Annual Report 2010

Surviving cancer without compromising lifestyle

"At The Mercy Breast Care Center we have been using L-Dex testing for over two years. As medical director and surgeon it has allowed me to help both my pre-op surgical patents and those women who have already been treated for their breast cancer. We are now able to address lymphoedema in its sub clinical stage and we have been able to prevent the progression of the lymphoedema in a number of patients. Some of my patients travel over an hour to my office to continue ongoing monitoring of their L-Dex values."

Steven Schonholz, M.D.

"Survivorship and quality of life have become key concerns as more and more patients live longer after the primary treatment of their cancer. L-Dex testing has become a fundamental part of our clinical management of our breast cancer patients."

Walton Taylor, M.D.
ImpediMed Medical Director

Annual General Meeting

The Annual General Meeting of the Company will be held at 4.30pm on Tuesday 23 November 2010 at Tattersalls Club, cnr Queen and Edward Streets, Brisbane.

ImpediMed Limited ABN 65 089 705 144

Chairman and CEO's Report

Given the achievements of the past year, we are pleased to present the Annual Report for ImpediMed Limited ("the Group") to shareholders. Your company is ideally placed to take advantage of changes to healthcare systems around the world, with approved medical devices already serving a significant area of unmet medical need.

Mel Bridges Chair

Greg Brown Chief Executive Officer & Managing Director

Highlights:

- Made significant strides forward in several international markets, in particular the U.S.
- Granted a U.S. Category III Code for our core medical application, centred on the L-Dex® device. This will now serve as a fundamental basis for ImpediMed's reimbursement strategy
- Continued to advance our position in the intellectual property space around our core technology and applications
- Finalised plans to roll out an international campaign around our core technology

The recent progress during the 2010 financial year and our optimism regarding the future is based on the strength of our commitment to the core strategic pillars of our value proposition. These pillars are:

1) Intellectual property (IP) around bioimpedance spectroscopy (BIS) technology and its applications in fluid status monitoring
2) Targeting first-to-market positions for clinical applications
3) Validating clinical applications and health economics
4) Establishing and expanding unique regulatory positions
5) Establishing reimbursement for physicians – coding, payment and coverage

IP protection helps capitalise on longer term business opportunities

IP rights are crucial to protecting our market position in specific BIS applications around fluid status monitoring. This is why we continue to invest in our IP position, adding to the maintenance, development and expansion of our portfolio of trademarks, patents and applications. Throughout the financial year, the Group continued to expand its portfolio of patent families by both acquiring other company patents/applications and writing new applications from new inventions born out of ongoing research and development projects.

First-to-market opportunities provide an advantage

ImpediMed's initial first-to-market opportunity for L-Dex testing is in enabling lymphoedema pre-emptive care models for female breast cancer patients, by using it as an aid in the clinical assessment of unilateral lymphoedema of the arm. Our primary target market for this opportunity is specialist U.S. breast surgeons and oncologists. We estimate this market to be valued at US$150 million in consumables annually.

ImpediMed's next market focus for this technology will be to introduce it for the potential aid in the clinical assessment and management of patients who have been treated for pelvic region cancers and are at risk of lymphoedema in one (unilateral) or both (bilateral) limbs. This market is significantly larger in size than the breast cancer market and we estimate it to be worth around US$400 million in consumables annually. To capitalise on this opportunity we are developing our next generation device, the L-Dex UB500.

Other future first-to-market opportunities for the application of our technology platform include oedema applications (where patients' veins have problems sending blood from the legs back to the heart) and fluid status monitoring for dialysis patients.

Clinical validation supports device acceptance

Clinical validation for any new technology is a critical requirement for medical device acceptance. Over the past year, ImpediMed made good progress in increasing global awareness of lymphoedema and the benefits of prospective care models in breast cancer patients among the medical community. To help establish the clinical value for L-Dex testing in pre-emptive care, we also built an expanded selection of supporting literature, expert opinion and U.S. continuing medical education (CME) materials through an unconditional grant. All of these materials are available from our website – www.impedimed.com.

A major achievement during the past year was the posting of the first CME video on early detection and intervention of arm lymphoedema in breast cancer patients for U.S. based physicians.

This video is used to teach U.S. based surgeons about lymphoedema and its possible prevention. It can be found on our website under the Knowledge Center section for health insurance providers. In addition to this video, L-Dex testing was also recognised in the latest edition of Kuerer's Breast Surgical Oncology text book – a great step forward in building clinical acceptance for L-Dex testing during the year.

During 2009/2010 a 'Medicare Evidence Development and Coverage Advisory Committee' (MEDCAC) meeting was held in the U.S., to discuss clinical evidence for the diagnosis and treatment of secondary lymphoedema. The panel highlighted the need for a standardised metric to establish the natural history around lymphoedema. A panel member on the MEDCAC panel went on to suggest a Medicare sponsored program for establishing objective natural history around lymphoedema.

Based on the MEDCAC panel's suggestion, during the year ImpediMed investigated ways to support a recognised U.S. university teaching hospital's proposal for a Medicare sponsored registry. This registry would focus on the detection and treatment of lymphoedema of the arm and build further real-time clinical natural history evidence. If successful, the registry would help build clinical acceptance of L-Dex in the U.S., and enhance market understanding of the natural history of lymphoedema and the benefits of early detection.

We are now focused on building clinical validation for L-Dex's applications in supporting the clinical assessment of lymphoedema in the limbs. For this reason, during 2009/2010 we continued to advance discussions with the U.S. Gynaecologic Oncology Group (GOG) regarding the inclusion of our UB 500 device in GOG's proposed prospective trial in female pelvic cancer patients. This opportunity remains a key focus for ImpediMed in the coming year, along with other continuing studies around BIS in the leg applications for lymphoedema.

Numerous clinical studies and peer reviewed publications already exist in relation to fluid status monitoring for dialysis patients, using BIS technology. Over the past year we have worked with our strategic partner in an effort to advance this dialysis opportunity.

Unique regulatory claims remain important

In the U.S. market a product can generally only be marketed and reimbursed for its cleared or approved claims. The current L-Dex U400 has been cleared by the FDA for aiding in the clinical assessment of unilateral lymphoedema of the arms in female breast cancer patients. At present we are the first company to have an FDA cleared product with a clinical assessment claim in the U.S. In Europe and Australia, the claim for this product (TGA & CE marked) includes both arms and legs for both men and women. The present clinical assessment claim is important for supporting the business model driven by the ongoing reimbursement of testing for the prospective surveillance of patients.

In April 2010, the company filed its first leg claim with the FDA for aiding in the clinical assessment of unilateral lymphoedema of the limbs. ImpediMed estimates its first leg claim could be available in the first half of the 2011 calendar year, providing access to the much larger leg lymphoedema market. Longer term, we will seek to increase our claims around the use of BIS technology. Definitive diagnosis and risk assessment are claims likely to be higher level class III indications and are important to the next phase of ImpediMed's regulatory strategy.

U.S. reimbursement critical to build sales

Reimbursement for L-Dex testing, especially in the U.S. market, is the last remaining milestone to drive ImpediMed's primary sales position in the breast cancer lymphoedema market.

Large scale commercial success for a medical device company is dependent on establishing effective reimbursement. In the U.S. market, this requires establishing three key components: coding, payment, and coverage. In addition, reimbursement for clinicians by the patient's health care insurer or managed care organisation (MCO) is a critical component in the uptake of any medical device in the U.S. market. The major focus for the past year was establishing a Current Procedural Terminology (CPT) code for L-Dex testing, using bioimpedance spectroscopy for assessing fluid changes in the arms and legs, so both insurers and MCOs could begin reimbursing physicians for L-Dex testing. This category III CPT code was established in February 2010 and was published in late June 2010. It will become available to physicians in January 2011.

The second stage of our U.S. reimbursement strategy is to apply for reimbursement with health care insurers (payment and coverage) and MCOs, such as Physician Provider Organisations (PPO) and Health Maintenance Organisations (HMO's). MCO contracts are a particularly important component to building effective reimbursement in the U.S. market, especially with an estimated 90% of insured people in the U.S. being in some form of managed care. We are focused on securing coverage with the key insurers and establishing reimbursement with the MCOs that contract with key insurers. In fact, this past year we committed to building our managed care teams so as to enhance our reimbursement position in the U.S. market.

Health economics, U.S. peer reviewed science, and professional society guidelines are all important elements in building reimbursement. Last year we decided to invest in an independent third party, clinical based health economic model. This was a significant investment that will help us establish suitable payment for L-Dex testing.

Next year's focus

As we further our strategic plan there are a number of milestones we will be working towards in the coming year. These include:

1. Gaining FDA clearance for the unilateral limb claim for the L-Dex U400
2. Signing of the GOG trial commitment
3. Developing a health economic model and selling tool for third party payers
4. Filing a Medicare sponsored registry proposal and gaining Medicare acceptance
5. Building reimbursement coverage for the category III technology specific code to 50 million covered lives with insurers
6. Announcing key MCO contracts for reimbursing L-Dex testing

The executive management of your company see financial year 2011 as a pivotal one for establishing reimbursement and beginning to drive L-Dex revenues in breast cancer. Should reimbursement around the new technology specific code build, the company would expect to accelerate both adoption and sales for L-Dex tests across the U.S. market. While there are significant risks around building reimbursement in the present market, we are confident the rewards for establishing widespread reimbursement for the L-Dex test are considerable.

The Board and Management acknowledge the effort, dedication and loyalty of ImpediMed's team members, who have continued to work tirelessly over the past year. It is their hard work and determination that has allowed us to achieve milestones that are essential for strengthening our platform and building shareholder value.

We look forward to the year ahead and are excited about the rewards this pivotal year could provide for our shareholders.

Board of Directors and Senior Management

Board

Mel Bridges
Chair

Greg Brown
Chief Executive Officer & Managing Director

Martin Kriewaldt
Non-executive Director and Chair Remuneration Committee

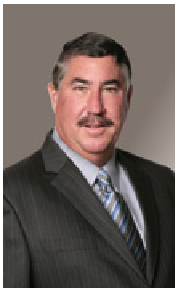
Jim Hazel
Non-executive Director and Chair Audit & Risk Committee

Dr Cherrell Hirst
Non-executive Director

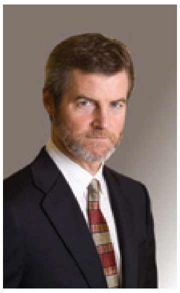
Dr Michael Panaccio
Non-executive Director

Senior Management

Donald Myll
Chief Financial Officer



John Honeycutt
Senior Vice President Operations



Jack Butler
Vice President Business Development US

Peggy Brooker
Vice President Global Finance

Belinda Robinson
Vice President International Marketing & Sales

Alden Kay
Global Vice President Quality and Regulatory

Dennis Schlaht
Vice President XiTRON Test and Measurement

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

Financial Report

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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"). The Parent's functional and presentational currency and the Group's presentational currency is AUD ($). 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

M Bridges (Chairman)
G Brown (Chief Executive Officer)
M Kriewaldt
C Hirst
J Hazel
M Panaccio

Company Secretary

S Denaro

Registered office

Unit 1, 50 Parker Court
Pinkenba QLD 4008

Principal places of business

5959 Cornerstone Court West, Suite 100
San Diego, California, 92121 U.S.A.
Phone: +1 858 412-0200

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

Share Register

Link Market Services
Level 22, 300 Queen Street
Brisbane QLD 4000
Phone: +61 2 8280 7111

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

Solicitors

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

Nixon Peabody LLP
1300 Clinton Square
Rochester NY 14604 U.S.A.

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

California Bank & Trust
5500 Grossmont Center Drive, Suite 408
La Mesa, CA 91942 U.S.A.

Auditors

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

Directors' Report

Your directors submit their report for the year ended 30 June 2010.

Directors

The names and details of the Group's directors in office during the year and until the date of this report are outlined below. Directors were in office for this entire period.

Mel Bridges, B.Sc FAICD - Chairman

Mel Bridges is a shareholder and co-founder of ImpediMed Limited. Through his founding shareholding and subsequent investments in ImpediMed Limited, he holds approximately 4% of the ordinary shares on issue. Mel has over 30 years of international business experience in the healthcare industry. Presently, he is the Chairman of ImpediMed Limited and its Nomination Committee and serves on the Remuneration Committee and the Audit Committee. Mel is also Chairman of ASX listed Alchemia Limited and newly appointed Chairman of AquaCarotene Limited. He is a non-executive director of Benitec Limited, Genera Biosystems Limited, Tissue Therapies Limited, and Campbell Brothers Limited.

Mel's areas of experience include 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 2007:

Company Name	Appointed	Resigned
ImpediMed Limited	27-Sep-1999	-
Arana Therapeutics (formerly Peptech Limited)	11-Dec-2002	01-Nov-2007
Alchemia Limited	11-Sep-2003	-
Benitec Limited	12-Oct 2007	-
Incitive Limited	01-Nov-2007	1 June 2010
Genera Biosystems Limited	11-Dec-2008	-
Tissue Therapies Limited	13-Mar-2009	-
Campbell Brothers Limited	29-Sept-2009	-
AquaCarotine Limited	11-Aug-2010	

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

Greg Brown has over 20 years of business experience in the healthcare industry in Australia, the U.S. and in Europe. He joined ImpediMed Limited in April 2004 as Chief Executive Officer and through investments in ImpediMed Limited holds approximately 4% of the ordinary shares on issue.

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

Listed company directorships held since 1 July 2007:

Company Name	Appointed	Resigned
ImpediMed Limited	14-Dec-2001	-

Directors' Report

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

Martin Kriewaldt is a former partner of law firm Allen Allen and Hemsley (now Allen Arthur Robinson). Martin chairs the Remuneration Committee and serves on the Audit Committee and Nomination Committee. Martin is a non-executive director of ASX listed, Campbell Brothers Limited, Oil Search Limited, Macarthur Coal Limited, and BrisConnection Unit Trusts.

Martin's areas of experience include legal, ASX listed company, chairman of remuneration committees, corporate governance and contracts.

Listed company directorships held since 1 July 2007:

Company Name	Appointed	Resigned
ImpediMed Limited	24-Mar-2005	-
GWA International Limited	25-Jun-1992	30-Oct-2008
Suncorp Metway Limited	06-Dec-1996	16-Apr-2010
Campbell Brothers Limited	12-Jun-2001	-
Oil Search Limited	16-Apr-2002	-
Arana Therapeutics (formerly Peptech Limited)	24-Oct-2003	28-Aug-2007
Macarthur Coal Limited	13-Oct-2008	-
BrisConnection Unit Trusts	24-Oct-2008	-

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

Cherrell Hirst is a medical doctor and was a leading practitioner in the area of breast cancer diagnosis. Cherrell serves on the Remuneration Committee, the Audit Committee, and the Nomination Committee. She is a non-executive director of Peplin Inc. and ASX listed Tissue Therapies Limited. Cherrell is also deputy chair and Acting Chief Executive Officer of Queensland BioCapital Funds.

Cherrell's areas of experience include medical doctor, breast cancer clinician, Medical/Biotechnology industry, ASX listed companies, health funds, corporate governance and chief executive roles.

