangements for NEDs, executive directors and executives. Remuneration arrangements include, as applicable, base pay, STI, LTI or equity, superannuation, health benefits (for U.S. executives) and retirement arrangements. The Remuneration Committee also directs the recruitment, retention and performance measurement policies and procedures, and public disclosures regarding remuneration. Particulars concerning Directors' and Executives' remuneration and the Group's equity incentive plans are set out in the Directors' Report and in the notes to the financial statements. For additional detail regarding the Remuneration Committee including its charter please refer to our website.

For detail of Directors' attendance at meetings of the Remuneration Committee, refer to the Directors' Report.

***The Remuneration Committee complies with Principle 8.***

### Audit & Risk Management Committee

The Board has established an Audit & Risk Management Committee which operates under a charter approved by the Board and meets regularly throughout the year. The Audit & Risk Management Committee comprises the following NEDs:

- Jim Hazel (Chairman)
- David Adams
- Cherrell Hirst AO

The members of the Audit & Risk Management Committee have significant financial, business, and legal backgrounds, expertise and qualifications. The full particulars of each member's relevant experience and qualifications, and other relevant matters are contained in the Directors' Report.

The Audit & Risk Management Committee advises the Board on issues surrounding the integrity of financial information presented to the Board and shareholders, including the review of audit engagements and controls. The Audit & Risk Management Committee also advises the Board and makes recommendations in relation to policy and procedures, business risks and mitigation, related party transactions and the application of the principles of corporate governance. The Committee seeks to monitor the independence of the external auditor. It pre-approves any appropriate non-audit services to be performed by the audit firm which do not impair or provide the reasonable perception of possible impairment of the auditor's judgement or independence. For additional detail regarding the Audit & Risk Management Committee including its charter please refer to our website.

For detail of Directors' attendance at meetings of the Audit & Risk Management Committee, refer to the Directors' Report.

***The Audit & Risk Management Committee structure and charter comply with Principles 4.1, 4.2 and 4.3.***

# Corporate Governance Statement

## Board committees (continued)

### Nomination Committee

The Board has established a Nomination Committee which operates under a charter approved by the Board and meets as needed each year. The Nomination Committee comprises the following NEDs:

- Cherrell Hirst AO (Chairman)
- David Adams
- Jim Hazel
- Michael Panaccio
- Scott Ward

The Nomination Committee advises the Board on the performance of the Board and, when necessary, on selecting candidates to serve on the Group's Board. For additional detail regarding the Nomination Committee including its charter please refer to our website.

For detail of Directors' attendance at meetings of the Nomination Committee, refer to the Directors' Report.

***The Nomination Committee structure and functions comply with Principle 2.4.***

## Risk management

The Group continues its proactive approach to risk management. The identification and effective management of risk, including calculated risk-taking is viewed as an essential part of the Group's approach to creating long-term shareholder value. In recognition of this, the Board determines the Company's risk profile and is responsible for overseeing and approving risk management strategy and internal compliance and internal control policies.

The Board, together with the Audit & Risk Management Committee, oversees management's implementation of these risk management processes. In particular, they oversee:

- The principal strategic, operational and financial risks are identified.
- Effective systems are in place to monitor and, if appropriate, manage risks.
- Reporting systems, internal controls and arrangements for monitoring compliance with laws and regulations are adequate.
- Procedures requiring that significant capital and operating expenses are approved at an appropriate level of management or by the Board.

The Audit & Risk Management Committee oversees a semi-annual assessment of the effectiveness of risk management and internal compliance and control, with more frequent reporting to the Board as necessary. The tasks of undertaking and assessing risk management and internal control effectiveness are delegated to management through the Chief Executive Officer, including responsibility for the day to day design and implementation of the Group's risk management and internal control system. Management reports to the Board on the Group's key risks and the extent to which it believes these risks are being adequately managed. Management is required by the Board to carry out risk assessments of all specific management activities including strategic risk, operational risk, reporting risk, compliance and regulatory risk and funding risk. It is then required to assess risk management and associated internal compliance and control procedures and report back on the efficiency and effectiveness of these efforts.

The Board approved the strategic plan, which encompasses the Group's vision, mission and strategy statements, designed to meet stakeholders' needs and manage business risk. The risks inherent in that strategic plan are identified and where appropriate, risk management strategies and operational procedures are developed. The Board monitors management's performance against the plan.

The major risks facing the Group are:

- The availability of capital resources.
- The regulatory environment, particularly in the U.S.
- Rate of reimbursement by insurers to clinicians for the use of L-Dex technology with their patients.
- The adoption of our L-Dex technology among US clinicians.

***The risk oversight policies and practices comply with Principles 7.1 and 7.2.***

# Corporate Governance Statement

## Code of conduct

The Board has endorsed a formal code of conduct for Directors, management and staff, which is available on our website.

***This code of conduct complies with the obligations in ASX Corporate Governance Council Principle 3.1.***

## Share trading

The Board has set the following rules relating to trading in the Company's securities by Directors, employees, advisors and consultants and related parties (spouses, de facto spouses, parents and children):

- Short term trading of the Company's securities is prohibited.
- Buying or selling of the Company's securities at a time when in possession of material non-public information is prohibited.
- Clearance, prior to buying or selling, with the Chairman or CEO to check that the Group has not recently acquired material non-public information.
- Notification of the Company Secretary or CFO in advance of any intended transactions involving the Company's securities.
- Buying or selling securities in the Company is generally restricted to the 30 day period immediately following the following events:
  - Release of yearly results to the ASX
  - Release of quarterly and half yearly results to the ASX
  - The Annual General Meeting
  - Lodgement of a disclosure statement with the ASIC

## Reporting to stakeholders

The Board is committed to keeping shareholders and other stakeholders informed in a timely manner of material developments that affect the Company. The Company disclosure policy is supported by formal policy and procedures on continuous and periodic disclosure in compliance with ASX and Corporations Act obligations. All Company announcements, presentations to analysts and other significant briefings are posted on the Company's website after release to ASX.

***The Company's policies and procedures comply with Principles 5 and 6.1.***

## Certifying financial reports

In accordance with section 295A of the Corporations Act, the Chief Executive Officer and CFO certify in respect of the half yearly financial results and the full year financial results that the Group's financial reports present a true and fair view, in all material respects, of the Group's financial condition and results and are in accordance with relevant accounting standards.

As part of this certification, the CEO and CFO confirm that there is a sound system of risk management and internal compliance and the control system is operating efficiently in all material respects.

The Board agrees with the views of the ASX on this matter and notes that due to its nature, internal control assurance from the CEO and CFO can only be reasonable rather than absolute. This is due to such factors as the need for judgement, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence available is persuasive rather than conclusive and therefore is not and cannot be designed to detect all weaknesses in control procedures.

***This complies with Principles 7.2 and 7.3.***



# Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2014

	Notes	2014 \$000	2013 \$000
<b>Continuing operations</b>			
Sale of goods	7	3,289	2,575
Rendering of services		232	158
Finance income	7	57	192
Revenue		3,578	2,925
Cost of goods sold		(1,436)	(1,174)
<b>Gross Profit</b>		<b>2,142</b>	<b>1,751</b>
Other income	8	19	791
Salaries and benefits	9	(4,736)	(4,935)
Research and development		(401)	(554)
Administrative and governance	9	(1,318)	(1,360)
Consultants and professional fees	9	(1,448)	(1,330)
Depreciation and amortisation	9	(112)	(195)
Advertising and promotion		(347)	(454)
Rent and property expenses		(259)	(364)
Travel expenses		(566)	(377)
Share-based payments		(654)	(1,028)
IT and other expenses		(255)	(409)
<b>Loss from continuing operations before income tax</b>		<b>(7,935)</b>	<b>(8,464)</b>
Income tax	10	-	-
<b>Loss from continuing operations after income tax</b>		<b>(7,935)</b>	<b>(8,464)</b>
<b>Net loss for the period</b>		<b>(7,935)</b>	<b>(8,464)</b>
<b>Other comprehensive income (loss)</b>			
<i>Items that may be reclassified to profit or loss:</i>			
Foreign currency translations		(273)	721
<b>Other comprehensive (loss) gain for the period, net of tax</b>		<b>(273)</b>	<b>721</b>
<b>Total comprehensive loss for the period</b>		<b>(8,208)</b>	<b>(7,743)</b>
		<b>2014 \$</b>	<b>2013 \$</b>
Basic and diluted loss per share	12	<b>(0.04)</b>	<b>(0.05)</b>

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

# Consolidated Balance Sheet

AS AT 30 JUNE 2014

	Notes	as at 30 June 2014 \$000	as at 30 June 2013 \$000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	13	10,812	7,316
Trade and other receivables	14	445	449
Inventories	15	1,132	1,330
Other current assets		351	338
<b>Total current assets</b>		<b>12,740</b>	<b>9,433</b>
<b>Non-current assets</b>			
Other financial assets	16	50	63
Property and equipment	17	203	334
Intangible assets	18	41	49
Goodwill	18	1,924	1,985
<b>Total non-current assets</b>		<b>2,218</b>	<b>2,431</b>
<b>TOTAL ASSETS</b>		<b>14,958</b>	<b>11,864</b>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	19	994	853
Provisions	20	342	333
<b>Total current liabilities</b>		<b>1,336</b>	<b>1,186</b>
<b>Non-current liabilities</b>			
Provisions	20	90	84
<b>Total non-current liabilities</b>		<b>90</b>	<b>84</b>
<b>TOTAL LIABILITIES</b>		<b>1,426</b>	<b>1,270</b>
<b>NET ASSETS</b>		<b>13,532</b>	<b>10,594</b>
<b>EQUITY</b>			
Issued capital	21	116,593	106,101
Reserves	22	5,813	5,432
Accumulated losses		(108,874)	(100,939)
<b>TOTAL EQUITY</b>		<b>13,532</b>	<b>10,594</b>

The above balance sheet should be read in conjunction with the accompanying notes.

# Consolidated Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2014

	Notes	2014 \$000	2013 \$000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST and U.S. sales tax)		3,603	2,973
Payments to suppliers and employees (inclusive of GST and U.S. sales tax)		(10,471)	(11,659)
Interest received		66	217
Other receipts		-	794
<b>Net cash flows used in operating activities</b>	13	<b>(6,802)</b>	<b>(7,675)</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment		(32)	(16)
Proceeds from the sale of property and equipment		-	1
Purchase of intangible assets		-	(22)
<b>Net cash flows used in investing activities</b>		<b>(32)</b>	<b>(37)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of ordinary shares		11,185	-
Transaction costs from capital raising		(599)	(1)
Other proceeds from financing activities		-	35
<b>Net cash flows from financing activities</b>		<b>10,586</b>	<b>34</b>
Net increase (decrease) in cash and cash equivalents		3,752	(7,678)
Net foreign exchange differences		(256)	480
Cash and cash equivalents at beginning of period		7,316	14,514
<b>Cash and cash equivalents at end of period</b>	13	<b>10,812</b>	<b>7,316</b>

The above cash flow statement should be read in conjunction with the accompanying notes.

# Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2014

	Issued capital \$000	Reserves \$000	Accumulated losses \$000	Total \$000
<b>At 30 June 2012</b>	106,102	3,683	(92,475)	17,310
Loss for the period	-	-	(8,464)	(8,464)
Other comprehensive income	-	721	-	721
Total comprehensive loss for the period	0	721	(8,464)	(7,743)
<b>Equity transactions:</b>				
Share-based payment	-	1,028	-	1,028
Allotment of ordinary shares	-	-	-	-
Costs of capital raising	(1)	-	-	(1)
<b>At 30 June 2013</b>	<b>106,101</b>	<b>5,432</b>	<b>(100,939)</b>	<b>10,594</b>
Loss for the period	-	-	(7,935)	(7,935)
Other comprehensive loss	-	(273)	-	(273)
Total comprehensive loss for the period	0	(273)	(7,935)	(8,208)
<b>Equity transactions:</b>				
Share-based payment	-	654	-	654
Allotment of ordinary shares	11,185	-	-	11,185
Costs of capital raising	(693)	-	-	(693)
<b>At 30 June 2014</b>	<b>116,593</b>	<b>5,813</b>	<b>(108,874)</b>	<b>13,532</b>

The above statement of changes in equity should be read in conjunction with the accompanying notes.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

Notes	Contents	Page
1	Significant accounting judgements, estimates and assumptions	32
2	Summary of significant accounting policies	33
3	Financial risk management objectives and policies	44
4	Financial instruments	47
5	Parent entity information	48
6	Segment reporting	48
7	Revenue	52
8	Other income	52
9	Expenses	52
10	Income tax	53
11	Dividends paid and proposed	54
12	Earnings per share	54
13	Current assets - cash and cash equivalents	55
14	Current assets – trade and other receivables	56
15	Current assets – inventories	57
16	Non-current assets - other financial assets	57
17	Non-current assets - property and equipment	58
18	Non-current assets - intangible assets and goodwill	59
19	Current liabilities - trade and other payables	61
20	Provisions	61
21	Contributed equity	62
22	Reserves	63
23	Related party disclosure	64
24	Key management personnel	65
25	Auditor's remuneration	65
26	Share-based payment plans	66
27	Commitments	70
28	Contingencies	71
29	Events after the balance sheet date	72
	Directors' declaration	73



# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 1. Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent assets and liabilities, commitments, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the results of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

### Significant accounting judgements

#### *Impairment of non-financial assets other than goodwill*

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. These include product and manufacturing performance, technology, economic and political environments and future sales expectations. If an impairment trigger exists the recoverable amount of the asset is determined.

The impairment triggers used by the Group did not show any indication of impairment as at 30 June 2014. As a result, no impairment has been formally estimated and no impairment loss has been recognised for this financial period. Refer to Note 18 for the complete details regarding impairment testing.

#### *Taxation*

The Group's accounting policy for taxation requires management's judgement as to the types of arrangements considered to be a tax on income in contrast to an operating cost. Judgement is also required in assessing whether deferred tax assets and certain deferred tax liabilities are recognised on the balance sheet. Deferred tax assets, including those arising from un-recouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Deferred tax liabilities arising from temporary differences in investments, caused principally by retained earnings held in foreign tax jurisdictions, are recognised unless repatriation of retained earnings can be controlled and are not expected to occur in the foreseeable future.

Assumptions about the generation of future taxable profits and repatriation of retained earnings depend on management's estimates of future cash flows. These depend on estimates of future production and sales volumes, operating costs, capital expenditure, dividends and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised on the balance sheet and the amount of other tax losses and temporary differences not yet recognised. Refer to Note 10 for the complete details regarding deferred tax assets and deferred tax liabilities.

### Significant accounting estimates and assumptions

#### *Impairment of goodwill and intangibles with indefinite useful lives*

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units, using a value in use discounted cash flow methodology, to which the goodwill and intangibles with indefinite useful lives are allocated. Management determined that no impairment loss should be recognised for this financial reporting period. The assumptions used in this estimation of goodwill and intangibles with indefinite useful lives are discussed in Note 18.

#### *Share-based payment transactions*

The Group measures the cost of equity-settled transactions with employees and consultants by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by management. The Black Scholes model is used for option grants without conditions, while the Monte Carlo model is used for option grants with conditions. The assumptions are detailed in Note 26. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 1. Significant accounting judgements, estimates and assumptions (continued)

### Significant accounting estimates and assumptions (continued)

#### *Estimation of useful lives of assets*

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (property and equipment), customer agreements (loaned devices) and turnover policies (for demo devices). In addition, the condition of the assets is assessed at least semi-annually and considered against the remaining useful life, with adjustments made when necessary. Depreciation charges are included in Note 17.

## 2. Summary of significant accounting policies

### (a) Basis of preparation

The financial report of the Group for the year ended 30 June 2014 was authorised for issue in accordance with a resolution of the Directors on 26 August 2014.

ImpediMed Limited is a for profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange. The nature of the operations and principal activities of the Group are described in the Directors' Report.

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$000) unless otherwise stated.

### (b) Compliance with IFRS

The financial report complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

### (c) Going Concern

The going concern basis of accounting contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities. This report adopts the going concern basis.

The Directors believe that the Group continues to be a going concern and that it will be able to pay its debts as and when they fall due for a period in excess of 12 months from the date of signing this report due to the following:

- (i) As at 30 June 2014, the Group had net assets of \$13.5 million (30 June 2013: \$10.6 million) and realised a loss after income tax of \$7.9 million for the year ended 30 June 2014 (30 June 2013: \$8.5 million). At the same date, the market capitalisation of ImpediMed Limited was \$44.2 million and assets of the Group exceeded liabilities by a ratio of 10 : 1.
- (ii) The Group had cash at its disposal of \$10.81 million at 30 June 2014 and had no borrowings from banks or other financial institutions at 30 June 2014.
- (iii) The Group has reduced operating cash burn from \$1.92 million per quarter in financial year 2013 to \$1.70 million per quarter in financial year 2014, a decrease of over 11% on a per quarter average. The Group has the ability to reduce cash burn further, if necessary, and has the ability to vary certain expenditures; therefore cash outflows can be adjusted.
- (iv) The operating plans have been set such that cash on hand at the date of signing is expected to last in excess of 12 months from the date of issue of the financial report.
- (v) The long-term success of the business beyond this time is reliant on the generation of positive cash flows and a possible future capital raise. The Directors believe the Group can achieve positive cash flow and if required raise the necessary capital.

On this basis, the Directors believe that the going concern basis of presentation is appropriate. No adjustments have been made relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Parent and Group not continue as going concerns.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 2. Summary of significant accounting policies (continued)

### (d) New accounting standards and interpretations

#### *Changes in accounting policy and disclosures*

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended Australian Accounting Standards and AASB interpretations as of 1 July 2013. The adoption of these Accounting Standards did not have a material impact on the Group's consolidated financial statements.

- AASB 10 *Consolidated financial statements*
- AASB 11 *Joint arrangements*
- AASB 12 *Disclosure of interest in other entities*
- AASB 13 *Fair value measurement*
- AASB 19 *Employee benefits*
- AASB 2012-2 *Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities*
- AASB 2012-5- *Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle*
- AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]*

The Group early adopted AASB 2013-3 *Amendments to AASB 136 Recoverable Amount Disclosures for Non-Financial Assets*.

#### *Accounting standards and interpretations issued but not yet effective*

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2014. For all standards except IFRS 15 and IFRS 9 the Group does not believe that there will be a material financial impact to either the statement of comprehensive income or the balance sheet once these accounting standards are adopted. The Group is yet to assess the impact of IFRS 15 and IFRS 9. These standards and interpretations are outlined in the table below:

Reference	Title	Application date of standard*	Application date for Group*
AASB 9	Financial Instruments	1 January 2018	1 July 2018
Annual Improvements 2010-2012 Cycle	Annual Improvements to IFRSs 2010-2012 Cycle	1 July 2014	1 July 2014
Annual Improvements 2011-2013 Cycle	Annual Improvements to IFRSs 2011-2013 Cycle	1 July 2014	1 July 2014
AASB 1031	Materiality	1 January 2014	1 July 2014
Amendments to IAS 16 and IAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)	1 January 2016	1 July 2016
IFRS 15	Revenue from contracts with customers	1 January 2017	1 July 2017

\* Designates the beginning of the applicable annual reporting period.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 2. Summary of significant accounting policies (continued)

### (e) Basis of consolidation

The consolidated financial statements comprise the financial statements of ImpediMed Limited and its subsidiaries (as outlined in note 23) as at and for the period ended 30 June each year (the Group). Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- power over the investee,
- exposure, or rights, to variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee,
- rights arising from other contractual arrangements,
- the Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

### (f) Operating segments – refer to note 6

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the Board of Directors.

Operating segments have been identified based on the information provided to the chief operating decision maker – being the Chief Executive Officer. The group aggregates two or more operating segments when they have similar economic characteristics and the segments are similar in each of the following respects:

- Nature of the products and services,
- Nature of the production processes,
- Type or class of customer for the products and services,
- Methods used to distribute the products or provide the services, and if applicable
- Nature of the regulatory environment.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

### (g) Foreign currency translation

#### *Functional and presentation currency*

Both the functional and the presentation currency of the Parent are Australian dollars (\$) or AUD). The U.S. subsidiaries' functional currency is United States dollar (USD) which is translated to the presentation currency.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 2. Summary of significant accounting policies (continued)

### (g) Foreign currency translation (continued)

#### *Transactions & balances*

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 retranslated at the rate of exchange ruling at the balance sheet date.

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.

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

#### *Translation of Group Companies functional currency to presentation currency*

The results of the U.S. subsidiaries are translated into Australian Dollars (presentation currency) as at the average monthly exchange rate each month. Assets and liabilities are translated at exchange rates prevailing at balance date. Exchange variations resulting from the translation are recognised in the foreign currency translation reserve in equity.

On consolidation, exchange differences arising from the translation of the net investment in U.S. subsidiaries are taken to the foreign currency translation reserve. If a U.S. subsidiary were sold, the proportionate share of exchange differences would be transferred out of equity and recognised in the statement of comprehensive income.

### (h) Cash and cash equivalents – refer to note 13

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of approximately three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### (i) Trade and other receivables – refer to note 14

Trade receivables, which generally have 30-60 day terms, are recognised at fair value less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis at an operating unit level. Individual debts that are known to be uncollectable are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than 90 days overdue are generally considered objective evidence of impairment.

### (j) Inventories – refer to note 15

Inventories including raw materials and finished goods are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition is accounted for as purchase cost on a first-in, first-out basis. The cost of purchase comprises the purchase price including import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), if applicable. Volume discounts and rebates are included in determining the cost of purchase.

### (k) Investments and other financial assets – refer to note 16

Investments and financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are categorised as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Designation is re-evaluated at each financial year end, but there are restrictions on reclassifying to other categories.



# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 2. Summary of significant accounting policies (continued)

### (k) Investments and other financial assets – refer to note 16 (continued)

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

#### *Recognition and De-recognition*

All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the market place. Financial assets are de-recognised when the right to receive cash flows from the financial assets has expired or when the entity transfers substantially all the risks and rewards of the financial assets. If the entity neither retains nor transfers substantially all of the risks and rewards, it de-recognises the asset if it has transferred control of the asset.

#### *Subsequent Measurements - loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the loans and receivables are de-recognised or impaired. These are included in current assets, except for those with maturities greater than 12 months after balance sheet date, which are classified as non-current.

### (l) Property and equipment – refer to note 17

Equipment is stated at historical 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. All other repairs and maintenance are recognised in profit or loss as incurred.

