

Appendix 4D

Half Year Report For The Period Ended 31 December 2010 (Previous corresponding period: Half Year End 31 December 2009)

*This Half Year Report is provided to the
Australian Stock Exchange (ASX) under ASX Listing Rule 4.2A.3.*

Results for Announcement to The Market

Revenue and Net Profit/(Loss)

		Percentage Change %		Amount \$
Revenues from continuing operations	Down	88%	To	\$7,046
Revenues for discontinued operations	Up	100%	To	\$2,193,639
(Loss) from continuing activities after income tax attributable to members	Down	16%	To	(\$765,988)
(Loss) from discontinued activities after income tax attributable to members	Up	100%	To	(\$1,880,069)
Net (loss) attributable to members	Up	190%	To	(\$2,646,057)

Dividends (Distributions)

	Amount per security	Franked amount per security
Interim dividend	N/A	N/A
The record date for determining entitlements to the final dividend is	N/A	
Previous corresponding period		
Interim dividend	N/A	N/A

Brief explanation

The net loss after tax of \$2,646,057 has deteriorated compared to the same period last year due to losses from discontinued operations, and ongoing losses from the Company's Intelliheart operations,

The Agreement to acquire the Mark Scott Group radiology business was announced on 31 July 2009, and was settled on 16 August 2010. During the period, reduction in revenue from the radiology business, together with difficult operating conditions being experienced by the industry generally, have reduced the expected profitability of the radiology business and resulted in an impairment charge amounting to \$1,514,130.

A more detailed analysis of the deterioration in the company profitability has been provided in the recent announcement to the market on 24 February 2011 and also in notes to the attached financial statements.

Net Tangible Assets per Security

Net tangible assets per security (with comparative figure for the previous corresponding period):

	Current period	Previous corresponding period
Net tangible assets per security	0.0364 cents	0.0034 cents

The accounts attached have been subject to a review by the Company's external auditors.

This half yearly report is to be read in conjunction with the half year financial report and the most recent annual financial report.

IM MEDICAL LIMITED

ABN: 47 009 436 908

Financial Report for the
Half-year ended 31 December 2010

Directors' report

The directors of IM Medical Limited submit herewith the financial report of the Company and its subsidiaries (the Consolidated entity) for the half-year ended 31 December 2010. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

Director names

The names of the directors of the Company during the half-year and until the date of this report are below. All directors were in office for the entire period, unless otherwise stated.

Mr Dipak Sanghvi (Resigned 4 February 2011)
Mr Craig Cook (Resigned 4 February 2011)
Dr Ross Walker (Resigned 29 September 2010)
Dr Mark Scott (Appointed 30 July 2010)
Mr Sergio Del Vecchio (Appointed 30 July 2010, Resigned 23 March 2011)
Mr Peter Jess (Appointed 11 November 2010, Resigned 23 March 2011)
Mr Nigel Blaze (Appointed 23 March 2011)
Mr Richard Wadley (Appointed 23 March 2011)
Mr Paul Quarrell (Appointed 23 March 2011)

Review and results of operations

(a) Overview

Management and the Board monitor the group's overall performance, from its implementation of the mission statement and strategic plan through to the performance of the consolidated entity against operating plans and financial budgets. Key performance indicators have been identified and are used to monitor performance regularly, such that appropriate action can be taken to address any performance issues.

(b) Review and results of operations

The loss for the half year was \$2,646,057 compared to a loss of \$910,869 for the corresponding period. The loss includes an impairment charge of \$1,514,130. The Radiology Business contributed a loss of \$1,880,069. Sales of Intelliheart have not performed as expected and the revenue reduced to \$7,046, with a loss of \$144,742. Administration and general expenditure was \$765,988 compared to \$910,869 in the corresponding period.

(c) Future development

The directors' focus for the short term will be to finalise the sale of the radiology business, and completion of the capital raising proposals announced on 19 April 2011 and updated on 16 July 2011. The Intelliheart business has continued to be unprofitable during the period. The Intelliheart business is currently on hold, and its future prospects are under review with the objective of recovering maximum value from the Company's investment in this business.

Following completion of the recapitalisation, the directors intend to focus on opportunities to restore and create shareholder value. The Company intends to investigate acquisition and investment opportunities which may take the Company away from its medical and technology focus, and could include opportunities in other sectors. The Board will review its composition as opportunities are identified with the objective of bringing appropriate skills and experience to the Board to better position the Company to implement its revitalisation strategy going forward.