Listed company directorships held since 1 July 2007:

Company Name	Appointed	Resigned
ImpediMed Limited	01-Aug-2005	-
Peplin, Inc. (formerly Peplin Limited)	17-Aug-2000	01-Oct-2009
Suncorp Metway Limited	08-Feb-2002	16-Apr-2010
Tissue Therapies Limited	30-Jun-2009	-

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

Jim Hazel chairs the Audit Committee and serves on the Remuneration Committee and Nomination Committee. Jim had an extensive career in retail and investment banking and was former Chief General Manager of Adelaide Bank Limited. Jim is a Director of Bendigo & Adelaide Bank Limited, Rural Bank Limited, Centrex Metals Limited and Motor Accident Commission.

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 2007:

Company Name	Appointed	Resigned
ImpediMed Limited	27-Nov-2006	-
Becton Property Group Limited	07-Apr-2008	01-Jul-2010
Terramin Australia Limited	26-Apr-2007	05-Jun-2009
Bendigo & Adelaide Bank Limited	01-Mar-2010	
Centrex Metals Limited	12-Jul-2010	

Directors' Report

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

Michael Panaccio joined ImpediMed Limited as a non-executive director in January 2007. Michael serves on the Audit Committee, Remuneration Committee, and the Nomination Committee. Michael is an investment principal and founder of leading Australian venture capital firm Starfish Ventures, a venture capital manager with approximately $400 million in funds under management. Michael and entities he is associated with including Starfish hold approximately 18% 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. 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 2007:

Company Name	Appointed	Resigned
ImpediMed Limited	**25-Jan-2007**	**-**

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

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

	Ordinary Shares	IPO Options	CEO Options
M Bridges	4,754,209	45,000	-
G Brown	4,867,092	14,000	2,247,673
J Hazel	281,777	33,750	-
C Hirst	229,028	17,250	-
M Kriewaldt	235,230	-	-
M Panaccio	24,571,716	2,877,700	-

Company Secretary

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

Stephen Denaro was appointed as Company Secretary on 11 September 2009. Stephen has previously acted as Company Secretary for ImpediMed Limited and works professionally as Company Secretary for a number of other companies in the medical device and biotech industries.

Phil Auckland, B.Bus, FCPA – Chief Financial Officer & Company Secretary

Phil Auckland joined ImpediMed Limited in June 2004 as Chief Financial Officer and was appointed Company Secretary in November 2004. Before joining ImpediMed Limited, he was Chief Financial Officer and Company Secretary of ASX listed PANBIO Limited. Phil is an FCPA, holds a Bachelor of Business in Accounting, and a Graduate Diploma in Company Secretarial Practice. Phil resigned as Company Secretary and Chief Financial Officer on 25 September 2009.

Principal activities

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

Directors' Report

Operating and financial review

Group overview

ImpediMed Limited was founded in Brisbane, Australia in 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 the 24 October 2007.
- ImpediMed Inc, a Delaware corporation operating in medical markets in North America.
- XiTRON Technologies, Inc, a California corporation operating in medical and 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 period was $11.4 million versus $14.0 million in the prior year. The improved financial performance was due to a combination of increased revenue and decreased expenses.

The average exchange rate for the reporting period was USD $0.882 to the AUD $1.00 versus USD $0.748 for 2009. During 2010, the Group incurred a foreign currency translation loss of $0.4 million as compared to a gain in $0.6 million in 2009. The Group maintains a significant portion of available funds in USD to match USD expected expenses.

The U.S. operations generated a net loss of USD $5.9 million, converting to AUD $6.7 million.

Revenue related to goods and services for the year ended 30 June 2010 was $3.6 million a 22% increase compared to $3.0 million for 2009.

In the second quarter of financial year 2009 the Group shifted focus in the U.S. lymphoedema market from device sales to the L-Dex® operating lease business model. Under the L-Dex business model, revenue is recognised on the testing volume and the related consumables usage of the Group's L-Dex devices. This model continues to progress with 98 L-Dex agreements in place at 30 June 2010 as compared to 45 as of the prior year end.

The decrease in other income is primarily due to the Group receiving no grant revenue in financial year 2010. In the prior financial year, the Group received $0.3 million of Commercial Ready Grant funding for the UB500 program.

Salaries and benefits increased during financial year 2010 due primarily to increased staffing for the U.S. operations. Total Group salaries and benefits increased to $5.7 million, an increase of 12% as compared to $5.1 million in 2009. The full time equivalent (FTE) headcount at 30 June 2010 was 42 versus 34 for the prior year.

Research and development project costs decreased 55% to $1.3 million in 2010 as compared to $2.9 million for 2009. The majority of the R&D expenditures in 2009 related to the UB500 project, which in January 2009 reached the Beta I prototype stage. Spending reductions in the first eight months of the year led to a slowdown in the UB500 project until the April 2010 capital raising when the UB500 project was funded to continue development.

Administrative and governance expense decreased 48% to $1.1 million in 2010 as compared to $2.0 million for the prior year. The decrease was due to a reduction in information technology expenses and decreased reliance on external resources for the public relations and regulatory services.

Advertising and promotion expense for the financial year was $0.2 million versus $0.6 million for the prior year due to cost management for promotional activities until reimbursement coding becomes available in the U.S.

Significant changes in the state of affairs

Review of financial condition – liquidity and capital resources

Cash and cash equivalents increased to $18.8 million at 30 June 2010 from $6.6 million at 30 June 2009 due primarily to the capital raisings during the year. Net cash used in operating activities during 2010 of $10.4 million reflected a decrease of $1.4 million compared to $11.8 million used in 2009.

Directors' Report

Raised capital – share issues during the year

Cash flow from financing activities generated $23.1 million in 2010 versus $10.6 million in 2009 from the issuance of ordinary shares in July 2009 and April and May 2010. During 2010 issued capital increased to $84.6 million at 30 June 2010 compared to $61.5 million at 30 June 2009. Total equity increased to $22.2 million compared to $10.0 million in 2009, and total liabilities decreased to $2.7 million at 30 June 2010 (2009: $3.0 million).

The following outlines the capital raised during the year ended 30 June 2010.

- $6.6 million, net of transaction costs, on 2 July 2009 through the issue of 10,889,278 ordinary shares under a placement to institutional investors at $0.64 per share.
- $9.6 million, net of transaction costs, on 9 April 2010 through the issue of 15,400,000 ordinary shares under a placement to institutional investors at $0.65 per share.
- $6.9 million, net of transaction costs on 17 May 2010 through the issue of 11,567,763 ordinary shares under a rights issue to existing Australian and New Zealand resident shareholders at $0.65 per share.

Dynamics of the business

Under the Group's L-Dex device model, ImpediMed, Inc, a U.S. subsidiary, enters an operating lease (typically three years) with clinicians. The Group charges a monthly or quarterly minimum lease payment (after the expiry of the trial period for reimbursement assessment) according to the L-Dex U400 device lease. Under this model ImpediMed retains title to the devices and carries them in property, plant and equipment, depreciating them over the life of the lease. As the business scales up, the investment in L-Dex devices is expected to have a significant impact on the working capital needs of the Group which are expected to be offset by revenue and profitability of the business model.

ImpediMed remains committed to advancing research and development, as well as commercialisation programs of its products to succeed in its primary lymphoedema markets in the United States. During the year ended 30 June 2010, ImpediMed continued to make significant progress in increasing the adoption by U.S. physicians and healthcare payers of L-Dex technology in aiding in the clinical assessment of lymphoedema in female cancer patients, as evidenced by the Company's recent milestones.

- Adoption of the L-Dex business model continues to increase in the U.S. lymphoedema market with 98 devices in the U.S. as of 30 June 2010, up from 45 at the beginning of the year. The number of placements is expected to grow slowly until the fourth quarter of the financial year ending 30 June 2011 when we expect health care payer coverage and the use of the new American Medical Association (AMA) Category III CPT code begin to have a positive effect on clinician adoption.
- A growing list of independent medical publications supporting ImpediMed's first-to-market position with the only FDA cleared device aiding in the early assessment and monitoring of lymphoedema.
- Increasing U.S. legislative pressures supporting lymphoedema patients.
- Lodging an application with the U.S. Food and Drug Administration (FDA) to expand the indications for use of ImpediMed's L-Dex U400 device. The L-Dex U400 is the first device with FDA clearance for unilateral arm applications applied to breast cancer patients. If successful, this new claim will allow the Group to target a broader range of patients at risk of unilateral leg lymphoedema.
- In March 2010, Walton A Taylor, M.D. became ImpediMed's first Medical Director, (a non-corporate director). Dr. Taylor is a board certified surgeon with extensive experience in the diagnosis and treatment of breast cancer. Dr. Taylor was among the first breast surgeons in the U.S. to use L-Dex technology routinely in his clinical practice.
- ImpediMed continues to drive expansion in the U.S. lymphoedema market by building its managed care resources, which are critical to building reimbursement coverage for L-Dex testing.
- The Company has U.S. based quality and regulatory and executive financial leadership in place. This year requested an FDA compliance review and successfully closed out in November 2009.
- On 1 July 2010, The AMA published a Category III CPT code for the use of bioimpedance spectroscopy (BIS) in the measurement of extracellular fluid differences of the limbs. The Category III code, designated for emerging technologies, is available for use beginning 1 January 2011.

Significant events after the balance date

The Directors are not aware of any significant change in the state of affairs of the Group after the balance sheet date that is not covered in this report.

Directors' Report

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:

The Group expects to experience an increase in placement of L-Dex device lease agreements after March 2011, following the combination of the clinicians' ability to use the AMA Category III CPT code, 0239T, for reimbursement of an L-Dex test and decisions by health insurance payers to pay for the cost of L-Dex testing. Having a Category III CPT code simplifies processing of claims for reimbursement by clinicians relative to using a miscellaneous reimbursement code. Obtaining reimbursement through coverage statements from health care insurance payers in the U.S. ("covered lives") is critical to the success of the Group. Coverage statements by health care payers who recognize the clinical and economic value of the pre-emptive care model are expected to encourage clinicians to adopt the use of L-Dex in the ongoing care of their cancer patients by agreeing to reimburse clinicians for the cost of L-Dex testing. The Group anticipates securing its first coverage statement by December 2010. The Group's ability to generate revenue has been constrained by the lack of coding and reimbursement. Revenue is expected to increase slowly during early 2011 before increasing at a more accelerated rate as coding and reimbursement begin to have a positive effect on the Group.

The Group is working on expanding the sales and managed care teams required to secure reimbursement, coverage statements and L-Dex device agreements within the U.S. market. The Group expects to have a full complement of sales representatives and managed care representatives in house by December 2010.

The Group is targeting to secure 20 million covered lives by March 2011. This first significant level of reimbursement should begin to drive L-Dex placements in the U.S. market place.

At the Medicare Evidence Development & Coverage Advisory Committee (MEDCAC) panel hearing in November 2009, U.S. Centre for Medicare & Medicaid Services (CMS) was advised by their experts that the field of lymphoedema would benefit from a Medicare sponsored registry in order to objectively collect and measure data on lymphoedema. The Group is currently working with a renowned university and a highly-respected global leader in the field of lymphoedema to assist in the funding of a registry for breast cancer patients in the U.S. This proposed registry is intended to collect data over five years to understand better the natural history of lymphoedema in at-risk patients.

The Group is near completion of its next generation UB500 Beta II Prototype device for use in a potential clinical trial sponsored by the Gynecologic Oncology Group (GOG) and for additional regulatory filings with the FDA. The UB500 Beta II device uses the Group's BIS proprietary technology to aid in the assessment and monitoring of bilateral limb lymphoedema. This next generation device will provide access to new and larger lymphoedema markets for the Group. The GOG is a group of affiliated academic medical centres and gynecologists across the U.S. focusing on the advancement of scientific understanding and treatment of gynecologic cancers. The GOG trial would be a subset of a larger parallel protocol which should enrol approximately 1,200 patients with cervical, endometrial, ovarian and vulvar cancer and evaluate lymphoedema incidence. The Group expects to provide the trial approximately 10 academic sites with Beta II UB500 devices. The Group believes that the GOG trial should be approved by March 2011 and will begin later in the 2011 calendar year.

The Group expects to continue to generate a net loss in financial year 2011 and 2012 while building a market position among breast surgeons in the U.S. The Group expects to fund these losses through continued fund raisings.

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 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.

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.

Directors' Report

Share options

As of the date of this report, there were 500,000 options, granted to the CEO, subject to approval by shareholders at the Group's annual general meeting in November 2010.

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:

	27 August 2010	30 Jun 2010
IPO options	12,478,500	12,478,500
CEO options	2,247,673	2,247,673
ESOP options	4,788,507	4,788,507
Total Options	19,514,680	19,514,680

The IPO Options were issued as part of the Parent's initial public offering on the ASX on the basis of one option for every two shares subscribed for. They are listed options and trade under the ASX code IPDO.

In addition to the above there are 247,507 (247,507 at the reporting date) performance shares outstanding.

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, 21,500 listed IPO options have been exercised and no ESOP options have been exercised by employees or by the Chief Executive Officer.

Dividends

No dividends were paid or proposed to be paid to shareholders for the year ended 30 June 2010.

Indemnification and insurance of directors and officers

The Group has insured its Directors, Secretary and executive officers for the financial year ended 30 June 2010. 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. Accordingly, the Group relies on section 300(9) of the Corporations Act 2001 to exempt it from the requirement to disclose the nature of the liability insured against and the premium amount of the relevant policy. Under a Director's Deed of Access and Indemnity the Group:

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.

Employees

As at the 30 June 2010, ImpediMed and its subsidiaries had a total of 46 full and part-time employees (2009: 40 employees).

Directors' Report

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 report for the financial year ended 30 June 2010 outlines the remuneration arrangements in place for directors and executives of the Group in accordance with the requirements of the Corporation Act 2001(the Act) and its regulations. This information has been audited as required by section 308(3c) of the Act.

Key management personnel

The remuneration report details the remuneration arrangements for key management personnel who 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 parent company, and includes the executives of the Parent and the Group receiving the highest remuneration.

For the purposes of this report, the term 'executive' encompasses the chief executive, senior executives and secretary of the Parent and the Group.

Details of key management personnel

Including the five highest executives, in responsibility and remuneration, of the Parent and the Group:

Directors	
Mel Bridges	Chairman
Greg Brown	Executive Director and Chief Executive Officer
Jim Hazel	Non-executive director
Cherrell Hirst	Non-executive director
Martin Kriewaldt	Non-executive director
Michael Panaccio	Non-executive director
Executives	
Donald Myll	Chief Financial Officer (appointed 30 November 2009)
Phil Auckland	Chief Financial Officer and Company Secretary (resigned 25 September 2009)
Peggy Brooker	VP Global Finance (appointed 1 November 2009)
Jack Butler	VP Business Development U.S.
John Honeycutt	Senior VP Operations
Alden Kay	Director Clinical Trials and Regulatory Affairs (appointed 19 October 2009)
Belinda Robinson	VP International Marketing and Sales
Dennis Schlaht	Director of Product Development

There were no changes to the above positions between the reporting date and the date this annual financial report was authorized for issue.

Remuneration committee

The Remuneration Committee of the Board of Directors of the Group is responsible for making recommendations to the board on the remuneration arrangements for non-executive directors (NED), 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 ensuring maximum shareholder benefit from 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.

