

**IM Medical Limited
ASX Announcement**

13 September 2011

Non Renounceable Entitlements Issue

IM Medical Limited (the Company) is pleased to announce the offer to shareholders of the opportunity to participate in a pro rata non renounceable entitlement issue (**Entitlements Issue**) to raise up to \$3,316,486 before costs.

Entitlements Issue

The Entitlements Issue will entitle shareholders to participate on the basis of six (6) new Shares for every one (1) share held on the record date at \$0.005 per share together with one (1) free attaching new Option (exercisable at \$0.01 on or before 30 September 2016) for each new Share subscribed for. The Company intends to apply for the Options to be listed on the ASX. The Entitlements Issue is not underwritten and is subject to a minimum subscription of \$2.5 million before costs. Patersons Securities Limited has been engaged as lead manager to the Entitlement Issue.

The Entitlements Issue replaces the previous capital raising proposal and will raise funds to recapitalise the Company and to pay outstanding creditors. The Entitlements Issue has been increased in size to accommodate the need to repay Converting Loans, following the Company's failure to approve conversion of the Converting Loans at the General Meeting held on 16 August 2011. A shareholder group associated with former management of the Company were successful in blocking approval for the conversion of Converting Loans at the General Meeting, without having a viable alternative proposal to finance the Company. This resulted in the Converting Loans not being converted to shares as was proposed with approximately \$185,000 in additional interest and redemption costs now payable together with the need to repay \$750,000 in Converting Loans.

The ASX have granted certain waivers in respect to the Entitlements Issue as follows:

- (a) ASX listing rule 7.11.3 to permit the Company to offer 6 ordinary shares at \$0.005 per share for every 1 share held on the record date together with one free attaching option exercisable at \$0.01 on or before 30 September 2016 for every share issued under the Entitlements Offer; and
- (b) Listing Rule 7.15 to the extent necessary to permit the Company to set a record date for the Entitlements Issue before the date on which shareholders approve the Entitlements Issue.

The ASX waivers contain certain conditions as follows:

- (a) shareholders of the Company approving the Entitlements Issue;
- (b) a voting exclusion statement will apply to exclude votes from substantial shareholders, holders of Converting Loans, any proposed promoter, underwriter or sub-underwriter and any person who may obtain a benefit except a benefit solely in the capacity of a holder of ordinary securities and any associates of any of these parties;
- (c) the Company must disclose in the prospectus, to the satisfaction of the ASX, the financial trading performance of its Radiology Business, detailed use of funds from

For personal use only

the Entitlements Issue and if the Radiology Business is sold and the Company acquires a business or assets or otherwise changes its activities in a way that requires the Company to comply with chapters 1 and 2 of the Listing Rules, the Company will undertake a consolidation of capital to comply with listing rule 2.1 condition 2.

- (d) The Entitlements Offer timetable being acceptable to the ASX;
- (e) the Company is not reinstated to official quotation at any time prior to the shareholder meeting to approve the Entitlements Issue; and
- (f) details of the waiver are released at the time details of the Entitlements Issue are announced.

Further details on the Entitlements Issue together with the timetable will be announced in the next few days.

Sale of Radiology Business

As announced previously, the Company has agreed, subject to shareholder approval, to sell its radiology business to Capitol Health Limited in exchange for 45.5 million shares in Capitol Health and up to \$600,000 in performance related payments. Pending completion of the sale of the radiology business the Company has entered into a management agreement with Capitol Health under which Capitol Health pays all costs and takes all operating risk and receives operating revenues relating to the business in consideration for a management fee of \$100,000 payable by the Company to Capitol Health.

The terms of the sale to Capitol Health also provide that the entities associated with Mark Scott, a director of the Company, continue to meet certain lease obligations in respect of equipment used by the radiology business. Dr Scott and associated entities have agreed to this. The result of this undertaking is that the Company has been able to achieve a greater sale price than it would otherwise for the benefit of all shareholders.

The Radiology business was loss making when the agreement with Capitol Health was entered into and the Company has been advised by Capitol Health that the business continues to be loss making.

The Board continues to believe the sale to Capitol Health offers the best available outcome for shareholders and is in the best interests of the Company. The Company intends that the benefit of the sale should go directly to shareholders, and has proposed the in-specie distribution of shares in Capitol Health to IM Medical shareholders. By doing this, shareholders will be able to retain a direct interest in the radiology sector.

The Company will seek shareholder approval for the sale of the radiology business and the in-specie distribution of Capitol Health shares at the Company's Annual Meeting expected to be held on Monday 14 November 2011

Sale by Major Shareholder

The Company has been advised by its major shareholder Dr Mark Scott that his related entities intend to sell their entire shareholding in the Company to a range of clients to be introduced by Patersons Securities Limited. Dr Scott is a Director of the Company. The proceeds from the sale of shares will assist Dr Scott to meet ongoing lease obligations on radiology equipment under the terms of the radiology business sale agreements.

For personal use only

The independent Directors of the Company support the sale of shares by Dr Scott and believe it is in the interests of all shareholders for the Company to have a more diverse shareholder base.

The Board continues to be focussed on restoring value for shareholders, and takes this opportunity to thank all shareholders for your support during the difficult recent period for the Company and looks forward to your continued support for the Entitlements Issue and in the future as new opportunities for the Company emerge.

Nigel Blaze
Chairman

For personal use only