Depreciation is calculated on a straight line or diminishing value basis over the estimated useful life of the specific assets as follows:

Plant, Machinery and Equipment	2 - 10 years
Devices under lease, PSA or loan	3 years
Leasehold improvements	2 - 5 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each reporting date.

#### *De-recognition*

An item of property and equipment is de-recognised upon disposal or when no further future economic benefits are expected from its use or disposal.

### (m) Leases – refer to note 17 and 27

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.

#### *Group as a lessee*

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, 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 charges are recognised as an expense in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 2. Summary of significant accounting policies (continued)

### (m) Leases – refer to note 17 and 27 (continued)

Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

#### *Group as a lessor*

Leases in which the Group retains substantially all the risks and benefits of ownership of the leased asset are classified as operating leases. When material, initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as rental income.

### (n) Impairment of non-financial assets other than goodwill – refer to note 18

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

The Group conducts an annual internal review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

### (o) Goodwill and intangibles – refer to note 18

#### *Goodwill*

Goodwill acquired in a business combination is initially measured at cost of the business combination being the excess of the consideration transferred over the fair value of the Group's net identifiable assets acquired, and liabilities assumed. If this consideration transferred is lower than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognised in profit and loss.

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

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which goodwill is monitored for internal management purposes, and is not larger than an operating segment determined in accordance with AASB 8. The goodwill of the Group is allocated to the Medical cash generating unit.

Impairment is determined by assessing the recoverable amount of the cash generating unit or group of cash generating units to which the goodwill relates.

The Group performs its impairment testing as at 30 June each year and more frequently if indicators of impairment exist, using a value in use, discounted cash flow methodology. Further details on the methodology and assumptions used are outlined in Note 18.

When the recoverable amount of the cash-generating unit or group of cash generating units is less than the carrying amount, an impairment loss is recognised. Impairment losses recognised for goodwill are not subsequently reversed. When goodwill forms part of a cash generating unit or group of cash generating units and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash generating unit retained.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 2. Summary of significant accounting policies (continued)

### (o) Goodwill and intangibles – refer to note 18 (continued)

#### *Intangibles*

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in profit or loss in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite useful lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with useful lives is recognised in profit or loss in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level consistent with the methodology outlined for goodwill above. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

#### *Research and development costs*

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following initial recognition, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure capitalised is amortised over the period of expected benefit from the related project.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use or more frequently when an indication of impairment arises during the reporting period.

A summary of the policies applied to the Group's intangible assets is as follows:

	<b><i>Patents and Licences</i></b>	<b><i>Development Costs (i)</i></b>
Useful lives	Finite	Finite
Method used	Amortised over the period of expected future benefit from the related project on a straight-line basis.	Amortised over the period of expected future benefit from the related project on a straight-line basis.
Internally generated/ Acquired	Acquired	Internally generated
Impairment test/ Recoverable amount test	When an indication of impairment exists	When an indication of impairment exists.

- (i) No development costs have been capitalised as internally generated intangible assets for the years ended 30 June 2014 and 2013. No such amounts have been recorded at the balance sheet dates.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is de-recognised.

Expenditures on advertising and promotional expenses are recognised in the statement of comprehensive income when the Group has either the right to access the goods or has received the services.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 2. Summary of significant accounting policies (continued)

### (p) Trade and other payables – refer to note 19

Trade payables and other payables are carried at amortised cost and due to their short term nature they are not discounted. 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 30-90 days of recognition.

### (q) Provisions and employee benefits – refer to note 20

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

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date using a discounted cash flow methodology. The risks specific to the provision are factored into the cash flows and as such a risk-free government bond rate relative to the expected life of the provision is used as a discount rate. The increase in the provision resulting from the passage of time is recognised in finance costs.

#### *Employee leave benefits*

Wages, salaries, annual leave and sick leave liabilities for wages and salaries, including non-monetary benefits, and superannuation payments expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

#### *Retirement benefit obligation*

Contributions to superannuation plans are recognised as an expense when they become payable. The Group contributes to various defined contribution superannuation funds in respect to all employees and at various percentages of their salary, including contributions required by the Superannuation Guarantee Charge. These contributions are made to external superannuation funds and are not defined benefits programs. Consequently, the Group's legal or constructive obligation is limited to these contributions.

#### *Long service leave*

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

### (r) Share-based payment transactions – refer to note 26

#### *Equity-settled transactions*

The Group provides benefits to employees (including key management personnel (KMP)) and certain consultants in the form of share-based payments, whereby employees and consultants render services in exchange for shares or rights over shares (equity-settled transactions).

There are currently three types of plans in place to provide these benefits:

- the Employee Share Option Plans (ESOP), which provides benefits to employees and consultants, including the CEO if he or she is not a member of the Board of Directors. This Group has two (2) ESOPs – one for U.S. based employees and one for Australian based employees;
- the CEO Option Plan, which provides benefits to the CEO when a member of the Board of Directors; and
- the Employee Performance Share plan, which provides benefits to all employees.

All options granted in the current year were granted under the ESOP. No options or shares were issued under the CEO Option Plan or Employee Performance Share Plan during the current or prior year, but the plans remain open for potential grants in future years.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 2. Summary of significant accounting policies (continued)

### (r) Share-based payment transactions – refer to note 26 (continued)

The cost of equity-settled transactions is measured by reference to the fair value of the equity instruments at the date they are granted. The fair value is determined by a Black-Scholes model, details of which are given in Note 26.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of ImpediMed Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service condition are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each subsequent reporting date until vesting, the cumulative charge to the statement of comprehensive income is the product of:

- the grant date fair value of the award
- the current best estimate of the number of awards that will vest, taking into account such factors as the likelihood of employee turnover during the vesting period and the likelihood of non-market performance conditions being met; and
- the expired portion of the vesting period.

The charge to the statement of comprehensive income for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

Equity-settled awards granted by the Parent to employees of subsidiaries are recognised in the Parent's separate financial statements as an additional investment in the subsidiary with a corresponding credit to equity. As a result, the expense recognised by ImpediMed Limited in relation to equity-settled awards only represents the expense associated with grants to employees of the parent. The expense recognised by the Group is the total expense associated with all such awards.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided that all other conditions are satisfied.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

### (s) Contributed equity – refer to note 21

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.

### (t) Revenue recognition – refer to note 6 and 7

#### *Revenue*

Revenue is recognised and measured at the fair value of the consideration received or receivable 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 from the direct sales of devices and consumables is recognised when there is persuasive evidence, usually in the form of a purchase order or an executed sales agreement at the time of shipment of goods to the consumer indicating that there has been a transfer of risks and rewards to the customer, no further work or processing is required, the quantity and quality of the goods has been determined, the price is fixed and generally title has passed (for shipped goods this is the bill of lading date).

#### *Rendering of services*

Revenue from the repair of instruments is recognised when the service has been performed and the obligation is due from the customer.



# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 2. Summary of significant accounting policies (continued)

### (t) Revenue recognition – refer to note 6 and 7 (continued)

When the contract outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

#### *Device operating leases*

Revenue from device operating leases is accounted for on a straight line basis over the lease term.

#### *Interest revenue*

Revenue is recognised as interest accrues using the effective interest rate method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

### (u) Income tax and other taxes – refer to note 10

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 based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the reporting date.

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

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- When the taxable temporary difference is associated with investments in subsidiaries and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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 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 reporting 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.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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 (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax 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 taxable entity and the same taxation authority.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 2. Summary of significant accounting policies (continued)

### (u) Income tax and other taxes – refer to note 10 (continued)

#### *Other taxes*

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

- where the GST incurred on a purchase of goods and services 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, which 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.

The Group is subject to sales taxation in the U.S. in various state jurisdictions. Sales tax has several components:

- On revenue, the Group collects sales tax from customers and remits it to state governments.
- For expenses and assets, the Group pays sales tax on the purchase of goods that are used in the course of business. Sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable. Receivables and payables are stated with the amount of sales tax included.

Receipts from customers are included in the Cash Flow Statement including sales tax amounts collected which are payable to the taxation authority. Cash flows on expenses and assets are included in the Cash Flow Statement on a gross basis and are classified as operating, investing or financing cash flows as appropriate.

The Australian Taxation Office provides certain Research and Development tax incentives and concessions. The Group recognizes these incentives or concessions as other income when all revenue recognition criteria have been met.

### (v) Earnings per share – refer to note 12

Basic earnings per share is calculated as net profit attributable to members of the Parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share, which is currently not applicable to the Group due to the net carrying loss, is calculated as net profit attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and preference share dividends;
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;
- divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

### (w) Comparatives

Where applicable, comparatives have been adjusted to disclose them on the same basis as current period figures.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 3. Financial risk management objectives and policies

The Group's principal financial instruments comprise receivables, payables, cash and short-term deposits.

### Risk exposures and responses

The Group has various 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 Group manages its exposure to risks in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets while protecting future financial security. The Board reviews and agrees to policies for managing these risks which are summarised below.

The main risks arising from the Group's financial instruments are credit risk, interest rate risk, foreign currency risk and liquidity risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate and foreign exchange. Ageing analyses and monitoring of specific credit allowances are undertaken to manage credit risk. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

#### (a) Interest rate risk

At balance date, the Group had the following mix of financial assets exposed to Australian and U.S. interest rate risk that are not designated in cash flow hedges:

	2014 \$000	2013 \$000
<b>Financial Assets</b>		
Cash and cash equivalents*	10,812	7,316
Restricted cash, current and non-current	31	31
	<b>10,843</b>	<b>7,347</b>
<b>Net exposure</b>	<b>10,843</b>	<b>7,347</b>

\*All of the Group's Cash and cash equivalents were considered on hand, with no open term deposit accounts at 30 June 2014 [2013: \$2.0 million held in a 90 day term deposit account with the interest rate earned at a fixed rate]. The cash on hand is exposed to variable interest rates.

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

The Group consistently analyses its interest rate exposure. Within this analysis, consideration is given to potential renewals of existing positions, alternative financing, and the mix of fixed and variable interest rates.

At 30 June 2014, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax loss and equity would have been affected as follows:

	Post Tax Loss Higher/(Lower)	
Judgements of reasonably possible movements:	2014 \$000	2013 \$000
+1.0% (100 basis points)	108	73
-0.5% (50 basis points)	(54)	(37)

The movements in loss are due to higher/lower interest income from variable rate cash balances.

Significant assumptions used in the interest rate sensitivity analysis include:

- Reasonably possible movements in interest rates were determined based on the Group's current credit rating and relationships with financial institutions and economic forecaster's expectations.
- The net exposure at the balance sheet date is representative of what the Group was and is expecting to be exposed to in the next twelve months from the balance sheet date.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 3. Financial risk management objectives and policies (continued)

### (b) Foreign currency risk

As a result of operations in the U.S. and purchases of inventory denominated in United States dollars (USD), the Group's balance sheet can be affected by movements in the USD/AUD exchange rates. The Group has transactional currency exposure resulting from sales activities into the U.S. and into Europe, and from its wholly owned subsidiaries ImpediMed, Inc and XiTRON Technologies, Inc – whose operations are denominated in USD. The Group does not enter into any forward contracts or any other instrument to hedge the currency exposure, as the Group maintains a significant portion of available funds in USD to match USD expected expenses.