The Remuneration Committee comprises five independent non executive directors. Additional information on the Remuneration Committee's roles, responsibilities and membership can be seen at www.Impedimed.com.

Directors' Report

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 and NED's in Australia, the United States and Europe 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;
- Link the overall cost of remuneration to the ability of the Group to pay;
- Offer competitive remuneration benchmarked against the applicable markets globally and regionally;
- Provide strong linkage between individual and Group performance and rewards;
- Align the interests of executives and shareholders.

Remuneration structure

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

Remuneration structure of non-executive directors

The maximum aggregate remuneration for non-executive directors 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.

Non-executive directors' fees are determined within an aggregate directors' fee pool, which was subject to approval by shareholders at the annual general meeting (AGM). The maximum aggregate remuneration approved for non-executive directors was $600,000 as approved by shareholders in 2006. The sum of non-executive directors' fees paid in 2010 was $324,000. Each NED received a base fee of $50,000. Additional fees of $10,000 and $5,000 were also paid for serving as chairman of the Audit Committee and Remuneration Committee, respectively. The Chairman received additional fees of $59,000 for serving as Chairman of the Board of Directors.

The Board will not seek any increase for the NED pool at the 2010 AGM. The remuneration of the NED for the year ended 30 June 2010 is detailed in Table 1 of this section of the report.

Remuneration structure of executives

Certain members of the executive team have employment letters with normal executive terms. The executive team's short term incentive and long term incentive remuneration are outlined in this report.

In the financial year 2010, the remuneration structure for executives and employees consisted of the following components:

- Fixed remuneration
- Variable remuneration – short term cash incentive (STI) and long term equity incentive (LTI)

Fixed remuneration

As an early stage company where cash is constrained, fixed remuneration is targeted at the lower end of the normal band of remuneration. In addition, employees, especially in North America, are awarded options which have comparatively small present value, which may deliver comparative large rewards should the Group be successful. In which case the shareholders will have benefited from the share price too.

ImpediMed aims to set fixed remuneration by reference to market levels for positions of comparable responsibility in Australia, U.S. and Europe. Fixed remuneration consists of base salary, superannuation or similar retirement benefits and other entitlement benefits. 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. Executives are not guaranteed pay increases. For financial year 2009, the Group refrained from increasing fixed remuneration for executives and in financial year 2010, a pool of 4% of fixed remuneration was provided for all employees.

Directors' Report

Variable remuneration

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.

A cash incentive or STI is available for employees who are not otherwise compensated under commission programs for the placement of L-Dex devices or meeting business development milestones. The maximum STI available is between 5% and 20% of fixed remuneration, depending on level of responsibility. Actual STI payments awarded to each employee depends on the extent which specific key performance indicator (KPI) targets were achieved. The KPIs consist of a set of both financial and non-financial targets for the Group and for individual measures of performance and were chosen as they represent key drivers for the short-tem success of the business and provide a framework for delivering long-term value. 100% performance measured against KPIs would result in the maximum STI payment. Completion of specific quality and regulatory KPIs and a minimum level of performance of 70% against all KPI are required for payment of any STI.

During financial year 2010 the Remuneration Committee decided to change the STI award period from a calendar year to a financial year in order to align the timing of individual performance incentives with company-wide operating and financial targets. Given the Group is in the early stage of commercialisation, the STI measures for financial year 2010 executive compensation were focused toward individual performance rather than company-wide operating and financial targets. These included individual KPIs related to quality and regulatory training, L-Dex device placements, payer code and reimbursement milestones and financial reporting. For the financial year 2010, $0.2 million STI payments were paid to executives related to the calendar year 2009 and $0.2 million has been accrued in the 2010 financial statements and paid employees in August 2010. The Remuneration Committee approved the STI payments for the period 1 January – 30 June 2010 in August 2010 and these amounts were accrued in the period end financial statements.

From 2010, the Group has granted LTIs to reward the performance of employees in alignment with shareholders for the long term benefit of the Company. 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 Ltd. at an exercise price set at the market price when granted. LTIs are granted under the discretion of the Board and are subject to adjustment for KPI performance as is custom for Australian employees. By multiplying the number of LTI options granted by the KPI performance percentage, yields a performance adjustment entitlement (PAE). This PAE then vests over a three year period, in most cases. Consistent with compensation practices in the U.S., no adjustment for performance measured against KPIs is made for newly hired U.S. employees. Going forward, no adjustment for KPIs will be made for any U.S. employee.

Where a LTI participant ceases employment prior to the vesting of 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 2010, the Board exercised its discretion to allow a two year extension of the exercise period of LTI awards for Mr. Auckland, who resigned on 25 September 2009 to continue post-termination for a period of two years.

In the event of a change of control of the Group, the date of award vesting will generally be brought forward to the date of the change of control.

Options were granted under the employee share option plans to a number of executives during financial year 2010. Details in respect of the awards are provided in Table 2 in this section of the report.

CEO remuneration

Mr. Brown entered into an employment contract with the Parent on 19 May 2006. The contract provides a notice period of twelve months and specifies annual performance and remuneration reviews. The contract provides that base salary floor may be taken as salary, vehicle allowance, or superannuation salary sacrifice and does not include guaranteed base salary adjustments. Mr. Brown's maximum STI is 21% of fixed remuneration and he is also eligible to participate in the LTI remuneration plan. Mr. Brown's base salary for financial year 2010 was $445,191 plus 9% superannuation. For calendar year 2009 and the period 1 January 2010 through 30 June 2010, Mr. Brown earned 85% of his potential short term incentives.

In the event of the termination of Mr. Brown's employment, (other than for cause), twelve months salary would be payable.

Mr. Brown's LTIs options in the Parent were issued in December 2004 (747,673 options) and in October 2007 (1,000,000 options) at the time of the Parent's initial public offering on the Australian Stock Exchange. The October 2007 options issued in conjunction with the IPO did not include any performance hurdles; however, they were granted with elevated exercise prices ranging from $ 0.91 to $1.03 per share relative to an IPO price of $0.70 per share issued (before giving effect for options granted with a 1:2 ratio of options granted for every IPO share subscribed). The Board offered an additional 500,000 options to the CEO which is subject to shareholder approval in November 2010.

Directors' Report

In addition to his long term incentive holdings Mr. Brown has a shareholding of approximately 4% of ordinary shares having invested his own funds in the Parent in 2001, 2003, 2006, 2007 and 2010.

Remuneration of key management personnel and the five highest paid executives of the Group

Table 1: Remuneration of key management personnel for the years ended 30 June 2010 and 30 June 2009*

30 June 2010	Short Term			Post Employment	Share-based	Total	Performance Related	Options Related
	Salaries & Fees	Cash Bonus	Non-monetary	Super-annuation	Options and Performance Shares			
	$	$	$	$	$	$	%	%
Directors								
M Bridges	109,000	-	-	-	-	109,000	-	-
G Brown***	472,343	78,030	96,000	58,174	152,590	857,137	9	18
J Hazel	60,000	-	-	5,400	-	65,400	-	-
C Hirst	50,000	-	-	4,500	-	54,500	-	-
M Kriewaldt	55,000	-	-	4,950	-	59,950	-	-
M Panaccio	50,000	-	-	-	-	50,000	-	-
Executives								
P Auckland#	65,132	-	9,000	6,672	40,858	121,662	-	34
P Brooker **	128,712	25,594	-	3,274	40,768	198,348	13	21
J Butler**	232,518	44,087	-	10,851	51,888	339,344	13	15
J Honeycutt**	219,147	41,075	-	8,766	46,764	315,752	13	15
A Kay**	142,047	24,611	-	659	30,576	197,893	12	15
D Myll**	137,579	27,305	-	-	101,921	266,805	10	38
B Robinson	147,085	26,533	-	15,626	43,426	232,670	11	19
D Schlaht**	163,679	33,639	-	7,505	30,276	235,099	14	13
	2,032,242	**300,874**	**105,000**	**126,377**	**539,067**	**3,103,560**		

30 June 2009	Short Term			Post Employment	Share-based	Total	Performance Related	Options Related
	Salaries & Fees	Cash Bonus	Non-monetary	Super-annuation	Options and Performance Shares			
	$	$	$	$	$	$	%	%
Directors								
M Bridges	100,000	-	-	9,000	-	109,000	-	-
G Brown	332,068	81,000	96,000	45,816	55,478	610,362	24	9
J Hazel	60,000	-	-	5,400	-	65,400	-	-
C Hirst	50,000	-	-	4,500	-	54,500	-	-
M Kriewaldt	55,000	-	-	4,950	-	59,950	-	-
M Panaccio	50,000	-	-	-	-	50,000	-	-
Executives								
P Auckland	190,397	29,765	36,000	23,055	27,369	306,586	20	9
J Butler**	264,461	44,730	-	10,579	75,332	395,102	30	19
J Honeycutt**	129,211	26,668	-	5,048	22,515	183,442	27	12
B Robinson	144,200	27,687	-	15,470	45,637	232,994	33	20
D Schlaht**	184,034	29,530	-	7,361	29,287	250,212	24	12
	1,559,371	**239,380**	**132,000**	**131,179**	**255,618**	**2,317,548**		

* The above figures represent the amounts expensed in the relevant reporting period.
** All figures shown in AUD although remuneration paid in USD.
*** In financial year 2010, G Brown's salaries and fees include $131,713 payout of unused holiday pay.
# P Auckland resigned as CFO on 25 September 2009.
Note: Refer to page 9, details of key management personnel, for dates of new appointments and resignations.

Directors' Report

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

	Granted	Terms and Conditions for each Grant				Vested
30 June 2010	**No.**	**Grant date**	**Value per option at grant date $**	**Exercise price per option $**	**Expiry Date**	**No.**
Executives						
P Brooker	66,667	17 Dec 2009	0.31	0.79	31 Dec 2014	66,667
P Brooker	66,667	17 Dec 2009	0.37	0.79	31 Dec 2015	-
P Brooker	66,666	17 Dec 2009	0.41	0.79	31 Dec 2016	-
J Butler	45,000	17 Dec 2009	0.31	0.79	31 Dec 2014	45,000
J Butler	45,000	17 Dec 2009	0.37	0.79	31 Dec 2015	-
J Butler	45,000	17 Dec 2009	0.41	0.79	31 Dec 2016	-
A Kay	50,000	17 Dec 2009	0.31	0.79	31 Dec 2014	50,000
A Kay	50,000	17 Dec 2009	0.37	0.79	31 Dec 2015	-
A Kay	50,000	17 Dec 2009	0.41	0.79	31 Dec 2016	-
D Myll	166,667	17 Dec 2009	0.31	0.79	31 Dec 2014	166,667
D Myll	166,667	17 Dec 2009	0.37	0.79	31 Dec 2015	-
D Myll	166,666	17 Dec 2009	0.41	0.79	31 Dec 2016	-
B Robinson	45,000	17 Dec 2009	0.31	0.79	31 Dec 2014	45,000
B Robinson	45,000	17 Dec 2009	0.37	0.79	31 Dec 2015	-
B Robinson	45,000	17 Dec 2009	0.41	0.79	31 Dec 2016	-
D Schlaht	31,000	17 Dec 2009	0.31	0.79	31 Dec 2014	31,000
D Schlaht	31,000	17 Dec 2009	0.37	0.79	31 Dec 2015	-
D Schlaht	31,001	17 Dec 2009	0.41	0.79	31 Dec 2016	-
	1,213,001					404,334

Shares issued on exercise of remuneration options
No shares were issued during the years ended 30 June 2010 and 30 June 2009 on the exercise of remuneration options.

Hedge policy
No directors or officers may hedge their risk on shares or options held in the Parent.

Directors' meetings

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

		Meetings of Committees		
	Directors' Meetings	**Audit**	**Remuneration**	**Nomination**
Number of meetings held	11	4	2	-
Number of meetings attended:				
M Bridges	11	2	2	-
G Brown*	11	2	2	-
J Hazel	9	4	2	-
C Hirst	11	2	2	-
M Kriewaldt	9	4	2	-
M Panaccio	9	4	1	-

* G Brown attended the audit and remuneration committee meetings upon request of the Board.

Directors' Report

Committee membership

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

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

	Audit Committee	Remuneration Committee	Nomination Committee
M Bridges	Member	Member	**Chair**
J Hazel	**Chair**	Member	Member
C Hirst	Member	Member	Member
M Kriewaldt	Member	**Chair**	Member
M Panaccio	Member	Member	Member

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 98/0100. The Company is an entity to which the Class Order applies.

Auditors' independence and non-audit services

The directors received the declaration on page 15 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.

Jim Hazel
Director

Greg Brown
Chief Executive Officer

Brisbane, 27 August 2010

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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 2010, 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

Alison de Groot
Partner

27 August 2010

Corporate Governance Statement

ImpediMed Ltd. 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, we strive to meet all regulatory requirements and maintain ethical standard. 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 our corporate governance policies can be found on our website at www.impedimed.com.

Role of the Board of Directors

The ImpediMed Ltd. 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 our business. The primary roles of the Board include:

- Appoint the Chief Executive Officer and monitor performance of the Chief Executive Officer and senior Executives.
- Formulate and establish the strategic direction of the Group and monitor its execution.
- Protect the interests of shareholders.
- 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 Ltd 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 has six Directors, comprising five Non-Executive Directors (including the Chairman) and one Executive Director. Directors (except for the Chief Executive Officer) are subject to re-election by rotation every three years. There are no maximum terms for Non-Executive Director 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 six directors three are not independent (if the tests of independence in the ASX Guidelines were adopted as a definition). The Chair Mel Bridges holds approximately 4% of the ordinary shares in the Group, and Dr Michael Panaccio the Principal of Starfish Ventures is a substantial shareholder and holds approximately 18% of the ordinary shares in the Group. The CEO Greg Brown as CEO and Managing Director is also a significant shareholder with approximately 4% of the ordinary shares in the Group, and as part of management cannot be considered independent.

Corporate Governance Statement

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 proposals or existing business plans. On this basis, the Board is of the opinion that both Mel Bridges and Michael Panaccio are truly independent, despite their connection to the Group being deeper than most shareholders. If anything, that they have large shareholdings at stake in the Group sharpens their value for shareholders' focus.

Dr. Michael Panaccio, through his affiliation as Principal of Starfish Ventures, owns 18 % 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 Chairman, Mr. Mel Bridges is independent and highly experienced at leading the Board by facilitating the effective contribution of all Directors and promoting constructive and respectful relations among the Board members and management. Mr. Bridges knowledge of the biotech industry is of considerable value to management and thus the shareholders.

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 notes that the current Board is the Board in place at the time of listing.

The Board has a Nomination Committee, constituted by all non-executive members of the Board.

However with the continuing orientation of the business to one with a strong U.S. market focus, the Committee is maintaining a watching brief for appropriate opportunities to bring some U.S. based director representation to the Board.

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 an annual self review of Board performance and it has completed the 2010 annual assessment. This 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 have been reviewed by the Board and will be 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.

Corporate Governance Statement

Board committees

ImpediMed's Board has established three standing committees to assist in meeting its responsibilities — the Audit 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.