(d) Review of financial conditions

Since the commencement of the current half year reporting period, the company has benefited from share placements to sophisticated investors. These placements have raised \$587,600 for working capital in the first half of the year.

(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*

On 4 February 2011 Mr Dipak Sangvhi resigned as both chairman of the board and company director.

On 4 February 2011 Mr Craig Cook resigned as company director.

On 23 March 2011 Mr Peter Jess resigned as company director.

On 23 March 2011 Mr Sergio Del Vecchio resigned as both managing director and company secretary.

On 23 March 2011 Mr Nigel Blaze was appointed as company director.

On 23 March 2011 Mr Paul Quarrell was appointed as company director.

On 23 March 2011 Mr Richard Wadley was appointed as company director and company secretary.

On 25 March 2011, the Directors of IM Medical Limited entered into a heads of agreement with Capitol Health Limited (CAJ) to sell the E Health Imaging Pty Ltd division of the company containing the radiology business and assets to CAJ. A full explanation of the proposed sale can be found in the ASX announcement dated Friday 25 March 2011. On 13 July 2011 the sale agreement with Capitol Health Limited was signed. The sale will require approval by shareholders at the general meeting (GM) to be held on 16 August 2011.

On 25 March 2011, the Directors of IM Medical Limited entered into an agreement with Patersons Securities for them to act as lead manager to a converting loan and lead manager and underwriter to a rights issue. Due to breaches of this original agreement this mandate agreement was reissued and resigned on 28 June 2011. On 19 April 2011 the Directors of IM Medical Limited announced that the Company had raised \$750,000 by way of Converting Loans, and that it intends to undertake a share consolidation and an underwritten pro rata entitlement offer. Subject to shareholder approval at the GM, the converting loans will convert into 150,000,000 ordinary shares and 150,000,000 options exercisable 0.5 cents each on or before 31 March 2012. The underwritten non-renounceable pro rata entitlement issue will be on the basis of three (3) shares for every two (2) shares held and for every share issued under the entitlement issue, shareholders will be granted one (1) option exercisable at 0.5 cents each on or before 31 March 2012. The Company proposes to issue 390,824,307 shares to raise \$1,954,122. In addition, for every option granted in respect of the converting loans or the entitlement offer that is exercised before expiry, the Company will issue a further option exercisable at 1.5 cents each on or before 30 June 2015. Further details are set out in the Notice of Meeting announced and dispatched to shareholders on 18 July 2011.

The directors entered into a settlement agreement in June 2011 with a distributor of the Intelliheart service. The settlement was for \$15,000.

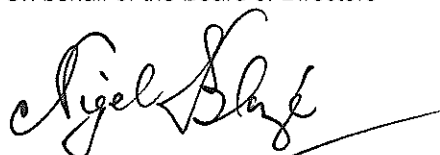
The Company entered into a settlement agreement with a doctor of E Health Imaging Pty Ltd for a contract termination. The settlement amount is for \$249,600 payable on or before 31 August 2011.

Auditor's independence declaration

The auditor's independence declaration is included on page 19 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



Nigel Blaze
Director
3 August 2011
Melbourne

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 and performance 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

A handwritten signature in black ink, appearing to read 'Nigel Blaze', with a long horizontal line extending from the end of the signature.

Nigel Blaze
Director
3 August 2011
Melbourne

Condensed consolidated statement of comprehensive income
for the half-year ended 31 December 2010

	Note	31 Dec 2010 \$	31 Dec 2009 \$
Continuing Operations			
Revenue		7,046	58,481
Depreciation and amortisation		(88,233)	(101,403)
Corporate administration		(229,764)	(351,996)
Travel and entertainment		(7,617)	(8,978)
Occupancy and administration		(48,177)	(83,529)
Consulting fees		(80,000)	(6,997)
Research and development			(9,880)
Director and employee benefits		(303,273)	(384,730)
Marketing and promotion			(16,707)
Other expenses		(15,970)	(5,130)
Loss before income tax expense		(765,988)	(910,869)
Income tax expense		-	-
Loss for the period from continuing operations		(765,988)	(910,869)
Discontinued Operations			
Loss from discontinued operations	6	(1,880,069)	-
Loss for the period		(2,646,057)	(910,869)
Total comprehensive income for the period		(2,646,057)	(910,869)
Continuing and Discontinued Operations			
Basic loss per share (cents per share)		(0.01)	(0.05)
Diluted loss per share (cents per share)		(0.01)	(0.05)
Continuing Operations			
Basic loss per share (cents per share)		(0.01)	(0.05)
Diluted loss per share (cents per share)		(0.01)	(0.05)