At 30 June 2014, the Group had the following exposure to foreign currency:

	2014 \$000	2013 \$000
<b>Financial Assets</b>		
Cash and cash equivalents – USD	71	149
Trade and other receivables – USD	5	-
Trade and other receivables – EUR*	25	19
Trade and other receivables – GBP**	-	3
	<b>101</b>	<b>171</b>
<b>Financial Liabilities</b>		
Trade and other payables – USD	1	6
	<b>1</b>	<b>6</b>
Net exposure	<b>100</b>	<b>165</b>

\*EUR is Euro

\*\*GBP is Great Britain Pound

At 30 June 2014, had the Australian dollar moved against the U.S. dollar, as illustrated in the table below, with all other variables held constant, post tax loss and equity would have been affected as follows:

Judgements of reasonably possible movements:	Post tax loss (Higher)/Lower	
	2014 \$000	2013 \$000
AUD to USD +15% (2013: +15%)	(9)	(15)
AUD to USD -15% (2013: -15%)	12	31

During the period the Group moved \$9.3 million from the Parent entity to the US subsidiaries in order to maintain funds to match USD expected expenses.

Significant assumptions used in the foreign currency exposure sensitivity analysis include:

- Reasonable possible movements in foreign exchange rates were determined based on a review of the last two years historical movements and economic forecasters' expectations.
- The reasonably possible movement was calculated by taking the USD spot rates at balance date, moving this spot rate by the reasonably possible movements and then re-converting the USD into AUD with the "new spot-rate". This methodology reflects the translation methodology undertaken by the Group.
- The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next twelve months from balance date.
- The sensitivity analysis does not include financial instruments that are non-monetary items as these are not considered to give rise to currency risk.

Sensitivities were only calculated on USD balances in instances where the functional currency is not the USD.

### (c) Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables and other financial assets. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 3. Financial risk management objectives and policies (continued)

### (c) Credit risk (continued)

The Group does not hold any credit derivatives to offset its credit exposure.

The Group seeks to trade only with recognised, creditworthy third parties, and as such collateral is typically not requested nor is it the Group's policy to securitise its trade and other receivables.

In addition, receivable balances are monitored on an ongoing basis with the result that the Group's experience of 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 and no outstanding term deposits held at the end of the financial year.

The Parent has a policy of lending to its wholly owned subsidiaries ensuring their continued operations. The subsidiaries are continually monitored and should there be any risk that they are unable to repay the debt appropriate steps will be taken to remedy this situation.

### (d) Liquidity risk

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and finance leases. The Group has no bank overdrafts or bank loans at 30 June 2014.

The table below reflects all contractually fixed payments and receivables for settlement, repayments and interest resulting from recognised financial assets and liabilities as of 30 June 2014. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2014.

#### Maturity analysis of financial assets and liabilities

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Trade payables, and other financial liabilities mainly originate from the financing of assets used in ongoing operations such as property, plant, equipment and investments in working capital e.g. inventories and trade receivables.

These assets are considered in the Group's overall liquidity risk. To monitor existing financial assets and liabilities as well as to enable an effective controlling of future risks, the Group has established comprehensive risk reporting covering their worldwide business unit that reflects expectations of management of expected settlement of financial assets and liabilities.

Liquid assets comprising cash and cash equivalents, restricted cash, trade and other receivables, and other financial assets are considered in the Group's overall liquidity risk. The Group monitors that sufficient liquid assets are available to meet all the required short-term cash payments.

#### Year ended 30 June 2014

##### Liquid financial assets

Cash and cash equivalents  
Restricted cash  
Trade and other receivables  
Other financial assets

≤ 6 months \$000	6-12 months \$000	1-5 years \$000	Total \$000
10,812	-	-	10,812
31	-	-	31
445	-	-	445
-	-	50	50
11,288	-	50	11,338

##### Financial liabilities

Trade and other payables

##### Net inflow

994	-	-	994
10,294	-	50	10,344

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 3. Financial risk management objectives and policies (continued)

### (d) Liquidity risk (continued)

Year ended 30 June 2013	≤ 6 months \$000	6-12 months \$000	1-5 years \$000	Total \$000
<b>Liquid financial assets</b>				
Cash and cash equivalents	7,316	-	-	7,316
Restricted cash	31	-	-	31
Trade and other receivables	449	-	-	449
Other financial assets	-	-	63	63
	<u>7,796</u>	<u>-</u>	<u>63</u>	<u>7,859</u>
<b>Financial liabilities</b>				
Trade and other payables	853	-	-	853
<b>Net inflow</b>	<u>6,943</u>	<u>-</u>	<u>63</u>	<u>7,006</u>

The Group monitors rolling forecasts of liquidity on the basis of expected cash flow.

## 4. Financial instruments

### 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	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
<b>Financial assets</b>				
Cash and cash equivalents	10,812	7,316	10,812	7,316
Restricted cash	31	31	31	31
Trade and other receivables	445	449	445	449
Other financial assets	50	63	50	63
	<u>11,338</u>	<u>7,859</u>	<u>11,338</u>	<u>7,859</u>
<b>Financial liabilities</b>				
Trade and other payables	994	853	994	853
	<u>994</u>	<u>853</u>	<u>994</u>	<u>853</u>

Fair values have been determined as follows:

Cash and cash equivalents	The carrying amount approximates fair value because of the short-term maturity and/or because the interest rates applied are variable interest rates.
Restricted cash	The carrying amount approximates fair value because the interest rates applied are variable interest rates.
Trade receivables and payables	The carrying amount approximates fair value because of the short-term maturity.
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 of the underlying net asset base of the financial asset.



# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 5. Parent entity information

Information relating to ImpediMed Limited:	2014 \$000	2013 \$000
Current assets	5,086	5,845
Total assets	10,411	10,552
Current liabilities	318	194
Total liabilities	380	262
Issued capital	116,593	106,101
Accumulated losses	(112,425)	(101,019)
Performance share reserve	289	289
Share option reserve	5,573	4,920
Total shareholders' equity	10,031	10,291
Loss of the parent entity	(11,406)	(11,673)
Total comprehensive loss of the parent entity	(11,406)	(11,673)

The Parent has not entered into any guarantees in relation to the debts of its subsidiaries. The Parent has not entered into any contractual commitments for the acquisition of property, plant or equipment.

Details of any operating leases are described in note 27 and contingent liabilities of the Parent are described in note 28.

## 6. Segment reporting

### (a) Operating segments

#### Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer (whom is the Chief Operating Decision Maker) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management according to the nature of the products and services provided, as the Group's risks and returns are affected predominantly by differences in the products produced and services provided. Discrete financial information about each of these operating businesses is reported to the Chief Executive Officer on at least a monthly basis. The Chief Executive Officer reviews the Medical Segment revenue information categorised by the segment's two product lines, Lymphoedema and Body Composition. Thus, consistent with the prior year, we have included the product line information as part of the medical segment revenue disclosure.

#### Types of products and services

##### *Medical*

The Medical segment is a supplier of non-invasive medical devices to two under-served markets: (1) aiding in the subclinical assessment of individuals at risk of secondary lymphoedema and (2) the monitoring of body composition and hydration. The medical cash generating unit (CGU) is the core business of the Group and is the main strategic operating segment.

##### *Test & Measurement*

The Test & Measurement segment is a supplier of power precision testing and measuring equipment.

#### Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 2 and are consistent with the prior period.

Segment results, assets and liabilities include items directly attributable to a segment and certain allocated corporate charges. Corporate charges comprise non-segmental expenses such as office expenses. Corporate charges are allocated to each business segment on a proportionate basis linked to segment headcount and square footage so as to determine a segmental result.

Inter-entity sales are recognised based on internally set transfer prices. The prices aim to reflect what the business operation could achieve if they sold their output and services to external parties at arm's length.

Segment loans are initially recognised at the consideration received excluding transaction costs.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 6. Segment reporting (continued)

### (a) Operating segments (continued)

#### Major customers

The Group has a number of customers to which it provides both products and services. No one customer accounts for more than 10% of the Group's revenues.

#### Segment results

On a monthly basis the Chief Executive Officer assesses the performance of each segment by analysing the segment's net operating profit before depreciation and amortisation, finance cost, and tax (EBITDA). Segment revenues, segment expense and segment results include transfers between business segments. Those transfers are eliminated upon consolidation.

Year ended 30 June 2014

	Medical			Test & Measurement	Total
	Lymphoedema	Body Composition	Total Medical		
	\$000	\$000	\$000	\$000	\$000
<b>Revenue</b>					
Device revenue	458	672	1,130	857	1,987
Consumable revenue	1,060	174	1,234	1	1,235
Operating lease revenue	60	5	65	2	67
Rendering of services	16	40	56	176	232
<b>Total segment revenue</b>	<b>1,594</b>	<b>891</b>	<b>2,485</b>	<b>1,036</b>	<b>3,521</b>
Unallocated revenue – finance income					57
<b>Total consolidated revenue</b>					<b>3,578</b>
<b>Results</b>					
Segment results			(7,771)	(110)	(7,881)
Depreciation and amortisation expenses			(104)	(8)	(112)
Finance costs			-	-	-
<b>Total segment loss before income tax</b>			<b>(7,875)</b>	<b>(118)</b>	<b>(7,993)</b>
Income tax expense					-
<b>Net loss for the period</b>					<b>(7,993)</b>
Unallocated results					58
<b>Total consolidated net loss for the period</b>					<b>(7,935)</b>
<b>Assets and liabilities</b>					
Segment assets			14,121	837	14,958
Unallocated assets					-
<b>Total assets</b>			<b>14,121</b>	<b>837</b>	<b>14,958</b>
Segment liabilities			952	167	1,119
Unallocated liabilities					307
<b>Total liabilities</b>					<b>1,426</b>
<b>Other segment information</b>					
Capital Expenditure			5	27	32
Write-down in value of inventories			2	2	4

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 6. Segment reporting (continued)

### (a) Operating segments (continued)

Year ended 30 June 2013	Medical			Test & Measurement	Total
	Lymphoedema	Body Composition	Total Medical		
	\$000	\$000	\$000	\$000	\$000
<b>Revenue</b>					
Device revenue	316	547	863	692	1,555
Consumable revenue	703	130	833	2	835
Operating lease revenue	159	18	177	8	185
Rendering of services	10	33	43	115	158
<b>Total segment revenue</b>	1,188	728	1,916	817	2,733
Unallocated revenue – finance income					192
<b>Total consolidated revenue</b>					2,925
<b>Results</b>					
Segment results			(8,176)	(285)	(8,461)
Depreciation and amortization expenses			(194)	(1)	(195)
Finance costs			-	-	-
<b>Total segment loss before income tax</b>			(8,370)	(286)	(8,656)
Income tax expense					-
<b>Net loss for the period</b>					(8,656)
Unallocated results					192
<b>Total consolidated net loss for the period</b>					(8,464)
<b>Assets and liabilities</b>					
Segment assets			11,047	817	11,864
Unallocated assets					-
<b>Total assets</b>					11,864
Segment liabilities			825	164	989
Unallocated liabilities					281
<b>Total liabilities</b>					1,270
<b>Other segment information</b>					
Capital Expenditure			16	-	16
Write-down in value of inventories			8	1	9

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 6. Segment reporting (continued)

### (b) Geographical information

The following tables present revenue and profit / (loss) information and certain asset and liability information regarding geographical segments for the years ended 30 June 2014 and 2013. Revenue data is based on the location of the customer for geographical reporting purposes.