Remuneration Committee

The Board has established a Remuneration Committee, which operates under a charter approved by the Board, and meets at least two times annually. The Remuneration Committee comprises the following Non-Executive Directors:

- Martin Kriewaldt (Chairman)
- Mel Bridges
- Jim Hazel
- Cherrell Hirst
- Michael Panaccio

The Remuneration Committee is responsible for making recommendations to the Board on the remuneration arrangements for non- executive directors (NED) and executives; equity, superannuation and retirement arrangements; 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 Principles 8.1, 8.2 and 8.3.

Audit Committee

The Board has established an Audit Committee which operates under a charter approved by the Board and meets regularly throughout the year. The Audit Committee comprises the following Non-Executive Directors:

- Jim Hazel (Chairman)
- Mel Bridges
- Cherrell Hirst
- Martin Kriewaldt
- Michael Panaccio

The members of the Audit 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 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 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 Committee including its charter please refer to our website.

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

The Audit Committee structure and charter comply with Principles 4.2 and 4.3.

Nomination Committee

The Board has established a Nomination Committee which operates under a charter approved by the Board and meets at least two times annually. The Nomination Committee comprises the following Non-Executive Directors:

- Mel Bridges (Chairman)
- Cherrell Hirst

Corporate Governance Statement

- Jim Hazel
- Martin Kriewaldt
- Michael Panaccio

The Nomination Committee advises the Board, on the performance of the Board and, when necessary, selecting candidates to serve on the Group's Board.

For additional detail regarding the Nomination Committee including its charter please refer to our website.

Attendance at meetings during the year is set out in the Directors' Report.

The Nomination Committee structure and functions comply with Principles 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 Committee, oversees management's implementation of these risk management processes, in particular that:

- 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 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 inherit in that strategic plan are identified and where appropriate, risk management strategies and operational procedures are developed. The Board monitors managements' performance against the plan.

The major risk facing the Group are:

- The availability of capital.
- The regulatory environment, particularly in the U.S.
- Rate of placements of L-Dex device leases with clinicians.

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

Code of conduct

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

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

Corporate Governance Statement

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 Chief Executive to check that the Group has not recently acquired material non-public information.
- Notification of the Company's Secretary in advance of any intended transactions involving the Company's securities.
- Buying or selling securities in the Company is restricted to the 30 day period immediately following the following events:
    - Release of yearly results to the ASX
    - Release of half yearly results to the ASX
    - The Annual General Meeting

The share trading policy complies with ASX Corporate Governance Council Principle 3.2.

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 Chief Financial Officer certify in respect of the half yearly financial results and the full yearly 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.

Statement of Comprehensive Income
FOR THE YEAR ENDED 30 JUNE 2010

	Note	2010 $000	2009 $000
Continuing operations			
Sale of goods	7	3,436	2,923
Rendering of services		203	69
Finance income	7	168	279
Revenue		3,807	3,271
Cost of goods sold		(1,609)	(1,458)
Other income	8	52	406
Other finance costs		(1)	(6)
Salaries and benefits	9	(5,707)	(5,107)
Research and development		(1,265)	(2,928)
Administrative and governance		(1,075)	(2,049)
Consultants and professional fees		(1,951)	(1,952)
Depreciation and amortisation	9	(666)	(741)
Advertising and promotion		(165)	(646)
Rent and property expenses		(373)	(495)
Travel expenses		(781)	(899)
Share based payments	26	(851)	(534)
Other expenses		(817)	(890)
Loss from continuing operations before income tax		(11,402)	(14,028)
Income tax	10	-	-
Loss from continuing operations after income tax		(11,402)	(14,028)
Net loss for the period		(11,402)	(14,028)
Other comprehensive income (loss)			
Foreign currency translations		(360)	585
Other comprehensive loss for the period, net of tax		(360)	585
Total comprehensive loss for the period		(11,762)	(13,443)

	Note	2010 $	2009 $
Basic and diluted loss per share	12	(0.10)	(0.16)

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

Balance Sheet
AS AT 30 JUNE 2010

	Notes	as at 30 June 2010 $000	as at 30 June 2009 $000
ASSETS			
Current Assets			
Cash and cash equivalents	13	**18,789**	6,634
Trade and other receivables	14	**773**	744
Inventories	15	**1,375**	950
Other current assets		**257**	152
Total Current Assets		**21,194**	8,480
Non-current Assets			
Restricted cash assets	16	**119**	124
Other financial assets	16	**21**	27
Plant and equipment	17	**539**	665
Intangible assets	18	**920**	1,550
Goodwill	18	**2,117**	2,252
Total non-current assets		**3,716**	4,618
TOTAL ASSETS		**24,910**	13,098
LIABILITIES			
Current liabilities			
Trade and other payables	19	**1,746**	1,639
Provisions	20	**783**	956
Total Current Liabilities		**2,529**	2,595
Non-current liabilities			
Provisions	20	**151**	436
Total non-current liabilities		**151**	436
TOTAL LIABILITIES		**2,680**	3,031
NET ASSETS		**22,230**	10,067
EQUITY			
Issued capital	21	**84,559**	61,485
Reserves	22	**2,982**	2,491
Accumulated losses		**(65,311)**	(53,909)
TOTAL EQUITY		**22,230**	10,067

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

Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2010

	Notes	2010 $000	2009 $000
Cash flows from operating activities			
Receipts from customers		**3,668**	3,144
Receipts from grants		**-**	417
Payments to suppliers and employees		**(14,197)**	(15,672)
Interest received		**141**	331
Interest paid		**2**	(6)
Net cash flows used in operating activities	13	**(10,386)**	**(11,786)**
Cash flows from investing activities			
Proceeds from sale of plant and equipment		**-**	10
Purchase of plant and equipment		**(70)**	(213)
Purchase of Intangible assets		**(6)**	(553)
Net cash flows used in investing activities		**(76)**	**(756)**
Cash flows from financing activities			
Proceeds from issue of ordinary shares		**24,513**	11,211
Transaction costs from capital raising		**(1,439)**	(512)
Repayment of borrowings		**-**	(64)
Net cash flows from financing activities		**23,074**	**10,635**
Net increase (decrease) in cash and cash equivalents		**12,612**	(1,907)
Net foreign exchange differences		**(457)**	87
Cash and cash equivalents at beginning of period		**6,634**	8,454
Cash and cash equivalents at end of period	13	**18,789**	**6,634**

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

Statement of Changes in Equity
FOR THE YEAR ENDED 30 JUNE 2010

Consolidated	**Issued Capital $000**	**Reserves $000**	**Accumulated losses $000**	**Total $000**
At 1 July 2008	**50,809**	**1,372**	**(39,881)**	**12,300**
Loss for the period	-	-	(14,028)	(14,028)
Other comprehensive income (loss)	-	585	-	585
Total comprehensive income (loss) for the period	-	585	(14,028)	(13,443)
Equity Transactions:				
Share-based payment	-	534	-	534
Allotment of ordinary shares	11,211	-	-	11,211
Costs of capital raising	(535)	-	-	(535)
At 30 June 2009	**61,485**	**2,491**	**(53,909)**	**10,067**
Loss for the period	-	-	(11,402)	(11,402)
Other comprehensive income (loss)	-	(360)	-	(360)
Total comprehensive income (loss) for the period	-	(360)	(11,402)	(11,762)
Equity Transactions:				
Share-based payment	-	851	-	851
Allotment of ordinary shares	24,513	-	-	24,513
Costs of capital raising	(1,439)	-	-	(1,439)
At 30 June 2010	**84,559**	**2,982**	**(65,311)**	**22,230**

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 2010

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

1. Significant accounting judgements, estimates and assumptions

The preparation of the 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 liabilities, 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 2010. 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.

Capitalised development costs
Development costs are only capitalized by the Group when it can be demonstrated that the technical feasibility of completing the intangible asset is valid so that the asset will be available for use or sale.

Operating lease commitments – Group as lessor
The Group has entered into leases with customers with respect to its devices. The Group has determined that it retains substantially all of the significant risks and rewards of ownership of these devices and has thus classified the leases as operating leases.

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.

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.

Notes to the financial statements
FOR THE YEAR ENDED 30 JUNE 2010

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

Significant accounting estimates and assumptions (continued)

Share based payment transactions
The Group measures the cost of equity-settled transactions with employees 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, with the assumptions 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.

Long service leave
The liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all Australian employees at balance date. In determining the present value of the liability, attrition rates and pay increases have been estimated. The actual outcome may differ from these assumptions. The related carrying amounts are disclosed in Note 20.

Product and Service warranties
In determining the level of provision required for service warranties, the Group has made judgements in respect of the expected performance of the product, number of customers who will actually use the maintenance warranty and how often, and the costs of fulfilling the performance of the maintenance warranties. Historical experience and current knowledge of the performance of products has been used in determining this provision. The related carrying amounts are disclosed in Note 20.

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 (for plant and equipment), lease terms (for leased equipment) and turnover policies (for demo devices). In addition, the condition of the assets is assessed at least twice per year (once by year-end and once by half year-end reporting dates) and considered against the remaining useful life. Adjustments to useful lives are made when considered 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 2010 was authorised for issue in accordance with a resolution of the directors on 27 August 2010.

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 (AUD) unless otherwise noted.

Compliance with IFRS

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

(b) Going Concern

This report has been prepared on the basis that the Group is a going concern. The Group has net assets of $22.2 million (30 June 2009: $10 million) and realised a loss after income tax of $11.4 million for the year ended 30 June 2010 (30 June 2009: $14 million).

The directors also note that 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 dating issue of the financial report.

Notes to the financial statements
FOR THE YEAR ENDED 30 JUNE 2010

2. Summary of significant accounting policies (continued)

(b) Going concern (continued)

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.

(c) 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 2009.

- AASB 3 (Revised) *Business Combinations*
- AASB 101 (Revised), AASB 2007-8 and AASB 2007-10 *Presentation of Financial Statements and Consequential Amendments to Other Australian Accounting Standards*
- AASB 127 (Revised) *Consolidated and Separate Financial Statements*
- AASB 8 and 2007-3 *Operating Segments replaced AASB 114 Segment Reporting*
- AASB 123 (Revised) and AASB 2007-6 *Borrowing Costs and Consequential Amendments to Other Australian Accounting Standards*
- AASB 2008-1 *Amendments to Australian Accounting Standards – Share-based Payments: Vesting Conditions and Cancellations*
- AASB 2008-3 *Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127*
- AASB 2008-5 and AASB 2008-6 *Amendments to Australian Accounting Standards arising from the Annual Improvements Project and Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project*
- AASB 2008-7 *Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- AASB 2009-2 *Amendments to Australian Accounting Standards – Improving Disclosures about Financial Instruments [AASB 4, AASB 7, AASB 1023 & AASB 1038]*
- AASB 2009-4 *Amendments to Australian Accounting Standards Arising from the Annual Improvements Project [AASB 2, AASB 138 and AASB Interpretations 9 & 16]*
- AASB 2009-7 *Amendments to Australian Accounting Standards* [AASB 5, 7, 107, 112 136 & 139 and interpretation 17]

When the adoption of the Standard or Interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

AASB 8 Operating Segments
AASB 8 replaced AASB 114 Segment Reporting upon its effective date. The Group concluded that the operating segments determined in accordance with AASB 8 are the same as the business segments previously identified under AASB 114. AASB 8 disclosures are shown in note 6, including the related revised comparative information.

AASB 101 Presentation of Financial Statements
The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense; either in one single statement, or in two linked statements. The Group has elected to present one statement.

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 ending 30 June 2010. These are outlined in the table below:

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

2. Summary of significant accounting policies (continued)

(c) New accounting standards and interpretations (continued)

Reference	*Title*	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
Amendments to International Financial Reporting Standards	*Amendments to IFRS 2*	The amendments clarify the accounting for group cash-settled share-based payment transactions, in particular: • the scope of AASB 2; and • the interaction between IFRS 2 and other standards. An entity that receives goods or services in a share-based payment arrangement must account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash. A “group” has the same meaning as in IAS 27 *Consolidated and Separate Financial Statements*, that is, it includes only a parent and its subsidiaries. The amendments also incorporate guidance previously included in IFRIC 8 *Scope of IFRS 2* and IFRIC 11 *IFRS 2—Group and Treasury Share Transactions*. As a result, IFRIC 8 and IFRIC 11 have been withdrawn.	01 January 2010	The Group does not expect these amendments will significantly impact the financial statements of the Group.	01 July 2010
AASB 2009-8	*Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]*	This Standard makes amendments to Australian Accounting Standard AASB 2 Share-based Payment and supersedes Interpretation 8 Scope of AASB 2 and Interpretation 11 AASB 2 – Group and Treasury Share Transactions. The amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments clarify the scope of AASB 2 by requiring an entity that receives goods or services in a share-based payment arrangement to account for those goods or services no matter which entity in the group settles the transaction, and no matter whether the transaction is settled in shares or cash.	01 January 2010	The Group does not expect these amendments will significantly impact the financial statements of the Group.	01 July 2010

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

2. Summary of significant accounting policies (continued)

(c) New accounting standards and interpretations (continued)

Reference	*Title*	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2009-11	*Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]*	The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes: • two categories for financial assets being amortised cost or fair value • removal of the requirement to separate embedded derivatives in financial assets • strict requirements to determine which financial assets can be classified as amortised cost or fair value, Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows • an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on de-recognition • reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes • changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income	1 January 2013	The Group has not yet determined the potential effect of the revised standard on the Group's financial report.	01 July 2013
AASB 124 (Revised)	*Related Party Disclosures (December 2009)*	The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including: • the definition now identifies a subsidiary and an associate with the same investor as related parties of each other; • entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and • the definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.	01 January 2011	The Group does not expect these amendments will impact the financial statements of the group.	01 July 2011

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

2. Summary of significant accounting policies (continued)

(c) New accounting standards and interpretations (continued)

Reference	*Title*	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 9	*Financial Instruments*	AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement). These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements and AASB 139. The main changes from AASB 139 are described below: • Financial assets are classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification and criteria. • AASB 9 allows an irrevocable election on initial recognition to present gains and losses on investment in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. • Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.	01 January 2013	The Group has not yet determined the potential effect of the revised standard on the Group's financial report.	01 July 2013

* Designates the beginning of the applicable annual reporting period unless otherwise stated.

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

2. Summary of significant accounting policies (continued)

(d) 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 ending 30 June each year (the Group).

The financial statements of the subsidiaries are prepared on the same reporting period as the parent company, using consistent accounting policies. In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and loss resulting from intra-group transactions have been eliminated in full.

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

The acquisition of subsidiaries is accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition (see note 2 (e)).

(e) Business combinations – refer to note 29

Prior to 1 July 2009
The purchase method of accounting was used to account for all business combinations regardless of whether equity instruments or other assets were acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the combination. Where equity instruments are issued in a business combination, the fair value of the instruments is their published market price as at the date of exchange. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Except for non-current assets or disposal groups classified as held for sale (which are measured at fair value less costs to sell), all identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of the business combination over the net fair value of the Group's share of the identifiable net assets acquired is recognised as goodwill. If the cost of acquisition is less than the Group's share of the net fair value of the identifiable net assets of the subsidiary, the difference is recognised as a gain in the statement of comprehensive income, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of the consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Subsequent to 1 July 2009
Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination shall be measured at fair value, which shall be calculated as the sum of the acquisition date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree and the equity issued by the acquirer, and the amount of any non controlling interest in the acquiree. For each business combination, the acquirer measures the non controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured at fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with AASB 139 either in profit or loss or in other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured.