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

Condensed consolidated statement of financial position
as at 31 December 2010

	Note	31 Dec 2010 \$	30 Jun 2010 \$
Current Assets			
Cash and cash equivalents		97,325	29,300
Assets classified as held for sale	6	2,408,526	-
Prepayments		96,168	-
Trade and other receivables		327,995	80,778
Total current assets		2,930,014	110,078
Non Current Assets			
Plant and equipment		258,607	346,842
Total non current assets		258,607	346,842
Total assets		3,188,621	456,920
Current liabilities			
Trade and other payables		823,795	360,773
Other financial liabilities		7,074	9,673
Provisions		18,922	19,374
Liabilities classified as held for sale	6	323,152	-
Total current liabilities		1,172,943	389,820
Non current liabilities			
Other financial liabilities		-	1,649
Total non current liabilities		-	1,649
Total liabilities		1,172,943	391,469
Net assets		2,015,678	65,451
Equity			
Issued capital	2(b)	20,847,808	16,251,524
Reserve	2(c)	-	-
Accumulated losses	4	(18,832,130)	(16,186,073)
Total equity		2,015,678	65,451

The above statement of financial position is to be read in conjunction with the attached notes.

Condensed consolidated statement of changes in equity
for the half-year ended 31 December 2010

Consolidated	Issued capital	Accumulated losses	Total
	\$	\$	\$
Balance at 1 July 2009	15,323,978	(14,499,507)	824,471
Total comprehensive loss for the period	-	(910,869)	(910,869)
Movements in shares on issue	273,172	-	273,172
Balance as at 31 December 2009	15,597,150	(15,410,376)	186,774
Balance at 1 July 2010	16,251,524	(16,186,073)	65,451
Total comprehensive loss for the period	-	(2,646,057)	(2,646,057)
Movements in shares on issue	4,596,284	-	4,596,284
Balance as at 31 December 2010	20,847,808	(18,832,130)	2,015,678

The above statement of changes in equity is to be read in conjunction with the attached notes.

Condensed consolidated statement of cash flows
for the half-year ended 31 December 2010

	31 Dec 2010 \$	31 Dec 2009 \$
Cash Flows from Operating Activities		
Receipts from customers	1,857,197	100,953
Receipts from R&D Tax Offset	-	92,892
Payments to suppliers and employees	(2,322,214)	(735,844)
Interest received	422	9,167
Interest paid	(1,965)	(1,045)
Net cash flows used in operating activities	<u>(466,560)</u>	<u>(533,877)</u>
Cash Flows from Investing Activities		
Payment for plant and equipment	(127,235)	-
Proceeds on sale of plant and equipment	32,235	13,334
Net cash flows provided by / (used in) investing activities	<u>(95,000)</u>	<u>13,334</u>
Cash Flows from Financing Activities		
Proceeds from issue of securities	587,600	273,172
Payment of capital raising costs	(57,156)	
Repayment of borrowings	(5,359)	(3,595)
Proceeds from borrowings	104,500	-
Net cash flows provided by financing activities	<u>629,585</u>	<u>269,577</u>
Net increase / (decrease) in cash held	68,025	(250,966)
Cash at beginning of the financial period	29,300	280,297
Cash at the end of the financial period	<u>97,325</u>	<u>29,331</u>

The above statement of cash flows 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 2010

1. Summary of significant accounting policies

Basis of Preparation

Statement of compliance

The half-year financial report is a general purpose financial report prepared in accordance with the Corporations Act 2001 and AASB 134 Interim Financial Reporting. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. The half-year report does not include notes of the type normally included in an annual financial report and shall be read in conjunction with the most recent annual financial report.

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the company's 2010 annual financial report for the financial year ended 30 June 2010, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

New or revised Standards and Interpretations that are first effective in the current reporting period

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period. The adoption of these amendments have not resulted in any changes to the Group's accounting policies and have no effect on the amounts reported for the current or prior periods.