#### Australia/Rest of World (ROW)

Australia is the corporate home office of the Group and the domicile of its main assets, research and product development activities, contract manufacturing of devices and corporate services. It primarily sells and ships Medical CGU products to customers located in Australia and the rest of the world excluding the U.S...

#### North America

The Group's North American office serves as an operational hub and is located in San Diego, California. It sells and ships Medical CGU products to customers located in the U.S. and test and measurement products and services to customers located throughout the world.

Year ended 30 June 2014	Australia/ROW \$000	North America \$000	Total \$000
<b>Revenue</b>			
Device revenue	957	1,030	1,987
Consumable revenue	260	975	1,235
Operating lease revenue	10	57	67
Service revenue	55	177	232
<b>Total segment revenue</b>	<b>1,282</b>	<b>2,239</b>	<b>3,521</b>
Unallocated revenue			57
<b>Total consolidated revenue</b>			<b>3,578</b>
<b>Other segment information</b>			
Non-current assets	28	2,190	2,218
<b>Year ended 30 June 2013</b>	<b>Australia/ROW \$000</b>	<b>North America \$000</b>	<b>Total \$000</b>
<b>Revenue</b>			
Device revenue	866	689	1,555
Consumable revenue	206	629	835
Operating lease revenue	33	152	185
Service revenue	43	115	158
<b>Total segment revenue</b>	<b>1,148</b>	<b>1,585</b>	<b>2,733</b>
Unallocated revenue			192
<b>Total consolidated revenue</b>			<b>2,925</b>
<b>Other segment information</b>			
Non-current assets	43	2,388	2,431

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 7. Revenue

	2014 \$000	2013 \$000
<b>Sale of goods</b>		
Device revenue	1,987	1,555
Consumable revenue	1,235	835
Operating lease revenue	67	185
	<b>3,289</b>	<b>2,575</b>
<b>Finance income</b>		
Interest income – bank deposits	33	18
Interest income – term deposits	24	174
	<b>57</b>	<b>192</b>

## 8. Other income

	2014 \$000	2013 \$000
R&D tax concession	-	791
Proceeds from tax refund	19	-
	<b>19</b>	<b>791</b>

## 9. Expenses

### Depreciation and amortisation included in statement of comprehensive income

	2014 \$000	2013 \$000
Depreciation of property and equipment	48	51
Depreciation of demo and loan devices	44	90
Amortisation of leasehold improvements	12	8
Amortisation of patents and licenses	2	2
Amortisation of software	6	44
	<b>112</b>	<b>195</b>
Depreciation of operating lease and PSA devices (i)	70	57
	<b>182</b>	<b>252</b>

(i) This depreciation relates to devices on operating lease or PSA and has been included in cost of goods sold.

### Employee benefits expense

	2014 \$000	2013 \$000
Wages and salaries	3,491	3,984
Superannuation	149	150
Annual leave & long service leave	124	73
Performance & sales bonus	719	481
Other employee benefits	253	247
<b>Sub-total salaries and benefits</b>	<b>4,736</b>	<b>4,935</b>
Share-based payments to employees	639	1,008
<b>Total salaries and benefits</b>	<b>5,375</b>	<b>5,943</b>

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 9. Expenses (continued)

### Administrative and governance fees

	2014 \$000	2013 \$000
Directors fees (i)	497	685
Governance and regulatory fees	407	318
Insurance	209	189
Administrative expenses (ii)	294	168
<b>Total administrative and governance fees</b>	<b>1,318</b>	<b>1,360</b>

(i) Includes payment to an executive director.

(ii) Included in administrative expenses is a \$9,000 loss on foreign currency (2013: \$42,000).

### Consulting and professional fees

	2014 \$000	2013 \$000
Professional fees	83	197
Consulting fees	846	668
Patent and trademark fees	519	465
<b>Total consulting and professional fees</b>	<b>1,448</b>	<b>1,330</b>

## 10. Income tax

### Income tax expense

The major components of income tax are:	2014 \$000	2013 \$000
---	---------------	---------------

#### Current income tax

Current income tax benefit	-	-
----------------------------	---	---

#### Deferred income tax

Relating to origination and reversal of temporary differences	-	-
---	---	---

#### Income tax benefit reported in the Statement of Comprehensive Income

	-	-
--	---	---

	2014 \$000	2013 \$000
--	---------------	---------------

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

Accounting profit/(loss) before income tax	(7,935)	(8,464)
Prima facie tax on profit/(loss)	(2,380)	(2,539)
<b>Adjustment for current income tax of previous years</b>		
Expenditure not allowable for income tax purposes	287	421
Other assessable income	-	-
Non assessable income	-	(235)
Other deductible expenses	(128)	(468)
Foreign tax rate adjustment	(616)	(646)
Tax losses not recognised	2,837	3,467
<b>Income tax reported in the statement of comprehensive income</b>	<b>-</b>	<b>-</b>



# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 10. Income tax (continued)

### Deferred tax disclosures

Deferred income tax at 30 June relates to the following:

	Balance Sheet		Statement of Comprehensive Income	
	2014	2013	2014	2013
	\$000	\$000	\$000	\$000
<b>Deferred tax assets</b>				
Doubtful debts	23	24	-	-
Employee entitlements	112	90	-	-
s40-880 costs	284	289	-	-
Patents and license costs	394	418	-	-
Sundry creditors and accruals	64	42	-	-
Losses available for offset against future taxable income	28,825	26,229	-	-
Revenue received in advance	8	10	-	-
Inventory and other provisions	97	106	-	-
Unrealised foreign exchange losses	42	633	-	-
<b>Deferred tax liabilities</b>				
Income not derived for tax purposes	(1)	(4)	-	-
Property, plant and equipment	(18)	(19)	-	-
	29,830	27,818	-	-
Deferred tax assets not recognisable	(29,830)	(27,818)	-	-
<b>Net deferred tax balance per accounts</b>	-	-	-	-

### Tax losses

The Group has tax losses in Australia of \$42.0 million (2013: \$39.0 million) and tax losses in the U.S. of USD \$40.0 million (2013: USD \$35.0 million) that are available 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. No deferred tax asset has been recorded in relation to these tax losses.

## 11. Dividends paid and proposed

There were no dividends paid or proposed during the current reporting period or in the prior year.

## 12. Earnings per share

The following reflects the net loss attributable to ordinary equity holders and the weighted average number of ordinary shares used in the calculations of basic earnings per share (in thousands except for share data):

	2014	2013
	\$000	\$000
Net loss used in calculating basic and diluted earnings per share	(7,935)	(8,464)
	2014	2013
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	195,605,935	181,229,055
	\$	\$
Basic and diluted loss per share	(0.04)	(0.05)

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 12. Earnings per share (continued)

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

Diluted EPS is equal to basic EPS as the Group is currently making losses. As of the end of financial year 2014 there were 19,404,866 (2013: 18,167,636) options on issue.

## 13. Current assets - cash and cash equivalents

	2014 \$000	2013 \$000
Cash at bank and in hand	10,812	5,316
Short term deposits	-	2,000
<b>Cash and cash equivalents</b>	<b>10,812</b>	<b>7,316</b>

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

	2014 \$000	2013 \$000
Net loss after tax	(7,935)	(8,464)
<i>Adjustments for:</i>		
Depreciation and amortisation expense	182	252
Share-based payment expense	654	1,028
Amounts set aside to provisions	3	2
Unrealised foreign currency (gain) loss	5	35
<i>Changes in net assets and liabilities:</i>		
<i>Decrease /(increase) in assets:</i>		
Inventories	175	400
Fixed assets	(23)	(174)
Receivables	7	336
Other current and non-current assets	(5)	31
(Decrease)/increase in liabilities		
Current payables	97	(882)
Other current & noncurrent liabilities	38	(239)
<b>Net cash used in operating activities</b>	<b>(6,802)</b>	<b>(7,675)</b>

## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

### 14. Current assets - trade and other receivables

	2014	2013
	\$000	\$000
Trade receivables	440	421
Allowance for impairment loss	(5)	(7)
Interest receivable	4	13
Tax and other receivables	6	22
	<u>445</u>	<u>449</u>

#### Allowance for impairment loss on current assets

Trade receivables are non-interest bearing and are generally on 30-90 day terms, based upon customer. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired.

Movements in the provision for impairment loss were as follows:

	2014	2013
	\$000	\$000
At 1 July	7	13
Charge for the year	5	10
Amounts reversed	(7)	(4)
Amounts written off (included in administrative and governance expenses)	-	(13)
Foreign exchange translation	-	1
At 30 June	<u>5</u>	<u>7</u>

The remaining receivables past due but not considered impaired are considered immaterial by management.

#### Related party receivables

For terms and conditions of related party receivables refer to note 23.

#### Fair value and credit risk

Due to the short-term nature of these receivables, the carrying value is assumed to approximate its fair value.

The maximum exposure to credit risk is the fair value of the receivables. Collateral is not held as security, nor is it the Group's policy to transfer (on-sell) receivables to special purpose entities.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 15. Current assets - inventories

	2014	2013
	\$000	\$000
Raw Materials (at cost)	816	943
Sub-assemblies (at cost)	254	342
Finished Goods (at cost)	263	263
Provision for obsolete inventory (i)	(201)	(218)
Total inventories at the lower of cost and net realisable value	1,132	1,330

- (i) Due to the nature of many of the test & measurement division products, there are both custom and catalogue components in the product bills of materials that need to be purchased in minimum lot sizes that may be held in component inventory for extended periods of time. While the parts are still currently used, the Group has reviewed the usage of each part and provided an obsolescence provision against those parts that have minimal usage rates. The catalogue components do typically have value on the electronics parts clearance markets, and it is possible that the Group may liquidate some of the slow moving excess in the test and measurement division inventory at an amount at or above the carrying value.

Inventory write-downs recognised as an expense in cost of sales totalled \$4,000 (2013: \$10,000) for the Group.

## 16. Non-current assets - other financial assets

	2014	2013
	\$000	\$000
Deposits - premise leases (i)	50	63
Carrying amount of non-current assets	50	63

- (i) The deposits on the premise leases are held until the shorter of the conclusion of the lease or the voluntary release date by the landlord

### Fair values

Details regarding fair values are disclosed in note 4.

### Interest rate risk

Details regarding interest rate risk exposure are disclosed in note 3.