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

2. Summary of significant accounting policies (continued)

(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 ($). The United States subsidiaries’ functional currency is United States dollars ($) which is translated to the presentation currency (see below for consolidated reporting).

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.

Translation of Group Companies functional currency to presentation currency
The results of the United Sates subsidiaries are translated into Australian Dollars (presentation currency) as at the date of each transaction. 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 United States subsidiaries are taken to the foreign currency translation reserve. If a United States 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 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.

Notes to the financial statements
FOR THE YEAR ENDED 30 JUNE 2010

2. Summary of significant accounting policies (continued)

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

Trade receivables, which generally have 30-60 day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, 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.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

(k) Non-current assets and disposal groups held for sale and discontinued operations

Non-current assets are measured at the lower of their carrying amount and fair value less costs to sell if their carrying amount will be recovered principally through a sale transaction.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of de-recognition.

(l) 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.

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 derecognises 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.

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

2. Summary of significant accounting policies (continued)

(m) 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:

Equipment	2 - 10 years
Devices under lease 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, plant and equipment is de-recognised upon disposal or when no further future economic benefits are expected from its use or disposal.

(n) Leases – refer to note 17 & 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.

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.

(o) 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.

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

2. Summary of significant accounting policies (continued)

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

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.

(p) 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 and includes the medical cash generating unit and the test and measurement cash generating unit. The goodwill of the Group is allocated to the Medical cash generating unit (see Note 18).

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 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.

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 (See Note 2(o) for methodology). 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.

Notes to the financial statements
FOR THE YEAR ENDED 30 JUNE 2010

2. Summary of significant accounting policies (continued)

(p) Goodwill and intangibles – refer to note 18 (continued)

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 so 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:

	Patents and Licences	***Development Costs****
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.

* No development costs have been capitalised as internally generated intangible assets for the years ending 30 June 2010 and 30 June 2009.

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 as a component of marketing expense in the statement of comprehensive income when the Group has either the right to access the goods or has received the services.

(q) 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 days of recognition.

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

2. Summary of significant accounting policies (continued)

(r) 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 benefits 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, annual leave, 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.

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.

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

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

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

- the Employee Share Options Plan (ESOP), which provides benefits to employees, excluding the CEO;
- the CEO Option Plan, which provides benefits to the CEO; and
- the Employee Performance Share plan, which provides benefits to all employees.

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

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

2. Summary of significant accounting policies (continued)

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

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.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of diluted earnings per share – of which is currently not applicable to ImpediMed Limited.

(t) 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.

(u) Revenue recognition – refer to note 7

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.

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.

(v) 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.

2. Summary of significant accounting policies (continued)

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

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.

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.

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

2. Summary of significant accounting policies (continued)

(w) Government grants

Government grants are recognised in the balance sheet as a liability when the grant is received.

When the grant relates to an expense item (research and development grants for medical devices), it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. They are not credited directly to shareholders' equity.

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

(x) 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.

(y) Comparatives

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

3. Financial risk management objectives and policies

Financial risk management

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

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.

Risk exposures and responses

The main risks arising from the Group's financial instruments are credit risk, interest rate risk, foreign currency risk and liquidity risk. The Group manages its exposure to these 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 whilst protecting future financial security. The Board reviews and agrees to policies for managing these risks which are summarised below.

Notes to the financial statements
FOR THE YEAR ENDED 30 JUNE 2010

3. Financial risk management objectives and policies (continued)

(a) Interest rate risk

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

	2010 $000	2009 $000
Financial Assets		
Cash and cash equivalents*	**18,789**	6,634
Restricted cash	**119**	124
	18,908	6,758
Net exposure	**18,908**	6,758

*Cash and cash equivalents include $13.4 million, (U.S. $11.5 million), held in a 30 day term deposit account and $1.1 million, (U.S. $1.0 million), held in a 10 day term deposit account at 30 June 2010 (2009: nil held in term deposit accounts). During this financial period the interest rate was earned at a fixed rate.

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 2010, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax loss and other comprehensive loss would have been affected as follows:

Judgments of reasonably possible movements:	Post Tax Loss (Higher)/Lower	
	2010 $000	2009 $000
Consolidated		
+1.0% (100 basis points)	**189**	**68**
-0.5% (50 basis points)	**(95)**	**(34)**

The movements in loss are due to higher/lower interest costs 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 mix of debt in Australia and the U.S., 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.

(b) Foreign currency risk

As a result of operations in the United States and purchases of inventory denominated in United States Dollars, 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 United States and into Europe, and from its wholly owned subsidiaries ImpediMed Inc and XiTRON Technologies, Inc – whose operations are denominated in United States dollars (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.

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

3. Financial risk management objectives and policies (continued)

(b) Foreign currency risk (continued)

At 30 June 2010, the Group had the following exposure to foreign currency:

	2010 $000	2009 $000
Financial Assets		
Cash and cash equivalents	**14,602**	4,483
Trade and other receivables	**32**	93
	14,634	4,576
Financial Liabilities		
Trade and other payables	**157**	482
	157	482
Net exposure	**14,477**	4,094

At 30 June 2010, 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 would have been affected as follows:

Judgments of reasonably possible movements:	Post tax loss (Higher)/Lower	
	2010 $000	2009 $000
AUD to USD +10%	**1,448**	409
AUD to USD -5%	**(724)**	(205)

The movements in loss for the current reporting period are more sensitive than those in the prior reporting period mainly due to a higher level of USD cash and cash equivalents; however, the Group maintains these funds to match USD expected expenses. The effect on other comprehensive income is immaterial.

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 forecaster's 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 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.

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.

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

3. Financial risk management objectives and policies (continued)

(c) Credit risk (continued)

There are no significant concentrations of credit risk within the Group, except for term deposits maintained at one financial institution.

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 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 2010. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2010.

Maturity analysis of financial assets and liability

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 2010	**≤ 6 months $000**	**6-12 months $000**	**1-5 years $000**	**Total $000**
Liquid financial assets				
Cash and cash equivalents	**18,789**	**-**	**-**	**18,789**
Restricted cash	**-**	**-**	**119**	**119**
Trade and other receivables	**773**	**-**	**-**	**773**
Other financial assets	**-**	**-**	**21**	**21**
	19,562	**-**	**140**	**19,702**
Financial liabilities				
Trade and other payables	**1,746**	**-**	**-**	**1,746**
Net inflow/(outflow)	**17,816**	**-**	**140**	**17,956**

Notes to the financial statements
FOR THE YEAR ENDED 30 JUNE 2010

3. Financial risk management objectives and policies (continued)

(d) Liquidity risk (continued)

Year ended 30 June 2009	≤ 6 months $000	6-12 months $000	1-5 years $000	Total $000
Liquid financial assets				
Cash and cash equivalents	6,634	-	-	6,634
Restricted cash	-	-	124	124
Trade and other receivables	744	-	-	744
Other financial assets	-	-	27	27
	7,378	-	151	7,529
Financial liabilities				
Trade and other payables	1,639	-	-	1,639
	1,639	-	-	1,639
Net inflow/(outflow)	**5,739**	**-**	**151**	**5,890**

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**	
	2010 $000	2009 $000	**2010 $000**	2009 $000
Financial assets				
Cash and cash equivalents	**18,789**	6,634	**18,789**	6,634
Restricted cash	**119**	124	**119**	124
Trade and other receivables	**773**	744	**773**	744
Other financial assets	**21**	27	**21**	27
	19,702	7,529	**19,702**	7,529
Financial liabilities				
Trade and other payables	**1,746**	1,639	**1,746**	1,639
	1,746	1,639	**1,746**	1,639

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 2010

5. Parent entity information

Information relating to ImpediMed Limited:	**2010 $000**	2009 $000
Current assets	**20,826**	7,160
Total assets	**23,811**	9,813
Current liabilities	**1,260**	1,656
Total liabilities	**1,335**	1,856
Issued capital	**84,559**	61,485
Accumulated losses	**(64,923)**	(55,517)
Performance share reserve	**287**	276
Share option reserve	**2,553**	1,713
Total shareholders' equity	**22,476**	7,956
Loss of the parent entity	**(9,406)**	(13,392)
Total comprehensive loss of the parent entity	**(9,406)**	(13,392)

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 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 (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. Secondary segment information is reported geographically.

Types of products and services

Medical
The Medical segment is a supplier of non-invasive medical devices to two under-served markets: (1) the assessment of individuals at risk of secondary lymphoedema and (2) the monitoring of body composition and hydration. The medical 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. These policies include the following:

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

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 so as to determine a segmental result.

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

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.

Notes to the financial statements
FOR THE YEAR ENDED 30 JUNE 2010

6. Segment reporting (continued)

(a) Operating segments (continued)

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 result include transfers between business segments. Those transfers are eliminated upon consolidation.

Year ended 30 June 2010	**Medical**	**Test & Measurement**	**Total**
	$000	**$000**	**$000**
Revenue			
Device revenue to external customers	1,501	1,305	2,806
Operating lease revenue –to external customers	415	7	422
Consumable revenue to external customers	183	25	208
Rendering of services to external customers	39	164	203
Total segment revenue	**2,138**	**1,501**	**3,639**
Unallocated revenue			168
Total consolidated revenue			**3,807**
Result			
Segment results	(10,813)	(144)	(10,957)
Depreciation and amortisation expenses	(729)	(8)	(737)
Finance costs	(1)	-	(1)
Profit/(loss) before income tax	**(11,543)**	**(152)**	**(11,695)**
Income tax expense	-	-	-
Net profit (loss) for the year	**(11,543)**	**(152)**	**(11,695)**
Intersegment elimination			125
Unallocated results			168
			(11,402)
Assets and liabilities			
Segment assets	26,286	909	27,195
Eliminations			(2,285)
Total assets			**24,910**
Segment liabilities	2,619	2,346	4,965
Eliminations			(2,285)
Total liabilities			**2,680**
Other segment information			
Capital Expenditure	72	4	76
Provision for inventory write-off	35	14	49
Share based payment expenses	840	11	851
Other non-cash expenses	680	65	745
Cash flow information			
Net cash flow from operating activities	(10,257)	(129)	(10,386)
Net cash flow from investing activities	(72)	(4)	(76)
Net cash flow from financing activities	23,074	-	23,074

Notes to the financial statements
FOR THE YEAR ENDED 30 JUNE 2010

6. Segment reporting (continued)

(a) Operating segments (continued)

Year ended 30 June 2009	Medical $000	Test & Measurement $000	Total $000
Revenue			
Device sales to external customers	1,377	1,099	2,476
Device leases to external customers	215	17	232
Consumable sales to external customers	178	37	215
Rendering of services to external customers	27	42	69
Total segment revenue	**1,797**	**1,195**	**2,992**
Unallocated revenue			279
Total consolidated revenue			**3,271**
Result			
Segment results	(13,306)	(387)	(13,693)
Depreciation and amortization expenses	(756)	(15)	(771)
Finance costs	(6)	-	(6)
Profit (loss) before income tax			**(14,470)**
Income tax expense			-
Net profit (loss) for the year			**(14,470)**
Intersegment elimination			163
Unallocated revenue			279
Total consolidated net profit (loss) for the year			**(14,028)**
Assets and liabilities			
Segment assets	12,758	805	13,563
Eliminations			(465)
Total assets			**13,098**
Segment liabilities	3,543	2,386	5,929
Eliminations			(2,898)
Total liabilities			**3,031**
Other segment information			
Capital Expenditure	759	6	765
Depreciation and amortisation	756	15	771
Provision for inventory write off	29	172	201
Share based payment expenses	515	19	534
Other non-cash expenses	140	-	140
Cash flow information			
Net cash flow from operating activities	(11,801)	15	(11,786)
Net cash flow from investing activities	(756)	-	(756)
Net cash flow from financing activities	10,635	-	10,635

(b) Geographical segments

The following tables present revenue and profit/ (loss) information and certain asset and liability information regarding geographical segments for the years ended 30 June 2010 and 30 June 2009.

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

6. Segment reporting (continued)

(b) Geographical segments (continued)

Australia

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 sells and ships our Medical CGU products to customers located in Australia and the rest of the world excluding North America.

North America

Our North American office serves as an operational hub and is located in San Diego, California. It sells and ships our Medical CGU products to customers located in the United States and Canada and test and measurement products and services to customers located throughout the world.

Year ended 30 June 2010	Australia $000	North America $000	Total $000
Revenue			
Device sales to external customers	934	1,872	2,806
Operating lease revenue to external customers	69	353	422
Consumable sales to external customers	83	125	208
Service revenue to external customers	29	174	203
Inter-segment device revenue	1,311	9	1,320
Other Inter-segment revenue	245	-	245
Total segment revenue	**2,671**	**2,533**	**5,204**
Inter-segment elimination			(1,565)
Unallocated revenue			168
Total consolidated revenue			**3,807**
Other segment information			
Non-current assets	316	3,400	3,716

Year ended 30 June 2009	Australia $000	North America $000	Total $000
Revenue			
Device sales to external customers	650	1,826	2,476
Operating leases to external customers	58	174	232
Consumable sales to external customers	112	103	215
Service revenue to external customers	16	53	69
Inter-segment revenue	475	22	497
Total segement revenue	**1,311**	**2,178**	**3,489**
Unallocated revenue			279
Inter-segment elimination			(497)
Total consolidated revenue			**3,271**
Other segment information			
Non-current assets	413	4,205	4,618

Notes to the financial statements
FOR THE YEAR ENDED 30 JUNE 2010

7. Revenue

	2010 $000	2009 $000
Sale of goods		
Device sales	**2,806**	2,476
Consumable sales	**208**	215
Device operating leases	**422**	232
	3,436	2,923
Interest revenue		
Interest income – bank deposits	147	50
Interest income – term deposits	21	229
	168	279

8. Other income

	2010 $000	2009 $000
Service income from ICS (i)	**1**	48
Government grants – commercial ready grant (ii)	**-**	275
Other (iii)	**51**	83
	52	406

(i) The Group charges Impedance Cardiology Systems Inc (ICS) for R&D and other services provided.
(ii) Government grants received pertain to AusIndustry's Commercial Ready Grant program for the development of second generation medical devices.
ImpediMed Limited was eligible to receive grant funds from this grant through to 31 March 2009.
ImpediMed Limited completed quarterly progress reports for AusIndustry as part of continued adherence to any conditions or contingencies attached to the grants.
(iii) Other income mainly consists of royalty income.

9. Expenses

(a) Depreciation and amortization included in income statement

	2010 $000	2009 $000
Depreciation of property and equipment	**83**	132
Depreciation of demo and loan devices	**9**	52
Amortization of leasehold improvements	**42**	29
Amortization of patents and licenses	**325**	327
Amortization of software	**207**	201
	666	741
Depreciation of operating lease devices*	**71**	30
	737	771

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

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

9. Expenses (continued)

(b) Employee benefits expense

	2010	2009
	$000	$000
Wages and salaries	**4,250**	3,771
Superannuation expense	**232**	199
Annual leave & long service leave expense	**142**	252
Motor vehicle novated lease payments	**169**	217
Payroll tax expenses	**346**	257
Performance & sales bonus	**558**	383
Other employee benefits expense	**10**	28
Share-based payments expense	**586**	471
	6,293	5,578

(c) Administrative and governance fees

The following items are included in administrative and governance fees.

