IM MEDICAL LIMITED

ABN: 47 009 436 908

Financial Report for the
Half-year ended 31 December 2008

Contents

(e) Risk management and corporate governance practices

The Board has delegated to the Audit, Risk and Compliance Committee responsibility for overseeing the implementation of policies and procedures aimed at ensuring that the consolidated entity conducts its operations in a manner that manages risk to protect its people, the environment, consolidated entity assets and reputation as well as to realise opportunities. The Company's policy is to consider the balance of risk and reward, as far as practicable, in order to optimize the returns gained from its business activities and to meet the expectations of its shareholders.

(f) Subsequent events

The Cardanal technology was still in development in the last six months and directors decided to sell the technology to Tunstee P/L to continue the development as it was not able to fund any further research and development. The sale is imminent and will be for a cash amount and a share of future profits from commercialisation.

On 19 January 2009, the Company issued 129 million Ordinary shares to investors via a share placement resulting in funds of $258,000. The Company also issued on 23 January 2009, 25 million ordinary shares to Fortrend Securities P/L under its Standby Subscription agreement. This raised funds of $67,500. Both capital raisings will be used for the company's working capital requirements.

Auditor's independence declaration

The auditor's independence declaration is included on page 7 of the half-year financial report.

Signed in accordance with a resolution of the directors and made pursuant to s306(3) of The Corporations Act 2001.

On behalf of the Board of Directors

Craig Cook
Director
19 February 2009
Melbourne

Deloitte.

Deloitte Touche Tohmatsu
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Independent Auditor's Review Report to the members of IM Medical Limited

We have reviewed the accompanying half-year financial report of IM Medical Limited , which comprises the balance sheet as at 31 December 2008, and the income statement, cash flow statement, statement of recognised income and expense for the half-year ended on that date, selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 8 to 15.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the IM Medical Limited 's financial position as at 31 December 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of IM Medical Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Deloitte.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001.*

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.*

Material Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 1 in the financial report which indicates that the consolidated entity incurred a net loss of $1,776,218 for the period ended 31 December 2008 and incurred negative cash flows from operations of $1,345,560. As at 31 December 2008 the consolidated entity had accumulated losses totalling $13,824,160 and available cash resources of $135,468. As at 31 December 2008 the consolidated entity had current liabilities of $525,945 which exceeded the current assets of $291,625. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and whether the consolidated entity will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Rachel Smith

Rachel Smith
Partner
Chartered Accountants
Melbourne, 19 February 2009

Deloitte.

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19 February 2009

The Directors
IM Medical Limited
Level 12
484 St Kilda Road
MELBOURNE VIC 3004

Dear Board Members

IM Medical Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of IM Medical Limited.

As lead audit partner for the review of the financial statements of IM Medical Limited for the half year ended 31 December 2008, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Rachel Smith
Partner
Chartered Accountants

Directors' declaration

The directors declare that:

a) In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

b) In the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position of the consolidated entity.

Signed in accordance with a resolution of the directors made pursuant to s303(5) of the Corporations Act 2001.

On behalf of the Board of Directors

Craig Cook
Director
19 February 2009
Melbourne

Condensed Consolidated Income Statement for the half-year ended 31 December 2008

	31 Dec 2008 $	31 Dec 2007 $
Revenue	73,259	561,853
Depreciation and amortisation	(150,987)	(151,579)
Corporate administration	(466,753)	(302,991)
Travel and entertainment	(101,585)	(127,152)
Occupancy and administration	(88,242)	(94,243)
Consulting fees	(166,640)	(230,382)
Research and development	(17,078)	(126,400)
Director and employee benefits	(782,742)	(1,106,657)
Marketing and promotion	(63,849)	(218,113)
Other expenses	(11,601)	(10,238)
Loss before income tax expense	**(1,776,218)**	**(1,805,902)**
Income tax expense	-	-
Net loss attributable to members of the parent entity	**(1,776,218)**	**(1,805,902)**
Basic loss per share (cents per share)	(0.14)	(0.15)
Diluted loss per share (cents per share)	(0.14)	(0.15)

The above income statement is to be read in conjunction with the attached notes.

