IM MEDICAL LIMITED

ABN 47 009 436 908

EXPLANATORY STATEMENT

FOR THE ACQUISITION OF INTELLIHEART PTY LTD AND THE ISSUE OF $2.5 MILLION IN NEW SHARES WITH FREE 1 FOR 2 ATTACHING OPTIONS

For a General Meeting to be held on
10 September 2004 at 10 a.m. at
Suite 2, 1233 High Street, Armadale, Victoria

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This is an important document. Please read it carefully.

If you are unable to attend the Meeting, please complete the form of proxy enclosed and return it in accordance with the instructions set out on that form.

1 CHAIRMAN'S LETTER

Dear shareholder,

On behalf of the Directors, it gives me great pleasure to write to you about the proposed acquisition of Intelliheart and the commercialisation of this innovative Australian medical technology to monitor cardiovascular disease (CVD).

Intelliheart, through its founder Dr Jack Minas, has pioneered a unique, non-invasive, comprehensive and simple to use system for determining a person's risk of developing CVD, the biggest killer in the western world.

Dr Minas has been using the Intelliheart system in general practice since 1999 – to date, he has examined in excess of 2,000 patients.

Intelliheart's proprietary system can assist medical practitioners to determine the likelihood of a person developing CVD many years before an event such as a heart attack or stroke occurs. This enables patients at risk to take preventative action well before symptoms manifest themselves into a premature heart attack or stroke.

The Intelliheart system consists of a number of medical devices sourced from external manufacturers, each of which has approvals for use and sale in Australia. Coupled with this medical equipment is Intelliheart's proprietary system, which quantifies and categorises a patient's risk of developing CVD.

The Company aims to commercialise Dr Minas's research by marketing the Intelliheart system to general practitioners and CVD specialists, as well as research institutes and hospitals. In addition, IM Medical intends to establish its own CVD clinics in major Australian cities. Initially, the Company will concentrate on penetrating the Australian market to develop the business model and prove the value of the Intelliheart approach, but expects ultimately to export the system as soon as the business model can be shown to be successful.

PKF Corporate Advisory Services (Vic) Pty Ltd has given its professional opinion that the terms of the transaction are both fair and reasonable to IM Medical shareholders. PKF's report is reproduced in full in section 5 of this Memorandum.

This document provides you with the information necessary to make a decision regarding the acquisition of Intelliheart and the allotment of Shares and Options to various parties associated with the Company and the transaction. The Directors support this transaction as a strong positive opportunity for the Company and recommend that you approve the resolutions.

Yours faithfully,

Richard Revelins
Chairman

2 TIME AND PLACE OF MEETING AND HOW TO VOTE

Venue

The General Meeting of the shareholders of IM Medical Limited will be held at:

Level 2	**Commencing at**
1233 High Street	**10 a.m.**
Armadale Vic 3143	**on 10 September 2004**

How to Vote

You may vote by attending the meeting in person, by proxy or authorised representative.

Voting in Person

To vote in person, attend the meeting on the date and at the place set out above. The meeting will commence at 10 a.m.

Voting by Proxy

To vote by proxy, please complete and sign the proxy form enclosed with this Notice of General Meeting as soon as possible and either:

- send the proxy by facsimile to the Company on facsimile number (03) 9824 8161 (International: + 61 3 9824 8161); or
- deliver to the principal office of the Company c/- Peregrine Corporate Limited, Level 2, 1233 High Street, Armadale, Victoria, 3143,

so that it is received not later than 10 a.m. on 8 September 2004.

Your proxy form is enclosed.

3 EXPLANATORY STATEMENT

3.1 SUMMARY OF THE TRANSACTION

On 22 April 2004, IM Medical entered into an option agreement to acquire all the shares in Intelliheart for a consideration of 50 million IM Medical shares plus a further 3 tranches of up to 50 million shares per tranche, over the next 2 years, depending on certain performance criteria. IM Medical has also agreed to pay the debts owed by Intelliheart to its shareholders.

On 2 July 2004, IM Medical exercised this option and on 9 July 2004, the Company entered into the Share Acquisition Agreement to acquire Intelliheart.

As part of the transaction, IM Medical has secured the services of Intelliheart's founder, Dr Jack Minas for a minimum term of 3 years.

Intelliheart was incorporated in 2001 to commercialise Dr Minas's research into non-invasive techniques of measuring the electrical, conductive and muscular performance of the human heart.

Intelliheart's system offers a simple, non-invasive method of detecting an individual's risk of developing cardiovascular disease years before signs or symptoms of vascular disease first appear. It permits the measure of premature stiffening of the arteries, which is a leading cause of cardiovascular disease. The Intelliheart system applies computer technology to detect the early identification of potential cardiovascular problems, which can lead to lower risk and increased life expectancy of the patient through early treatment.

The Company's business plan for Intelliheart provides for capital and operational spending over the next 12 months to rollout the Intelliheart system. The Company has decided to raise new equity capital and is seeking shareholder approval to raise $2.5m from clients of Peregrine Corporate to fund the further development of Intelliheart and to provide funding for the Company's on-going activities and working capital requirements.

3.2 PURPOSE OF MEMORANDUM

The purpose of this Memorandum is to provide relevant information for IM Medical shareholders so they may approve the acquisition of Intelliheart and the consequent Share and Option issues (current and future) under the Corporations Act and the ASX Listing Rules. As well, it is to provide information for shareholders in respect of the election to the board of Dr Jack Minas and Mr Peter Hardy, the CEO designate.

3.3 BRIEF BACKGROUND ON IM MEDICAL

IM Medical was incorporated in 1990 and was originally listed on the ASX as a mineral exploration company. The Company subsequently diversified into medical imaging applications. Significant progress was made in generating valuable intellectual property and achieving some equipment sales, however, the Company encountered difficulties in establishing a consistent and reliable cash flow.

In December 2002, the Company entered into an agreement to acquire a primary health care business. The acquisition did not proceed, leaving the Company without a substantial operating business. The Company was subsequently placed in voluntary administration from March 2003 to November 2003, when after a capital reconstruction, a $1.3 million capital raising was approved by shareholders. The capital raising was completed in January 2004 and in February 2004, the Company's shares were reinstated to ASX trading.

IM Medical retains ownership of a number of medical imaging technologies, including technology for medical image processing and capturing, and for transmitting medical images securely over the Internet. Some of this proprietary technology can be used to capture and secure the information recorded by the Intelliheart system and provide highly secure web enablement for the transfer of data and reporting of results.

In April 2004, IM Medical entered into an option deed to acquire all the share capital of Intelliheart and in July 2004 entered into the Share Acquisition Agreement to acquire Intelliheart.

3.4 CARDIOVASCULAR DISEASE

CVD is the most prevalent cause of death in the developed world – globally, approximately 17 million people die per year from CVD, particularly heart attacks and strokes. This represents approximately one-third of global deaths. In developed countries (including Australia), the proportion is higher – approximately 40%, which is significantly higher than mortality from all forms of cancer combined.

The risk of a CVD event increases with age and is greater for women than for men. Heart disease accounts for a higher proportion of female mortality – in Australia in 2002, 41% of female deaths were due to CVD compared to 35% for males[1].

In Australia, the prevalence of cardiovascular conditions has increased by 18% over the last decade and is expected to continue to increase over coming decades due to the growing number of elderly Australians[3]. Currently, more than one in four Australian adults (over 3.6 million people) have a cardiovascular condition (including high blood pressure, heart disease, stiff arteries, diabetes etc)[2] and over 1 million Australians are disabled long-term by CVD. For a 40-year-old Australian, the risk of having coronary heart disease (a major form of CVD) at some time in their future life is one in two for men and one in three for women[2].

According to the World Health Organisation ("WHO")[3], 50% of death and disability from CVD can be reduced by a combination of simple effective actions to reduce major CVD risk factors, including reduction in tobacco smoking, increased physical activity and adopting a healthy diet. Over 90% of Australians aged over 18 have at least one major risk factor and 25% have more than three risk factors[4].

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[1] Australian Institute of Health and Welfare, mortality database

[2] Australian Bureau of Statistics, Year Book Australia 2003, Health, Cardiovascular health, Morbidity

[3] Integrated Management of Cardiovascular Risk. Report of a WHO Meeting, Geneva, July 2002

[4] Australian Institute of Health and Welfare (Heart, Stroke and Vascular Diseases: Australian Facts 2004)

CVD is the most costly disease for the Australian health system, being responsible for approximately $5.4 billion of total recurrent health expenditure. In 2002-03, 16% of visits (or 15 million visits) to general practitioners were for CVD related problems[4]. One in four prescriptions (over 50 million per annum) are for heart, stroke and vascular drugs (mainly blood pressure- and cholesterol-lowering drugs), costing approximately $1.7 billion annually (over 30% of the cost of all prescription pharmaceutical benefits scheme drugs).

3.5 ABOUT INTELLIHEART

Introduction

Cardiovascular disease accounts for approximately 40% of the mortality in our community and the available treatment is both complex and expensive. Intelliheart testing is a new approach to the assessment and management of cardiovascular disease.

At present, most cardiovascular tests are performed to obtain results after a patient attends with overt cardiovascular disease. These tests include ECG, echocardiogram, angiogram, exercise tests of ECG and Thallium scans. These tests tell the physician how the heart or vascular system is performing at a specific point in time. However, medical evidence suggests that stiffened arteries are a major cause of CVD.

The above tests are complex and expensive. Their ability is limited in the detection of structural and functional abnormalities of the arteries before the end stages of advanced cardiovascular disease become symptomatically apparent.

The Intelliheart system offers a simple, non-invasive method of detecting blood vessel disease long before signs or symptoms of vascular disease first appear. It permits the measure of premature stiffening of the arteries.

Intelliheart's technology is a primary care, non-invasive, cardiovascular analytical system that may be used in hospitals, general practice, and even the home and office.

The Intelliheart system up-skills general practitioners to allow them to better manage cardiovascular disease, by enabling them to diagnose, treat and monitor the effects of treatment in a way which has not yet been possible in an unsupported general practice.

As well as offering a different style of clinical practice, the Intelliheart system easily integrates with any conventional medical practice for the treatment of a CVD patient.

The system uses a proprietary computer algorithm and various measurements are taken, using both established and highly innovative technology. These measurements include blood pressure, ECG, heart rate variability and an assessment of arterial stiffness. As well as these tests, various blood tests are performed.

The Intelliheart system generates an easy to understand report, together with copies of test results and explanatory notes, which can be given to the patient. The report can also include a plan for treatment.

This approach permits very early diagnosis of potential coronary and diabetes problems – in most cases, years before symptoms become evident. It represents a shift in medical practise – from reacting to a health problem to preventing sickness.

The system can be used by general practitioners (in fact, by their nursing staff or a trained technician) in their surgeries.

In its current form, the equipment in the Intelliheart system consists of a number of separate medical devices, all of which are approved for sale and use in Australia. IM Medical plans to develop an integrated, portable device, which can operate in offices and remote locations.

The Intelliheart system

Intelliheart's system combines four existing and approved technologies with proprietary software (which uses accepted reference data from long term heart studies) into one very broad analytical tool.

A fundamental part of Intelliheart's system is a test which accurately and non-invasively measures the velocity of the blood pressure waveform between 2 artery sites, as well as the aortic blood pressure. This measures the pumping and relaxing ability of the heart and also gives a quantitative assessment of the efficiency of blood flow to the heart. It also measures the degree of thickening of the arterial system, including the central arteries.

The Intelliheart system combines the above test with a measure of the heart rate variability (which has been shown to be a strong predictor of future CVD). This measures the balance between stress and relaxation on the heart and major blood vessels – maintenance of high stress levels inferring a higher risk of coronary. In addition, diabetics usually have poor HRV test results, so Intelliheart's tests are also strong predictors of diabetes – the third biggest killer in the world.

The above tests provide a comprehensive, non-invasive assessment of cardiovascular status and can be used by physicians to assist in diagnostic screening as well as for ongoing monitoring of existing conditions.

Furthermore, because of its breadth and ease of administration, Intelliheart's tests are applicable to the *whole circulatory system* (eg. kidney failure, stroke, heart, leg artery, etc).

Business strategy

IM Medical's business model for Intelliheart involves generating income from 2 streams:

(a) The provision of Intelliheart testing services to clinics where Intelliheart technology is installed, including clinics to be established by the Company. It is intended that these fees be generated on a fee per test basis for each patient, which will include the provision of equipment to the clinic; and

(b) The sale of equipment to medical clinics and institutions who wish to purchase it.

It is expected that the major source of revenue will be from testing services.

To this end, Dr Jack Minas, Intelliheart's founder, has conducted over 2,000 Intelliheart tests in the past 5 years. Patients are currently charged $200 per test, approximately 50% of which is rebateable from Medicare. Upon completion of the acquisition, IM Medical will continue these activities from Dr Minas's two existing Melbourne clinics as well as establishing additional Company-owned clinics.

Existing technologies

The following table sets out a summary of existing CVD testing technologies and their limitations to early diagnosis of CVD:

Type of test	Description	Efficacy	Approximate Cost
Angiogram (cardiac catheterisation)	Aim is to locate arterial blockages. A thin plastic tube (catheter) is guided through an artery in the groin and lead into the coronary arteries. A liquid "x-ray visible" iodine dye is injected through the catheter. Blocked areas are identified by x-raying the dye's flow. Patient is conscious during the procedure, which requires hospitalisation. Test takes up to 1 hour with 5 hours recovery lying flat. Usual after effects are nausea. Approx 1 in 500 patients experience adverse effects	Poor - needs 50% blockage for clear diagnosis	$1,500
Stress Nuclear (Isotope)	Measures cardiac blood flow in an attempt to isolate which areas of the heart are not receiving enough blood / oxygen. Patient is injected intravenously with a nuclear isotope (most commonly Thallium) through the patient's forearm. ECG measurements are taken while exercising. After exercise, patient must lie still with arms raised for 30 minutes under "nuclear camera". Test is in 2 stages and takes 4 hours in a specialised lab	Poor - needs 50% blockage. Test returns 10% false positives	$1,200
Passive electro-cardiogram (ECG)	Electrical recording of the heart. Leads are positioned on the patient in standard locations and the heart's electrical activity is monitored. Test takes approx 5-10 minutes. Used by GPs as an indicator of heart disease	Poor - Needs 70% blockage for clear diagnosis	$50 - $75
Stress ECG	Same as ECG but requires patient to exercise (on a treadmill or exer-cycle) until tired. Tests the effect of the heart's electrical reaction to the body's increased demand for oxygen	Poor - Needs 70% blockage	$300

Type of test	Description	Efficacy	Approximate Cost
Echocardiogram (and stress echo)	Measures the pumping power of the heart. Uses ultrasound waves to form a picture of the heart valves and heart muscle. Test usually done in the Echo Lab, but may be done in a clinic. The machine maps sound waves reflected by the walls of the heart into a picture. Preparation is similar to the ECG and the test usually takes 20-45 minutes. The stress echo is longer (1 hour+) and makes the patient exercise to determine how quickly the heart recovers after exercise	Poor - Needs 50% blockage	$800 – $1,000
CT scan of coronary arteries	Aim is to measure the calcification in the coronary arteries by taking computer enhanced x-ray pictures of the heart. Patient lies very still on the table that slides into the large doughnut-shaped CT scanner. Many x-rays of heart taken. Iodine dye injected intravenously to make blood vessels more visible to x-rays. Test is usually complete within 30 minutes	Moderate, but does not measure cardiac function or blood flow	$500

Summary of the Intelliheart system

Intelliheart's tests are:

- Comprehensive, highly accurate assessment of cardiac function, coronary blood flow, arterial stiffness, and the stress-relaxation and balance in the heart
- Non-invasive
- Preventative
- Inexpensive (both in terms of initial and ongoing maintenance costs)
- Portable
- Fast (usually less than ½ hour per patient)
- Reproducible
- Easy to conduct
- No irradiation
- Applicable to the whole circulatory system, not just the heart
- Detects more patients at risk, because of the breadth of the tests administered

3.6 THE INTELLIHEART ACQUISITION

Summary of the transaction

IM Medical is acquiring all the share capital, intellectual property and plant and equipment of Intelliheart for a share consideration of up to 200 million Shares, 150 million of which are to be progressively issued over 24 months from the date of acquisition, depending on the achievement of specific success milestones (see below). As well, IM Medical is discharging Intelliheart's debts of $750,000 to the Vendors.