### Credit risk

The maximum exposure to credit risk at the reporting date is the higher of the carrying value and fair value of each class of receivables. No collateral is held as security.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 17. Non-current assets – property and equipment

### Reconciliation of carrying amounts at the beginning and end of the period

	Leased, Demo & Loan Devices	Leasehold Improvements	Property & Machinery	Computer Equipment	Total
	\$000	\$000	\$000	\$000	\$000
<b>Year ended 30 June 2014</b>					
<b>At 1 July 2013 net of accumulated depreciation</b>	<b>191</b>	<b>26</b>	<b>110</b>	<b>7</b>	<b>334</b>
Additions	20	24	3	11	58
Disposals	(5)	-	(9)	-	(14)
Depreciation charge for the year	(114)	(12)	(42)	(6)	(174)
Effect of foreign exchange	3	(1)	(3)	-	(1)
<b>At 30 June 2014 net of accumulated depreciation</b>	<b>95</b>	<b>37</b>	<b>59</b>	<b>12</b>	<b>203</b>
<b>At 30 June 2014</b>					
Cost or fair value	833	150	279	172	1,434
Accumulated depreciation	(738)	(113)	(220)	(160)	(1,231)
<b>Net carrying amount</b>	<b>95</b>	<b>37</b>	<b>59</b>	<b>12</b>	<b>203</b>
	Leased, Demo & Loan Devices	Leasehold Improvements	Property & Machinery	Computer Equipment	Total
	\$000	\$000	\$000	\$000	\$000
<b>Year ended 30 June 2013</b>					
<b>At 1 July 2012 net of accumulated depreciation</b>	<b>234</b>	<b>15</b>	<b>145</b>	<b>10</b>	<b>404</b>
Additions	118	15	-	9	142
Disposals	(16)	-	(5)	(2)	(23)
Transfers from inventory	-	3	-	-	3
Depreciation charge for the year	(148)	(7)	(40)	(10)	(205)
Effect of foreign exchange	3	-	10	-	13
<b>At 30 June 2013 net of accumulated depreciation</b>	<b>191</b>	<b>26</b>	<b>110</b>	<b>7</b>	<b>334</b>
<b>At 30 June 2013</b>					
Cost or fair value	823	177	308	175	1,483
Accumulated depreciation	(632)	(151)	(198)	(168)	(1,149)
<b>Net carrying amount</b>	<b>191</b>	<b>26</b>	<b>110</b>	<b>7</b>	<b>334</b>

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 18. Non-current assets - intangible assets and goodwill

### Reconciliation of carrying amounts at the beginning and end of the period

	Software \$000	Patents and Licenses \$000	Goodwill \$000	Total \$000
<b>Year ended 30 June 2014</b>				
<b>At 1 July 2013 net of accumulated amortisation and impairment</b>	<b>26</b>	<b>23</b>	<b>1,985</b>	<b>2,034</b>
Additions	-	-	-	-
Amortisation	(6)	(2)	-	(8)
Effect of foreign exchange	-	-	(61)	(61)
<b>At 30 June 2014 net of accumulated amortisation and impairment</b>	<b>20</b>	<b>21</b>	<b>1,924</b>	<b>1,965</b>
<b>At 30 June 2014</b>				
Cost (gross carrying amount)	251	27	1,924	2,202
Accumulated amortisation and impairment	(231)	(6)	-	(237)
<b>Net carrying amount</b>	<b>20</b>	<b>21</b>	<b>1,924</b>	<b>1,965</b>

### Reconciliation of carrying amounts at the beginning and end of the period

	Software \$000	Patents and Licenses \$000	Goodwill \$000	Total \$000
<b>Year ended 30 June 2013</b>				
<b>At 1 July 2012 net of accumulated amortisation and impairment</b>	<b>44</b>	<b>24</b>	<b>1,784</b>	<b>1,852</b>
Additions	25	1	-	26
Amortisation	(44)	(2)	-	(46)
Effect of foreign exchange	1	-	201	202
<b>At 30 June 2013 net of accumulated amortisation and impairment</b>	<b>26</b>	<b>23</b>	<b>1,985</b>	<b>2,034</b>
<b>At 30 June 2013</b>				
Cost (gross carrying amount)	834	1,122	1,985	3,941
Accumulated amortisation and impairment	(808)	(1,099)	-	(1,907)
<b>Net carrying amount</b>	<b>26</b>	<b>23</b>	<b>1,985</b>	<b>2,034</b>

### Description of the Group's intangible assets and goodwill

#### Software

The Group's software intangible includes employee personal productivity PC software tools and the Group's investment in its Enterprise Resource Planning (ERP) system and Customer Relationship Management (CRM) system.

Software costs are carried at cost less accumulated amortisation and accumulated impairment losses. The intangible asset has been assessed as having a finite life and is amortised using the straight line method over a period of four years. The amortisation has been recognised in the statement of comprehensive income in the line item "depreciation and amortisation". If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is lower than the carrying amount.



# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 18. Non-current assets - intangible assets and goodwill (continued)

### Impairment tests for goodwill and intangible assets with indefinite useful lives

#### *Patents and licences*

The Group holds three licences and numerous patents. All patents and licences are carried at cost less accumulated amortisation and impairment losses. These intangible assets have been determined to have a finite life and are amortised using the straight line method over a useful life of between five and twenty years. The amortisation has been recognised in the statement of comprehensive income in the line item "depreciation and amortisation". Patents and licences are subject to impairment testing whenever there is an indication of impairment.

No impairment loss has been recognised for the years ended 30 June 2014 or 2013.

#### *Goodwill*

After initial recognition, goodwill acquired in a business combination is measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to impairment testing on an annual basis or whenever an indication of impairment arises.

#### *Description of the Group's cash generating units (CGUs)*

For the purposes of impairment testing, the Group has allocated the goodwill to the Medical CGU which comprises the business supplying bioimpedance and bioimpedance spectroscopy devices for use by clinicians and allied health professionals. The key focus of the Medical CGU is devices for the subclinical assessment of lymphoedema in cancer survivors, though it also takes in devices used in body composition, and other areas of fluid status measurement. The Medical CGU is the core business of the Group and the part of the business forecasting substantial growth. There was no impairment in financial years 2014 and 2013.

#### *Relationship of the intangible assets with the CGUs*

The only intangible asset in the Group with an indefinite useful life is goodwill.

The goodwill has been allocated to the Medical CGU and arose from the acquisition of XiTRON in 2007. The goodwill is aligned to the objectives of the acquisition which were to eliminate the risk of legal action for infringement of XiTRON's patent, and secondly to establish a base in the U.S. for the Medical CGU to service and support the Group's medical business there.

Therefore in undertaking impairment testing, it is the Medical CGU which has been assessed.

#### *Details of Impairment testing*

Impairment testing has been performed by calculating the value in use of the CGU. This has been prepared using a discounted cash flow forecast for the CGU for ten years and analysed to the net present value (NPV) of cash flows noting no impairment is required.

A ten-year forecast has been used because the Medical CGU is creating new markets, and working through commercialisation milestones in the near term and therefore a ten-year forecast is appropriate to reflect the value of the Medical CGU. Over the ten-year forecast a year-over-year average growth rate of roughly 30% (2013: 25%) is calculated.

The calculation of a value in use for the Medical CGU is most sensitive to:

- 1) increased revenue arising from the following factors / considerations:
  - product acceptance and rate of adoption (by clinicians) particularly in the U.S.;
  - progress in having a Category I CPT reimbursement code accepted by healthcare payer's to reimburse physicians for the use of the L-Dex test;
  - the continuation of an environment where there are no cleared competitive products in the U.S. lymphoedema clinical assessment market;
- 2) ability to sell products at amounts in excess of both cost of sales and general operating costs; and
- 3) the ability of the Group to have cash funding sufficient to execute the current business plan.

All assumptions used in the calculation are based on budgets and forecasts and consider the size of markets available to the Group. Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

In calculating the value in use, a discount rate of 20% pre-tax has been used in financial years 2014 and 2013.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 19. Current liabilities - trade and other payables

	2014 \$000	2013 \$000
Trade payables	350	303
Employment and sales tax payables	199	215
Other accruals and payables	445	335
<b>Carrying amount of trade and other payables</b>	<b>994</b>	<b>853</b>

Trade payables are non-interest bearing and normally settle on 30 days terms. Other accruals and payables are non-interest bearing and normally settle on 30-60 day terms.

### Fair value

Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value.

### Interest rate, foreign exchange and liquidity risk

Information regarding interest rate, foreign exchange and liquidity risk exposure is set out in note 3.

## 20. Provisions

	2014 \$000	2013 \$000
<b>Current</b>		
Employee benefits	307	283
Warranty provision	27	26
Office lease - make good provision	8	24
	<b>342</b>	<b>333</b>
<b>Non-current</b>		
Deferred rent liability	17	8
Employee benefits	62	68
Office lease - make good provision	11	8
	<b>90</b>	<b>84</b>

### Movements in provisions

Movements in each class of provision during the financial year, other than provisions relating to employee benefits, are set out below:

	Warranty provision \$000	Deferred rent liability \$000	Make good provision \$000
At 1 July 2013	26	8	32
Arising during the year	23	16	3
Utilised	(22)	(6)	-
Unused amounts reversed	-	-	(15)
Exchange differences	-	(1)	(1)
<b>At 30 June 2014</b>	<b>27</b>	<b>17</b>	<b>19</b>

## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

### 20. Provisions (continued)

#### Movements in provisions (continued)

	Warranty provision \$000	Deferred rent liability \$000	Make good provision \$000
At 1 July 2012	25	25	22
Arising during the year	12	5	21
Utilised	(11)	(23)	(14)
Exchange differences	-	1	3
<b>At 30 June 2013</b>	<b>26</b>	<b>8</b>	<b>32</b>

#### Nature and timing of provisions

##### *Employee benefits*

Employee benefits comprise accrued entitlements for annual leave, performance pay and superannuation contributions (all current) and for long service leave (non-current). Refer to note 2(q) for the relevant accounting applied in the measurement of this provision.

##### *Warranty provision*

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 and on the one-year warranty period for all products sold. It is expected that these costs will be incurred during the next financial year.

##### *Deferred rent*

A provision for deferred rent is recognised for fixed increases in office leases and for rent free periods for the term of the leases at the Group's three office locations.

##### *Make good provision*

To comply with office lease agreements, the Group must restore leased premises at its corporate offices in Brisbane, Carlsbad and San Diego to the original condition at the end of each's respective lease term. Because of the nature of the liability, the greatest uncertainty in estimating the provision is the cost that will ultimately be incurred. The provision has been calculated using pre-tax discount rates of 5.2% and 1% for the Brisbane and San Diego offices, respectively.

### 21. Contributed equity

#### Ordinary shares

	2014 \$000	2013 \$000
Ordinary shares fully paid	<b>116,593</b>	106,101
	<b>116,593</b>	106,101

Ordinary shares fully paid include transaction costs of \$0.7 million (2013: nil) pertaining to the cost of capital raised during the current reporting period. Fully paid ordinary shares carry one vote per share and carry the right to dividends.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 21. Contributed equity (continued)

### Ordinary shares (continued)

	Number of Shares	\$000
At 1 July 2012	181,314,055	106,102
Issued during the period as a result of:		
Issue of ordinary shares	-	-
Transactions costs	-	(1)
<b>At 30 June 2013</b>	<b>181,314,055</b>	<b>106,101</b>
Issued during the period as a result of:		
Issue of ordinary shares	57,358,747	11,185
Transactions costs	-	(693)
<b>At 30 June 2014 (i)</b>	<b>238,672,802</b>	<b>116,593</b>

### Capital management

	2014 \$000	2013 \$000
<b>Total borrowings (i)</b>	<b>994</b>	<b>853</b>
Less cash and cash equivalents	(10,812)	(7,316)
<b>Net debt</b>	<b>(9,818)</b>	<b>(6,463)</b>
Total equity	13,532	10,594
<b>Total capital</b>	<b>3,714</b>	<b>4,131</b>
<b>Net Debt to Equity Ratio</b>	<b>n/a</b>	<b>n/a</b>

(i) Trade and other payables

There are no externally imposed capital requirements on the Group. When managing capital, management's objective is that the entity continues as a going concern, as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management and the Directors will from time to time evaluate the Group's capital structure with a view to optimising its cost of capital.