	2010	2009
	$000	$000
Net loss on property and equipment	**-**	41
Inventory write-down	**1**	157
Net gain (loss) on foreign exchange	**55**	(343)

10. Income tax

(a) Income tax expense

The major components of income tax are:	**2010**	2009
	$000	$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 Income Statement	**-**	-

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

10. Income tax (continued)

(b) Income statement disclosure

	2010 $000	2009 $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	**(11,402)**	(14,028)
Prima facie tax on profit/(loss)	**(3,421)**	(4,208)
Adjustment for current income tax of previous years	**-**	-
Expenditure not allowable for income tax purposes	**1,030**	872
Other assessable income	**3**	18
Non assessable income	**(10)**	(3)
Other deductible expenses	**(761)**	(539)
Additional deduction for Research & Development	**-**	(20)
Foreign tax rate adjustment	**(662)**	(734)
Tax losses not recognised	**3,853**	4,614
Unrecognised tax losses offset against taxable income	**(32)**	-
Income tax reported in the income statement	**-**	-

(c) Deferred tax disclosures

Deferred income tax at 30 June relates to the following:

	Balance Sheet		Statement of Comprehensive Income	
	2010 $000	2009 $000	**2010 $000**	2009 $000
Consolidated				
Deferred tax assets				
Doubtful debts	**32**	23		-
Employee Entitlements	**298**	341	**-**	-
s40-880 costs	**762**	682	**-**	-
Patents and license costs	**479**	279	**-**	-
Sundry creditors and accruals	**39**	62	**-**	-
Losses available for offset against future taxable income	**15,044**	11,029	**-**	-
Inventory and other provisions	**210**	181	**-**	-
Unrealised foreign exchange losses	**169**	-	**-**	-
Deferred tax liabilities				
Income not derived for tax purposes	**(10)**	(3)	**-**	-
	17,023	12,594	**-**	-
Deferred tax assets not recognisable	**(17,023)**	(12,594)	**-**	-
Net deferred tax balance per accounts	**-**	-	**-**	-

Notes to the financial statements
FOR THE YEAR ENDED 30 JUNE 2010

10. Income tax (continued)

(d) Tax losses

The Group has tax losses in Australia of $29.6 million (2009: $23.9 million) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose, subject to satisfying the relevant income tax loss carry forward rules. 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.

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):

	2010	2009
	$000	$000
Net loss used in calculating basic and diluted earnings per share	**(11,402)**	(14,028)

	2010	2009
Weighted average number of ordinary shares used in calculating basic and diluted earnings per share	**113,811,144**	88,723,183

Basic and diluted earnings per share	**(0.10)**	(0.16)

Subsequent to the close of the current reporting year, the Board has resolved to issue 120,000 ordinary shares to new employees under the ESOP.

There have been no other transactions, apart from the ones mentioned above, 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 because the Group is making losses.

13. Current assets - cash and cash equivalents

	2010	2009
	$000	$000
Cash at bank and in hand	**4,192**	6,634
Short term deposits	**14,597**	-
Cash and cash equivalents	**18,789**	6,634

Notes to the financial statements
FOR THE YEAR ENDED 30 JUNE 2010

13. Current assets – cash and cash equivalents (continued)

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

	2010 $000	2009 $000
Net loss after tax	**(11,402)**	(14,028)
Adjustments for:		
Depreciation and amortisation expense	**737**	771
Loss on disposal of plant and equipment	**-**	41
Doubtful debt expense	**42**	51
Share-based payment expense	**851**	534
Inventory write down	**1**	200
Unrealised foreign currency loss	**206**	50
Changes in assets and liabilities:		
(Increase)/decrease in inventories	**(370)**	(56)
(Increase)/decrease in receivables	**(25)**	124
(Increase)/decrease in prepayments	**(109)**	22
(Decrease)/increase in payables	**142**	168
(Decrease)/increase in provisions	**(459)**	337
Net cash used in operating activities	**(10,386)**	(11,786)

14. Current assets - trade and other receivables

	2010 $000	2009 $000
Trade receivables	**573**	679
Allowance for impairment loss (a)	**(28)**	(4)
Interest receivables	**35**	9
Tax and other receivables	**193**	60
	773	744

(a) Allowance for impairment loss on current assets

Trade receivables are non-interest bearing and are generally on 30-60 day terms. A provision for impairment loss is recognized when there is objective evidence that an individual trade receivable is impaired.

Notes to the financial statements
FOR THE YEAR ENDED 30 JUNE 2010

14. Current assets – trade and other receivables (continued)

(a) Allowance for impairment loss on current assets (continued)

Movements in the provision for impairment loss were as follows:

	2010 $000	2009 $000
At 1 July	**4**	245
Charge for the year	**42**	16
Foreign exchange translation	**-**	(1)
Amounts reversed	**(2)**	(232)
Amounts written off	**(16)**	(24)
At 30 June	**28**	4

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

(b) Related party receivables

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

(c) Fair value and credit risk

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

15. Current assets - inventories

	2010 $000	2009 $000
Raw Materials (at cost)	**868**	432
Finished Goods - Devices (at cost)	**627**	324
Finished Goods – Components (at cost)	**31**	394
Provision for obsolete inventory (i)	**(151)**	(200)
Total inventories at the lower of cost and net realisable value	**1,375**	950

(i) The Group took up a provision for slow moving inventory in XiTRON Technologies Inc. Due to the nature of many of the Test & Measurement division products, there are both custom and catalogue components of 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 taken a prudent approach and provided an obsolescence provision. The catalogue components do typically have some 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.

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

16. Non-current assets - other financial assets

	2010 **$000**	2009 $000
Deposits - premise leases (i)	**21**	22
Deposits – other	**-**	5
Restricted cash (ii)	**119**	124
Carrying amount of non-current assets	**140**	151

(i) The deposits on the premise leases are held until conclusion of the lease.
(ii) The restricted cash are funds held in term deposits as security on the premise lease and will be held until conclusion of lease.

(a) Fair values

Details regarding fair values are disclosed in note 4.

(b) Interest rate risk

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

(c) 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.

17. Non-current assets – property and equipment

(a) Reconciliation of carrying amounts at the beginning and end of the period

	Leased, Demo & Loan Devices	**Leasehold Improvements**	**Plant & Machinery**	**Computer Equipment**	**Total**
	$000	**$000**	**$000**	**$000**	**$000**
Year ended 30 June 2010					
At 1 July 2009 net of accumulated depreciation	**315**	**111**	**155**	**84**	**665**
Additions	**-**	**4**	**17**	**49**	**70**
Disposals	**(4)**	**-**	**-**	**(5)**	**(9)**
Transfers from inventory	**23**	**-**	**-**	**-**	**23**
Depreciation charge for the year	**(80)**	**(42)**	**(30)**	**(53)**	**(205)**
Effect of foreign exchange	**(16)**	**5**	**1**	**5**	**(5)**
At 30 June 2010 net of accumulated depreciation	**238**	**78**	**143**	**80**	**539**
At 30 June 2010					
Cost or fair value	**472**	**158**	**250**	**276**	**1,156**
Accumulated depreciation	**(234)**	**(80)**	**(107)**	**(196)**	**(617)**
Net carrying amount	**238**	**78**	**143**	**80**	**539**

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

17. Non-current assets – property and equipment (continued)

(a) Reconciliation of carrying amounts at the beginning and end of the period (continued)

	Leased, Demo & Loan Devices	Leasehold Improvements	Plant & Machinery	Computer Equipment	Total
	$000	$000	$000	$000	$000
Year ended 30 June 2009					
At 1 July 2008 net of accumulated depreciation	40	14	258	84	396
Additions	-	74	87	55	216
Disposals	(23)	(2)	(22)	(7)	(54)
Transfers from inventory	303	-	-	-	303
Other transfers	73	47	(122)	2	-
Depreciation charge for the year	(83)	(29)	(75)	(57)	(244)
Effect of foreign exchange	5	7	29	7	48
At 30 June 2009 net of accumulated depreciation	315	111	155	84	665
At 30 June 2009					
Cost or fair value	453	155	233	232	1,073
Accumulated depreciation	(138)	(44)	(78)	(148)	(408)
Net carrying amount	315	111	155	84	665

(b) Operating lease commitments receivable for impact devices – Group as lessor

	2010	2009
	$000	$000
Within one year		
(i) U400 Devices	**379**	571
(ii) SFB7 Devices	**16**	7
(iii) DF50 Devices	**45**	91
(iv) XCA Devices	**21**	30
	461	699
After one year but not more than five years		
(i) U400 Devices	**475**	1,253
(ii) SFB7 Devices	**-**	-
(iii) DF50 Devices	**7**	43
(iv) XCA Devices	**6**	23
	488	1,319
	949	2,018

Device operating lease terms range from a period of 6 months to 36 months.

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

18. Non-current assets - intangible assets and goodwill

(a) Reconciliation of carrying amounts at the beginning and end of the period

	Software $000	Patents and Licenses $000	Goodwill $000	Total $000
Year ended 30 June 2010				
At 1 July 2009 net of accumulated amortisation and impairment	716	834	2,252	3,802
Additions	6	-	-	6
Amortisation	(207)	(325)	-	(532)
Effect of foreign exchange	(49)	(55)	(135)	(239)
At 30 June 2010 net of accumulated amortisation and impairment	466	454	2,117	3,037
At 30 June 2010				
Cost (gross carrying amount)	1,051	1,693	2,117	4,861
Accumulated amortisation and impairment	(585)	(1,239)	-	(1,824)
Net carrying amount	466	454	2,117	3,037

	Software $000	Patents and Licenses $000	Goodwill $000	Total $000
Year ended 30 June 2009				
At 1 July 2008 net of accumulated amortisation and impairment	321	965	2,040	3,326
Additions	516	-	-	516
Disposals	(1)	-	-	(1)
Amortisation	(202)	(327)	-	(529)
Effect of foreign exchange	82	196	212	490
At 30 June 2009 net of accumulated amortisation and impairment	716	834	2,252	3,802
At 30 June 2009				
Cost (gross carrying amount)	1,097	1,768	2,252	5,117
Accumulated amortisation and impairment	(381)	(934)	-	(1,315)
Net carrying amount	716	834	2,252	3,802

A description of each intangible asset is provided in section (b) of this note.

(b) Description of the Group's intangible assets and goodwill

(i) 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 2010

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

(b) Description of the Group's intangible assets and goodwill (continued)

(ii) Patents and licenses

The Group holds two licences (Uniquest Pty Ltd and SEAC) and a patent. The patent was acquired through the XiTRON Technologies, Inc business combination in October 2007. 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 recognized 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. (Refer to section (c) of this note below).

No impairment loss has been recognised for the year ended 30 June 2010.

(iii) 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.

(c) Impairment tests for goodwill and intangible assets with indefinite useful lives

(i) 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 clinical 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 2010 and 2009.

(ii) 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 lined to the objectives of the acquisition which were to eliminate the risk of frivolous 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.

(iii) 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 present value (PV) 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.

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 III 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;
   - the market launch of the L-Dex UB500 that addresses bilateral limb lymphoedema in pelvic region cancer patients;

Notes to the financial statements
FOR THE YEAR ENDED 30 JUNE 2010

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

(c) Impairment tests for goodwill and intangible assets with indefinite useful lives (continued)

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.

In calculating the value in use a discount rate of 20% has been used in financial years 2010 and 2009.

19. Current liabilities - trade and other payables

	2010 $000	2009 $000
Trade payables	**790**	962
Employment and sales tax payables	**135**	50
Other accruals and payables	**821**	627
Carrying amount of trade and other payables	**1,746**	1,639

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.

(a) Fair value

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

(b) 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

	2010 $000	2009 $000
Current		
Employee benefits	**751**	934
Warranty provision	**32**	22
	783	956
Non-current		
Deferred rent liability	**65**	73
Employee benefits	**63**	56
Office lease - make good provision	**23**	23
Provision for royalty	**-**	149
Retention for consideration (XiTRON acquisition)	**-**	135
	151	436

For a description of the nature and timing of cash flows associated with the above provisions, refer to section (b) below.

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

20. Provisions (continued)

(a) 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	Royalty Provision $000	Retention from consideration $000
At 1 July 2009	**22**	**73**	**23**	**149**	**135**
Arising during the year	**10**	**-**	**-**	**-**	**-**
Utilised	**-**	**(9)**	**-**	**(149)**	**(135)**
Exchange differences	**-**	**1**	**-**	**-**	**-**
At 30 June 2010	**32**	**65**	**23**	**-**	**-**

(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(s) 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.

Make good provision
To comply with office lease agreements, the Group must restore leased premises at their corporate offices in San Diego and Brisbane to their original condition at the end of their respective lease terms in 2011 and 2013. Because of the long-term 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 8% and 11%, respectively.

Royalty provision
The provision for royalty was utilised during the financial year.

Retention from consideration
At the time of the acquisition of XiTRON Technologies, Inc retention was made from the consideration to the vendors to cover anticipated costs of settling a further transaction. The future transaction settled in June 2010 and the retention was used.

21. Contributed equity

Ordinary shares

	2010 $000	2009 $000
Ordinary shares fully paid	**84,559**	60,577
Ordinary shares under milestone escrow - fully paid	**-**	908
	84,559	61,485

Notes to the financial statements
FOR THE YEAR ENDED 30 JUNE 2010

21. Contributed equity (continued)

Ordinary shares (continued)

Ordinary shares fully paid include transactions costs of $1.4 million (2009:$0.5 million) 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.

	Number	$000
At 1 July 2008	80,240,597	49,900
Issued during the period as a result of:		
Issue of ordinary shares	16,284,644	11,211
Transactions costs		(535)
At 30 June 2009	96,525,241	60,576
Issued during the period as a result of:		
Ordinary shares released from escrow	**1,478,260**	**909**
Issue of ordinary shares	**38,010,790**	**24,513**
Transactions costs		**(1,439)**
At 30 June 2010	**136,014,291**	**84,559**

	Number	$000
Ordinary shares related to milestones under escrow - fully paid		
At 1 July 2008	1,478,260	909
Issued during the period as a result of:	-	-
Ordinary shares released from escrow	-	-
At 30 June 2009	1,478,260	909
Issued during the period as a result of:		
Ordinary shares released from escrow	**1,478,260**	**909**
At 30 June 2010	**-**	**-**

Capital management

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.

The Group currently maintains a negative debt to equity ratio which is in part the result of the high cost of debt in a cash burn business.