In order to fund the on-going development and operating expenses of Intelliheart and the Company's existing technology, IM Medical is raising a total of $2.5 million by way of an issue of Shares with 1 for 2 free attaching 4 Cent Options through a private placement to sophisticated investors at the Issue Price to clients of Peregrine Corporate (refer to section 3.9).

Terms and Conditions of the Acquisition

On 9 July 2004, IM Medical (as purchaser) and Dr Jack Minas and Mr Leslie Cullen (as Vendors) entered into the Share Acquisition Agreement. The principal terms and conditions of the Share Acquisition Agreement are summarised below:

- **Shares to be acquired**: All the share capital in Intelliheart
- **Assets**: All the intellectual property comprising the Intelliheart system plus all the associated plant and equipment, which assets are to be unencumbered
- **Consideration**: Fifty million Shares in IM Medical, conditional upon approval of IM Medical's shareholders in general meeting
- **Incentive Shares consideration**: A further three tranches of IM Medical Shares ("Incentive Shares") of up to fifty million Shares per tranche to be allotted at intervals following Completion upon achievement of the performance milestones ("Milestones") outlined below.

  First Tranche

  Intelliheart must:

  (a) Produce a fully functioning integrated prototype product, fully incorporating the Intelliheart technology for presentation to, and endorsement of, at least 5 key opinion leaders, including at least 3 senior cardio-vascular surgeons

  (b) Achieve regulatory approvals for the integrated product in the United States and Australia (or have established a clear path for establishment of those approvals); and

  (c) Have commenced negotiations with potential third party distributors and/or agents for the integrated product.

  These outcomes must have been achieved within 9 months of Completion.

Second Tranche

Intelliheart, through the bona fide pursuit of its business plan, must have achieved either sales of $1.225 million or gross profit of $0.545 million or earnings before interest, tax, depreciation and amortisation ("EBITDA") of ($0.145 million), which must have been achieved within 18 months of Completion.

Third Tranche

Intelliheart, through the bona fide pursuit of its business plan, must have achieved either sales of $6.7 million or gross profit of $3.2 million or EBITDA of $2.5 million, which must have been achieved within 24 months of Completion.

The targets referred to above on achievement would entitle the Vendors to allotment of the full fifty million ordinary shares in each tranche. In respect of the Second Tranche and the Third Tranche, figures achieved below these targets will entitle the Vendors to a pro-rata proportion of the relevant fifty million share tranche.

If the maximum number of Incentive Shares are not issued in the Second Tranche but the performance targets are exceeded in the Third Tranche period, then the Vendors may aggregate the financial performance indicators referred to above for the 12 month period prior to allotment of the Third Tranche and to the extent that such exceed the targets for the Second Tranche and the Third Tranche combined, IM Medical will allot a proportionate number of the Second Tranche Incentive Shares not previously allotted as part of the Second Tranche.

The full 50,000,000 Incentive Shares applicable to a tranche will be issued on achievement of the specified milestones, which may occur before the end of a period specified above. This does not reduce the balance of the period (if any) remaining for fulfilment of a subsequent tranche.

- **Advance**: On Completion, IM Medical will discharge Intelliheart's debts to the Vendors by way of cash payments totalling $499,000 plus 12,500,000 Shares in IM Medical.
- **Retransfer of technology:** If within 2 years of Completion, IM Medical decides to cease funding the development or commercialisation of the Intelliheart technology, then IM Medical will, if requested by Dr Minas, assign and vest in Dr Minas, all title in the technology in consideration of Dr Minas executing a deed which requires him to pay a royalty to the Company of 10% of all gross proceeds from commercialisation or sales of the Intelliheart technology or any components thereof for a period of 10 years from that date.
- **Termination:** If the conditions precedent have not been satisfied by 9 October 2004, the Company may elect to extend the date for completion or terminate the Agreement.

3.7 INTELLIHEART'S FINANCIAL POSITION

Shareholders should refer to section 4.7 of the Independent Expert's Report prepared by PKF Corporate Advisory Services (Vic) Pty Ltd in section 5 beginning on page 32 of this Memorandum.

3.8 RISK FACTORS

General risk factors and securities market risks

There are a wide variety of risks involved in investing in any business and the share market generally.

In relation to the share market generally, the prices at which the Company shares will trade after the acquisition may be highly volatile and will be subject to factors such as general economic conditions, investor sentiment regarding developing companies and bio-medical enterprises, and media reports on the above.

There is also a range of specific risks associated with the Intelliheart business. Investment in Intelliheart is a higher risk than investing in a fully established business because it is a start-up enterprise still in development with unknown operating results. The Intelliheart system may not be accepted to the expected extent by the medical community or by consumers, resulting in lower than anticipated revenue. Revenue will also be affected by the price achieved for testing services and for the machines themselves.

As well, the costs and timing of finalising the development of the system, the costs of the hardware and software that comprises the Intelliheart system, and the cost of bringing the system to market may be higher than expected. The hardware component of the Intelliheart system uses third party devices, which may not be available to the Company at forecast costs and/or may be superseded by new product developments.

The success of the Company is also dependent on actions by competitors (existing and future), government regulations, and the availability of key staff, amongst other things.

Regulatory issues and government regulation

The Intelliheart system may be subject to various government regulatory approvals and controls, and this will affect the timing and the cost of the rollout of the integrated system in various markets, including Australia, the United States of America and Europe.

Delays and/or failure in obtaining the requisite approvals for the Intelliheart system would be likely to have a material adverse affect on the financial performance of the Company, and hence, the value of its Shares.

Research and development

Although the Intelliheart system has been in development for 5 years, there is no guarantee that the Company's research and development efforts will result in a product that is commercially marketable. As well, the development of the integrated Intelliheart system may be delayed, or fail, due to scientific reasons, or cost more than expected, or may discontinue due to competitive or other commercial actions.

Future capital requirements

The precise amount of finance for the development and rollout of the Intelliheart system is uncertain and depends on various factors, including the timing and success of the system's development and rollout. Additional equity may be required, which would dilute existing shareholders. As well, the Company may need to borrow money, which, if available, may impose restrictions on its operations and the payment of dividends. If the Company is unable to secure additional funding as needed, it may be required to reduce – perhaps significantly – the scope of the development and marketing of the Intelliheart system and other Company operations.

General economic conditions

Changes in economic conditions in which Intelliheart is planning to operate (including Australia and the United States of America) may adversely affect the Company's financial performance. These conditions include (in each of the various countries) the levels of interest rates, foreign exchange rates, the rates of inflation and unemployment, industrial disputation, stock market conditions, population growth and age profile and the incidence of CVD, amongst other things.

Industry risks – competitors

The eventual success of the commercialisation of Intelliheart will be partially dependent on the actions of competitors, both current and future. The Company is aware of a number of companies operating in Australia and the United States offering CVD screening services and of several other companies that manufacture medical devices similar to those used by Intelliheart. IM Medical considers all of these to be potential or actual competitors, some of which are more established and have greater access to finance and markets than the Company.

No profit to date and uncertainty of future profitability

Intelliheart has not commenced trading and its system is still in development. It is not therefore possible to evaluate accurately, the value of Intelliheart or its future prospects based on its past performance.

The Company's ability to operate profitably in the future will depend on its ability to develop and market successfully to customers the Intelliheart system while controlling the costs of development, marketing and operations. This will depend, in part, on the ultimate demand for Intelliheart's products and services by health care organisations, medical practitioners and consumers, which is unknown at this time.

As well, competitive and regulatory influences and economic conditions will affect the Company's future profitability. The level and extent of future profits, if any, and the time to achieve a sustained profitability is uncertain and cannot be predicted, and financial performance may vary considerably over short time horizons.

Product liability

The business of Intelliheart may expose it and IM Medical to product liability risks. The Company intends to obtain sufficient levels of insurance to cover various risks associated with such liabilities. However, adequate or necessary product liability insurance coverage may not be available at an acceptable cost or in sufficient amounts (if at all) to cover all the product liability risks associated with Intelliheart's business. This may materially adversely affect the financial performance of the Company.

Intellectual property rights

The Company's success depends, in part, on maintaining the confidentiality of Intelliheart's trade secrets and operating without infringing on the proprietary rights of third parties.

Intelliheart's system is comprised of third party hardware, some of which is patented, and its own proprietary software, which is not covered by any patent or patent application. The patent position of the Intelliheart software is uncertain and involves risk of disclosure of the system. Furthermore, the cost of obtaining a patent can be highly expensive and the process usually involves complex legal and scientific evaluation, with no guaranteed favourable outcome.

Moreover, even if a patent for the Intelliheart system is applied for and granted, there is no guarantee that it will not subsequently be found to be invalid by a court, nor does it ensure that the rights of others are not infringed or that competitors will develop competing intellectual property that will circumvent such patents.

There can be no assurance that any intellectual property that Intelliheart owns or controls, now or in the future, will afford it commercially significant protection or advantage or have commercial application.

Reliance on key personnel

The Company considers that Intelliheart is reliant on its founder, Dr Jack Minas. Should his services be lost, the success of the development of the Intelliheart system and its marketing to the medical and general community could be seriously impeded, possibly materially adversely affecting IM Medical's financial performance. As such, in addition to contracting Dr Minas' services for three years, the Company plans to take out key man insurance on Dr Minas, but this may not fully cover for his loss, should that eventuate.

In addition, there is no assurance that the Company will be able to attract and retain sufficiently qualified key personnel to finalise the development of the Intelliheart system, maintain relationships with key scientific and medical organisations, and successfully market the system.

Speculative investment

This is not an exhaustive list of risks applicable to the acquisition of Intelliheart by the Company. The above factors, and others not referred to above, may materially affect the future financial performance of the Company and the value of its securities. Given this, and the start-up nature of the business, it should be considered a speculative investment proposition.

3.9 DETAILS AND PURPOSE OF THE ISSUE

The Directors have decided, subject to the passing of Resolutions 1 to 6 inclusive, to raise $2.5 million to fund the on-going development of the Intelliheart system by way of an issue of Shares, together with 1 for 2 free attaching 4 Cent Options, at the Issue Price to clients of Peregrine Corporate (including the Directors).

The Issue Price for the Shares and the 1 for 2 free attaching 4 Cent Options will be lower of:

(a) 20% below the volume weighted average market price of IM Medical Shares traded on the ASX in the 5 days immediately prior to the date of the Meeting; and

(b) 3 cents per Share.

If the issue price of the Shares and 1 for 2 free attaching 4 Cent Options is 3 cents, a maximum of 83,333,333 new Shares and 41,666,666 4 Cent Options will be issued.

Use of funds

The following table sets out the intended use of the funds:

• Finalise product design and development	$0.3m
• Product acquisition costs	$0.5m
• Promotion and marketing	$0.4m
• Existing IM Medical business	$0.3m
• General working capital (including staff costs)	$1.0m
Total	**$2.5m**

The Company's existing cash resources will be sufficient to meet the financial commitments associated with the acquisition. In addition, the Company's planned use of funds allows it sufficient cash to complete its projects over the balance of 2004/05 without assuming further capital raisings or revenue. IM Medical intends to review its ongoing funding requirements during the forthcoming year, having regard to actual revenues generated and/or opportunities for raising further capital, as required.

In addition to the above Share issue, and the Shares to be issued under the Share Acquisition Agreement (see section 3.6), IM Medical proposes to make issues to:

(a) Peter R Hardy & Associates Pty Ltd, a company associated with proposed director and Chief Executive officer, Mr Peter Hardy, as part of a consultancy agreement with IM Medical – 5 million Options (subject to the passing of Resolution 10)

(b) Mr Leslie Mark Cullen, as a fee for project management services to IM Medical, of 7 million Shares and 1 million Options (subject to the passing of Resolution 11)

(c) Mr Arthur Koimtsidis, as part of a consultancy agreement with IM Medical – 7.5 million Options (subject to the passing of Resolution 12)

(d) Peregrine Corporate, 10 million Shares and 30 million 3 Cent Options (subject to the passing of Resolution 13) for a total consideration of $10,000

Shareholders should refer to sections 4.8 to 4.11 inclusive for further details on these issues.

If all the Shares and Options are issued as described above and in section 3.6, and assuming an issue price of 3 cents per Share, the IM Medical capital structure would change as follows:

A. Current capital structure:

	Shares		**Options**[5]	
	Number	%	Number	%
Directors and their associates	89.2m	38.2%	12.3m	72.6%
Other persons	144.2m	61.8%	4.7m	27.4%
Total	**233.4m**	**100.0%**	**17.0m**	**100.0%**

B. Capital structure after acquisition, capital raising and issue of options:

	Shares		**Options**	
	Number	%	Number	%
Dr Jack Minas and his nominees	60.0m	15.1%	-	0.0%
Directors and their associates[6]	99.2m	25.0%	47.4m	46.3%
Other persons	237.1m	59.8%	54.8m	53.7%
Total	**396.3m**	**100.0%**	**102.2m**	**100.0%**

C. Capital structure assuming all Shares (including all Incentive Shares) and options issued:

	Shares		**Options**	
	Number	%	Number	%
Dr Jack Minas and his nominees	202.5m	37.1%	-	0.0%
Directors and their associates[6]	99.2m	18.2%	47.4m	46.3%
Other persons	244.6m	44.8%	54.8m	53.7%
Total	**546.3m**	**100.0%**	**102.2m**	**100.0%**

[5] There are 3 series of options currently on issue – (i) 4,812,637 exercisable at $1.00, expiring on 31 December 2004; (ii) 12,000,000 exercisable at 1 cent, expiring on 31 December 2005; and (iii) 200,000 exercisable at 50 cents, expiring on 31 December 2005.

[6] Including Options proposed to be issued to a company associated with Mr Peter Hardy, the CEO designate, and assuming no new Shares are taken up in the placement by the Directors

3.10 MANAGEMENT TEAM

Peter Hardy – Chief Executive Officer, Age 46

Peter has a wide breadth of experience that encompasses engineering, corporate finance and senior management positions within the food industry.

After graduating with a Bachelor of Engineering from Melbourne University in 1978, Peter worked as a civil engineer for several years. He completed his Master of Business Administration in 1984 and entered the investment banking industry, ultimately rising to the position of director of corporate finance. In this role, he was involved in equity capital raisings, initial public offerings, mergers and acquisitions, as well as serving as a member of the ASX Listing Committee.

In 1995, Peter joined the multinational food company, H J Heinz & Co, as Commercial Director in charge of Heinz's strategic planning, acquisitions and divestments in Australia and New Zealand. He was later appointed to head Heinz Australia's International Division, which exported to more than 20 countries including the US, Canada, Japan, Africa, the Middle East and South East Asia. In 2000, Peter joined the US-based herb and spice company, McCormick Foods, where he was director in charge of that company's Industrial Division in Australia.

Dr Jack Minas – Chief Technical Officer, Age 56

Dr Minas is a graduate of The University of Melbourne and has been a general practitioner for nearly 30 years. He is the principal of the Victoria Square Medical Practice in Doncaster, Victoria.

Dr Minas' interest in cardiovascular disease began during his early experiences as a cardio-thoracic intern in the early 1970s. In mid 1999, while still conducting his general practice, Dr Minas commenced his research into a comprehensive system, and over the next 5 years, worked to develop and trial it into a tool that permits general practitioners and specialists to diagnose and treat cardiovascular problems long before a CVD event occurs.

During his years of general practice, Dr Minas also has been a councillor for the AMA (Victorian Western Suburban Division), and has held several other management positions within AMA, including holding a board position for the inner Melbourne sub-division.

3.11 THE OPTIONS

Terms of issue

The Options will be issued on the following terms:

- Each Option will be issued for nil consideration.
- Each Option will confer on the holder the right to acquire one Share in the Company on the payment of two (2) cents per Share at any time until their expiry date of 31 December 2008.

- In the event of any reconstruction (including consolidation, subdivision, reduction or return of capital) of the issued capital of the Company prior to the expiry date of the Options, all rights of the Optionholder will be varied in accordance with the ASX Listing Rules applying at the time.

- Subject to the Corporations Act, the Constitution and the ASX Listing Rules, the Options are freely transferable.