## 22. Reserves

### Movements in other reserves

	Performance share reserve \$000	Share options reserve \$000	Foreign currency translation \$000	Total \$000
At 1 July 2012	289	3,891	(497)	3,683
Foreign currency translation	-	-	721	721
Share-based payment	-	1,028	-	1,028
<b>At 30 June 2013</b>	<b>289</b>	<b>4,919</b>	<b>224</b>	<b>5,432</b>
Foreign currency translation	-	-	(273)	(273)
Share-based payment	-	654	-	654
<b>At 30 June 2014</b>	<b>289</b>	<b>5,573</b>	<b>(49)</b>	<b>5,813</b>

The Group maintains two employee share option schemes (ESOP); one for the Australian based employees and one for the U.S. based employees. The Australian ESOP was adopted during the financial year ending 30 June 2004 which was extended in June 2008. The U.S. ESOP was adopted during the financial year ending 30 June 2008.

All options issued under both schemes 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, which is generally determined to be the Parent's average

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 22. Reserves (continued)

### Movements in other reserves (continued)

stock price over the three days prior to the option grant. No options provide dividend or voting rights to the holders. Further details are provided in Note 26.

At 30 June 2014 there were 19,404,866 (30 June 2013: 18,167,636) unissued ordinary shares in respect of 19,404,866 (30 June 2013: 18,167,636) unlisted options, nil (30 June 2013: nil) performance shares and nil (30 June 2013: nil) listed options.

### Nature and purpose of reserves

#### *Performance share reserve and share options reserve*

The share option and performance share reserves are used to record the value of share-based payments provided to employees, including KMP, as part of their remuneration. Refer to Note 26 for further details of these plans.

#### *Foreign currency translation reserve*

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.

## 23. Related party disclosure

### 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	
		2014	2013
ImpediMed, Inc.	United States	100	100
XiTRON Technologies, Inc.	United States	100	100

### Ultimate parent

ImpediMed Limited is the ultimate Australian parent entity.

Details relating to Directors, including remuneration paid, are included in note 24.

For the year ended 30 June 2014, David Adams was paid \$8,000 as a consultant to the Group prior to joining the Board in November 2013. No other transactions with Directors occurred that would be considered related party transactions.

In the prior year, the Group entered in to an executive consultancy contract with Cintra Consulting, a consulting agency led by former director Greg Brown. The fees related to this contract are included in remuneration paid to Directors in the accompanying Directors Report. In addition, in the prior year \$10,000 was paid to former director Mel Bridges for consulting services related to access to certain business opportunities.

Transactions with these and all related parties are made at arm's length both at normal market prices and on normal commercial terms.

#### *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.

### Key management personnel

Details relating to key management personnel (KMP), including remuneration paid, are included in note 24.

For the year ended 30 June 2014, there were no transactions with Key Management Personnel that would be considered related party transactions (2013: nil).

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 24. Key management personnel

### Compensation of key management personnel

	2014 \$	2013 \$
Short-term employee benefits (i)	2,416,799	2,577,494
Post-employment benefits	57,486	81,158
Severance benefits	-	569,389
Share-based payment	562,063	896,001
<b>Total compensation</b>	<b>3,036,348</b>	<b>4,124,042</b>

- (i) Short-term employee benefits include fees of \$165,000 paid to a consultant that was considered KMP and was a Director for a portion of the financial year.

For additional detail related to the compensation of key management personnel please refer to the accompanying Directors Report.

### Interests held by key management personnel

Share options held by key management personnel under the ESOP to purchase ordinary shares have the following expiry dates and exercise prices:

Issue date	Expiry date	Exercise price	2014	2013
2007	2014	\$0.6977	-	58,334
2008	2015	\$0.7159	106,333	372,000
2010	2015	\$0.7798	156,751	491,751
2011	2016	\$0.7000	50,000	800,000
2012	2017	\$0.4800	405,000	834,999
2013	2018	\$0.1100	2,936,300	2,936,300
2013	2019	\$0.1100	700,000	700,000
2013	2023	\$0.3500	7,252,561	7,252,561
2014	2019	\$0.2100	2,797,216	-
2014	2018	\$0.1900	300,000	-
<b>Total</b>			<b>14,704,161</b>	<b>13,445,945</b>

## 25. Auditor's remuneration

	2014 \$	2013 \$
<b>Amounts received or due and receivable</b>		
<b>By Ernst &amp; Young Australia for:</b>		
Audit and review of financial report of the entity	138,288	139,488
	<b>138,288</b>	<b>139,488</b>



# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 26. Share-based payment plans

### Recognised share-based payment expenses

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

	2014 \$000	2013 \$000
Expense arising from equity-settled share-based payment transactions – employees	639	1,008
Expense arising from equity-settled share-based payment transactions – consultants	15	20
Total expense arising from share-based payment transactions	654	1,028

The share-based payment plans are described below. There have been no changes to any of the plan structures during 2014 and 2013.

During the year ending 30 June 2013, the Group modified several share option awards providing extended exercise periods for certain employees resulting in no incremental expense. All of these options were forfeited during the current year ended.

#### (a) Types of share-based payment plans

##### Employee share option plans (ESOP)

The Group has two ESOP schemes it operates, one for eligible Australian employees and one for eligible U.S. employees.

##### *5% limit under ASIC class order 03/184*

The ESOP for the Australian employees follows the 5% limit under the ASIC class order 03/184 in relation to the total amount of shares that may be issued to Australian employees. One of these conditions is that the number of options offered to an eligible employee in Australia, when added to the number of securities previously issued under any employee incentive scheme (including options previously issued under the option plan and shares under an employee share plan) to Australian employees over the last five years (but excluding options that have since lapsed), is less than 5% of the total number of shares on issue at the time of the offer (5% limit). The class order also sets out a number of exceptions where the issue of securities in certain circumstances are excluded from the 5% limit calculation.

One relevant exception to the 5% limit calculation is the offer or issue of securities to persons outside Australia at the time they receive the offer. Accordingly, options offered to employees in the U.S. under the Group's U.S. ESOP are excluded from the 5% limit calculation.

##### *Issue of options excluded from Group's 15% limit under ASX Listing Rule 7.1*

At the Company's November 2013 AGM, shareholders approved the issue of options under both the Australian ESOP and the U.S. ESOP for the next three years for the purpose of exception 9 of ASX Listing Rule 7.2.

##### *ESOP schemes terms and conditions*

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

When a participant ceases to be eligible to continue participating in the plan prior to vesting their share options, the unvested share options are forfeited. The participant has 30 days to exercise vested options after cessation of employment.

In the event of a change of control of the Group, at the discretion of the Board of Directors, all options vest immediately.

The contractual life of each option granted is specified by the stock option agreement not to exceed ten years from the date of grant. There are no cash settlement alternatives. The options issued under the plan cannot be transferred and are not quoted as tradeable instruments on the ASX.

Share options issued during the period generally vest in three tranches at the first, second and third anniversary dates of the grant or vest in three tranches at the end of the first, second and third years from grant.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 26. Share-based payment plans (continued)

### (a) Types of share based payment plans (continued)

#### Employee share option plans (ESOP) (continued)

Share options issued to new employees during the period vest in three tranches at the end of the first, second and third calendar years of employment.

Options from a tranche once vested may be exercised for a term of five years to ten years.

#### Chief executive option plan

Options issued under the chief executive option plan are issued outside the ESOP schemes when the Chief Executive is also a member of the Board of Directors. There were no options issued under the chief executive option plan during the current or prior year. All CEO option grants are subject to approval by the shareholders.

Options issued to the current Chief Executive were issued under the ESOP, except for the issuance of 7,252,561 options upon hiring. Those options were issued outside of any existing option schemes upon shareholder approval at the 2012 AGM. For additional information on option grants, refer to the CEO Remuneration section of the Directors' Report.

#### Performance share plan

Performance shares are issued to eligible employees and contractors in recognition of their contribution to the performance of the Group and are subject to meeting individual performance hurdles. There were no shares issued under the performance share plan during the current or prior year.

All performance shares are issued at the discretion of the Board of Directors and are issued for nil consideration. Performance shares granted in 2007 vested in three tranches at 31 December 2007, 2008 and 2009 respectively. In the event of a change of control, the restrictions which apply to performance shares may cease at the discretion of the Board of Directors.

The fair value of performance shares is measured by using the weighted average stock price for ImpediMed Limited over the three working days prior to the grant date multiplied by the number of eligible shares. The number of eligible shares is measured using a combination of the probability of future service and the achievement of specific goals.

### (b) Summary of options and performance shares

#### Employee share option plans (ESOP)

The following table illustrates the number of shares (Number) and weighted average exercise price (WAEP) of share options under the ESOP schemes.

	2014		2013	
	Number	WAEP\$(i)	Number	WAEP\$(i)
<b>Balance at the beginning of the year</b>	<b>17,375,079</b>	<b>0.36</b>	6,079,298	0.63
Granted during the year (ii)	4,636,091	0.21	12,405,961	0.25
Forfeited during the year	(2,567,968)	0.65	(851,851)	0.55
Exercised during the year	-	-	-	-
Expired during the year	(38,336)	0.70	(258,329)	0.81
<b>Balance at the end of the year</b>	<b>19,404,866</b>	<b>0.29</b>	17,375,079	0.36
<b>Exercisable at 30 June (iii)</b>	<b>5,808,966</b>	<b>0.26</b>	5,064,153	0.50

- (i) Following the 2012 rights issues all outstanding options were re-priced pursuant to ASX Listing Rule 6.22 resulting in a reduction in exercise price of all outstanding options by approximately 1.8 cent per option.
- (ii) Included in the 2013 balance for options granted are 7,252,561 issued to the Chief Executive. These options were issued outside of any existing option scheme upon shareholder approval at the AGM.
- (iii) Certain options granted in FY2014 and FY2013 are only exercisable when the share price of IPD common stock, as traded on the ASX, is above \$0.50 (for employee options) and \$0.70 (for CEO options) per share.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 26. Share-based payment plans (continued)

### (b) Summary of options and performance shares (continued)

The year-end balance is represented by:

	Number of options	Exercise price (\$)(i)	Expire date
	132,113	0.7616	31-Dec-14
	166,866	0.6977	31-Dec-14
	5,000	0.6652	31-Dec-14
	180,000	0.7685	10-Dec-15
	142,370	0.7616	31-Dec-15
	156,616	0.6977	31-Dec-15
	5,000	0.6652	31-Dec-15
	5,000	0.6654	20-Feb-16
	8,333	0.6652	31-Dec-16
	24,167	0.6818	31-Dec-16
	132,117	0.7616	31-Dec-16
	180,000	0.7718	31-Dec-16
	50,000	0.4518	30-Jun-17
	24,166	0.6818	31-Dec-17
	273,000	0.4618	31-Dec-18
	3,000	0.5818	31-Dec-18
	24,166	0.6818	31-Dec-18
	1,484,466	0.1100	30-Jun-18
	617,500	0.4618	30-Jun-19
	10,000	0.5818	30-Jun-19
	175,000	0.2600	31-Dec-18
	102,132	0.1900	30-Jun-19
	1,293,225	0.2100	30-Jun-19
	1,717,800	0.1100	30-Jun-19
	175,000	0.2600	31-Dec-19
	1,641,200	0.1100	30-Jun-20
	102,132	0.1900	30-Jun-20
	1,293,225	0.2100	30-Jun-20
	100,000	0.2600	31-Dec-20
	233,334	0.1100	30-Jun-21
	102,136	0.1900	30-Jun-21
	1,293,241	0.2100	30-Jun-21
	300,000	0.4318	31-Dec-18
	7,252,561	0.3500	08-Jul-22
	<b>19,404,866</b>		

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 26. Share-based payment plans (continued)

### Chief Executive Option Plan

The following table illustrates the number of shares (Number) and weighted average exercise price (WAEP\$) of share options under the Chief Executive Option Plan, issued in previous years to the Group's previous CEO:

	2014		2013	
	Number	WAEP\$	Number	WAEP\$ (i)
Balance at the beginning of the year	1,492,557	0.88	2,228,448	0.84
Granted during the year (ii)				
Forfeited during the year	-		(153,333)	0.58
Exercised during the year	-			
Expired during the year	(1,492,557)	0.88	(582,558)	0.81
Balance at the end of the year	-		1,492,557	0.88
Exercisable at 30 June	-		1,492,557	0.88

- (i) Following the 2012 rights issues all outstanding options were re-priced pursuant to ASX Listing Rule 6.22 resulting in a reduction in exercise price of all outstanding options by approximately 1.8 cent per option.
- (ii) There were no options issued under the Chief Executive Option Plan during the current year. Options issued to the Chief Executive during the current and prior years were issued under the ESOP.