Going concern basis

For the half year ended 31 December 2010 the consolidated entity incurred a net loss of \$2,646,057 and incurred negative cash flows from operations of \$466,560. As at 31 December 2010, the consolidated entity had current assets in excess of current liabilities of \$1,757,071 and had accumulated losses totalling \$18,832,130 and available cash resources of \$97,325.

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 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:

- As referred to in Note 7: Subsequent Events, on 25 March 2011, the Directors of IM Medical Limited entered into a heads of agreement with Capitol Health Limited (ASX code: CAJ) to sell the eHealth Imaging Pty Ltd division of the group containing all radiology business and assets. The sale agreement was signed on 13 July 2011.

In the event that conditions precedent in the sale agreement are satisfied and the disposal of the radiology business is completed, Capitol Health Limited will provide IM Medical Limited with ordinary shares worth \$1,867,920 plus three bonus payments which have been valued collectively at \$217,453. IM Medical Limited has agreed to distribute the shares received in Capitol Health Limited by way of an in-specie distribution to IM Medical Limited shareholders within three months of the completion of the sale. The sale of the radiology business and assets is subject to conditions precedent within the sale agreement. These conditions include:

- The sale must be approved by IM Medical Limited shareholders at the 16 August 2011 Extraordinary General Meeting;
- All necessary consents and approvals of all appropriate government authorities for the sale and purchase must be received.

Completion date will occur two business days after the satisfaction or waiver of the conditions precedent and no later than 31 August 2011, or such other date as IM Medical Limited and Capitol Health Limited may agree in writing. A full explanation of the proposed sale can be found in the ASX announcement dated Friday 25 March 2011.

- On 25 March 2011, the Directors of IM Medical Limited entered into an agreement with Patersons Securities for them to act as lead manager to a Converting Loan and lead manager and underwriter to a rights issue. Due to breaches of this original agreement this mandate agreement was reissued and resigned on 28 June 2011. Under the agreement Patersons Securities arranged a placement of Converting Loans with sophisticated and professional investors to provide \$750,000 to the company immediately to be followed by an equity restructure of the company. Subject to shareholder approval at the GM, the Converting Loans will convert into 150,000,000 ordinary shares and 150,000,000 options exercisable 0.5 cents each on or before 31 March 2012. The capital restructure also includes a share consolidation on the basis of 1 share for every 50 shares held and then a non-renounceable rights issue on the basis of three new shares at 0.5 cents per share for every two shares held at the record date, and for every share issued under the entitlement issue shareholders will be granted one option exercisable at 0.5cents each on or before 31 March 2012. In addition, for every option granted in respect of the Converting Loans or the entitlement offer that is exercised before expiry, the Company will issue a further option exercisable at 1.5 cents each on or before 30 June 2015.

The structure proposed for the rights issue is an underwritten non-renounceable entitlement issue to all qualifying shareholders of ordinary shares for a gross capital raising of approximately \$1.95 million. The share consolidation, conversion of the Converting Loans, and the execution of the rights issue are conditional upon IM Medical Limited shareholder approval at the 16 August 2011 Extraordinary General Meeting. In addition the rights issue is conditional upon satisfactory completion of the following matters:

- Satisfactory completion of a financial and legal due diligence by Patersons Securities
- Satisfactory preparation of a prospectus that complies with all applicable rules and regulations

At the date of signing this financial report, the above conditions have not been satisfied.

A full explanation of the capital restructure of the company can be found in the Notice of Meeting announced on 18 July 2011.

The Directors note that if IM Medical shareholder approval is not obtained, the Converting Loan will become immediately redeemable and the underwriting agreement for the rights issue will be subject to termination. The converting loan will be redeemable in full, together with interest payable at the rate of 15% per annum for the period from 15 April 2011 to the date of redemption. In addition, a redemption fee equivalent to 20% of the converting loan amount will become due and payable. In these circumstances the Directors do not expect to have sufficient available funds to meet all obligations to the consolidated entity's creditors and there is therefore a likelihood that the consolidated entity will be required to enter into voluntary administration. In this situation the Directors can give no assurance that there would be any recoverable value for Shareholders.

- The directors have continued to hold active discussions with substantial creditors for the deferral of payments until cashflow is received from the impending rights issue. At the date of this report no petitions from the court have been received relating to the non repayment of debts. The directors will require the continued forbearance from substantial creditors to not receive payment prior to the completion of the rights issue.
- During its lifetime IM Medical Limited has been able to attract funds to advance its technologies. To date the company has raised \$20,847,808 in equity. Between 1 July 2010 and 31 December 2010, the company has raised cash totalling \$587,600 from the issue of shares. The directors are confident that further funds from equity raising can and will be obtained.