- There are no participating rights or entitlements inherent in the Options and holders will not be entitled to participate in new issues of Options to shareholders during the currency of the Options. However, the Company will ensure that, for the purpose of determining entitlements to any issue, Optionholders will be notified of the proposed issue at least seven (7) business days before the record date of any proposed issue. This will give Optionholders the opportunity to exercise the Options prior to the date for determining entitlements to participate in any such issue.

- All shares issued upon exercise of the Options will rank pari passu in all respects with the Company's then issued shares. The Options will not be listed on the ASX, however, the Company reserves the right to apply for quotation at a later date.

- If the Company makes a pro rata issue of securities to holders of ordinary shares (except a bonus issue), the exercise price of the Options will change in accordance with the formula set out in ASX Listing Rule 6.22.2. If the Company makes a bonus issue, the number of ordinary shares over which each Option is exercisable shall be increased by the number of securities which the holder of the Option would have received if the Option had been exercised before the record date of the bonus issue.

- The Options are exercisable by delivering to the registered office of the Company, a notice in writing stating the intention of the Optionholder to exercise a specified number of Options, accompanied by an Option certificate, if applicable, and a cheque made payable to the Company for the exercise price due, subject to the funds being duly cleared funds. The exercise of only a portion of the Options held does not affect the holder's right to exercise the balance of any Options remaining.

The 3 Cent Options and 4 Cent Options will be issued on the same terms except that their exercise price will be three (3) and four (4) cents per Share respectively and application will be made to the ASX for the 4 Cent Options to be admitted to the Official List. The other options will not be listed.

Valuation

Options exercisable at 2 cents

The Company has assessed the unencumbered value of each Option at 1.6 cents ($0.016) using the Black & Scholes option valuation model using the assumptions set out below.

The Black & Scholes option valuation model works through a formula to assess value based on five variables. These variables are:

(i) Price of underlying stock – which the Company has assessed at three cents ($0.03) per Share as verified by the volume weighted average price of IM Medical Shares traded on the ASX over the month to 28 July 2004 (3.01 cents)

(ii) Exercise price of the Option – which is two cents ($0.02)

(iii) Risk-free interest rate – which IM Medical, in line with general industry practice, has adopted as the current yield on 3 year Commonwealth Bonds of 5.43%

(iv) Time to expiration of the Option – which is estimated at 4.3 years, assuming the Options are issued on 15 September 2004

(v) Volatility of the underlying stock – which has been estimated at 40% in the absence of long term data on the trading history of IM Medical since the recapitalisation.

3 Cent Options

The unencumbered value of the 3 Cent Options, using the same methodology is 1.2 cents ($0.012) per 3 Cent Option.

3.12 SUMMARY OF MATERIAL CONTRACTS

Share Acquisition Agreement

The major terms of the Share Acquisition Agreement, executed on 9 July 2004, between IM Medical and the Vendors are summarised in section 3.6 on page 9.

Employment Agreement between the Company and Dr Jack Minas

The following summarises the major terms of the Employment Agreement, executed on 9 July 2004 between IM Medical and Dr Jack Minas:

- Dr Minas is employed for an initial term of 3 years from Completion to finalise the development of the Intelliheart technology, lead the promotion of the Intelliheart system to the medical community and, subject to the Board's direction, lead the worldwide promotion, marketing and sales of the Intelliheart technology.

- Employment is to be full time, except that Dr Minas will be allowed sufficient hours per week to enable him to retain accreditation as a medical practitioner through the maintenance of minimum patient contact hours as prescribed from time to time by the relevant authority.

- Dr Minas's base cash annual salary will be $150,000 plus statutory superannuation. In addition, Dr Minas will be entitled to a bonus as follows:

  - In the first 6 months after Completion of the Share Acquisition Agreement, a $75,000 bonus based on the achievement of the same performance targets as for the First Tranche of Incentive Shares;

  - For the period of 6-18 months following Completion, a bonus of 4% of gross profit, paid 6 monthly; and

- For the period of 18-36 months following Completion, a bonus of 2% of gross profit, paid 6 monthly.

The agreement is otherwise on usual commercial terms and conditions.

Consultancy Agreement between the Company and Peter R Hardy & Associates Pty Ltd ("PRHA")

The major terms of the agreement between IM Medical and PRHA are summarised below:

- PRHA will procure the services of Mr Peter Hardy to the Company on a full time basis to fulfil the function of IM Medical's Chief Executive Officer and implement the Company's agreed business and operational plans

- Annual remuneration of $200,000 plus GST paid monthly in arrears

- Commencement is 1 September 2004

- The initial term of the engagement is 6 months. If IM Medical does not retain the services of Mr Hardy beyond the initial term (except for termination with cause), it will pay PRHA the sum of $100,000 plus GST. Otherwise, termination by either party is on three months' written notice.

- PRHA or its nominee to be issued with 5,000,000 Options promptly after commencement. If the Company agrees to retain the services of Mr Hardy for a further two years after the expiry of the initial six month term, the Company will, subject to the fulfilment of similar performance criteria to the First and Second Tranche Milestones as described in section 3.6 (see page 9), make 2 further issues of 5,000,000 options to PRHA, except that the exercise price will be three (3) and five (5) cents per Share respectively.

The agreement is otherwise on usual terms and conditions.

Capital Raising Agreement between the Company and Peregrine Corporate

The agreement between Peregrine Corporate and IM Medical is summarised below:

- Peregrine Corporate will use its best endeavours to raise $2.5m in new Shares for the Company from its clients.

- The capital raising will be by way of placement to sophisticated investors at the Issue Price.

- Peregrine Corporate will charge a fee of six percent (6%) of monies raised in the Capital Raising plus agreed out-of-pocket expenses.

4 THE RESOLUTIONS

The Proposal described in this Memorandum is conditional upon IM Medical obtaining approval of its members for several aspects of the Proposal, as required by the Corporations Act and the ASX Listing Rules. In order to satisfy these requirements, the Company has put forward for consideration Resolutions 1 to 5 in the attached Notice of General Meeting. Resolutions 6 to 13 are put forward to comply with the requirements of the Corporations Act, the Listing Rules and the Company's Constitution, but are not conditions of the approval and implementation of Proposal.

Information in respect of each of the Resolutions is set out below.

4.1 RESOLUTIONS 1 & 2: IMPLEMENTATION OF THE PROPOSAL & SHARE ISSUES

The Company is required to obtain the approval of members pursuant to ASX Listing Rule 11.1.2 for the implementation of the Proposal and pursuant to ASX Listing Rules 7.1 to issue Shares as part of the consideration for the acquisition. The Proposal is described in detail in this Memorandum and includes the acquisition of Intelliheart and issuing Shares as consideration for the acquisition.

The maximum number of Shares proposed to be issued is up to 212.5 million Shares. The Shares are proposed to be issued as part of the consideration for the acquisition of Intelliheart and to eliminate obligations of Intelliheart to Dr Minas.

Resolution 1

Resolution 1 is proposed to authorise the issue of the initial total of 62.5 million (62,500,000) Shares upon implementation of the Proposal. Of these, fifty million (50,000,000) Shares are proposed to be issued to the Vendors or their nominees in the proportions set out below as part of the consideration for the acquisition of all the issued shares of Intelliheart, and 12.5 million (12,500,000) Shares are proposed to be issued upon completion of the acquisition at the direction of Intelliheart to Dr Zissis Jack Minas or his nominee(s) to eliminate obligations of Intelliheart.

Vendor	Number of consideration shares
Dr Zissis Jack Minas	47,500,000
Mr Leslie Mark Cullen	2,500,000
Total	**50,000,000**

Dr Minas has directed the Company to issue 2.5 million (2,500,000) of his Shares (included in the above) to his nominee, Mr Arthur (Archie) Koimtsidis and a further 2.5 million (2,500,000) of his Shares to his nominee, Boncorp Holdings Pty Ltd.

Resolution 2

Resolution 2 is proposed to authorise the issue up to a further 150 million (150,000,000) Shares. The Incentive Shares would only be issued if the Proposal is implemented and the Milestones as described in section 3.6 are achieved. The additional Shares would be issued to the Vendors or their nominees as follows:

Vendor	Number of Incentive Shares
Dr Zissis Jack Minas	up to 142,500,000
Mr Leslie Mark Cullen	up to 7,500,000
Total	**Up to 150,000,000**

The Milestones associated with the issue of the three tranches of Incentive Shares are set out in section 3.6 on page 9 of this Memorandum.

It is a condition of the acquisition of Intelliheart that shareholder approvals be received for both the initial issue of 62.5 million (62,500,000) Shares (Resolution 1) and the ability to issue up to a further 150 million (150,000,000) Shares if the specified Milestones are achieved (Resolution 2).

The Shares to be issued pursuant to Resolutions 1 and 2 will be ordinary shares in the capital of the Company (deemed fully paid) ranking equally with the Company's existing ordinary shares. The Shares will be issued at a deemed issue price of $0.02 (two cents) each. No cash funds will be raised by the issue. The consideration for the issue of the Shares will be the acquisition of Intelliheart and the discharge of the Company's obligations under the option agreement between the Company and Dr Jack Minas dated 22 April 2004. The initial 62.5 million shares will be issued within three months of the date of the meeting, on the day of completion of the acquisition of Intelliheart. The Company has been granted a waiver of Listing Rule 7.3.2 by ASX to permit the additional 150 million (150,000,000) Shares to be issued by 28 February 2007 (approximately two years and five months after the date of the meeting), subject to achieving the Milestones.

Resolutions 1 and 2 are subject to Resolutions 3, 4, 5 and 6 being passed. Resolution 1 is also subject to Resolution 2 being passed.

4.2 RESOLUTIONS 3 & 4: APPROVAL OF RELATED PARTY TRANSACTION

Chapter 2E of the Corporations Act prohibits a public company from giving a financial benefit to a related party of the public company. Exceptions to this prohibition include where the public company first obtains the approval of its members in general meeting.

Resolution 3 seeks approval in respect of the initial Shares to be issued to a related party (Dr Minas) on implementation of the Proposal. Resolution 4 seeks approval in respect of the shares which will be issued to him if the Milestones (specified in section 3.6) are achieved.

Resolutions 3 and 4 are also resolutions for the purposes of Listing Rule 7.3 of the ASX. The Company has been granted a waiver of Listing Rule 7.3.2 by ASX to permit the additional shares to be issued by 28 February 2007 (approximately two years and five months after the date of the meeting) under Resolution 4, subject to achieving the Milestones.

Resolutions 3 and 4 are subject to Resolutions 1, 2, 5 and 6 being passed, as the issue of shares to the related party cannot proceed unless members approve the implementation of the Proposal and approve the issue under the takeovers provisions of the Corporations Act. Resolution 3 is also subject to Resolution 4 being passed as it is a condition of the acquisition of Intelliheart that the required shareholder approvals be received for both the initial issue to Dr Minas of 60 million (60,000,000) shares (Resolution 3) and the ability to issue up to a further 142.5 million (150,000,000) shares if the specified Milestones are achieved (Resolution 4). The shares that are the subject of Resolutions 3 and 4 are shares proposed to be issued as consideration for the acquisition of Intelliheart and if the Milestones are achieved, and are not a separate or additional issue of shares.

A "related party" for the purposes of the Corporations Act is defined widely. It includes a director or proposed director of the public company, specified members of a director's family and entities over which a director maintains control. The Corporations Act definition is incorporated into the Listing Rules.

A "financial benefit" for the purpose of the Corporations Act is also widely defined. It includes a public company issuing securities. In determining whether or not a financial benefit is being given, the law requires that one looks to the economic and commercial substances and effect of the transaction, rather than just the legal form. Any consideration or contribution provided by the related party, on the other hand, must be disregarded, even if it is considered full or adequate.

In accordance with Chapter 2E, the following additional information is provided for members to make an assessment of whether or not to vote in favour of Resolutions 3 and 4.

(a) **Related Parties to whom Resolutions 3 and 4 would permit a Financial Benefit to be given**

Dr Zissis Jack Minas (a proposed director of the Company, and intended recipient of shares pursuant to Resolutions 1 and 2)

(b) **The Nature of the Financial Benefit Involved**

The nature of the financial benefit is the issue of shares in the numbers set out in Resolutions 3 and 4 respectively (a total of up to 202.5 million shares) together with the payment of a cash sum of four hundred and twenty-nine thousand dollars ($429,000.00) to eliminate obligations of Intelliheart to Dr Minas or his associated entities as part of the terms of the acquisition of Intelliheart by the Company.

(c) **Directors' Recommendations**

Each Director recommends in favour of Resolutions 3 and 4 and the giving of financial benefits to Dr Minas as part of the acquisition of Intelliheart and implementation of the Proposal.

(d) **Interest of Directors in Outcome of the Proposal**

None of the Directors has an interest in the outcome of Resolutions 3 and 4.

(e) **Other Relevant Information for Consideration by Members**

Members should have reference to the Independent Expert's Report and the matters set out in this Memorandum, including the balance of this section as it relates to elements of the approval of the Proposal, when considering how to vote in respect of Resolutions 3 and 4. Other than the information disclosed in this Memorandum including this Section 4 and in the Independent Expert's Report, and taking into account information that has previously been disclosed to members, the Directors do not believe that there is any other information that is reasonably required in order for members to make a decision with respect to the Proposal.

The Notice of General Meeting which this Memorandum accompanies and forms part of, incorporates a statement that votes cannot be cast by certain shareholders, in accordance with section 224 of the Corporations Act, and a voting exclusion statement pursuant to the ASX Listing Rules. The effect of these restrictions is that related parties which Resolutions 3 and 4 would permit to receive a financial benefit and who may participate in the proposed issues under the Resolutions (Dr Minas) and his associated entities or persons cannot vote on Resolutions 3 and 4. No variation or waiver of those restrictions has been sought or obtained by the Company.

Application will be made to ASX for admission to Official Quotation of the Shares proposed to be issued to Dr Minas.

It is not considered that the Company will incur detrimental opportunity costs if the shares are issued. The shares are proposed to be issued as consideration for the acquisition of Intelliheart at a deemed issue price of $0.02 (two cents) each. The issue price was negotiated at a time when the Company's Shares traded below that price, and enabled the acquisition of Intelliheart without diverting funds which could be directed toward development of the technology and business. The issue of 12.5 million Shares and payment of the cash sum eliminates all liabilities of Intelliheart to Dr Minas and his associated entities, ensuring the Company acquires Intelliheart free from any past claims or obligations to its founder. The Company does not consider there would be adverse fringe benefits or other tax consequences of issuing the Shares and paying the cash amount.

Other information required for the purposes of ASX Listing Rule 7.3:

- The Company has obtained a waiver from ASX of Listing Rule 7.3.2 to permit the additional shares to be issued by 28 February 2007 (approximately two years and six months after the date of the Meeting) subject to achieving the Milestones;

- The Shares will be issued at a deemed issue price of $0.02 (two cents) each. No cash funds will be raised by the issue;

- The Shares to be issued are ordinary shares which will rank equally with the Company's existing listed ordinary shares.

4.3 RESOLUTION 5: APPROVAL UNDER THE TAKEOVERS PROVISIONS

Chapter 6 of the Corporations Act prohibits the acquisition by a person of a relevant interest in the issued voting shares in a listed company if, because of that acquisition, that person's or someone else's voting power increases:

(a) From 20% or below, to more than 20%; or

(b) From a starting point that is above 20% and below 90%.

An exception to this prohibition is if the public company has first obtained the approval of its members at a general meeting.

"Relevant interest" is extensively defined in the Corporations Act. It includes holding voting shares, being able to exercise control over voting shares and having the power to dispose of or control the disposal of voting shares. It does not matter how remote the relevant interest is or how it arises. If two or more persons can jointly exercise one of these powers, each of them is taken to have that power.

Resolution 5 is a resolution under item 7 in the table in section 611 of the Corporations Act. Resolution 5 is subject to Resolutions 1, 2, 3, 4 and 6 being passed. The shares which are the subject of Resolution 5 are the Shares proposed to be issued to Dr Minas as part of the consideration for the acquisition of Intelliheart, and are not a separate or additional issue of Shares. The Shares are the maximum number of Shares which may be issued to Dr Minas if Resolutions 1, 2, 3 and 4 are passed.

The person proposing to make the acquisition to which Resolution 5 applies is Dr Zissis Jack Minas. At the time of preparation of this Memorandum, Dr Minas holds no shares in IM Medical. Dr Minas will acquire a relevant interest in up to 202.5 million Shares if the Proposal is implemented (including the passing of Resolution 5). Dr Minas' voting power in the Company will increase to up to 43.7%.