Condensed Consolidated Cash Flow Statement
for the half-year ended 31 December 2008

	31 Dec 2008 $	31 Dec 2007 $
Cash Flows from Operating Activities		
Receipts from customers	68,787	463,902
Receipts from R&D Tax Offset	356,748	182,586
Payments to suppliers and employees	(1,782,096)	(2,221,240)
Interest received	22,276	84,229
Interest paid	(11,275)	(6,290)
Net cash flows used in operating activities	(1,345,560)	(1,496,813)
Cash Flows from Investing Activities		
Payment for property, plant and equipment	(38,353)	(41,870)
Cash received for property, plant and equipment	70,000	-
Net cash flows from / (used in) investing activities	31,647	(41,870)
Cash Flows from Financing Activities		
Proceeds from issue of securities	192,895	4,070,000
Capital raising costs	-	(124,800)
Repayment of borrowings	(6,514)	-
Net cash flows from financing activities	186,381	3,945,200
Net increase / (decrease) in cash held	**(1,127,532)**	**2,406,517**
Cash at beginning of the financial period	**1,263,000**	**282,698**
Cash at the end of the financial period	**135,468**	**2,689,215**

The above cash flow statement is to be read in conjunction with the attached notes.

Condensed Notes to the consolidated interim financial report for the half-year ended 31 December 2008

1. Summary of significant accounting policies

Basis of Preparation

This general purpose half –year financial report has been prepared in accordance with the Accounting Standard AASB 134 *"Interim Financial Reporting"* and the *Corporations Act 2001.*

The accounting policies utilised in preparing the half-year financial report are consistent with those adopted for previous periods, but the half year report does not include all the notes of the type usually included in an annual financial report. Therefore this half year report cannot be expected to provide a full understanding of the financial performance, financial position and financing and investing activities of the Group as that of the full financial report. It is recommended that this financial report be read in conjunction with the company's financial report for the year ended 30 June 2008 and any public announcements made by IM Medical Limited during the half year in accordance with any continuous disclosure obligations arising under the *Corporations Act 2001* and the ASX listing rules.

Australian Accounting standards include AIFRS's and compliance with these standards ensures that the consolidated financial statements and notes of IM Medical Limited comply with International Financial Reporting Standards (IFRS). This financial report has been prepared under the historic cost convention.

The same accounting policies and methods of computation have been followed in this interim financial report as compared with the most recent annual financial report.

AASB 134 *"Interim Financial Reporting"* generally only requires disclosure of accounting policies that have changed from those used in the prior annual accounting period.

Going concern basis

The consolidated entity is an emerging medical technologies business and as such expects to be cash absorbing until its technologies are fully commercialised. For the half year ended 31 December 2008 the consolidated entity incurred a net loss of $1,776,218 and incurred negative cash flows from operations of $1,345,560. As at 31 December 2008, consolidated entity had accumulated losses totalling $13,824,160 and available cash resources of $135,468. As at 31 December 2008 the consolidated entity had current liabilities of $525,945 which exceeded the current assets of $291,625.

Whilst the consolidated entity does not have sufficient cash resources to fund its current level of activities for at least the next 12 months, and there are significant uncertainties as to the exact timing and form of additional fund raising, the directors have reasonable expectation that it can raise the required additional cash resources. These financial statements have therefore been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

The Directors believe the going concern basis of preparation to be appropriate given the following:

- IM Medical Limited (IMI) has been able to attract funds to advance their technologies. Between 1 July 2008 and 31 December 2008, the company has raised cash totalling $192,894 from the issue of shares. Subsequent to 31 December 2008 the company has raised cash totalling $325,500 from the issue of shares. The directors are confident that further funds from equity raising can and will be obtained.

- The company currently has a $5,000,000 equity facility with Fortrend Pty Ltd expiring in April 2011. This facility allows the company to draw down funds during the period of the facility. The total amount of funds available at any one draw down is dependent on a number of factors including:
  - the share price for 5 consecutive days preceding the draw down; and
  - trading volumes of IMI shares for 5 consecutive days preceding the draw down or a set percentage of equity.

- The imminent sale of the Cardinal technology.