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. Further, if the restructure and recapitalisation proposals are not approved by IM Medical Limited Shareholders there is a significant risk that the consolidated entity will face solvency issues which will require the Board to consider voluntary administration. 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 amount and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

2. Issued capital

	Consolidated 31 Dec 2010		Consolidated 30 Jun 2010	
	Number	\$	Number	\$
(a) Issued capital				
Ordinary shares fully paid	5,527,476,886	20,847,808	1,947,430,079	16,251,524
Share option reserve	4,731,862,273	-	92,704,355	-
		20,847,808		16,251,524
(b) Movements in shares on issue				
Balance at beginning of the financial period	1,947,430,079	16,251,524	1,598,205,079	15,323,978
Equity raisings (i)	539,666,666	587,600	349,225,000	927,546
less transaction costs	-	(226,486)	-	-
Issue of ordinary shares in lieu of services (ii)	218,000,000	221,600	-	-
Issue of ordinary shares Equipment Licence Agreement	1,600,000,000	2,482,714	-	-
Issue of ordinary shares Mark Scott Group	1,222,380,141	1,530,856	-	-
Balance at the end of the financial period	5,527,476,886	20,847,808	1,947,430,079	16,251,524

(i) Equity raisings – half year ended 31 December 2010

Date	Details	Number	Issue price	\$
22 July 2010	New issue of ordinary shares	30,000,000	\$0.0012	\$36,000
28 July 2010	New issue of ordinary shares	20,000,000	\$0.0012	\$24,000
28 July 2010	New issue of ordinary shares	45,000,000	\$0.001	\$45,000
12 Aug 2010	New issue of ordinary shares	30,000,000	\$0.001	\$30,000
25 Aug 2010	New issue of ordinary shares	141,666,666	\$0.0012	\$170,000
31 Aug 2010	New issue of ordinary shares	48,000,000	\$0.0012	\$57,600
25 Nov 2010	New issue of ordinary shares	125,000,000	\$0.001	\$125,000
22 Dec 2010	New issue of ordinary shares	100,000,000	\$0.001	\$100,000
		539,666,666		\$587,600

(ii) Ordinary shares issued in lieu of services

Date	Details	Number	Issue price	\$
19 Aug 2010	Bonus paid to CEO in ordinary shares	30,000,000	\$0.001	\$30,000
25 Aug 2010	Capital raising fees paid ordinary shares	18,000,000	\$0.0012	\$21,600
13 Oct 2010	Capital raising fees paid ordinary shares	75,000,000	\$0.001	\$75,000
25 Nov 2010	Wages paid to CFO in ordinary shares	15,000,000	\$0.001	\$15,000
22 Dec 2010	Capital raising fees paid ordinary shares	80,000,000	\$0.001	\$80,000
		218,000,000		\$221,600

Movements in shares on issue

The issues of ordinary shares on 22 July 2010, 28 July 2010, 12 August 2010, 25 August 2010 and 31 August 2010 in (i) above were approved by shareholders at the annual general meeting held on 30 November 2010.

The issues of ordinary shares on 19 August 2010 and 25 August 2010 in (ii) above were approved by shareholders at the annual general meeting held on 30 November 2010.

The issue of ordinary shares on 13 October 2010 in (ii) above were approved by shareholders at the extraordinary general meeting held on 30 July 2010.

The issue of ordinary shares on other dates has not yet been approved by shareholders and have been issued under ASX Listing Rules 7.1 and 7.4.

2. Issued capital continued

	Consolidated 31 Dec 2010		Consolidated 30 Jun 2010	
	Number	\$	Number	\$
(c) Movements in share option reserve				
Balance at beginning of the financial period	92,704,355	-	22,859,355	-
Granted during the period				
- Acquisition of the Mark Scott Group	1,142,380,141	-	-	-
- Acquisition of a licence agreement	3,200,000,000	-	-	-
- Granted under capital raisings	296,777,777	-	69,845,000	-
Exercise of options and transfer to issued capital	-	-	-	-
Expiration of options	-	-	-	-
Balance at the end of the financial period	4,731,862,273	-	92,704,355	-