Dr Minas' intentions regarding the future of the Company if members agree to the issue of Shares to him is to pursue the business of Intelliheart as described in this Memorandum, in accordance with the Proposal.

Presently, IM Medical has no significant activities, premises or employees (other than officers). The Company expects to maintain the activities, premises and employees of Intelliheart within the existing structure.

Members should have reference to the Independent Expert's Report in section 5 of this Memorandum and the matters set out in this Memorandum as it relates to elements of the approval of the Proposal, when considering how to vote in respect of Resolution 5.

4.4 RESOLUTION 6: PROPOSED CAPITAL RAISING (PLACEMENT OF SHARES)

Resolution 6 is proposed to obtain authority for the proposed Capital Raising by the issue of up to $2.5 million ($2,500,000) by issuing Shares at the Issue Price determined as set out below, together with 1 for 2 free attaching 4 Cent Options. The Shares and 4 Cent Options to be issued under Resolution 6 will be issued by a placement to clients of Peregrine Corporate.

Chapter 7 of the ASX Listing Rules requires the prior approval of shareholders in general meeting to issue securities if the number of those securities exceeds fifteen percent (15%) of the number of the same class of securities at the commencement of the relevant twelve (12) month period. The proposed allotment of Shares and Options as part of the Capital Raising involves an increase in the issued capital of the Company. As such, authority for that increase is required in order to comply with the provisions of Chapter 7 of the ASX Listing Rules. Also, by obtaining shareholder approval for the placement, the Company retains the ability to issue further shares or options up to fifteen percent (15%) of the Company's ordinary shares under Chapter 7 to take advantage of opportunities to obtain further funds if required and available.

The Issue Price of Shares and 1 for 2 free attaching 4 Cent Options offered under the Capital Raising shall be the lesser of:

(a) $0.03 (three cents) per Share (i.e. up to 83,333,333 shares); and

(b) Eighty percent (80%) of the volume weighted average price of the Company's Shares traded on ASX on the five (5) trading days before the Meeting (i.e. up to the number of Shares determined by dividing $2.5 million by the price calculated using volume weighted average price of the Company's Shares).

The Shares will be ordinary shares of the Company (deemed fully paid) having the same terms and ranking equally in all respects with the Company's existing listed ordinary shares. The Shares the subject of Resolution 6 shall be issued by the day no later than three (3) months after the date of the meeting (Shares which may be issued to Mr Cooper and Mr Revelins or their respective nominees if Resolution 7 is passed, see below, will be issued within one (1) month of the date of the meeting). Shares will be issued progressively as applications are received and accepted.

Application will be made to ASX for admission of the 4 Cent Options to the Official List.

Funds raised by the placement will be used as working capital, particularly in connection with the implementation of the Proposal, and to pay the costs of the issue. The Company will pay a fee of six percent (6%) of the funds raised to Peregrine Corporate plus agreed out-of-pocket expenses.

It is proposed that two Directors of the Company be authorised to participate in the placement. Resolution 7 (described below) is proposed for that purpose. Neither Resolution 6 nor any other Resolution is conditional upon Resolution 7 being passed.

Resolution 6 is subject to Resolutions 1, 2, 3, 4, and 5 being passed.

4.5 RESOLUTION 7: APPROVAL OF PARTICIPATION IN CAPITAL RAISING BY DIRECTORS

It is proposed that Mr Jeremy Cooper and Mr Richard Revelins, (Directors of the Company) or their respective nominees be authorised to participate in the Capital Raising. Resolution 7 is proposed for this purpose. Chapter 10 of the Listing Rules of the ASX provides that a company may not issue shares or options to a director without approval of holders of ordinary shares. If approval of ordinary shareholders is given under Chapter 10 (by passing Resolution 7), further approval is not required under Listing Rule 7.1.

Mr Cooper and Mr Revelins have each indicated they are prepared to subscribe for up to $50,000 of Shares and 1 for 2 free attaching 4 Cent Options under the Capital Raising (either themselves or by their respective nominees) at the same price as Shares and options are offered to other eligible participants. The number of Shares and options each receives will be determined according to the Issue Price formula described in section 4.4. At an issue price of three cents ($0.03) per Share, Mr Cooper and Mr Revelins would each be authorised to acquire up to 1,666,666 Shares and 833,333 4 Cent Options. This number will increase if the issue price is less than $0.03 per Share.

The Shares which are the subject of Resolution 7 are included in the Shares which are the subject of Resolution 6 and are not additional Shares. The terms and conditions of the Shares are set out in the information provided in respect of Resolution 6 (above). The proposed use of funds raised by the issue of Shares to Mr Cooper and Mr Revelins will the same as for the other funds received under the Capital Raising described above in respect of Resolution 6, i.e. for working capital, particularly in connection with the implementation of the Proposal.

The Shares the subject of Resolution 7 shall be issued by the date no later than one (1) month after the date of the Meeting or such later date as may be allowed by ASX. Shares will be issued progressively as applications are received and accepted.

Resolution 7 is subject to Resolutions 1, 2, 3, 4, 5, and 6 being passed. None of the Resolutions proposed for the meeting are conditional upon Resolution 7 being passed, and the passing of Resolution 7 is not a condition of the Proposal.

4.6 RESOLUTION 8: ELECTION OF DR Z J MINAS AS A DIRECTOR OF THE COMPANY

If the Proposal is implemented and the Company acquires all the issued shares of Intelliheart, it is proposed that Dr Zissis Jack Minas become a director of the Company.

Dr Minas as been the sole director of Intelliheart and has developed experience and contacts which the Directors consider will be of considerable importance to the Company following the acquisition of Intelliheart, to obtain the best results from the opportunities presented by the acquisition.

Brief details of Dr Minas' background and experience are set out in section 3.10 of this Memorandum.

If elected, Dr Minas will take office upon completion of the acquisition of Intelliheart. Therefore, Dr Minas's election is subject to Resolutions 1, 2, 3, 4 and 5 being passed and approval for the Capital Raising being received by Resolution 6 being passed.

4.7 RESOLUTION 9: ELECTION OF MR P R HARDY AS A DIRECTOR OF THE COMPANY

If the Proposal is implemented and the Company acquires all the issued shares of Intelliheart, it is proposed that Mr Peter Hardy be appointed as the Chief Executive Officer of the Company, and join the Board as a director.

Brief details of Mr Hardy's background and experience are set out in section 3.10 of this Memorandum.

If elected, Mr Hardy will take office upon completion of the acquisition of Intelliheart. Therefore Mr Hardy's election is subject to Resolutions 1, 2, 3, 4 and 5 being passed and approval for the Capital Raising being received by Resolution 6 being passed.

4.8 RESOLUTION 10: APPROVAL OF ISSUE OF OPTIONS TO A PROPOSED DIRECTOR

Resolution 10 provides for the issue to Mr Peter Hardy, a proposed director, or his nominee of 5 million (5,000,000) free Options each to acquire one (1) ordinary share in the capital of the Company deemed fully paid at an exercise price of $0.02 (two cents), expiring on 31 December 2008. Full details of the terms of the Options are set out in Section 3.11 of this Memorandum. Mr Hardy's election as a director is the subject of Resolution 9. The outcome of Resolution 9 will be known at the time of considering Resolution 10. If elected, Mr Hardy will not take office as a director until completion of the Company's acquisition of all the issued shares of Intelliheart.

The options which are the subject of Resolution 10 will be issued by the day no later than one (1) month after the date of the Meeting.

No funds will be raised by the issue of the Options.

The passing of Resolution 10 would permit financial benefits in the nature of options to acquire Shares in the Company to be given to Mr Hardy, or his nominee, within the meaning of Chapter 2E of the Corporations Act.

A valuation of the Options proposed to be issued pursuant Resolution 10 is set out in Section 3.11 on page 17 of this Memorandum. Using the valuation calculated by the Black & Scholes methodology (1.6 cents ($0.016) per Option), the value of the Options proposed to be issued to Mr Hardy is $80,000.

None of the current Directors has a personal interest in the outcome of Resolution 10 and each considers the proposal and passing of the Resolution and the issue of the Options to be in the interests of the Company, recommends to members that the Resolution be passed, and proposes to vote those shares in which he has an interest and which are eligible to vote on the Resolution in favour of the Resolution.

At the time of preparation of this Memorandum, Mr Hardy was not a Director of the Company. Therefore, Mr Hardy has made no recommendation in respect of Resolution 10.

It is not considered that the Company will incur detrimental opportunity costs if the Options are issued to Mr Hardy. It is not anticipated that the issues will materially affect the Company's ability to issue further options to raise funds in the future, and the issue of Options the subject of Resolution 10 provides an incentive to Mr Hardy without diminishing the availability of the Company's cash resources for pursuing the Company's objectives. The Company does not consider there would be adverse fringe benefits or other tax consequences of issuing the Options to Mr Hardy.

4.9 RESOLUTION 11: APPROVAL OF ISSUE OF SHARES AND OPTIONS TO MR L M CULLEN

Resolution 11 has been proposed to provide for the proposed allotment of 7 million (7,000,000) Shares at a deemed issue price of $0.02 (two cents) per Share together with 1 million (1,000,000) free attaching Options each to acquire one (1) ordinary share in the capital of the Company deemed fully paid at an exercise price of two cents ($0.02) expiring on 31 December 2008 to Mr Leslie Mark Cullen or his nominee in satisfaction of the Company's obligations pay project coordination fees totalling $150,000 to Mr Cullen.

Full details of the terms of the options are set out in Section 3.11.

The shares and options which are the subject of Resolution 11 will be issued by the day no later than three (3) months after the date of the Meeting.

The approval of Resolution 11 is required under ASX Listing Rule 7.1. No cash will be received from the initial issue of Shares and Options, as the purpose of the issue is to satisfy of the obligations of the Company to make payment to Mr Cullen. Funds received if the Options are exercised by Mr Cullen will be applied to working capital requirements at the time of exercise.

4.10 RESOLUTION 12: APPROVAL OF ISSUE OF OPTIONS TO MR A KOIMTSIDIS

Resolution 12 has been proposed to provide for the proposed allotment of 7.5 million (7,500,000) free Options each to acquire one (1) ordinary share in the capital of the Company deemed fully paid at an exercise price of two cents ($0.02) expiring on 31 December 2008 to Mr Arthur (Archie) Koimtsidis or his nominee in partial satisfaction of the Company's obligations to pay consulting fees to Mr Koimtsidis.

Full details of the terms of the options are set out in Section 3.11.

The options which are the subject of Resolution 12 will be issued by the day no later than three (3) months after the date of the meeting.

The approval of Resolution 12 is required under ASX Listing Rule 7.1. No cash will be received from the initial issue of Options to Mr Koimtsidis, as the purpose of the issue is to satisfy of the obligations of the Company to make payment to him. Funds received if the Options are exercised by Mr Koimtsidis will be applied to working capital requirements at the time of exercise.

4.11 RESOLUTION 13: APPROVAL OF ISSUE OF SHARES & OPTIONS TO PEREGRINE CORPORATE LTD

Resolution 13 seeks approval for the proposed allotment of 10 million (10,000,000) Shares at an issue price of $0.001 (one tenth of a cent) per Share together with 30 million (10,000,000) 3 for 1 free attaching 3 Cent Options each to acquire one (1) ordinary share in the capital of the Company deemed fully paid expiring on 31 December 2008 to Peregrine Corporate or its nominee.

As noted in section 4.2 above, Chapter 2E of the Corporations Act prohibits a public company from giving a financial benefit to a related party of the public company. Exceptions to this prohibition include where the public company first obtains the approval of its members in general meeting.

Two directors of the Company, Messrs Cooper and Revelins, are directors of, and are direct or indirect shareholders in, Peregrine Corporate. The Company considers it appropriate to seek shareholder approval for the proposed issue of Shares and 3 Cent Options to Peregrine Corporate as a related party of the Company within the meaning of Chapter 2E of the Corporations Act and Chapter 10 of the ASX Listing Rules.

Resolution 13 is also a resolution for the purposes of Listing Rule 10.11 of the ASX. Listing Rule 10.11 of the ASX prohibits a company issuing or agreeing to issue shares or options to a related party without the approval of members. If approval is given under Listing Rule 10.11, approval is not required under Listing Rule 7.1. The shares and options are to be issued within one (1) month of the meeting.

Resolution 13 is subject to Resolution 6 being passed.

In accordance with Chapter 2E, the following additional information is provided for members to make an assessment of whether or not to vote in favour of Resolution 13.

(a) **Related Parties to whom Resolution 13 would permit a Financial Benefit to be given**

Peregrine Corporate Limited, and Messrs Cooper and Revelins as direct or indirect shareholders in that company.

(b) **The Nature of the Financial Benefit**

The nature of the financial benefit is the issue of 10 million (10,000,000) shares and 30 million (30,000,000) 3 Cent Options to Peregrine Corporate as described above.

(c) **Directors' Recommendations**

Mr Steinepreis and Mr Warner recommend in favour of Resolution 13 and the giving of financial benefits to Peregrine Corporate and Messrs Cooper and Revelins as an incentive to Peregrine Corporate maintaining an ongoing involvement with the Company.

Mr Cooper and Mr Revelins each have a material personal interest in the outcome of Resolution 13 and therefore believe it is inappropriate to provide a recommendation with respect to same.

(d) **Interest of Directors in Outcome of the Proposal**

As indicated, Mr Cooper and Mr Revelins each have a material personal interest in the outcome of Resolution 13 as directors and shareholders of Peregrine Corporate (or as persons connected with shareholders of Peregrine Corporate).

Messrs Steinepreis and Warner have no interest in the outcome of Resolution 13.

(e) **Other Relevant Information for Consideration by Members**

Members should have reference to the whole of the matters set out in this Memorandum including this Section 4 when considering how to vote in respect of Resolution 13. Other than the information disclosed in this Memorandum and in the Independent Expert's Report, and taking into account information that has previously been disclosed to members, the Directors do not believe that there is any other information that is reasonably required in order for members to make a decision with respect to the Proposal.

The Notice of General Meeting which this Memorandum accompanies and forms part of, incorporates a statement that votes cannot be cast by certain shareholders, in accordance with section 224 of the Corporations Act, and a voting exclusion statement pursuant to the ASX Listing Rules. The effect of these restrictions is that related parties which Resolution 13 would permit to receive a financial benefit and who may participate in the proposed issue under the Resolution (Peregrine Corporate, Mr Revelins and Mr Cooper) and their respective associated entities or persons cannot vote on Resolution 13. No variation or waiver of those restrictions has been sought or obtained by the Company.

Application will be made to ASX for admission to Official Quotation of the Shares proposed to be issued to Peregrine Corporate pursuant to Resolution 13.

A valuation of the 3 Cent Options proposed to be issued pursuant Resolution 13 is set out in Section 3.11 of this Memorandum. Using the valuation calculated by the Black & Scholes methodology (1.2 cents ($0.012) per Option), the value of the Options proposed to be issued to Peregrine Corporate is $360,000.

The Company will incur opportunity costs if the Shares and 3 Cent Options are issued to Peregrine Corporate, in that the shares and options will not be available to be issued to another party. However, the Company is not restricted in its ability to issue further shares and options except where shareholder approval is required to exceed the limit of fifteen percent (15%) of issued shares twelve (12) months earlier, the ability to find subscribers for new shares and options, and the dilutive effect (if any) of a further issue. Against these opportunity costs (which are unable to be calculated) is the advantage to the Company of providing an incentive for Peregrine Corporate's ongoing involvement in, and assistance to, the Company without cash outlay. The Company does not consider there would be adverse fringe benefits or other tax consequences of issuing the Shares and 3 Cent Options to Peregrine Corporate.

Other information required for the purposes of ASX Listing Rule 10.11:

- The shares and options will only be issued if the Capital Raising is approved and proceeds;
- The shares to be issued are ordinary shares which will rank equally with the Company's existing listed ordinary shares;

- The terms of the 3 Cent Options are as set out in Section 3.11, except that their exercise price is three (3) cents per Share;
- Funds raised by the issue shall be applied to working capital, particularly in connection with the implementation of the Proposal.