	2010	2009
	$000	$000
Total borrowings*	**1,746**	1,639
Less cash and cash equivalents	**(18,789)**	(6,634)
Net debt	**(17,043)**	(4,995)
Total equity	**22,230**	10,067
Total capital	**5,187**	5,072
Net Debt to Equity Ratio	**n/a**	n/a

* Includes trade and other payables

Notes to the financial statements
FOR THE YEAR ENDED 30 JUNE 2010

22. Reserves

Movements in other reserves

	Performance share reserve $000	Share options reserve $000	Foreign currency translation $000	Total $000
At 1 July 2008	141	1,314	(83)	1,372
Foreign currency translation	-	-	585	585
Share based payment	135	399	-	534
At 30 June 2009	276	1,713	502	2,491
Foreign currency translation	**-**	**-**	**(360)**	**(360)**
Share based payment	**11**	**840**	**-**	**851**
At 30 June 2010	**287**	**2,553**	**142**	**2,982**

An employee share and option scheme was adopted during the financial year ending 30 June 2004 which was extended in June 2008. Further details are provided in Note 26.

At 30 June 2010 there were 19,762,187, (30 June 2009: 17,513,435) unissued ordinary shares in respect of 7,036,180 (30 June 2009: 4,632,513) unlisted options 247,507 (30 June 2009: 380,922) performance shares and 12,478,500 (30 June 2009: 12,500,000) listed options.

The employee share and option scheme allows for options on unissued shares up to a maximum of 15% of fully vested ordinary shares. All options issued under the scheme must be issued with an exercise price no less than fair market value.

The actual exercise price will be determined by a committee of directors, which is generally determined to be the Parent's average stock price over the three days prior to the option grant. No options provide dividend or voting rights to the holders.

Nature and purpose of reserves

Performance share reserve and share options reserve
The employee equity benefits reserve is 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 2010	2009
ImpediMed Inc.	United States	**100**	100
XiTRON Technologies Inc.	United States	**100**	100

Ultimate parent

ImpediMed Limited is the ultimate Australian parent entity.

Notes to the financial statements
FOR THE YEAR ENDED 30 JUNE 2010

23. Related party disclosure (continued)

Key management personnel

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

Terms and conditions of transactions with related parties:
Sales to and purchases from related parties are made in arms length transactions both at normal market prices and on normal commercial terms.

Transactions with Directors

For the year ended 30 June 2010, no transactions with directors occurred that would be considered related party transactions, other than a $25,000 travel advance to the CEO.

24. Key management personnel

Compensation of key management personnel

	2010	2009
	$000	$000
Short-term employee benefits	**2,438**	1,931
Post employment benefits	**126**	131
Share-based payment	**539**	256
Total compensation	**3,103**	2,318

Remuneration Option holdings of key management personnel* (ESOP)

30 June 2010	Balance at 30 June 2009	Granted as remuneration	Net Change other**	Balance at 30 June 10	Not Yet Vested	Vested & Exercisable
Directors						
M Bridges	-	-	-	-	-	-
G Brown***	1,747,673	500,000	-	2,247,673	250,001	1,997,672
J Hazel	-	-	-	-	-	-
C Hirst	-	-	-	-	-	-
M Kriewaldt	-	-	-	-	-	-
M Panaccio	-	-	-	-	-	-
Executives						
P Auckland****	350,000	-	-	350,000	-	350,000
P Brooker	-	200,000	-	200,000	133,333	66,667
J Butler	512,500	150,000	(15,000)	647,500	160,834	486,666
J Honeycutt	300,000	-	-	300,000	200,000	100,000
A Kay	-	150,000	-	150,000	100,000	50,000
D Myll	-	500,000	-	500,000	333,333	166,667
B Robinson	228,000	150,000	(15,000)	363,000	136,000	227,000
D Schlaht	113,250	100,000	(7,000)	206,250	99,750	106,500
Total	**3,251,423**	**1,750,000**	**(37,000)**	**4,964,423**	**1,413,251**	**3,551,172**

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

24. Key management personnel (continued)

Remuneration Option holdings of key management personnel* (ESOP) (continued)

30 June 2009	Balance at 30 June 2008	Granted as remuneration	Net Change other**	Balance at 30 June 2009	Not Yet Vested	Vested & Exercisable
Directors						
M Bridges	-	-	-	-	-	-
G Brown	1,747,673	-	-	1,747,673	333,332	1,414,341
J Hazel	-	-	-	-	-	-
C Hirst	-	-	-	-	-	-
M Kriewaldt	-	-	-	-	-	-
M Panaccio	-	-	-	-	-	-
Executives						
P Auckland	650,000		(300,000)	350,000	-	350,000
J Butler	550,000	-	(37,500)	512,500	141,667	370,833
P Brooker	-	-	-	-	-	-
A Kay	-	-	-	-	-	-
J Honeycutt	-	300,000	-	300,000	300,000	-
D Myll	-	-	-	-	-	-
B Robinson	240,000	-	(12,000)	228,000	92,000	136,000
D Schlaht	150,000	-	(36,750)	113,250	75,500	37,750
Total	**3,337,673**	**300,000**	**(386,250)**	**3,251,423**	**942,499**	**2,308,924**

*The remuneration options shown in the tables above exclude IPO options (ASX:IPDO) which are not part of remuneration, and which any directors or executives holding them subscribed for them at IPO, or purchased them on the market.

**Net Change Other reflects options forfeited either due to performance adjustment calculations or through leaving the Group and entitlements to exercise within a defined period from final employment date expiring.

*** G Brown's 500,000 options granted as remuneration are subject to shareholder approval at the AGM in November 2010 or if not approved replaced with cash recompense.

**** P Auckland resigned as CFO 25 September 2009.

Notes to the financial statements
FOR THE YEAR ENDED 30 JUNE 2010

24. Key management personnel (continued)

Ordinary shareholdings of key management personnel

30 June 2010	Balance at 30 June 2009	Granted as remuneration	Net Change other*	Balance at 30 June 2010
Directors				
M Bridges	4,719,516	-	34,693	4,754,209
G Brown	4,432,477	-	434,615	4,867,092
J Hazel	253,598	-	28,179	281,777
C Hirst	183,220	-	45,808	229,028
M Kriewaldt	184,706	-	50,524	235,230
M Panaccio (a)	33,502,851	-	(8,931,135)	24,571,716
Executives				
P Auckland	33,000	-	42,999	75,999
P Brooker	-	-	-	-
J Butler	-	-	24,666	24,666
J Honeycutt	-	-	-	-
A Kay	-	-	-	-
D Myll	-	-	-	-
B Robinson	206,186	-	16,667	222,853
D Schlaht	174,382	-	-	174,382
Total	**43,689,936**	**-**	**(8,252,984)**	**35,436,952**

30 June 2009	Balance at 30 June 2008	Granted as remuneration	Net Change other*	Balance at 30 June 2009
Directors				
M Bridges	4,662,541	-	56,975	4,719,516
G Brown	4,418,349	-	14,128	4,432,477
J Hazel	238,598	-	15,000	253,598
C Hirst	173,770	-	9,450	183,220
M Kriewaldt	180,418	-	4,288	184,706
M Panaccio (a)	43,638,915	-	(10,136,064)	33,502,851
Executives				
P Auckland	29,300	-	3,700	33,000
J Butler	-	-	-	-
J Honeycutt	-	-	-	-
B Robinson	206,186	-	-	206,186
D Schlaht	174,382	-	-	174,382
Total	**53,722,459**	**-**	**(10,032,523)**	**43,689,936**

Note: This table of ordinary shareholdings excludes shares vested and issued under the ImpediMed Performance Share Plan, which are disclosed in the next table and which are in addition to the shares in this table.

(a) The shareholding shown against M Panaccio include deemed interests as a result of Dr Panaccio being a substantial shareholder who holds 18% of the Parent. The net change is the removal of deemed interest related to 2009. In the prior year, Dr. Panaccio's holdings included escrow shares of various holders (deemed relevant interest under section 608(3)(b) of the Corporations Act). As the largest shareholder, Dr Panaccio was deemed to control these escrow shares. The net change during financial year 2010 includes the purchase of 31,806 ordinary shares.

*Net Change Other reflects sales, purchases, or transfers of ownership of shares.

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

24. Key management personnel (continued)

Performance shareholdings of key management personnel

30 June 2010	Balance at 30 June 2009	Granted as remuneration	Net Change Other*	Balance at 30 June 2010	Vested	Forfeited
Directors						
M Bridges	-	-	-	-	-	-
G Brown	-	-	-	-	-	-
J Hazel	-	-	-	-	-	-
C Hirst	-	-	-	-	-	-
M Kriewaldt	-	-	-	-	-	-
M Panaccio	-	-	-	-	-	-
Executives						
P Auckland	100,000	-	(33,333)	66,667	66,667	-
P Brooker	-	-	-	-	-	-
J Butler	74,000	-	(24,666)	49,334	49,334	-
J Honeycutt	-	-	-	-	-	-
A Kay	-	-	-	-	-	-
D Myll	-	-	-	-	-	-
B Robinson	50,000	-	(16,667)	33,333	33,333	-
D Schlaht	-	-	-	-	-	-
Total	**224,000**	**-**	**(74,666)**	**149,334**	**149,334**	**-**

30 June 2009	Balance at 30 June 2008	Granted as remuneration	Net Change Other*	Balance at 30 June 2009	Vested	Forfeited
Directors	-	-	-	-	-	-
M Bridges	-	-	-	-	-	-
G Brown	-	-	-	-	-	-
J Hazel	-	-	-	-	-	-
C Hirst	-	-	-	-	-	-
M Kriewaldt	-	-	-	-	-	-
M Panaccio	-	-	-	-	-	-
Executives						
P Auckland	100,000	-	-	100,000	66,666	-
J Butler	74,000	-	-	74,000	49,334	-
J Honeycutt	-	-	-	-	-	-
B Robinson	50,000	-	-	50,000	33,334	-
D Schlaht	-	-	-	-		-
Total	**224,000**	**-**	**-**	**224,000**	**149,334**	**-**

To value the performance of individuals under the Performance Share plan most effectively, the Board has elected to base performance measurement on predetermined goals and key performance indicators (KPIs) of each individual under the plan.

After internal reviews, each employee is given his/her own percentage based on accomplishment of the measurable goals.

*Net Change Other reflects options forfeited either due to performance adjustment calculations or through leaving the Group and entitlements to exercise within a defined period from final employment date expiring or the issuance of ordinary shares for vested shares.

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

24. Key management personnel (continued)

IPO Option (ASX;IPDO) holdings of key management personnel

30 June 2010	Balance at 1 July 2009	Granted as remuneration	Net Change other*	Balance at 30 June 2010
Directors				
M Bridges	45,000	-	-	45,000
G Brown	14,000	-	-	14,000
J Hazel	33,750	-	-	33,750
C Hirst	17,250	-	-	17,250
M Kriewaldt	-	-	-	-
M Panaccio	2,877,700	-	-	2,877,700
Executives				
P Auckland	5,000	-	-	5,000
P Brooker	-	-	-	-
J Butler	-	-	-	-
J Honeycutt	-	-	-	-
A Kay	-	-	-	-
D Myll	-	-	-	-
B Robinson	-	-	-	-
D Schlaht	-	-	-	-
Total	**2,992,700**	**-**	**-**	**2,992,700**

30 June 2009	Balance at 1 July 2008	Granted as remuneration	Net Change other*	Balance at 30 June 2009
Directors				
M Bridges	45,000	-	-	45,000
G Brown	14,000	-	-	14,000
J Hazel	33,750	-	-	33,750
C Hirst	17,250	-	-	17,250
M Kriewaldt	-	-	-	-
M Panaccio	2,877,700	-	-	2,877,700
Executives				
P Brooker	-	-	-	-
P Auckland	5,000	-	-	5,000
J Butler	-	-	-	-
J Honeycutt	-	-	-	-
A Kay	-	-	-	-
D Myll	-	-	-	-
B Robinson	-	-	-	-
D Schlaht	-	-	-	-
Total	**2,992,700**	-	-	**2,992,700**

*Net Change Other reflects options issued in the period.

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25. Auditor's remuneration

	2010	2009
	$000	$000
Amounts received or due and receivable		
By Ernst & Young Australia for:		
audit of financial report of the entity	**161**	202
other services to the entity	**-**	-
By other auditors for:		
other audit related services to the entity	**4**	4
	165	206

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:

	Consolidated	
	2010	2009
	$	$
Expense arising from equity-settled share-based payment transactions	**851**	534
Total expense arising from share-based payment transactions	**851**	534

The share-based payment plans are described below. There have been no cancellations or modification to any of the plans during 2010 and 2009.

(a) Types of share-based payment plans

Employee share option plan (ESOP)

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 cession of employment.

In the event of a change of control of the Group, 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 tradable instruments on ASX.

Share options issued to consultants during the period vest in three tranches at the first, second and third anniversary dates of the grant.

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.

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

26. Share-based payment plans (continued)

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

Employee share option plan (ESOP) (continued)

For options issued to existing employees during the period, vesting is impacted by the performance percentage achieved against KPIs by the employee during the calendar year in which the options or shares were granted. The performance percentage achieved during the calendar year in which the options or shares were granted is multiplied by the number of options or shares granted to give a performance adjusted entitlement (PAE) that vests 1/3 at the end of the performance year in question, 1/3 the following year, and 1/3 the second year following the performance year subject to certain other vesting conditions. Options granted that don't meet the PAE are forfeited at the end of the performance year in question.

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

Chief executive option plan

Options issued to the Chief Executive are issued outside the ESOP as the plan excludes the participation of the CEO. The primary effect of the exclusion is the loss of the ability to defer tax on the receipt of the option. Notwithstanding the exclusion from the plan the options were issued subject to the same terms and conditions as if they were part of the ESOP except the share options issued in 2004 which are vested may be exercised for a term of seven years. All CEO option grants are subject to approval by the shareholders.

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. All performance shares were issued at the discretion of the Board of Directors and are issued for nil consideration.

Performance shares granted in 2007 vest 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 the 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.

Performance share plan – third party

In February 2008, the Group committed to a Performance share plan pertaining to a future obligation to grant shares to EDN, a key independent distributor of the Group. A total of 100,000 performance shares were to be issued on achievement of specific sales milestones. During the current year, the distributor agreement was terminated. As a result, any previously recognised expense with respect to the share plan was reversed. The reversal for the year ended 30 June 2009 amounted to $7,092.