3. Net tangible asset

	31 Dec 2010	30 Jun 2010
Net tangible assets	\$2,015,678	\$65,451
Number of shares on issue	5,527,476,886	1,947,430,079
Net tangible asset backing (cents)	0.0364c	0.0034c

4. Accumulated losses

	31 Dec 2010 \$	30 Jun 2010 \$
Balance at beginning of the financial period	(16,186,073)	(14,449,507)
Net loss attributable to members	(2,646,057)	(1,686,566)
Balance at end of the financial period	(18,832,130)	(16,186,073)

5. Acquisition of Business

On 16 August 2010 the directors of IM Medical Limited announced the completion of the acquisition of the businesses of Melbourne Specialist Imaging Pty Ltd, Melbourne Radiology Services Ltd, M & J Scott Pty Ltd and Mark Scott Pty Ltd (collectively Mark Scott Group). The Mark Scott Group was owned by Dr Mark Scott, an experienced radiologist based in Melbourne. The acquisition was approved by IM Medical Limited shareholders at a general meeting held on 30 July 2010 and all conditions precedent were completed by 12 August 2010. On 30 July 2010 Mark Scott and Sergio Del Vecchio were appointed as Executive Directors to the Board, as a condition of the acquisition agreement. The businesses of the Mark Scott Group incorporate six radiography centres. The businesses have been acquired by the Company's subsidiary, eHealth imaging Pty Ltd.

Consideration transferred – Acquisition of business

Cash consideration	\$
Issue of ordinary shares (i)	1,530,856
Issue of listed options over ordinary shares (ii)	-
Total purchase consideration (iii)	1,530,856

- (i) Issue of 1,222,380,141 ordinary shares at the market price at the date of settlement of \$0.002 per share. 80,000,000 of the shares issued were free of restriction. The remaining shares of 1,142,380,141 are to be held in escrow from acquisition date until 16 August 2011. The shares in escrow were discounted by 40% giving a fair value price per share of \$0.0012.
- (ii) Issue of 1,142,380,141 options over ordinary shares exercisable at \$0.0025 per option with a maturity date of three years from the date of issue.
- (iii) Acquisition related costs have been excluded from the consideration transferred and have been recognised as an expense in the current or prior period when incurred.

Consideration transferred – Licence Agreement

	\$
Cash consideration	-
Issue of ordinary shares (i)	1,406,785
Issue of partly paid ordinary shares (ii)	1,075,929
Issue of listed options over ordinary shares (ii)	-
Total purchase consideration	<u>2,482,714</u>

- (i) Issue of 703,392,468 ordinary shares at a market share price at the date of settlement of \$0.002 per share.
- (ii) Issue of 896,607,532 partly paid shares at a fair value price of \$0.0012 per share at the date of settlement. These shares were subject to escrow from acquisition date until 1 July 2011 and subject to forfeiture by the relevant holder and cancellation by the company if in the period up to 1 July 2011 the company suffers a loss as a consequence of the Mark Scott Group failing to comply with the payment obligations under the licence agreement.
- (iii) Issue of 3,200,000,000 listed options with an exercise price of \$0.0025 per option with a maturity date of three years from the date of issue.

Assets acquired and liabilities assumed at the date of acquisition

	\$
Non Current Assets	
Licence Agreement	2,482,714
Medical Equipment	463,876
Plant and Equipment	174,340
Computer Equipment	165,690
Current Liabilities	
Employee Entitlements	(150,000)
Total Net Assets Acquired	<u>3,136,620</u>

At the date of finalisation of this interim financial report the above fair values have been determined based on the directors' best estimate of the likely fair values of the assets and liabilities acquired.

Goodwill arising on acquisition

	\$
Consideration transferred – business acquisition	1,530,856
Consideration transferred – licence agreement	2,482,714
Less: fair value of identifiable net assets acquired	(3,136,620)
Goodwill arising on acquisition	<u>876,950</u>

Goodwill arose in the acquisition because the acquisition included customer and tele-radiology relationships as part of the acquisition. These assets could not be separately recognised from goodwill because they are not capable of being separated from the group and sold, transferred, or exchanged. None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

There was no net cash outflow arising on acquisition.