5 INDEPENDENT EXPERT'S REPORT

IM Medical Limited

Independent Expert Report

28 July 2004

PKF Corporate Advisory Services (Vic) Pty Ltd

ABN 97 007 267 558

PKF

Level 11, CGU Tower
485 La Trobe St
Melbourne VIC 3000
GPO Box 5099BB
Melbourne Vic 3001
Tel: (03) 9603 1700
Fax: (03) 9602 3870
www.pkf.com.au

Ref: e:\data\advisory\vals\imme03\report.doc

28 July 2004

The Directors
IM Medical Limited
Suite 2
1233 High Street
ARMADALE VIC 3143

Dear Sirs

Re: INDEPENDENT EXPERT REPORT

Introduction

You have requested PKF Corporate Advisory Services (Vic) Pty Ltd ("PKF Corporate") to prepare an independent expert report to the Directors of IM Medical Limited ("IM Medical") advising whether the proposed acquisition of the shares in Intelliheart Pty Ltd ("Intelliheart") is fair and reasonable to the non-participating shareholders of IM Medical.

The key elements of the proposed transaction are as follows:

- IM Medical to acquire all the issued shares in Intelliheart;
- Issue of 50 million fully paid ordinary shares in IM Medical to the Intelliheart shareholders of which 47,500,000 are to be issued to Dr Zissis Jack Minas and 2,500,000 to Mr Les Cullen;
- Payment of a total of $499,000 in cash and the allotment of 12.5 million fully paid ordinary shares to the shareholders of Intelliheart in order to eliminate all debts payable to them by Intelliheart;
- Issue of up to a further 50 million fully paid ordinary shares to be issued upon Intelliheart achieving the following outcomes within nine months from the completion of the proposed transaction:
  - producing a fully functioning integrated prototype product fully incorporating the technology for presentation to and endorsement of at least 5 key opinion leaders including at least 3 senior cardio-vascular surgeons;
  - achieving regulatory approvals in the United States and Australia (or have established a clear path for establishment of those approvals); and
  - commenced negotiations with potential third party distributors and/or agents for the proposed products;
- Issue of up to a further 50 million fully paid ordinary shares to be issued upon Intelliheart achieving within 18 months of completion of the proposed transaction either:
  - Sales of $1.225 million;
  - Gross profit of $0.545 million; or
  - Earnings before interest, tax, depreciation and amortisation ("EBITDA") of better than negative $0.145 million;
- Issue of up to a further 50 million fully paid ordinary shares to be issued upon Intelliheart achieving within 24 months of completion of the proposed transaction either:
  - Sales of $6.7 million;
  - Gross profit of $3.2 million; or

- EBITDA of $2.5 million; and

- Capital raising to raise up to $2.5 million. This is to be undertaken at an issue price at the lower of 3 cents per share or 80 percent of the volume weighted average price of IM Medical during the 5 days immediately preceding the general meeting.

Purpose of Report

We understand that the independent expert report is required pursuant to Item 7 of Section 611 of the Corporations Act 2001 ("Corporations Act") in order to assist the non-participating shareholders in their decision to accept or reject the proposed transaction. This report is to be included in the Notice of Meeting forming part of the Explanatory Memorandum regarding the proposed transaction and will not be quoted or referred to or used for any other purpose unless written consent has been provided by PKF Corporate.

Opinion

In our opinion the proposed transaction is fair and reasonable. The opinion of PKF Corporate is based on economic, market and other conditions prevailing at the date of this report. This opinion should be read in conjunction with the attached report, the attached appendices and the Explanatory Memorandum of IM Medical.

Yours faithfully
PKF Corporate Advisory Services (Vic) Pty Ltd

Piera Murone

Piera Murone
Director

Frank Spencer
Director

CONTENTS

1. PROPOSED TRANSACTION

The terms of the proposed transaction are detailed in the Explanatory Memorandum and are summarised below.

IM Medical is proposing to acquire all the issued shares in Intelliheart. As consideration for the shares in Intelliheart, IM Medical proposes to undertake the following:

- Issue 50 million fully paid ordinary shares in IM Medical to the Intelliheart shareholders 47,500,000 to Dr Minas and 2,500,000 to Mr Cullen. Of the 47,500,000 to be issued to Dr Minas, 5,000,000 is to be issued to his nominees;
- Pay $499,000 in cash and allot 12.5 million fully paid ordinary shares in IM Medical to the Intelliheart shareholders;
- Issue up to a further 50 million fully paid ordinary shares to Intelliheart upon achieving the following outcomes within 9 months from the completion of the proposed transaction:
  - producing a fully functioning integrated prototype product fully incorporating the technology for presentation to and endorsement of at least 5 key opinion leaders including at least 3 senior cardio-vascular surgeons;
  - achieving regulatory approvals in the United States and Australia (or have established a clear path for establishment of those approvals); and
  - commenced negotiations with potential third party distributors and/or agents for the proposed products (herein referred to as “Milestone shares 1”);
- Issue up to a further 50 million fully paid ordinary shares to Intelliheart upon achieving within 18 months of completion of the proposed transaction either:
  - Sales of $1.225 million;
  - Gross profit of $0.545 million; or
  - EBITDA of better than negative $0.145 million (herein referred to as “Milestone shares 2”);
- Issue up to a further 50 million fully paid ordinary shares to be issued upon Intelliheart achieving within 24 months of completion of the proposed transaction either:
  - Sales of $6.7 million;
  - Gross profit of $3.2 million; or
  - EBITDA of $2.5 million (herein referred to as “Milestone shares 3”).

In relation to the 2nd and 3rd Milestones, if the results achieved are below the set targets, the number of shares issued will be proportionate to the targets set on a pro-rata basis.

All claims, loans or entitlements by Intelliheart shareholders against Intelliheart will be eliminated.

In addition to the proposed acquisition of Intelliheart, it is proposed that IM Medical will undertake a capital raising to raise up to $2.5 million ("the Proposed Capital Raising"). The Proposed Capital Raising will involve the issue of ordinary shares at an issue price at the lower of 3 cents per share or 80 percent of the volume weighted average price of IM Medical during the 5 days immediately preceding the general meeting. The share issue will be accompanied by an issue of free attaching one for two options exercisable at 4 cents per share.

The company is also proposing to issue a total of 43.5 million options, 13.5 million options with an exercise price of 2 cents per share to the directors of IM Medical and to various others and 30 million options to Peregrine Corporate with an exercise price of 3 cents per share in lieu of services provided.

The proposed transaction is subject to approval of IM Medical's non-associated shareholders at the Extraordinary General Meeting. The resolutions regarding the proposed transaction are interdependent and accordingly are required to be passed together.

2. INDEPENDENT EXPERT REPORT

2.1 Purpose of the Report

Section 611 of the Corporations Act requires that, in the absence of an offer in which all shareholders can participate, any allotment of shares which increases a persons holding to 20 percent or greater of the issued share capital of the company, or where the person holds more than 20 percent but less than 90 percent, increases their holding by more than 3 percent, be approved by the shareholders who are not participating in the proposed allotment.

Under the proposed transaction it is intended that the current shareholders of Intelliheart be issued 62,500,000 ordinary shares in IM Medical. It is also proposed that up to 150,000,000 ordinary shares in IM Medical be issued to the current shareholders of Intelliheart upon the achievement of three milestones described in section 1 of this report. As a result, a shareholder of Intelliheart, Dr Minas, may hold in excess of 20 percent of the issued share capital of IM Medical. Consequently IM Medical is required to seek approval of the proposed transaction from the non-associated shareholders pursuant to Section 611 of the Corporations Act.

Policy Statement 74 issued by the Australian Securities and Investments Commission ("ASIC") sets out, inter alia, the minimum information it considers should be provided to shareholders in order to assist them in deciding whether or not to approve the issue of shares pursuant to Section 611 of the Corporations Act. One of the items of information to be provided is a report by an independent expert stating whether or not, in the opinion of the expert, the proposed allotment is fair and reasonable, having regard to the interests of the non-associated shareholders. In addition the expert should give an opinion as to whether the company will receive any premium for control as a result of the issue.

PKF Corporate has been appointed by the directors of IM Medical to prepare such a report.

2.2 Assessment of Fairness & Reasonableness

The Corporations Act provides no definition as to the meaning of fair and reasonable.

ASIC Policy Statement 75 provides guidelines in determining whether a transaction is fair and reasonable for the purpose of reports under Section 640 of the Corporations Act relating to takeover offers. Policy Statement 75 states that fairness relates to price whereas reasonableness will include the consideration of factors other than price.

ASIC Policy Statement 74 provides guidelines in determining whether a transaction is fair and reasonable for the purpose of reports under Section 611 of the Corporations Act. Policy Statement 74 states that what is fair and reasonable for non-associated shareholders should be judged in all the circumstances of the proposal, with a comparison made of the likely advantages and disadvantages for the non-associated shareholders if the proposal does or does not proceed.

In determining whether the proposed transaction is fair and reasonable we have:

- estimated the market value of the shares in IM Medical prior to the proposed transaction;
- estimated the market value of the shares in IM Medical following the proposed transaction;
- assessed the fairness of the proposed transaction by comparing the market value of the shares in IM Medical both prior to and post the proposed transaction; and
- assessed the reasonableness of the proposed transaction having regard to the potential advantages and disadvantages to the non-associated shareholders of the proposed transaction.

3. PROFILE OF IM MEDICAL

3.1 Company History & Activities

IM Medical has recently come out of Administration. Its assets mainly consist of intangible assets and cash. Significant events in IM Medical's history include the following:

Apr 2000	Western Diamond Corporation Limited acquired all the shares in Integra Medical Imaging Limited ("IMI") and changed its name to Integra Medical Imaging Limited
Jul 2002	Divested its Defence Contracting Division, Integra Australia Pty Ltd to Ebor Enterprises Pty Ltd for $200,000.
Dec 2002	IMI entered into a confidential Heads of Agreement with a leading Melbourne based provider of health services to acquire all that company's assets and in consideration issue shares in IMI and $3 million cash.
Mar 2003	Announced that the deal with the Melbourne-based provider of health services fell through (due to rejection by unit holders), leaving IMI without a substantial business. IMI was subsequently suspended from the Australian Stock Exchange ("ASX"), as a result of a resolution of the Board of Directors placing it into administration. Horwarth Melbourne were appointed administrators of IMI.
May 2003	Administrators deconsolidated the subsidiaries of IMI. IMI's wholly owned subsidiary, Integra Australia Pty Ltd was placed into liquidation and Integra Medical Imaging (Aust) Pty Ltd had administrators appointed.
	A Deed of Company Arrangement was entered into with Ascent Capital Pty Ltd representing an Investment Group to recapitalise IMI.
Nov 2003	IMI undertook a capital restructure. This involved the capital consolidation of shares on a 1:5 basis and the raising of $1.3 million through the issue of 120 million fully paid ordinary shares at 1 cent each, 100 million fully paid ordinary shares at 0.1 cent each and 12 million unlisted options exercisable at 1 cent each on or before 31 December 2005 for nil consideration. Following the capital restructure, the company went out of Administration.
Dec 2003	The company changed its name from Integra Medical Imaging Limited to IM Medical Limited.
Feb 2004	The company was re-admitted to the official list on 10 February 2004, and re-listed on the ASX on 12 February 2004.

Since re-listing on the ASX, IM Medical has focussed on finding a suitable business or technology to acquire. Should the proposed acquisition of Intelliheart be approved, the company will concentrate on developing the Intelliheart Diagnostics System.

3.2 Board of Directors

The Board of directors of IM Medical comprise:

Directors

Person	Role
Richard Revelins	Chairman
Jeremy Cooper	Executive Director
Hugh Warner	Non-Executive Director
David Steinepreis	Non-Executive Director

Source: Appendix 4D: Half yearly report

Summarised below is a brief description of the background of key management personnel:

Mr Jeremy Cooper

Mr Cooper has 14 years experience in senior management positions with major international corporations, focusing on strategy, business development and mergers and acquisitions. He obtained his BA from Cambridge University and his MBA from INSEAD.

Mr Cooper is currently a director of Premier Bionics Ltd, Select Vaccines Limited, Gaming and Entertainment Group Limited and Peregrine Corporate Ltd.

David Steinepreis

David Steinepreis is a Chartered Accountant and former partner of an international accounting firm where he specialised in strategic corporate advice and taxation for listed companies. He entered commerce as a director, adviser and major shareholder of a number of listed companies in the gold, diamonds, oil and new mining technology sectors.

Mr Steinepreis is a director of various entities listed on the ASX, including GEO2 Ltd, Extract Resources Ltd, QVis Limited, Nautilus Australia Ltd, and Kanowna Lights Limited. He is also a director of Black Rock Oil & Gas PLC, an oil and gas exploration company listed on the Alternative Investment Market in London and Aegean International Gold Inc, a company listed on the TVX in Canada. Mr Steinepreis is chairman of Ascent Capital Pty Ltd.

Mr Hugh Warner

Hugh Warner holds a Bachelor of Economics Degree from the University of Western Australia and has completed postgraduate studies in accounting and law. Mr Warner has been involved with a number of private and publicly listed companies in Australia, UK and Canada involved in the oil and gas, gold, diamonds and technology sectors.

Mr Warner is a director of various entities listed on the ASX, including Extract Resources Ltd, Q-Vis Limited, Nautilus Australia Ltd, GEO2 Limited and Kanowna Lights Limited. He is also a director of Aegean International Gold Inc. listed on the TVX in Canada, Black Rock Oil & Gas PLC listed on the London AIM market and Ascent Capital Pty Ltd.

Mr Richard Revelins

Mr Revelins has held senior executive positions in merchant banking and stockbroking firms and has acted as an advisor to a number of public companies in such matters as takeovers, mergers and acquisitions, sale of businesses, debt and equity raisings and strategic financial advice.

Mr Revelins is currently a director of Prima BioMed Limited, Yamarna Goldfields Limited, Gaming and Entertainment Group Limited, Peregrine Corporate Limited, Peregrine Strategic Limited, Peregrine Securities NL and Cangold Limited (Vancouver) and Company Secretary of Prana Biotechnology Limited.

