

**IM Medical Limited
ASX Announcement**

19 April 2011

Recapitalisation and Restructure

IM Medical Limited (ASX: IMI, the Company) is pleased to announce a recapitalisation and restructure initiative whereby the Company:

- (a) has raised \$750,000 by way of Converting Loans which will convert into shares and options in the Company (**Converting Loans**);
- (b) intends to undertake a 1 for 15 share consolidation (**Consolidation**); and
- (c) intends to undertake an underwritten pro rata entitlement offer to raise a further \$1.85 million before costs (**Rights Issue**).

The recapitalisation and restructure initiative follows the Company's announcement on 25 March 2011 of the heads of agreement to sell its radiology division to Capitol Health Limited (ASX: CAJ) in exchange for 45.56 million CAJ shares and up to \$600,000 in cash payments conditional on the post-sale financial performance of the IMI radiology business (**Radiology Business Sale**). The Company is currently finalising formal documentation with CAJ in relation to the Radiology Business Sale.

The conversion of the Converting Loans, the Consolidation and the Radiology Business Sale, and the Rights Issue are conditional on the approval of the Company's shareholders. The Company intends to convene a General Meeting of its shareholders in late May or early June 2011.

In Specie Distribution

As part of the recapitalisation and restructure, the Company also intends, subject to shareholder approval, to undertake an in-specie distribution to the Company's shareholders of the CAJ shares received pursuant to the Radiology Business Sale. Based on the closing price of CAJ shares on 18 April of 5.0 cents, the in-specie distribution would have a value of approximately \$2.3 million in aggregate. This will provide the Company's shareholders with a direct and ongoing interest in the combined Capitol Health and IMI radiology businesses. Shareholder approval for the in specie distribution of the CAJ shares will be sought at the General Meeting referred to above.

Converting Loans

The \$750,000 Converting Loans will convert in aggregate into 250,000,000 ordinary IMI shares (post consolidation) and 250,000,000 options exercisable at 0.3 cents per share on or before 31 March 2014, subject to shareholder approval. It is anticipated that the Converting Loans will convert prior to the record date for the Rights Issue so the parties being issued shares on conversion can participate in the Rights Issue. If shareholder approval is not obtained for the resolutions to be put to the General Meeting, the Converting Loans will not convert into shares and options and will become repayable with interest and fees payable.

Rights Issue

Subject to shareholder approval of the resolutions to be put to the General Meeting and completion of the Consolidation, the Rights Issue will be offered to all shareholders registered on the record date (to be determined). The Rights Issue is an underwritten non-renounceable pro rata entitlement offer of ordinary shares at 0.3 cents per share on the basis of one (1) new share for every one (1) share then held, together with one (1) free attaching option (each exercisable at 0.3 cents per share on or before 31 March 2014).

Patersons Securities Limited is Lead Manager in respect of the Converting Loans fundraising and is Lead Manager and Underwriter for the Rights Issue.

Sale and Placement of Shares of Shareholder

As part of the recapitalisation and restructure arrangements, Dr Mark Scott, a director of the Company, and his related parties have agreed to sell 1.7 billion shares to a range of clients introduced by Patersons Securities Limited. This sale of shares will assist Dr Scott to meet ongoing lease obligations on radiology equipment as is required under the terms of the Radiology Business Sale agreed with CAJ. The sell down is also expected to assist in the Company obtaining a greater shareholder spread and increased liquidity in the Company's shares.

On completion of the Rights Issue and the conversion of the Converting Loans, the Company expects to have cash of approximately \$1.4 million after payment of all existing creditors, and no debt. This cash position is before the receipt of any potential cash performance payments from CAJ under the terms of the Radiology Sale Agreement. In addition, prior to the proposed in-specie distribution, the Company will hold 45.56 million CAJ shares which as noted above, based on the closing price of CAJ shares on 15 April of 5.0 cents, would be valued at approximately \$2.3 million.

Further details on the recapitalisation and restructure arrangements will be provided in the Notice of Meeting. It is expected the Company's shares will resume normal trading in the

next two weeks following settlement of the Converting Loans and the execution of binding sale contracts in respect of the Radiology Business Sale.

The funding initiatives are the next steps in the restructuring of the Company following the changes to the Board announced last month. By completing the proposed arrangements, the Company expects to be in a stronger position to explore new opportunities to create shareholder value.

Richard Wadley
Company Secretary