Impact of acquisition on the results of the group

Included in the loss for the interim period is a loss of \$1,880,069 attributable to the business from the Mark Scott Group. Revenue for the period includes \$2,193,639 in respect to the business from the Mark Scott Group. Had the acquisition of the Mark Scott Group been effected at 1 July 2010, the revenue of the group from discontinued operations for the six months ended 31 December 2010 would have been \$2,930,189, and the loss for the six month period from discontinued operations would have been \$2,572,189. The directors consider these "pro-forma" numbers to represent an approximate measure of the performance of the combined group on a half yearly basis.

6. Discontinuing operations

On 25 March 2011 the Directors of the company entered into a heads of agreement with Capitol Health Ltd to dispose of the radiology division of the company. The sale agreement was signed on 13 July 2011 and will be subject to shareholder approval at the GM dated 16 August 2011.

The following were the results for the period of the radiology division:

	\$
Revenue	2,193,639
Operating expenses	(2,559,578)
Impairment	(1,514,130)
Loss before income tax expense	(1,880,069)
Income tax expense	-
Loss after income tax expense	(1,880,069)

The following were the cash flows for the period of the radiology division:

	\$
Cash flows from operating activities	
Receipts from customers	1,839,181
Payments to suppliers and employees	(1,795,104)
Interest received	322
Interest paid	(957)
Net cash flows provided by operating activities	43,442
Cash flows from investing activities	
Proceeds on sale of plant and equipment	32,235
Payment for plant and equipment	(127,235)
Net cash flows used in investing activities	(95,000)
Cash flows from financing activities	
Proceeds from borrowings	104,500
Repayment of borrowings	(1,314)
Net cash flows provided by financing activities	103,186
Net increase in cash held	51,628
Cash at beginning of financial period	-
Cash at end of financial period	51,628

Based on the sale agreement the radiology division has been impaired down to its estimated sale value. The radiology division has also been reclassified as a held for sale asset in the current asset section of the statement of financial position. The liabilities being taken over by Capitol Health Ltd have also been reclassified as a held for sale liability in the current liability section of the statement of financial position

Carrying value of radiology division at 31 December 2010	\$
Assets	
Goodwill on acquisition	876,951
Less provision for impairment	(876,951)
	-
Plant and equipment	174,340
Less accumulated depreciation	(6,853)
	167,487
Medical equipment	586,110
Less accumulated depreciation	(29,205)
	556,905
Computer equipment	165,690
Less accumulated depreciation	(16,752)
	148,938

6. Discontinuing operations continued

	\$
Carrying value of radiology division at 31 December 2010	873,330
Fixed assets at written down value	
Licence fee	2,482,714
Less accumulated amortisation	(310,339)
Less provision for impairment	(637,179)
	<u>1,535,196</u>
Amount transferred to assets held for sale	<u>2,408,526</u>
Liabilities	
Provision for employee entitlements	219,966
Other financial liabilities	103,186
Amount transferred to liabilities held for sale	<u>323,152</u>

7. Subsequent events

On 4 February 2011 Mr Dipak Sangvhi resigned as both chairman of the board and company director.

On 4 February 2011 Mr Craig Cook resigned as company director.

On 23 March 2011 Mr Peter Jess resigned as company director.

On 23 March 2011 Mr Sergio Del Vecchio resigned as both managing director and company secretary.

On 23 March 2011 Mr Nigel Blaze was appointed as company director.

On 23 March 2011 Mr Paul Quarrell was appointed as company director.

On 23 March 2011 Mr Richard Wadley was appointed as company director and company secretary.

On 25 March 2011, the Directors of IM Medical Limited entered into a heads of agreement with Capitol Health Limited (CAJ) to sell the E Health Imaging Pty Ltd division of the company containing the radiology business and assets to CAJ. A full explanation of the proposed sale can be found in the ASX announcement dated Friday 25 March 2011. On 13 July 2011 the sale agreement with Capitol Health Limited was signed. The sale will require ratification by the shareholders at the General Meeting (GM) to be held on 16 August 2011.