3.3 Capital Structure and Shareholders

As at 20 May 2004, IM Medical had 233,432,591 ordinary shares on issue. The company also had the following quoted and unquoted options:

Options

Option Type	Expiry Date	Number	Exercise Price
IMIO - Quoted	31 Dec 2004	4,812,637	$1.00
Unquoted	31 Dec 2005	200,000	$0.50
Unquoted	31 Dec 2005	12,000,000	$0.01
		17,012,637	

Source: Management of IM Medical

Outlined in the table below is an analysis of shareholders as at 20 May 2004:

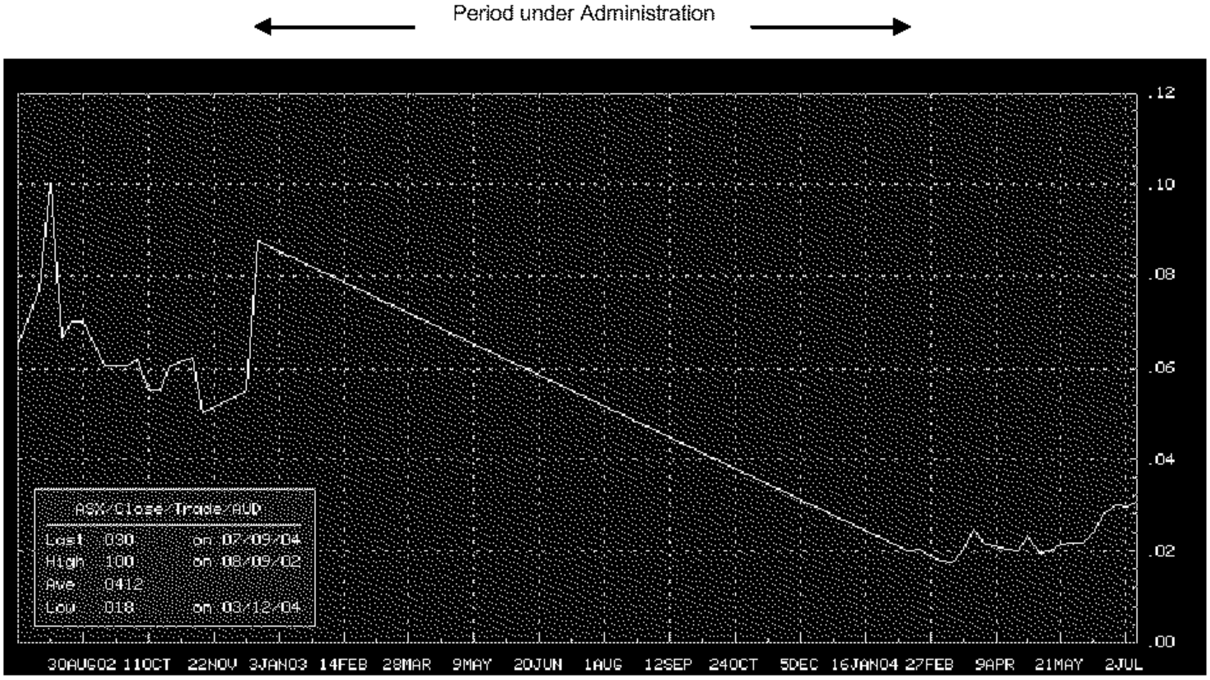
Top 20 Shareholders

	Shareholders	Shares	%
1	Farcam Pty Ltd	50,000,000	21.42
2	Serec Pty Ltd	18,250,000	7.82
3	Bournemead International	11,250,000	4.82
4	ANZ Nominees Ltd	10,055,710	4.31
5	Ascent Capital Pty Ltd	9,150,000	3.92
6	David Hannon Invests Pty Ltd	9,000,000	3.86
7	Blue Mountain Advisors Ltd	8,997,669	3.85
8	Darontack Pty Ltd	8,540,626	3.66
9	Warner Dianne Michelle	8,294,871	3.55
10	Weighbridge Trust Ltd	8,250,000	3.53
11	Actionette Pty Ltd	8,000,000	3.43
12	Bluffpoint Corporation Pty Ltd	6,500,000	2.78
13	Mungala Investments Pty Ltd	6,382,059	2.73
14	N+J Mitchell Holdings Pty	5,797,203	2.48
15	Oakhurst Enterprises Pty	5,544,872	2.38
16	Churn & Burn Pty Ltd	5,000,000	2.14
17	Weighbridge Trust Ltd	4,730,033	2.03
18	Leisurewest Consulting Pty	4,000,000	1.71
19	Pratt James Douglas	3,384,616	1.45
20	Hearne Paul Robert	3,334,616	1.43
	SUB-TOTAL	194,462,275	83.3
	Other Shareholders	38,970,316	16.7
	TOTAL SHARES	233,432,591	100.00

Source: Management of IM Medical

3.4 Share Price

The share price of IM Medical over the past two years (including the period during which it was in Administration and was delisted) is illustrated below.



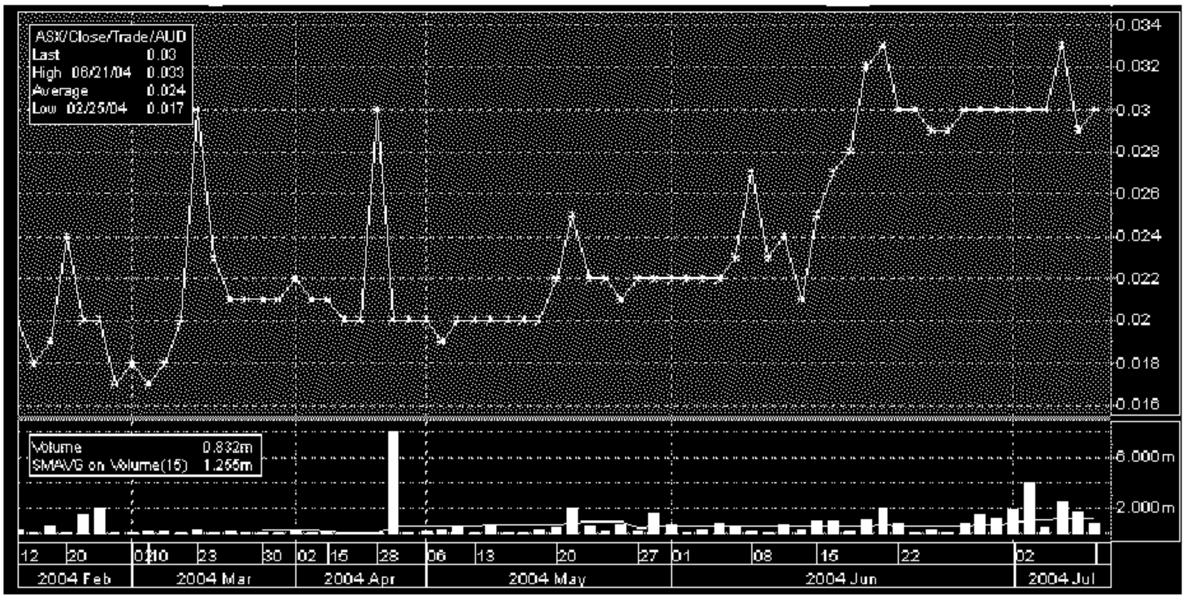
Source: Bloomberg

The weekly average share price of IM Medical since re-listing on the ASX, from 12 February 2004 to 9 July 2004 is summarised in the table below:

Date	Price $	Volume (mill)	Date	Price $	Volume (mill)
20 Feb	0.024	0.656	07 May	0.019	0.462
27 Feb	0.017	3.320	14 May	0.020	1.270
05 Mar	0.018	0.064	21 May	0.025	2.630
12 Mar	0.018	0.256	28 May	0.022	3.090
19 Mar	0.020	0.001	4 Jun	0.022	1.880
26 Mar	0.021	0.435	11 Jun	0.021	1.630
02 Apr	0.022	0.202	18 Jun	0.032	3.350
09 Apr	0.021	0.038	25 Jun	0.029	3.080
16 Apr	0.020	0.040	2 Jul	0.030	5.260
23 Apr	0.020	0.008	9 Jul	0.030	9.360
30 Apr	0.020	8.150			

Source: Bloomberg

The chart below plots the volume and share price of IM Medical over this period:



Source: Bloomberg

The share price has fluctuated significantly over the above period, from a high of 3.3 cents on 21 June 2004 and 7 July 2004 to a low of 1.7 cents on 25 February 2004 and 10 March 2004. Prior to the announcement of the acquisition of Intelliheart, the shares of IM Medical had been illiquid (with some days having no shares traded). The share price prior to the acquisition announcement predominantly remained around the 2 cents range with price spikes to 3 cents.

On 29 April 2004 the company announced the proposed acquisition of Intelliheart. There were 7.9 million shares traded on the day. The share price has steadily increased to around the 3 cents range, hitting the 3.3 cents peak on 7 July 2004, the day after the company announced that the acquisition would proceed.

3.5 Historical Performance

Summarised below are the audited consolidated statements of financial performance for IM Medical for the three years ended 30 June 2003 and unaudited results for the year ended 30 June 2004.

IM Medical Consolidated Statement of Financial Performance

	2001 $'000	2002 $'000	2003 $'000	2004 $'000
Revenue from trading activities *	1,074	1,464	441	-
Earnings Before Interest, Tax, Depreciation & Amortisation	(3,363)	(3,794)	(4,474)	503
Earnings Before Interest & Tax	(4,204)	(4,700)	(4,948)	498

** This excludes other revenues received during the respective periods from the proceeds from the sale of non-current assets and businesses.*
Source: Audited accounts and management accounts for the period ended 30 June 2004.

IM Medical's revenue from trading activities during the 2001 to 2003 financial years was generated from the provision of medical imaging technology. Losses were incurred during the respective period largely as a result of high employment costs and overheads (relative to sales generated from trading activities) and significant write-down of goodwill and intangibles.

Although IM Medical was under Administration during a large part of the year ended 30 June 2004, the earnings generated during this period arose as a result of a write-off of $957,893 of debts under the Deed of Company Arrangement and brought to account as revenue.

3.6 Financial Position

The audited statement of financial position of IM Medical as at 31 December 2003 together with the unaudited statement of financial position as at 30 June 2004 are summarised in the table below:

IM Medical Statement of Financial Position

	31 Dec 2003 $'000	30 Jun 2004 $'000
Current Assets		
Cash	1,137	686
Option in Intelliheart	-	50
Tax paid/refund	-	43
Other	3	-
Total Current Assets	**3**	**779**
Non-Current Assets		
Intangible assets	32	27
Total Non-Current Assets	**32**	**27**
Total Assets	**1,172**	**806**
Liabilities		
Payables and accruals	243	71
Total Liabilities	**243**	**71**
Net Assets	**929**	**735**

Source: Audited accounts & management accounts

The movement in cash is principally a result of payments of payables, recapitalisation costs, Administration fees to Horwath, the purchase of plant and equipment and payment of the option to acquire shares in Intelliheart.

The intangible assets were acquired from the Administrators on 28 November 2003 for $32,000 and relate to the following medical imaging technologies:

- IMITel Web-enabled Technology - this technology allows access to remote medical imaging via the internet;
- Imaging Processing Technology - this software allows medical images to be processed to produce images and/or data, which have diagnostic value to medical practitioners; and
- Image Capture Technology - this software captures medical images and displays them for surgeons during an operation.

Management of IM Medical have indicated that they intend to revisit their business plan for these technologies to determine how to progress their commercialisation.

4. PROFILE OF INTELLIHEART

4.1 Company History & Activities

4.1.1 Brief History of Company

Intelliheart is an Australian company incorporated in February 2001 to commercialise Dr Minas' research and development of the Intelliheart Diagnostics System ("IHDS"). IHDS offers a simple, non-invasive method of detecting blood vessel disease before signs or symptoms of vascular disease first appear. It permits the measure of premature stiffening of the arteries.

Dr Minas' interests in cardiovascular disease ("CVD") began in the early 1970's where he practised as a cardio-thoracic intern. In 1999, while still conducting his general practice, Dr Minas commenced his research into a comprehensive system using diagnostic tools, where over the next five years he worked to develop and trial the system into its current form today.

Over the past five years, Dr Minas has used the IHDS on approximately 2,500 patients and has established a large database of information.

In 2003, Dr Minas started to seek overseas interest, making contacts with potential distributors in Saudi Arabia, the United Arab Emirates, Japan and New Zealand. Intelliheart recently exhibited its IHDS at a medical products trade show in the United Arab Emirates, where it was well received. As a result, Intelliheart has been invited back to the United Arab Emirates to present to potential equipment purchasers and a medical panel.

The current shareholders of Intelliheart are Dr Minas (95 percent) and Mr Cullen (5 percent).

4.1.2 Intelliheart System

The IHDS is a new approach to the assessment and management of CVD. IHDS enables the assessment of risk status for CVD and early detection of established CVD.

The IHDS has a four phase process comprising:

- Patient interview (Phase 1);
- Diagnostic measurements (Phase 2);
- Diagnostic analysis (Phase 3); and
- Report and management (Phase 4).

Phase 1 - Patient Interview

A three page questionnaire is given to the patient and a detailed clinical account of the patient is taken, using a computerised template. Information obtained includes age, gender, height and weight, family history and lifestyle patterns such as smoking, alcohol consumption, diet and exercise.

Phase 2 - Diagnostic Measurements

Precise measurements are taken using a comprehensive array of tests, all conveniently incorporated into a mobile trolley that can be operated by a trained nurse or technician. The medical tests conducted are a combination of the following four existing and approved technologies which undertake the following:

- 12 Lead electrocardiogram ("ECG") - an electrical recording of the heart.
- Blood pressure - measures the blood pressure in the arm.

- Pulse wave velocity - a relatively newly-established technique for obtaining a measure of arterial stiffness between any two locations in the arterial tree. The velocity of the blood pressure pulse along an artery is dependent on the stiffness of the artery. Measurement of pulse wave velocity in a section of the artery will indicate the magnitude of change in arterial stiffness in that section of artery.

  IHDS incorporates a pulse wave velocity device, which non-invasively measures the velocity of the blood pressure waveform between two artery sites.

- Heart rate variability - shown in numerous studies to be a strong predictor of future CVD. This test is a non-invasive method of assessing the balance between stress and relaxation on the heart and major blood vessels. When a state of high stress is maintained, the patient runs a much higher risk of coronary failure. This test quantifies that risk.

  In addition, diabetics have poor heart rate variability test results, so Intelliheart's tests are also strong predictors of diabetes.

Although not performed as part of the IHDS, the patient is also asked to provide blood test results for levels of cholesterol and inflammatory markers.

The medical testing procedures are non-invasive and would take approximately half an hour to complete. All components currently used are Therapeutic Goods Administration ("TGA") approved.

Phase 3 - Diagnostic Analysis

All data gathered in Phases 1 and 2 is encrypted and is electronically sent to Intelliheart for analysis using the IHDS proprietary software (which uses the summary Framingham (USA) and Busselton (Australian) heart survey data as its reference).

Phase 4 - Report and Management

A report is generated which contains the patient's details, test results and assessment of the absolute and relative risk of developing coronary heart disease during the next 10 years as a percentage. From the printed report, general practitioners ("GPs") may be better equipped to advise and manage their patient's health and wellbeing. Preventative drugs may be prescribed or a lifestyle change program initiated from the results.

4.1.3 Management and Personnel

Dr Minas is the founder of Intelliheart and is the only person involved with company, acting as the managing director. Dr Minas graduated from the University of Melbourne and has been a general practitioner for almost 30 years. He is the principal of a medical clinic in Doncaster, Victoria.

During his years of general practice, Dr Minas also has been a councillor for the AMA (Victorian Western Suburban Division) and has held several other management positions within AMA, including a board position for the inner Melbourne sub-division.

4.2 Target Market of Intelliheart

The Australian target market comprises:

- Major hospitals - approximately 700+ public and 500+ private;
- General practices ("GPs") with more than 3 physicians - approximately 1,500+ practices;
- Specialists in coronary medicine and diabetes;
- Testing for insurance companies, employees of corporations, sporting clubs and associations; and
- People generally concerned about their health.

In the initial stages, it is envisaged that the majority of Intelliheart's sales would be to medical practices with three or more GPs. Practices with less than three GPs (which comprise approximately 80 percent of the total general practice market) have been ignored as GPs are typically averse to high capital spending.

Dr Minas has made a number of contacts with potential distributors in Saudi Arabia, the United Arab Emirates, Japan and New Zealand. Discussions are still in its early stages, with the most advanced of these is in the United Arab Emirates, where Intelliheart has been invited to present its product to potential equipment purchasers and a medical panel.

4.3 Marketing Strategy of Intelliheart

Intelliheart have identified the following two revenue streams:

- Product sale - the IHDS will be sold to Intelliheart's identified target markets; and
- Testing revenue - Intelliheart intends to charge a fee for every test performed using the IHDS.

Intelliheart intends to employ a team of between 8 to 10 people (including administration staff) to undertake marketing and sales of the IHDS product and services to its target markets. The sales and marketing team will be responsible for the sale of IHDS, which is expected to retail in the range of $40,000 to $45,000.

During the initial stages, Intelliheart's aim is to promote the IHDS amongst medical practitioners. The sales and marketing team will identify a number of large and successful medical clinics, CVD specialists, hospitals and specialist centres in Melbourne and Sydney, where the IHDS will be provided to these places at no cost. Intelliheart, however, will receive a fee for every test performed by the IHDS. By providing the IHDS at no upfront charge, Intelliheart hopes to gain the acceptance of the medical profession in a short period of time.

Intelliheart also intends to open its own "HeartWatch" clinics in Melbourne and Sydney that will provide the IHDS services to the general public. The sales and marketing team will promote the IHDS to insurance companies, corporates, unions, clubs and associations. The cost per test is planned to be around $195 and the testing program for these entities will be performed at Intelliheart's HeartWatch clinics.

Currently, the Medicare rebate amount per test is $95. Intelliheart plans to lobby Medicare for an increase in this amount.

4.4 Promotion of Intelliheart

Promotion of Intelliheart through the expert medical community (eg. cardiologists) and the community at large are considered the key drivers to the success of Intelliheart.

Intelliheart intends to promote its products and services by emphasising the benefits of non-invasive technology and the breadth of testing provided by IHDS through the following channels:

- Participate in key medical conferences, both in Australia and in selected overseas target markets;
- Advertise in and write research articles for selected medical journals;
- Provide internet-based product information and information on the benefits of IHDS testing to the untested community;
- Prepare literature educating physicians, hospitals and government regulators; and
- Supporting clinical studies at major institutions that demonstrate the validity, cost efficiency, reproducibility and efficacy of the Intelliheart system.