Having carefully assessed the uncertainties relating to the likelihood of securing additional funding and the consolidated entity's ability to effectively manage its expenditures, the directors believe that the consolidated entity will continue to operate as a going concern for the foreseeable future and therefore that it is appropriate to prepare the financial statements on a going concern basis.

In the event that the consolidated entity is unable to raise sufficient funds as set out above, there is significant uncertainty whether the consolidated entity could continue as a going concern. If the consolidated entity is unable to continue as a going concern it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements.

No adjustments have been made to the financial report relating to the recoverability and classification of the asset carrying amounts or the classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

2. Issued capital

	Consolidated 31 Dec 2008		Consolidated 30 Jun 2008	
	Number	$	Number	$
(a) Issued capital				
Ordinary shares fully paid	1,250,205,078	14,290,805	1,206,908,303	13,947,910
Share option reserve	-	-	68,500,000	-
		14,290,805		**13,947,910**
(b) Movements in shares on issue				
Balance at beginning of the financial year	1,206,908,303	13,947,910	1,041,357,945	9,612,060
Equity raisings **(i)(ii)**	33,296,775	192,895	120,000,000	3,120,000
less transaction costs	-	-	-	(124,800)
Issue of ordinary shares in lieu of services	-	-	13,030,358	312,275
Issue of ordinary shares in lieu of CEO services	10,000,000	150,000	-	-
Exercise of options	-	-	32,500,000	950,000
Transfer from share options reserve	-	-	-	78,375
Balance at the end of the financial year	**1,250,205,078**	**14,290,805**	**1,206,908,303**	**13,947,910**

(i) Equity raisings – half year ended 31 December 2008

Date	Details	Number	Issue price	$
4 Sept 2008	New issue of ordinary shares	18,324,230	$0.0081	148,426
24 Nov 2008	New issue of ordinary shares	14,972,545	$0.0029	44,468
		33,296,775		192,894

(ii) Movements in shares on issue

The issue of ordinary shares on 4 Sept 2008 was approved by shareholders at the annual general meeting held on 19 November 2008.
The issue of ordinary shares on 24 Nov 2008 has not yet been approved by shareholders.

	Consolidated 31 Dec 2008		Consolidated 30 Jun 2008	
	Number	$	Number	$
(c) Movements in share option reserve				
Balance at beginning of the financial year	68,500,000	-	101,000,000	78,375
Exercise of options and transfer to issued capital	-	-	(32,500,000)	(78,375)
Expiration of options	(68,500,000)	-	-	-
Balance at the end of the financial year	-	-	**68,500,000**	-

3. Net tangible asset

	31 Dec 2008	30 Jun 2008
Net tangible assets	$466,645	$1,899,968
Number of shares on issue	1,250,205,078	1,206,908,303
Net tangible asset backing (cents)	0.04	0.16

4 Accumulated losses

	31 Dec 2008 $	30 Jun 2008 $
Balance at beginning of the financial period	(12,047,942)	(6,579,584)
Net loss attributable to members	(1,776,218)	(5,468,358)
Balance at end of the financial period	(13,824,160)	(12,047,942)

5. Significant transactions

There are no significant transactions outside of those events reported in the review of operations and this financial report.

6. Subsequent events

On 19 January 2009, the Company issued 129 million Ordinary shares to investors via a share placement resulting in funds of $258,000. The Company also issued on 23 January 2009, 25 million ordinary shares to Fortrend Securities P/L under its Standby Subscription agreement. This raised funds of $67,500. Both capital raisings will be used for the company's working capital requirements.

The Cardanal technology was still in development in the last six months and directors decided to sell the technology to Tunstee P/L to continue the development as it was not able to fund any further research and development. The sale is imminent and will be for a cash amount and a share of future profits from commercialisation.

7. Dividends

The Company resolved not to declare any dividends in the period ended 31 December 2008.

8. Segment information

The Company operates in one business segment and one geographical location, being the Australian medical industry.

9. Contingent liability

An entity in the Group is a defendant in a legal action involving issue of shares under a milestone agreement with the inventor of the Intelliheart test. It is also a plaintiff in a legal action against this person for a number of contractual breaches and infringement of copyright. The directors believe, based on legal advice, that no losses are likely to be incurred as a result of these legal actions. The legal claims are expected to be settled in the course of the next twelve months.