Notes to the financial statements
FOR THE YEAR ENDED 30 JUNE 2010

26. Share-based payment plans (continued)

(b) Summary of options and performance shares

Employee share option plan (ESOP)

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

	2010		2009	
	No	**WAEP$**	No	WAEP$
Balance at the beginning of the year	**2,884,840**	**0.74**	3,663,333	0.75
Granted during the year	**2,342,550**	**0.78**	470,000	0.69
Forfeited during the year	**(292,799)**	**0.77**	(1,030,161)	0.72
Exercised during the year	**-**	**-**	-	-
Expired during the year	**(146,084)**	**0.75**	(218,332)	0.82
Balance at the end of the year	**4,788,507**	**0.75**	2,884,840	0.74
Exercisable at 30 June	**2,713,763**	**0.75**	1,688,572	0.77

The year-end balance is represented by:

Number of options	Exercise price ($)	Exercisable until
50,001	0.85	30-Jul-10
50,000	0.85	28-Oct-10
83,333	0.85	23-Nov-10
16,667	0.85	24-Dec-10
50,001	0.85	30-Jul-11
50,000	0.85	28-Oct-11
83,333	0.85	23-Nov-11
16,667	0.85	24-Dec-11
185,000	0.69	29-May-12
49,998	0.85	29-Jul-12
50,000	0.85	28-Oct-12
83,334	0.85	23-Nov-12
16,666	0.85	24-Dec-12
185,000	0.69	29-May-13
404,930	0.71	31-Dec-13
185,000	0.69	29-May-14
618,503	0.78	31-Dec-14
394,397	0.71	31-Dec-14
140,001	0.68	31-Dec-14
180,000	0.78	10-Dec-15
618,503	0.78	31-Dec-15
378,672	0.71	31-Dec-15
140,000	0.68	31-Dec-15
618,503	0.78	31-Dec-16
139,998	0.68	31-Dec-16
4,788,507		

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

26. Share-based payment plans (continued)

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

Chief Executive Option Plan

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

	2010		2009	
	No	**WAEP$**	No	WAEP$
Balance at the beginning of the year	**1,747,673**	**0.83**	1,747,673	0.83
Granted during the year	**500,000**	**0.89**	-	-
Forfeited during the year	**-**	**-**	-	-
Exercised during the year	**-**	**-**	-	-
Expired during the year	**-**	**-**	-	-
Balance at the end of the year	**2,247,673**	**0.84**	1,747,673	0.83
Exercisable at 30 June	**1,997,672**	**0.83**	1,414,341	0.80

The year-end balance is represented by:

Number of options	Exercise price ($)	Expiry date
249,225	0.65	31-Dec-11
166,667	0.89	31-Jul-12
166,667	1.01	31-Jul-12
249,224	0.65	31-Dec-12
166,667	0.89	31-Jul-13
166,667	1.01	31-Jul-13
249,224	0.65	31-Dec-13
83,333	0.89	30-Jun-14
166,666	0.89	31-Jul-14
166,666	1.01	31-Jul-14
83,333	0.89	31-Dec-14
83,334	0.89	30-Jun-15
83,333	0.89	31-Dec-15
83,333	0.89	30-Jun-16
83,334	0.89	31-Dec-16
2,247,673		

Notes to the financial statements
FOR THE YEAR ENDED 30 JUNE 2010

26. Share-based payment plans (continued)

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

Performance Share Plan

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

	2010	2009
Balance at the beginning of the year	**380,922**	359,917
Granted during the year	**-**	35,174
Shares issued	**(132,249)**	-
Forfeited during the year	**(1,166)**	(14,169)
Not granted during the year	**-**	-
Expired during the year	**-**	-
Balance at the end of the year	**247,507**	380,922

(c) Weighted average remaining contractual life

Employee Share Option Plan (ESOP)

The weighted average remaining contractual life for the share options outstanding as at 30 June 2010 is 4.4 years (2009: 4.8 years).

Chief Executive Option Plan
The weighted average remaining contractual life for the share options outstanding as at 30 June 2010 is 3.4 years (2009: 3.8 years).

(d) Range of exercise prices

Employee Share Option Plan (ESOP)
The range of exercise prices for options outstanding as at 30 June 2010 is $0.68-$0.85 (2009: $0.72 - $0.86).

Chief Executive Option Plan
The range of exercise prices for options outstanding as at 30 June 2010 is $0.65-$1.01 (2009: $0.66 - $1.02).

Performance Share Plan
The performance shares have no exercise price.

(e) Weighted average fair value

Employee Share Option Plan (ESOP)
The weighted average fair value of options granted during the year was $0.37 (2009: $0.41).

Chief Executive Option Plan
The weighted average fair value of options granted during the year was $0.38 (2009: $0.37).

Notes to the financial statements
FOR THE YEAR ENDED 30 JUNE 2010

26. Share-based payment plans (continued)

(f) Option pricing model

The fair value of the equity-settled share options granted under the ESOP and the Chief Executive Option Plan is estimated as at the date of grant using the Black Scholes option valuation model – 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 years ended 30 June 2010 and 30 June 2009:

	ESOP Issue 2010	ESOP Issue 2009
Expected volatility (%)		
Tranche 1	**50**	50
Tranche 2	**50**	50
Tranche 3	**50**	50
Risk free interest rate (%)		
Tranche 1	**4.5**	3.2
Tranche 2	**4.8**	3.4
Tranche 3	**5.0**	3.7
Expected life of option (years)		
Tranche 1	**2.5**	3.4
Tranche 2	**3.5**	4.4
Tranche 3	**4.5**	5.4
Option exercise price ($)		
Tranche 1	**0.79**	0.70
Tranche 2	**0.79**	0.70
Tranche 3	**0.79**	0.70
Calculated fair value ($)		
Tranche 1	**0.31**	0.29
Tranche 2	**0.37**	0.32
Tranche 3	**0.41**	0.36

The dividend yield for all tranches was nil. The weighted average share price for all tranches at grant date was $0.84 in financial year 2010 (2009: $0.72)

CEO 2010 options

	Expected volatility (%)	Risk free interest rate (%)	Expected life of option (years)	Option exercise price ($)	Calculated fair value ($)
Tranche 1-1	78	4.5	3.5	0.90	0.35
Tranche 2-1	81	4.5	4.5	0.90	0.41
Tranche 3-1	90	4.5	5.5	0.90	0.48
Tranche 1-2	82	4.7	2.5	0.90	0.31
Tranche 2-2	78	4.8	3.5	0.90	0.35
Tranche 3-2	81	4.9	4.5	0.90	0.41

Dividend yield was 0% and weighted average share price at grant date was $0.69 for all tranches. 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.

Notes to the financial statements
FOR THE YEAR ENDED 30 JUNE 2010

26. Share-based payment plans (continued)

(f) Option pricing model (continued)

CEO 2010 options (continued)

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

During the year ending 30 June 2010, the Group modified several share option awards providing extended vesting and exercise terms for certain employees resulting in incremental expense of $0.1 million (nil: 2009).

IPO Options
At 30 June 2010 there were 12,478,500 (2009: 12,500,000) IPO options outstanding. These options were issued as part of the Parent's initial public offering on the Australian Stock Exchange on the basis of one option for every two shares subscribed to. They have an exercise price of 71 cents and expire on 22 October 2012.

27. Commitments

(a) Operating lease commitments

During the reporting period the Group continued all premise operating leases from the prior financial year, including the registered office in Brisbane, Queensland and the operating hub office in San Diego, California.

The above leases have an average remaining life of between 2 and 4 years. There are no restrictions placed on the Group for entering into these leases.

The motor vehicle lease for executive use when travelling in the U.S. ended during the financial year.

Future minimum rentals payable under non-cancellable operating leases as at 30 June 2010 are as follows:

	2010 $000	2009 $000
Within one year	401	413
After one year but not more than five years	586	1,195
More than five years	-	-
	987	1,608

(b) Finance lease commitments

The Group does not currently have any open finance leases.

(c) Expenditure commitments

At 30 June 2010 the Group has commitments of $25,773 (2009: $157,963) relating to the funding of various research and development, investor relations programs, and operating activities.

	2010 $000	2009 $000
Within one year	26	158
After one year but not more than five years	-	-
	26	158

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

27. Commitments (continued)

(d) Royalty commitments

At 30 June 2010 the Group has commitments for the payment of royalties, which are provided for, as follows:

ImpediMed Limited

ImpediMed Limited have royalties that are payable on product sales and are accrued and recognised for the year ended 30 June 2010.

(e) Other commitments

The Group signed a twelve month insurance agreement for supplemental insurance coverage in the U.S. in July 2010, with all payments occurring within the next twelve months. The total commitment is for US$10,450. The areas of insurance covered include, but are not limited to, General Business Insurance and Product and Liability Insurance.

28. Contingencies

(a) Legal claims

At 30 June 2010, the Group has no known open claims or lawsuits against it, other than one immaterial U.S. employee matter.

The Parent and its wholly owned subsidiary, XiTRON, were served in December 2009 with a US civil action by a former employee and founder of XiTRON. The action related to an agreement made by XiTRON in 2001, before the Group purchased the company. The Group has successfully resolved the matter and the civil proceeding was discontinued and a release has been obtained from the former employee in favour of the ImpediMed Group. The terms of the settlement are confidential and are not material to the Group's financial position.

(b) Contingent liabilities

The Parent has a commitment to an Australian-based Contract Manufacturer, whereby if the current agreement is terminated the Group is liable for the value of all stock held by the Contract Manufacturer in relation to the specified projects in the agreement. While there is no inherent liability on the Group's part if the contract is completed in full, the Group has a contingent liability of $0.3 million were it to terminate the contract at 30 June 2010.

(c) Cross guarantees

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

29. Business combinations

As reported in the Group's annual financial report for the year ended 30 June 2008, the consideration under the acquisition of XiTRON Technologies was ordinary shares in ImpediMed Limited as follows:

	Consideration Shares In ImpediMed assessed as likely to be issued & included in the cost of business combination	Potential Consideration Shares per the acquisition agreement
Consideration on completion	2,041,318	2,041,318
Working Capital Adjustment	120,212	120,212
Milestone 1 consideration	757,118	757,118
Milestone 2 consideration	-	538,462
Milestone 3 consideration	-	769,231
Milestone 4 consideration	-	1,000,000
Total	2,918,648	5,226,341

Milestone 1 was achieved as reported in the Group's report for the half year ended 31 Dec 2007.
Milestone 2 required the achievement of $US 3.5 million or more in revenues by XiTRON for the year ended 30 June 2008, which was not achieved.
Milestone 3 required the achievement of $US 5 million or more in revenues by XiTRON for the year ended 30 June 2009, which was not achieved.
Milestone 4 required the achievement of $US 6.5 million or more in revenues by XiTRON for the year ended 30 June 2010, which was not achieved.

Notes to the financial statements
FOR THE YEAR ENDED 30 JUNE 2010

30. Events after the balance sheet date

There are no other items, transaction or event of a material or unusual nature which have occurred since year end.

Notes to the financial statements

FOR THE YEAR ENDED 30 JUNE 2010

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

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

> (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 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 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 consolidated entity will be able to pay its debts as and when they become due and payable.

(d) 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 2010.

On behalf of the Board

Jim Hazel
Director

Greg Brown
Chief Executive Officer

Brisbane, 27 August 2010

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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 balance sheet as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration 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 and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

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

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

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

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.

Ernst & Young

Auditor's Opinion

In our opinion:

1. 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 at 30 June 2010 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*.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 13 of the directors' report for the year ended 30 June 2010. 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.

Auditor's Opinion

In our opinion the Remuneration Report of ImpediMed Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Alison de Groot
Partner
Brisbane

27 August 2010

Shareholder Information

The Shareholder information below was current at 24 August 2010

(1) Top 20 Security Holders

Ordinary Shares

	Name	Total Shares Held	% Issued Capital
1	Starfish Technology Fund 1 Lp	24,285,465	17.9%
2	National Nominees Limited	14,164,896	10.4%
3	HSBC Custody Nominees (Australia) Limited	8,379,370	6.2%
4	J P Morgan Nominees Australia Limited	8,225,183	6.1%
5	Bond Street Custodians Macquarie Investment	5,917,025	4.4%
6	Versant Venture Capital Iii Lp	5,148,899	3.8%
7	Powers Pty Ltd	4,515,231	3.3%
8	Greg Brown	4,429,426	3.3%
9	Parma Corporation Pty Ltd	4,235,000	3.1%
10	Weresyd Proprietary Limited	4,020,907	3.0%
11	Thorpe Road Nominees Pty Ltd	3,275,421	2.4%
12	Cogent Nominees Pty Limited	3,133,750	2.3%
13	Statewide Superannuation Pty Limited	2,785,397	2.1%
14	Westscheme Pty Ltd	2,785,397	2.1%
15	Citicorp Nominees Party Limited	2,767,280	2.0%
16	Mr Ian Edward Tregoning & Mrs Lisa Antonietta Tregoning	2,391,969	1.8%
17	Uniquest Pty Limited	1,490,000	1.1%
18	Roxanne Pty Ltd	1,260,870	0.9%
19	Thorpe Road Nominees Pty Ltd	1,164,948	0.9%
20	Asia Union Investments	1,000,000	0.7%

IPDO Listed Options

	Name	Total Options Held	% Listed Options
1	Bond Street Custodians (macquarie Investment Management Ltd A/c)	2,763,200	22.1%
2	Starfish Technology Fund 1 Lp	2,763,200	22.1%
3	HSBC Custody Nominees (australia) Limited	2,500,000	20.0%
4	Harbour Nominees Pty Ltd	1,138,250	9.1%
5	Mr EF Murdoch & Mrs BK Murdoch & Mr AW Murdoch (goanna Fund A/c)	250,000	2.0%
6	Thorpe Road Nominees Pty Ltd (tregoning Family No 2 A/c)	205,000	1.6%
7	National Nominees Limited	175,000	1.4%
8	Versant Venture Capital Iii Lp	172,582	1.4%
9	Jps Distribution Pty Ltd (raff Super Fund A/c)	70,000	0.6%
10	Masto Pty Ltd (micana Super Fund A/c)	69,500	0.6%
11	Dr George Morstyn & Mrs Rosa Bertha Morstyn	69,500	0.6%
12	Mr Dom La Sevla & Mrs Maria La Selva	63,726	0.5%
13	Mrs Voula Samaras (Samaras Family A/c)	63,500	0.5%
14	Trujon Investment Holdings (Super Fund A/c)	59,500	0.5%
15	Kanumera Investments Pty Ltd	56,500	0.5%
16	Oompalah Pty Ltd (super Fund A/c)	54,000	0.4%
17	Badge Nominees Pty Ltd (macaulay Super Fund A/c)	50,000	0.4%
18	Masto Pty Ltd (micana Super Fund A/c)	45,000	0.4%
19	Mr David Frederick Oakley	45,000	0.4%
20	Avania Management Pty Limited	40,000	0.3%

Shareholder Information

(2) Distribution of Security Holders

Ordinary Shares

Number of securities held	Number of Investors	Number of Securities	%
1 - 1000	73	37,259	0.0%
1,001 - 5,000	208	651,984	0.5%
5,001 - 10,000	180	1,396,438	1.0%
10,001 – 50,000	350	7,994,992	5.9%
50,001 – 100,000	48	3,519,063	2.6%
100,001 and over	88	122,136,557	90.0%
Total	**947**	**135,736,293**	**100.0%**

IPDO Quoted Options

Number of securities held	Number of Investors	Number of Securities	%
1 - 1000	1	180	0.0%
1,001 - 5,000	208	541,979	4.3%
5,001 - 10,000	37	291,889	2.3%
10,001 – 50,000	52	1,170,894	9.4%
50,001 – 100,000	8	506,326	4.1%
100,001 and over	8	9,967,232	79.9%
Total	**314**	**12,478,500**	**100.00%**

(3) Substantial Shareholders

As at 24 August 2010 the following entries were contained in the register of substantial shareholders based on substantial shareholder notices received:

Name of substantial shareholder giving notice	Number of Ordinary Shares
Starfish Technology Fund 1 Lp	24,285,465
National Nominees Limited	14,164,896
HSBC Custody Nominees	8,379,370

(4) 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.

(5) Restricted and Unquoted Securities

As at 24 August 2010, 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	19	*	213,834	132,249
Total	**19**		**213,834**	**132,249**

*Subject to the terms of the employee 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 company, or apply to the board for release of the shares from escrow.

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