4.5 Supply and Manufacture of the IHDS

Intelliheart has entered into negotiations and are close to finalising a deal with AtCor Medical Pty Ltd to supply the pulse wave velocity and heart rate variability components of the IHDS. The components will then need to be assembled into one fully integrated unit. Management advises that the assembly process should not be a complex and costly process and will be sub-contracted out.

4.6 Historical Performance

The company has not traded. The statement of financial performance shows a loss of $2,848 for the year ended 30 June 2004 as a result of paying accounting and filing fees for the year. The financial accounts also show accumulated losses to 30 June 2004 of $3,496 for Intelliheart.

4.7 Financial Position

Summarised below is the unaudited Statement of Financial Position of Intelliheart as at 30 June 2004.

Intelliheart Statement of Financial Position

	30 June 2004 $'000
Assets	
Plant & equipment	209
Intellectual property	538
Total Assets	**747**
Liabilities	
Shareholders loans	751
Total Liabilities	**751**
Deficiency in Net Assets	**(4)**

Source: Unaudited Financial Statements prepared by Johnson Partners

Legal advice given to Dr Minas indicates that the IHDS intellectual property is able to be protected by a patent. However, once a patent is sought, Dr Minas would be required to divulge highly confidential information on the process and system. Therefore, once the transfer of the intellectual property has taken place, Intelliheart will continue to pursue protection of its intellectual property through copyright.

5. THE MEDICAL DIAGNOSTIC INDUSTRY

5.1 Overview

The industry in which Intelliheart operates is the medical diagnostic equipment industry. The medical diagnostic equipment industry covers a vast number of products and markets, however, the market that Intelliheart focuses upon is the diagnosis of cardiovascular diseases.

5.2 Cardiovascular Disease

The World Health Organisation estimates that 16.6 million or one third of total global deaths in 2001 resulted from the various forms of CVD, the leading cause of death worldwide. Many are preventable by action on the major primary risk factors: unhealthy diet, physical inactivity and smoking.

In Australia, CVD accounts for approximately 41 percent of deaths and is the leading cause of death. CVD can manifest itself in many ways: hypertension, coronary artery disease, peripheral artery disease, atherosclerosis, aneurysm, stroke, kidney failure and retinopathy.

Hypertension (high blood pressure) is the leading form of CVD and is of particular concern to older adults, as levels increase with age. Since hypertension can easily go undetected, it has been called the "silent killer" because it usually produces no symptoms until after it seriously damages the heart, kidneys, brain or some other organ. The seriousness of this problem increases as the population grows older because individuals with sustained high blood pressure have an increased overall death rate from stroke, heart attack and kidney disease.

Hypertension is a deadly disease that damages both large and small arteries, leading to pathological changes in the tissues or organs supplied by these damaged arteries and accelerating the development of atherosclerosis in large blood vessels and the arteries supplying blood to the brain, heart, kidneys and legs.

Atherosclerotic plaques can cause minimal strokes due to diminished blood flow (ischemia) to parts of the brain; angina from partly obstructed coronary arteries; or pain in the leg muscles when walking, a result of poor blood supply to the legs. Blood clots, which tend to occur at the sites of atherosclerotic narrowing, can totally block a vessel and cause a stroke or heart attack.

Epidemiological studies have shown that CVD is principally related to arterial pathology, which leads to the stiffening of the arteries. Arterial wall alterations are usually associated with age, smoking, diabetes, dyslipidemia and hypertension.

The walls of all arteries throughout the body are distensible - they expand and contract as blood pressure waves from the heart pass through the lumen, the passageway for blood within the arterial walls. Changes in function and structure of the arterial wall precede the development of obstructive coronary artery disease, and are an early indication of the CVD process.

5.3 Current Treatment of CVD

Most cardiovascular tests are performed to obtain results after a patient attends with overt CVD. These tests show how the heart reacts to increased workload. In fact, cardiovascular specialists spend considerable effort on evaluating heart function, including ECGs, Echocardiography and stress tests, but have been unable to assess the functional and structural abnormality of the arteries prior to the late phase of arterial obstruction.

Explained below are a number of tests currently used to detect CVD.

5.3.1 Stress Testing

An inexpensive (approximately $300 per test), low sensitivity and specificity for the diagnosis of coronary artery disease. The test requires greater than 70 percent blockage for a clear-cut diagnosis, classifying the remainder as "normal". Over 90 percent of future coronaries come from "normal" patients.

5.3.2 Stress Echocardiography

A reasonably expensive test (approximately $1,000 per test), requiring treadmill and state-of-the-art echocardiography machines. The test requires greater than a 50 percent blockage for a clear-cut diagnosis. However, approximately 85 percent of future coronaries come from patients with less than 50 percent blockage.

5.3.3 Stress Nuclear

An expensive test (approximately $1,500 per test), requiring high doses of irradiation, with the test often taking up to 5 hours to complete. The test requires greater than a 50 percent blockage for a clear-cut diagnosis.

5.3.4 Angiography

An expensive and invasive test, requiring high doses of irradiation. The test has the potential for vascular damage during the procedure (approximately 1 patient in 500-800 dies during the procedure). The test requires greater than a 50 percent blockage for a clear-cut diagnosis, missing the vast majority of patients at risk.

5.3.5 CT Scan of the Coronary Arteries

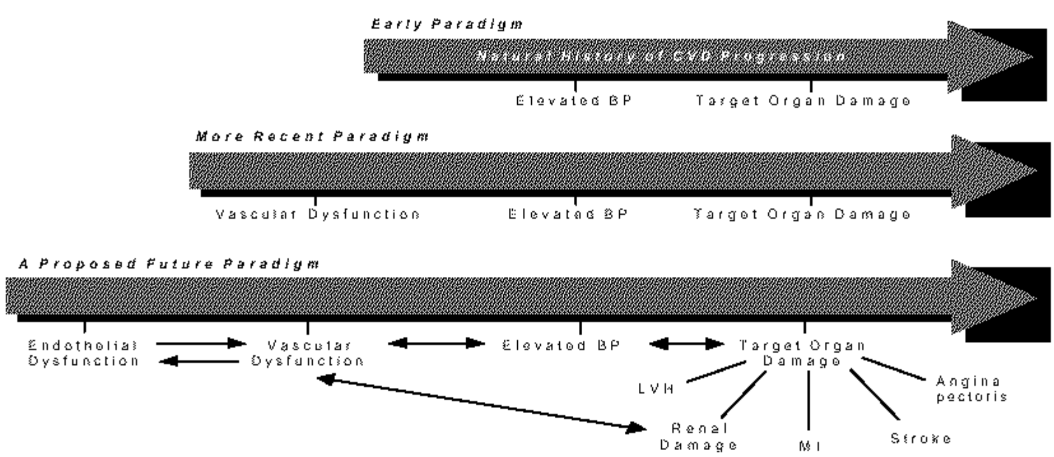
The test is expensive for patients, requiring very expensive equipment that accurately assesses the degree of atherosclerosis, but does not measure cardiac function or blood flow, nor does it detect blockages. The test requires irradiation, the dose being less than stress nuclear and angiography.

5.4 Paradigm Shift - The Need for Early Detection

The challenge for healthcare professionals is to engage greater numbers of patients, at an earlier stage of their disease, in comprehensive cardiovascular risk reduction with the use of interventions that are designed to circumvent or alleviate barriers to participation and adherence, so that many more individuals may realise the benefits that primary prevention can provide.

The current tests described above are complex and expensive. Their ability is limited in the detection of structural and functional abnormalities of the arteries before the end stages of advanced CVD. As indicated above, in some instances, patients are incorrectly diagnosed as "normal" where the patient's levels of arterial blockages are not high enough to indicate any cardiovascular problems.

Figure 1. Hypertension: The Disease Continuum



Source: Dr Glasser from Minnesota

Intelliheart offers a simple, non-invasive method of detecting blood vessel disease before signs or symptoms of vascular disease first appear. It permits the measure of premature stiffening of the arteries. On the above diagram, this represents the first stage, the endothelial dysfunction stage.

5.5 Competitors

The main difference between Intelliheart and its competitors is the breadth of the IHDS tests, compared to the partial nature of its competitors' which are described below.

5.5.1 USCOM Limited ("USCOM")

USCOM is listed on the ASX with a market capitalisation of approximately $128 million. Its product, the Ultrasonic Cardiac Output Monitor is a single product, being simply a more advanced echocardiogram, which calculates blood flow through the heart (measuring the heart pump only), not a whole system of medical diagnosis of the cardiac function and the risk a patient may be running.

5.5.2 Medical Monitors Limited ("Medical Monitors")

Medical Monitors is listed on the ASX with a market capitalisation of $15 million. The company provides home-based cardiac monitoring device and specialises in telephonic medical information flows. Its products mainly consist of 24-hour blood pressure and ECG monitoring devices. These devices are more suitable to patients who are already critically ill, as opposed to the IHDS, which is aimed at early detection for the whole adult population.

5.5.3 Hypertension Diagnostics Inc. ("HDI")

HDI is a US based company that is traded over the counter in the US with a market capitalisation of US$3.5 million (or A$4.8 million). HDI has developed blood pressure waveform analysis technology which measures the elasticity of large and small arteries, one of the technology components used by the IHDS. However, like the other competitors, HDI manufactures only a single machine, the CVProfiler, not a system of medical diagnosis. HDI have instituted a cost per test strategy at US$40 per test.

5.5.4 CardioDynamics International Corporation ("CardioDynamics")

CardioDynamics is a US based company listed on the NASDAQ with a market capitalisation of US$215 million (or A$298 million). The company is the inventor of and holds patents for a technology called Impedance Cardiography and develops, manufactures and markets non-invasive heart monitoring devices using this technology. This technology measures the heart's mechanical characteristics only, monitoring the heart's ability to deliver blood to the body (cardiac output or volume of blood pumped per minute). This technology however focuses only on one aspect of the health of the heart. CardioDynamics products have FDA and CE approval. The company sold 769 monitors in 2003 (at a price of US$35,000) and now has approximately 2,300 monitors installed across the US.

6 VALUATION METHODOLOGY

6.1 Overview

In establishing the market value of Intelliheart and the market value of IM Medical we have considered the following valuation approaches:

- market based;
- income based; and
- asset based.

6.2 Market Based Approach

The market-based approach is a valuation technique in which the value of a company is estimated by comparing the subject company to companies which have been sold or whose ownership interests are publicly traded. This is undertaken using either of the following methodologies:

- guideline company method; and/or
- merger and acquisition method.

Under the guideline method a portfolio of public companies is selected based on comparability of the subject company from which valuation multiples and other analytics are calculated. Multiples are then selected and applied to the subject entity to arrive at an indication of value.

The same principles apply to the merger and acquisition method however the multiples are sourced from mergers or acquisitions of entire companies rather than from minority trades of listed companies. This approach also looks at trades in the subject entity's own equity as well as alternative offers that have been or are likely to be made.

6.3 Income Based Approach

The income based approach determines the value of the shares based on the expected returns from the subject entity and the required rate of return thereon. This is undertaken using either of the following methods:

- discounted cash flow ("DCF"); and/or
- capitalisation of future maintainable earnings.

The DCF method has regard to the expected future economic benefits discounted to present value. This is considered appropriate where a forecast of future cash flows can be made with a reasonable degree of certainty. This approach is particularly relevant to the valuation of a business in its early growth stage but is equally applicable to any business with expectations of significant growth.

The capitalisation of future maintainable earnings method capitalises future maintainable earnings using an appropriate multiple. In order to apply this method it is necessary therefore to estimate future maintainable earnings and determine the capitalisation rate most appropriate to those earnings.

6.4 Asset Based Approach

The asset based approach determines the value of the shares having regard to the market value of the underlying assets and liabilities thereof. This approach includes the following methodologies:

- orderly realisation method; and
- liquidation method.

The orderly realisation method has regard to the amount that would be distributed to shareholders on the assumption that the entity would be liquidated with the funds realised from the sale of its assets, after payment of all liabilities including realisation costs and taxes, being distributed to shareholders.

The liquidation method is based on the same principles except that in the orderly realisation method, the assets are realised in an orderly manner, whereas, the liquidation method assumes that the assets are sold within a shorter time frame.

6.5 Selection of Approach & Methodology

Given IM Medical no longer has an active business, we have valued the equity using an asset based approach and have also had regard to the share price of IM Medical. In valuing Intelliheart, we have been unable to adopt traditional valuation methodologies but have had regard to financial data relating to listed and recently floated medical diagnostic companies.

7 VALUE OF IM MEDICAL - PRE PROPOSED TRANSACTION

Since coming out of Administration on 28 November 2003, the directors of IM Medical have been searching for a new business to acquire. However, with no current business operations, we are of the opinion therefore that the value of IM Medical prior to the proposed transaction is the amount that could be distributed to shareholders on liquidation of the company.

The table below summarises the unaudited statement of financial position of IM Medical as at 30 June 2004 and the estimated notional orderly realisation values.

IM Medical Balance Sheet - Orderly Realisation of Assets

		Realisation Values	
	Management Accounts $'000	Low $'000	High $'000
Current Assets			
Cash	686	686	686
Option in Intelliheart	50	-	-
Tax paid/refund	43	43	43
Total Current Assets	**779**	**729**	**729**
Non-Current Assets			
Intangible assets	27	-	27
Total Non-Current Assets	**27**	**-**	**27**
Total Assets	**806**	**729**	**756**
Liabilities			
Payables & accruals	71	71	71
Total Liabilities	**71**	**71**	**71**
Net Assets	**735**	**658**	**685**
Less: Realisation costs		(15)	(10)
Value based on orderly realisation of assets		**643**	**675**

Source: Management accounts

In the determination of the notional realisation value of the assets and liabilities of the business, the following assumptions have been made:

- *Cash* – adopted book value;
- *Option in Intelliheart* – nil value;
- *Tax paid/refund* - recoverable from the ATO at full value;
- *Intangible assets* – adopted a low value of nil and high value at the written down value;
- *Payables & accruals* – adopted book value; and
- *Realisation costs* – based on our firm's experience in these matters, the realisation costs would be in the order of $10,000 to $15,000.

It is likely that all of this amount would be distributable to shareholders in a liquidation. On that basis, we estimate that value of IM Medical to be in the range of $643,000 to $675,000, with a midpoint of $659,000.

As at 30 June 2004, IM Medical had 233,432,591 ordinary shares on issue. This equates to approximately 0.29 cents per share.

The above value compares to the current share price of IM Medical of approximately 2.9 cents per share. Given that the major asset within IM Medical is cash, we are of the opinion that the current market price is likely to be inflated by speculation as to the future of IM Medical and is not based on fundamentals. We have therefore ignored the share price in our assessment of the market value of IM Medical.

8 VALUE OF IM MEDICAL - POST PROPOSED TRANSACTION

8.1 Value of IM Medical - Post Proposed Transaction

In our view the value of IM Medical is likely to be enhanced should Intelliheart be successful in the roll-out of the IHDS. To date, Dr Minas has undertaken years of research and development of the IHDS and has made contact with potential overseas distributors. The next stage is to develop a fully functioning integrated prototype product incorporating the IHDS technology.

The degree of success or otherwise of the IHDS is dependent on a number of factors, including:

- Entering into an agreement for the supply and resale of its product as part of the IHDS;
- Entering into an assembly contract with a suitable company;
- Acquiring and installing server hardware and telecommunication links to enable patient testing and billing of clients;
- Obtaining TGA, FDA and CE approval for the fully integrated unit;
- Successful lobbying to the Federal government to provide a Medicare rebate for the whole test (at present, the patient can obtain a rebate for the ECG and doctor's consultation only);
- Acceptance of the IHDS by leading cardiologists and the medical profession in general; and
- Successful negotiation with overseas contacts to either distribute or sell directly into overseas markets.

Management has prepared internal cash flow and profit and loss projections for Intelliheart for the next five years. We have considered these projections, but given the hypothetical nature of such projections, together with the above risks, we have not included them in our report.

Notwithstanding the above, it would not be unreasonable to assume that the value of IM Medical would be enhanced with the acquisition of Intelliheart. In order for the proposed transaction to be considered fair, however, the value of the shares in IM Medical post the proposed transaction would need to be greater than or equal to 0.29 cents per share, being the value of the IM Medical shares prior to the proposed transaction.