### Performance share plan

There was no balance of shares for the Performance share plan for financial year 2014 and 2013.

## (c) Weighted average remaining contractual life

### Employee share option plans

The weighted average remaining contractual life for the share options outstanding as at 30 June 2014 is 6.7 years (2013: 6.4 years).

### Chief executive option plan

There were no share options outstanding at 30 June 2014 under the CEO plan. The weighted average remaining contractual life for the share options outstanding as at 30 June 2013 was 0.7 years.

## (d) Range of exercise prices

### Employee share option plans

The range of exercise prices for options outstanding as at 30 June 2014 is \$0.11-0.77 (2013: \$0.11-0.99).

### Chief executive option plan

There were no options outstanding under the chief executive option plan as at 30 June 2014 (2013: \$0.58-\$0.99).

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 26. Share-based payment plans (continued)

### (e) Weighted average fair value

#### Employee share option plan (ESOP)

The weighted average fair value of options granted during the year was \$0.12 (2013: \$0.13).

#### Chief executive option plan

There were no options granted under the CEO plan in financial year 2014 (2013: nil).

### (f) Option pricing model

The fair value of the equity-settled share options granted under the ESOP schemes is estimated as at the date of grant using either the Black Scholes option valuation model or the Monte Carlo Simulation if there is a restriction on the share price for exercisability of the option – taking into account the terms and conditions upon which the options were granted

The following tables list the inputs in the model used for the financial years ended 30 June 2014 and 30 June 2013:

	ESOP Issue 2014	ESOP Issue 2013
Expected volatility (%)	73-77	70-77
Risk free interest rate (%)	3.6-3.9	2.9-3.8
Expected life of option (years)	8.0	8.0-10.0
Option exercise price (\$)	0.18-0.26	0.09-0.27
Option share price (\$)	0.18-0.26	0.09-0.27
Calculated fair value (\$)	0.11-0.18	0.05-0.18

The dividend yield for all tranches was nil. The weighted average share price for all tranches at grant date was \$0.21 in financial year 2014 (2013: \$0.25).

The effects of early exercise have been incorporated into the calculations by using an expected life for the option that is shorter than the contractual life based on management's expectation of exercise behaviour, which is not necessarily indicative of exercise patterns that may occur in the future.

The expected volatility rate was determined using a sample of industry averages based on historical share prices. The resulting expected volatility therefore reflects the assumption that the industry averages are indicative of future trends, which may not necessarily be the actual outcome.

Certain options granted in financial year 2014 and 2013 are only exercisable when the share price of IPD common stock, as traded on the ASX, is above \$0.50 (for employee options) and \$0.70 (for CEO options) per share.

## 27. Commitments

### Operating lease commitments

The Group is under lease for one Australian facility and two US-based facilities, with a range of one to four years remaining on the leases. In May 2013, the Group moved the ImpediMed Inc headquarters to Carlsbad, CA and entered into a 52 month commercial property lease, with a 5 year renewal option. In July 2013, the XiTRON Technologies Inc entity moved their operations to a smaller San Diego facility and entered a 36 month commercial lease.

During the year, the Group signed a three year agreement in relation to internet services at the Carlsbad facility.

# Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

## 27. Commitments (continued)

### Operating lease commitments (continued)

There are no restrictions placed on the Group for entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 30 June 2014 are as follows:

	2014 \$000	2013 \$000
Within one year (i)	199	193
After one year but not more than five years (ii)	310	416
More than five years	-	-
	<b>509</b>	<b>609</b>

- (i) At 30 June 2014, \$49,000 related to commitments of the Parent entity (2013: \$64,000).  
(ii) At 30 June 2014, nil related to commitments of the Parent entity (2013: \$48,000).

### Finance lease commitments

The Group does not currently have any open finance leases.

### Expenditure commitments

At 30 June 2014 the Group has commitments of \$0.5 million (2013: \$0.5 million) of which \$0.3 million relates to commitment of additional inventory builds.

	2014 \$000	2013 \$000
Within one year	512	501
After one year but not more than five years	-	-
	<b>512</b>	<b>501</b>

- (i) At 30 June 2014, \$294,000 related to commitments of the Parent entity (2013: \$68,000).

### Royalty commitments

At 30 June 2014 the Group has commitments for the payment of royalties, which are provided on product sales and are accrued and recognised for the year ended 30 June 2014.

## 28. Contingencies

### Legal claims

At 30 June 2014, the Group has no known open claims or lawsuits against it.

### Contingent liabilities

The Group had no contingent liabilities as at 30 June 2014 or 2013.

### Cross guarantees

As a policy the Group does not undertake any cross guarantees.



## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

---

### 29. Events after the balance sheet date

On 23 July 2014 the Group announced Macquarie University Cancer Institute ("MCI") in Sydney, Australia as the Australian-based site for the five-year, multi-centre post-approval clinical trial. Inclusion of such major research centres in this trial is expected to drive further market adoption of ImpediMed's L-Dex device. MCI is leading Australian research in all aspects of lymphoedema. MCI is one of only five Australian universities to receive five stars in all categories of the international QS Stars rating system.

Louise Koelmeyer, BAppSc and Professor John Boyages, MD, PhD were named Principal Investigators for the Australian-based site research.

On 22 July 2014 the Group received an R&D Tax Refund relating to the 2013 financial year. The Group received \$128,376 that will be recorded as Other Income in the 2015 financial year.

For personal use only

## Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2014

---

In accordance with a resolution of the Directors of ImpediMed Limited, I state that:

1. In the opinion of the Directors of ImpediMed Limited:

- (a) the consolidated financial statements and notes and the Remuneration Report in the Directors' Report are in accordance with the Corporations Act 2001, including
  - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;
- (b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2.
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2014.

On behalf of the Board



Cherrell Hirst AO  
Chairman



Jim Hazel  
Director

Brisbane, 26 August 2014



Building a better  
working world

Ernst & Young  
111 Eagle Street  
Brisbane QLD 4000 Australia  
GPO Box 7878 Brisbane QLD 4001

Tel: +61 7 3011 3333  
Fax: +61 7 3011 3100  
ey.com/au

## Independent auditor's report to the members of ImpediMed Limited

### Report on the financial report

We have audited the accompanying financial report of ImpediMed Limited, which comprises the consolidated balance sheet as at 30 June 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 the auditor's 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, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

#### *Independence*

In conducting our audit we have 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.

#### **Opinion**

In our opinion:

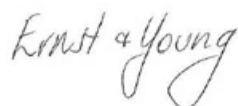
- a. the financial report of ImpediMed Limited is in accordance with the *Corporations Act 2001*, including:
  - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and
  - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

#### Report on the remuneration report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

#### Opinion

In our opinion, the Remuneration Report of ImpediMed Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



Kellie McKenzie  
Partner  
Brisbane  
26 August 2014

## Shareholder Information (unaudited)

The Shareholder information below was current at 26 August 2014:

### (1) Top 20 Security Holders

#### Ordinary Shares

	Name	Total Shares Held	% Issued Capital
1	Starfish Technology Fund 1 LP	24,285,465	10.18%
2	Citicorp Nominees Pty Limited	22,226,071	9.31%
3	J P Morgan Nominees Australia Limited	19,939,421	8.35%
4	National Nominees Limited	17,571,477	7.36%
5	HSBC Custody Nominees (Australia) Limited	8,702,385	3.65%
6	Bond Street Custodians (Macquarie Investment Mgmt Ltd A/C)	5,917,025	2.48%
7	Merrill Lynch (Australia) Nominees Pty Limited	5,401,525	2.26%
8	Parma Corporation Pty Limited	5,024,813	2.11%
9	Mr Greg Brown	3,879,426	1.63%
10	Moore Family Nominee Pty Limited (Moore Family A/C)	3,431,851	1.44%
11	Thorpe Road Nominees Pty Limited (Ian Tregoning Family 2 A/C)	3,275,421	1.37%
12	Statewide Superannuation Pty Limited	2,785,397	1.17%
13	AMN Amro Clearing Sydney Nominees	2,620,313	1.10%
14	Sandhurst Trustees Limited (Australian New Horizons A/C)	2,182,173	0.91%
15	Pakasoluto Pty Limited	1,776,357	0.74%
16	Blueflag Investments Pty Limited	1,700,000	0.71%
17	Flannery Foundation Pty Limited	1,564,000	0.66%
18	UBS Wealth Management Australia Nominees Pty Limited	1,500,000	0.63%
19	Uniquet Pty Limited	1,490,000	0.62%
20	Mr Ian Edward Tregoning & Mrs Lisa Antonietta Tregoning	1,279,111	0.54%
<b>Total</b>		<b>136,552,231</b>	<b>57.22%</b>

### Distribution of Security Holders

#### Ordinary Shares

Number of securities held	Number of investors	Number of securities	%
1 - 1000	104	34,756	0.0%
1,001 - 5,000	252	807,883	0.3%
5,001 - 10,000	168	1,369,814	0.6%
10,001 – 100,000	701	27,153,144	11.4%
100,001 and over	244	209,307,205	87.7%
<b>Total</b>	<b>1,469</b>	<b>238,672,802</b>	<b>100.0%</b>

## Shareholder Information (unaudited)

### (2) Voting rights

Only ordinary shares have voting rights, and are one vote per shareholder on a show of hands, and one vote per fully paid ordinary share on a poll.

Neither IPDO quoted options, nor options issued to the CEO, employees or consultants under options plans are entitled to voting rights.

### (3) Restricted and unquoted securities

As at 26 August 2014, the following securities are restricted:

Class of restricted security	Number Of Holders	Date Restricted Until	Unquoted Ordinary Shares	Quoted Ordinary Shares
Employee performance shares subject to restriction under ESOP schemes	5	*	-	85,000
<b>Total</b>	<b>5</b>		<b>-</b>	<b>85,000</b>

\*Subject to the terms of the employee performance share plan, the performance shares issued under the plan are subject to escrow for 10 years from issue, or an earlier time should the employee leave the employment of the Group, or apply to the board for release of the shares from escrow.



For personal use only

For personal use only



[www.impedimed.com](http://www.impedimed.com)