On 25 March 2011, the Directors of IM Medical Limited entered into an agreement with Patersons Securities for them to act as lead manager to a converting loan and lead manager and underwriter to a rights issue. Due to breaches of this original agreement this mandate agreement was reissued and resigned on 28 June 2011. On 19 April 2011 the Directors of IM Medical Limited announced that the Company had raised \$750,000 by way of Converting Loans, and that it intends to undertake a share consolidation and an underwritten pro rata entitlement offer. Subject to shareholder approval at the GM, the converting loans will convert into 150,000,000 ordinary shares and 150,000,000 options exercisable 0.5 cents each on or before 31 March 2012. The underwritten non-renounceable pro rata entitlement issue will be on the basis of three (3) shares for every two (2) shares held and for every share issued under the entitlement issue, shareholders will be granted one (1) option exercisable at 0.5 cents each on or before 31 March 2012. The Company proposes to issue 390,824,307 shares to raise \$1,954,122. In addition, for every option granted in respect of the converting loans or the entitlement offer that is exercised before expiry, the Company will issue a further option exercisable at 1.5 cents each on or before 30 June 2015. Further details are set out in the Notice of Meeting announced and dispatched to shareholders on 18 July 2011.

The Company has entered into a settlement agreement in June 2011 with a distributor of the Intelliheart service. The settlement was for \$15,000.

The Company entered into a settlement agreement with a doctor of E Health Imaging Pty Ltd for a contract termination. The settlement amount is for \$249,600 payable on or before 31 August 2011.

8. Dividends

The Directors resolved not to declare any dividends for the period ended 31 December 2010.

9. Segment information

The following is an analysis of the Group's revenue and results by reportable operating segment for the periods under review.

	Revenue		Segment loss	
	Half –year ended		Half –year ended	
	31 Dec 2010 \$	31 Dec 2009 \$	31 Dec 2010 \$	31 Dec 2009 \$
Continuing operations				
Intelliheart tests	5,915	67,137	(144,742)	(291,246)
Corporate	1,131	(8,656)	(621,246)	(619,623)
Discontinuing operations				
Radiology	2,193,639	-	(1,880,069)	-
Loss before tax			<u>(2,646,057)</u>	<u>(910,869)</u>
Income tax expense			-	-
Consolidated segment revenue and loss for the period	<u>2,200,685</u>	<u>58,481</u>	<u>(2,646,057)</u>	<u>(910,869)</u>

Segment loss represents the loss earned by each segment without allocation of central administration costs and directors' salaries, finance costs and income tax expense. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

The following is an analysis of the Group's assets by reportable operating segment:

	31 Dec 2010 \$	30 June 2010 \$
Continuing operations		
Intelliheart tests	249,944	343,052
Discontinuing operations		
Radiology	2,786,834	-
Total segment assets	<u>2,991,219</u>	<u>343,052</u>
Corporate assets	151,843	113,868
Total assets	<u>3,188,621</u>	<u>456,920</u>

10. Contingent liabilities

An entity in the Group is a third defendant in a legal action involving executive health tests conducted in 2006. The directors believe, based on legal advice, that no losses are likely to be incurred as a result of this legal action.

The Board of Directors
IM Medical Limited
Level 1, 117 Church Street
HAWTHORN VIC 3122

3 August 2011

Dear Board Members

IM Medical Limited

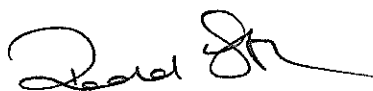
In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of IM Medical Limited.

As lead audit partner for the review of the financial statements of IM Medical Limited for the half year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely


DELOITTE TOUCHE TOHMATSU



Rachel Smith
Partner
Chartered Accountants

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 condensed consolidated statement of financial position as at 31 December 2010, and the condensed consolidated statement of comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity 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 6 to 18.

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 Interim and Other Financial Reports 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 IM Medical Limited's financial position as at 31 December 2010 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.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of IM Medical Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

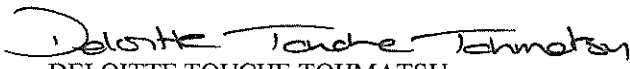
Conclusion

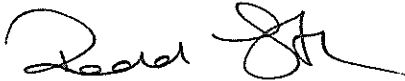
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of IM Medical Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 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 Continuance as a Going Concern

Without qualifying our conclusion, we draw attention to Note 1 in the financial report which states that the consolidated entity incurred a net loss of \$2,646,057 and incurred negative cash flows from operations of \$466,560 during the period ended 31 December 2010. As at 31 December 2010 the consolidated entity had accumulated losses of \$18,832,130. 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 it will realise its assets and extinguish its liabilities in the normal course of business at the amounts stated in the financial report.


DELOITTE TOUCHE TOHMATSU



Rachel Smith
Partner
Chartered Accountants
Melbourne, 3 August 2011