The number of shares on issue following the proposed transaction and upon the satisfaction of the milestones, on an undiluted basis, is as follows:

Number of Shares – Post Transaction (undiluted)

	Completion Date	Milestone 1	Milestone 2	Milestone 3
Number of shares on issue	233,432,591	312,932,591	362,932,591	412,932,591
Issue of shares to Intelliheart shareholders	62,500,000			
Issue of shares to Intelliheart shareholders upon satisfaction of milestones set	-	50,000,000	50,000,000	50,000,000
Issue of shares to Les Cullen for corporate advisory services	7,000,000			
Issue of shares to Peregrine Corporate for $10,000 cash consideration	10,000,000			
Total Shares on issue post proposed transaction	**312,932,591**	**362,932,591**	**412,932,591**	**462,932,591**

To derive a value of 0.29 cents per share following the proposed transaction, the value of Intelliheart would need to be greater than $749,000 just prior to the proposed transaction proceeding and greater than $1.18 million upon the satisfaction of milestone 3, as determined below:

Implied Value of Intelliheart - Post Transaction (undiluted)

	Completion Date	Milestone 1	Milestone 2	Milestone 3
Shares on issue post proposed transaction	312,932,591	362,932,591	412,932,591	462,932,591
Value per share pre proposed transaction	0.29 cent	0.29 cent	0.29 cent	0.29 cent
Equity value required for proposed transaction to be fair ($'000)	908	1,053	1,198	1,343
Add: Payment of $429,000 to Dr Minas * ($'000)	429	429	429	429
Less: Value of IM Medical pre-transaction ** ($'000)	(659)	(659)	(659)	(659)
Implied Value of Intelliheart ($'000)	**678**	**823**	**968**	**1,113**

** $429,000 relates to cash to be paid to Dr Minas as part of the total consideration upon completion of the transaction.*
*** Midpoint value of the net assets of IM Medical on an orderly realisation basis (refer to section 7).*

We are of the opinion that it is not unreasonable to assume that the equity value of Intelliheart would be greater than or equal to $678,000 at completion date and greater than $1.11 million upon the satisfaction of milestone 3. To assess the reasonableness of this opinion, we have had regard to the following:

- The achievement of milestone 3, 24 months after the completion of the transaction, requires Intelliheart to have generated EBITDA of $2.5 million. This implies a forecast EBITDA multiple of 0.45. We are of the opinion that this implied multiple is low and that the value of Intelliheart would be higher than the implied value of $1.11 million if it were able to generate EBITDA of $2.5 million.
- The current market capitalisation of Intelliheart's listed competitors identified in section 5.5 of this report range from $4.8 million (for Hypertension Diagnostics Inc) to $298 million (for CardioDynamics International Corp), with an average of $111 million;
- We identified three Australian and one US company in the medical diagnostic industry that have floated on stock exchanges over the past two years. The market capitalisation of these companies ranged from $12.8 million to US$75.7 million (or A$108 million) as summarised below:

Medical Diagnostic Company Floats

Company	Country	Listing Date	Float Offer Price (per share)	Capital Raised ($m)	Indicative Market Cap ($m)
Cogstate Ltd	AUS	13 Feb 2004	$0.50	5.5	16.3
USCOM Ltd	AUS	10 Dec 2003	$2.00	16.0	76.0
Medec Ltd	AUS	9 Oct 2003	$0.50	3.5	12.8
Quinton Cardiology Systems Inc	US	6 May 2002	US$7.00	US$28.0	US$75.7

NB: A summary of the above companies have been provided in Appendix 1.
Source: Bloomberg and Company IPO documents

These companies were still in early stages prior to listing. The stage at which USCOM Ltd floated was very similar to Intelliheart. USCOM had not generated any sales prior to listing and raised capital to develop and commercialise its product. The other three companies however, had developed products, generated sales, but required capital to develop and fully commercialise their products and expand their operations.

Having regard to the above, we are of the opinion that the value of the IM Medical shares following the proposed transaction is likely to be greater than or equal to 0.29 cents per share.

The above opinion has been determined on the basis that the capital is not diluted by the exercise of options. As noted in Section 1 of this report, it is proposed that approximately 43.5 million options be issues, 13.5 million with an exercise price of 2 cents per share and 30 million with an exercise price of 3 cents per share. This is in addition to the existing options as outlined in section 3.3. As the exercise prices of these options are greater than the value of the IM Medical shares on a pre-transaction basis, we are of the opinion that the value of the IM Medical shares on a fully diluted basis is likely to be greater than 0.29 cents per share on a post-transaction basis.

8.2 Impact of Proposed Capital Raising

The Proposed Capital Raising will involve raising up to $2.5 million through the issue of ordinary shares to clients of Peregrine Corporate at an issue price at the lower of 3 cents per share or 80 percent of the volume weighted average price of IM Medical during the 5 days immediately preceding the general meeting. The Proposed Capital Raising will provide IM Medical with the funds required to take the company through to at least milestone 3. We have been advised that Peregrine Corporate is confident of raising the $2.5 million.

If the Proposed Capital Raising occurs at a price of 3 cents per share which is in excess of the pre-transaction value of IM Medical, we are of the opinion that this will increase the value per share on a post transaction basis. If however, the share price falls below 3 cents per share and the issue price is determined by the 80 percent of the volume weighted average share price formula, it would need to fall below 0.29 cents per share to be below the pre-transaction value of IM Medical. The current share price of IM Medical is 2.9 cents.

Having regard to the above, in our opinion the Proposed Capital Raising price provides additional comfort that the value of IM Medical immediately post transaction is likely to be greater than 0.29 cents per share.

8.3 Premium for Control

ASIC Practice Note 74 requires that the expert give an opinion as to whether the proposed issue of shares will result in the company receiving any premium for control and whether there are any contracts or proposed contracts between IM Medical and the Intelliheart shareholders which are conditional upon, or directly or indirectly dependent on, shareholder agreement to the proposed transaction.

The company will be entering into an employment agreement with Dr Minas, the details of which are incorporated in the Explanatory Statement. As we have not derived a definitive value for IM Medical on a post transaction basis, we cannot determine whether the company is receiving any premium for control.

9 ASSESSMENT OF FAIRNESS & REASONABLENESS

9.1 Approach

In assessing whether the proposed transaction is fair to the non-associated shareholders we have had regard to whether the assessed market value of IM Medical following the proposed transaction is greater than or equal to the value of IM Medical before the proposed transaction.

In assessing whether the proposed transaction is reasonable we have considered the potential advantages and disadvantages to the non-associated shareholders of the proposed transaction and considered whether the advantages outweigh the disadvantages.

9.2 Fairness

In Section 8 of this report we assessed the likely market value of the shares in IM Medical following the proposed transaction to be greater than or equal to 0.29 cent per share. The market value of IM Medical shares prior to the proposed transaction has been assessed at 0.29 cent per share. On that basis, we are of the opinion that the proposed transaction is fair.

9.3 Reasonableness

As stated above, in assessing whether the proposed transaction is reasonable we have considered the potential advantages and disadvantages to the non-associated shareholders of the proposed transaction and considered whether the advantages outweigh the disadvantages.

At present IM Medical has cash and intellectual property assets. The directors of IM Medical have been unsuccessful to date in finding and acquiring a new business with the exception of the proposed transaction. The main advantage of the proposed transaction is that the company will provide IM Medical with the potential to add shareholder value should Intelliheart's IHDS product and services prove successful.

There are potential disadvantages associated with the proposed transaction. These are as follows:

- *Potential loss of shareholder value:* Currently the company has approximately $686,000 in cash. Should Intelliheart's product prove not to be successful, the shareholders will have lost any cash that was previously available for distribution;
- *Cost of research & development and marketing of product:* The cost of research and development and marketing of the product will require the company to raise further capital, of which $2.5 million is expected to be raised through the issue of ordinary shares in IM Medical. However, if the funds are not raised there is a risk that the marketing strategies may not be fully implemented;
- *Endorsement from cardiovascular specialists and general acceptance by medical profession:* Should Intelliheart's product be received with scepticism and not accepted by the medical profession, there is a risk that the company may fail; and
- *Dilution:* The issue of shares as part of the proposed capital raising and as consideration for the acquisition of Intelliheart will dilute the current shareholders' interest.

In addition to the above, there is also a risk pertaining to a clause in the sale of shares agreement between IM Medical and Intelliheart that allows the re-transfer of technology to Dr Minas in the event that within two years from the completion date, the purchaser (IM Medical) decides to cease funding the development or commercialisation of the technology. However, in this event, Dr Minas is required to pay a royalty to IM Medical of 10 percent of all gross proceeds from commercialisation or sales of the technology for the following 10 years.

Notwithstanding the disadvantages and risks of the proposed transaction, we are of the opinion that the potential upside of the proposed transaction outweighs the potential disadvantages to the non-associated shareholders and therefore consider the proposed transaction to be reasonable.

APPENDIX 1: FLOATED COMPANIES

CogState Limited is an Australian based company that manufactures and distributes diagnostic and therapeutic products associated with neurological disorders. The company's diagnostic products include CogState, CogSport and CogHealth which help in the diagnosis of neurodegenerative disorders and conditions.

Medec Limited is an Australian based company that develops, manufactures and distributes medical equipment and services that are utilised to measure, assess and monitor human energy and energy medicine technology. The company's diagnostic products are used for early diagnosis and disease prevention along with regulating acupuncture points on the body.

Quinton Cardiology Systems, Inc is a US based company that develops, markets and services diagnostic cardiology systems. The Company's systems diagnose, treat and rehabilitate patients with cardiovascular disease. Products include stress test systems, Holter monitoring systems, cardiac catheterisation management systems, cardiac rehabilitation telemetry systems and electrocardiograph management systems.

USCOM Limited - described in section 5.5.1 of this report.

APPENDIX 2: SOURCES OF INFORMATION

In preparing this report we have had regard to the following sources of information:

- Annual reports of IM Medical for the years ended 30 June 2001 to 30 June 2003;
- Appendix 4D - Half Year Financial Report of IM Medical for the 6 months ended 31 December 2003;
- Unaudited statement of financial position of IM Medical as at 30 June 2004;
- Unaudited statement of financial performance of IM Medical for the year ended 30 June 2004;
- Unaudited statements of financial position of Intelliheart for the three years ended 30 June 2004, prepared by Johnson Partners;
- Unaudited statements of financial performance of Intelliheart for the three years ended 30 June 2004, prepared by Johnson Partners;
- Draft Notice of General Meeting of shareholders of IM Medical;
- Sale of shares agreement dated 9 July 2004;
- Shareholding and option holder details of IM Medical;
- Presentation slides on the proposal of the acquisition of Intelliheart prepared for investors;
- Notice of General Meeting and Explanatory Statement issued to shareholders of IM Medical dated 28 November 2003;
- Internal 5 year cash flow and profit and loss projections for Intelliheart;
- Intelliheart Information Memorandum prepared for Peregrine Corporate Ltd, dated March 2004;
- Deed of Option to Purchase Shares between Dr Minas and IM Medical Ltd dated 22 April 2004;
- Relevant information contained in the due diligence files;
- Information brochures for IHDS;
- Numerous research and medical articles on the causes and diagnostic methods of CVD; and
- Publicly available information published on Bloomberg and the Internet.

In addition, we have relied upon information of both an operative and financial nature provided to us by Mr Cullen, Dr Minas and IM Medical during the management interview.

APPENDIX 3: DISCLAIMER

The report has been prepared at the request of the Directors of IM Medical and is to accompany the notice of the meeting to be given to shareholders for approval of the proposed transaction in accordance with Section 611 of the Corporations Act. Accordingly, it has been prepared only for the benefit of the Directors and those persons entitled to receive the notice of the meeting in their assessment of the proposed transaction outlined in the report and should not be used for any other purpose.

The report represents solely the expression by PKF Corporate of its opinion as to whether the proposed transaction is fair and reasonable in relation to Section 611 of the Corporations Act. PKF Corporate consents to the inclusion of this report accompanying the notice of meeting.

Statements and opinions contained in this report are given in good faith but, in the preparation of this report, PKF Corporate has relied upon the information provided by the directors and management of IM Medical and Intelliheart. PKF Corporate does not imply, nor should it be construed, that it has carried out any form of audit or verification on the information and records supplied to us. Drafts of our report were issued to management of IM Medical and Intelliheart for confirmation of factual accuracy.

Furthermore, recognising that PKF Corporate may rely on information provided by IM Medical and Intelliheart and its officers and/or associates, IM Medical has agreed to make no claim by it or its officers and/or associates against PKF Corporate to recover any loss or damage which IM Medical or its associates may suffer as a result of that reliance and also has agreed to indemnify PKF Corporate against any claim arising out of this engagement, except where the claim has arisen as a result of any proven wilful misconduct or negligence by PKF Corporate.

PKF Corporate is the licensed corporate advisory division of PKF and is wholly owned by the partners of that firm. PKF is a chartered accounting firm providing a full range of accounting and advisory services.

The employees of PKF Corporate principally involved in the preparation of this report were Piera Murone, B.Acc, CA., ASIA and Frank Spencer, B.Com., FCA. Each person is an authorised representative of PKF Corporate and has many years experience in the provision of corporate financial advice, including specific advice on valuations, mergers and acquisitions, as well as the preparation of expert reports.

Neither PKF Corporate, PKF, nor any partner or executive or employee thereof has any financial interest in the outcome of the proposed transaction except for a fee relating to the preparation of this report based on time spent at normal professional rates. This fee is payable regardless of the outcome of the proposed transaction. PKF acts in the capacity as the auditors of IM Medical. In our opinion this does not in any way affect the independence of PKF Corporate in providing its opinion.

GLOSSARY

3 Cent Option means an Option with an exercise price of 3 cents per Share.

4 Cent Option means an Option with an exercise price of 4 cents per Share.

ASIC means Australian Securities and Investments Commission.

ASX means Australian Stock Exchange Limited.

ASX Listing Rules or **Listing Rules** means the Listing Rules of ASX.

Board means the board of directors of the Company.

Capital Raising means the proposed issue of Shares together with 1 for 2 free attaching 4 Cent Options at the Issue Price by way of placement to clients of Peregrine Corporate to raise $2.5 million as more fully described in section 3.9 of this Memorandum.

Company or **IM Medical** means IM Medical Limited (ABN 47 009 436 908).

Constitution means the Company's constitution.

Corporations Act means the Corporations Act 2001 (Cth).

CVD means cardiovascular disease.

Directors means the current directors of the Company.

ECG means electrocardiogram.

Employment Agreement means the agreement executed on 9 July 2004 between the Company and Dr Zissis Jack Minas whereby Dr Minas agreed to provide his services to the Company for an initial period of 3 years.

Explanatory Statement means the explanatory statement to the Memorandum.

Intelliheart means Intelliheart Pty Ltd (ABN 24 096 018 094).

Independent Expert's Report means the independent expert's report prepared by PKF Corporate Advisory Services (Vic) Pty Ltd, a copy of which is reproduced in section 5 of this Memorandum.

Issue Price means the lower of three (3) cents per Share and 80% of the volume weighted average price of IM Medical Shares on the ASX during the 5 trading days before the Meeting.

Meeting means the meeting of shareholders convened by the Notice.

Memorandum means this information memorandum.

Notice means the notice of meeting accompanying this Memorandum.

Option means unlisted options each to acquire one Share in the capital of the Company at an exercise price of 2 cents each on or before 31 December 2008 as more fully described in section 3.11 on page 16 of this Memorandum.

Peregrine Corporate means Peregrine Corporate Limited (ABN 40 062 478 997).

Proposal means the proposed acquisition of Intelliheart by IM Medical for a share consideration more fully described in section 3.6 and the development of the business of Intelliheart as more fully described in section 3.5 of this Memorandum.

Resolution means a resolution contained in the enclosed Notice.

Share Acquisition Agreement means the agreement between IM Medical and the Vendors, executed on 9 July 2004, whereby IM Medical agreed to acquire all the issued capital of Intelliheart for a share consideration.

Shares means fully paid ordinary shares in the capital of IM Medical.

Vendors means, jointly and severally, the vendor shareholders of Intelliheart, being Dr Zissis Jack Minas as to 95% and Mr Leslie Mark Cullen as to 5%.