

IM Medical Limited

General Meeting 16 August 2011

Chairman's Address

Good afternoon, my name is Grant Paterson, a Partner in the law firm Hardy Bowen, and I have been appointed Chairman for this General Meeting of IM Medical Limited. I am joined by directors Nigel Blaze and Richard Wadley. Paul Quarrell and Dr Mark Scott are apologies.

I'd like to provide some background and an update on certain matters before moving to consider the resolutions.

This General Meeting was called to approve important resolutions relating to

- the sale of the Company's radiology business;
- the restructure and recapitalisation of the Company; and
- the re-election of directors.

As has been announced by the Company in detail, the Radiology business acquisition in 2009, completed in August 2010, has been disappointing. Conditions in the Radiology sector became more difficult over that period, as seen with several industry leaders experiencing difficult conditions. The performance of the Company's radiology business has not met expectations, due to these difficult industry conditions and the loss of key clients.

The Directors recognise this performance has been disappointing for the Company and for Shareholders.

The new Directors were appointed by the previous Board in March of this year. The Company was in a weak financial position at that time. The priority since that time has been to ensure the solvency and to strengthen the financial position. The Board has taken care to ensure compliance with the Corporations Act and the ASX Listing Rules. In this regard, the Company has obtained legal advice where required. This includes the management of conflicts, where directors, including Dr Mark Scott and Nigel Blaze have not participated in Board decisions in which they may have any interest.

Radiology Business

The directors concluded the Company did not have the financial or management resources to turn around the loss-making Radiology business, and concluded the best decision for the Company was to sell the business. To continue with the business would require the Company to invest significant cash and to identify management and administrative support to turn the business around. The independent directors advise that the Company has reserved its rights with respect to parties (including the Mark Scott related entities) involved

in the sale of the radiology business and will review the prospects for recoveries against any such parties.

Given the vulnerable financial position of the Company and the need to stop loss making activities quickly, the company canvassed interest in the radiology business with major companies in the radiology industry in Victoria. The only interested party, and the only offer received was from Capitol Health. The sale to Capitol Health is not a related party transaction, and an independent expert report is not required. Given the lack of alternatives, the Directors decided the cost of an independent expert report was not warranted.

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

The Board believes the sale to Capitol for 45.5 million shares in Capitol Health, one of the largest radiology providers in Victoria, and up to \$600,000 in performance related payments is a very good outcome and is in the best interests of the Company.

Since the proposed sale to Capitol Health was announced, no other party has expressed interest.

Pending completion of the sale of the radiology business, the Company entered into a management agreement with Capitol Health which has helped to stabilise the radiology business. Under the management agreement Capitol Health pays all costs and takes all operating risk relating to the business, and receives operating revenues. The Radiology business was loss making when the agreement with Capitol Health was entered into and the Company has been advised by Capitol Health that the business continues to be loss making. The terms of the agreement also provide for limited rebranding of the sites to facilitate their operation.

The Company intends that the benefit of the sale should go directly to shareholders, and has proposed the in-specie distribution of shares in Capitol Health directly to IM Medical shareholders. By doing this, shareholders are able to retain a direct interest in the radiology sector.

The Board continues to believe the sale to Capitol Health offers the best available outcome for the Company in the circumstances. The sale is an integral part of the restructure and recapitalisation, and aspects of the recapitalisation, including the Rights Issue, are under review due to recent extreme market volatility. The Rights Issue is also integral to the sale of the radiology business to Capitol Health as the consideration represents a significant percentage of the issued capital of Capitol Health and Capitol Health has an interest in ensuring that its major shareholders are financially sound.

The Board will review the proposed sale and bring it back to shareholders for approval in near future. At the same time the Company will seek shareholder approval for an in specie distribution of Capitol Health shares. In the meantime, Capitol Health has agreed to continue to manage the business at their risk.

Accordingly, resolution 1 will not be put to shareholders at this meeting, today.

Intelliheart

IMI's other main business Intelliheart continued to be unprofitable in the last year. The Company has invested more than \$7 million in the Intelliheart cardiovascular diagnostic system since its acquisition in 2004. Despite persistent efforts, the business has continued to underperform and remains unprofitable. The Directors have advised that the future strategy for the business is under review.

Recapitalisation

The Company had not been able to raise equity capital since late last year and was in urgent need of funding in April 2011. The Company raised \$750,000 in funds from the issue of Converting Notes at a difficult time. This funding was required quickly to maintain solvency, and the Company is grateful for the support by the investors. No interest is payable on the Converting Loans if conversion is approved under resolution 3. If the resolution for conversion of these loans is not approved, the Converting Loans will become repayable with interest and fees as advised in detail in the Notice of Meeting.

The Directors have also proposed an underwritten rights issue to recapitalise the company. The Directors set the terms of the Rights Issue to ensure that existing shareholders have the opportunity to participate in the recapitalisation on the same terms as the Converting Note investors.

Unfortunately the extreme share market volatility in the last two weeks triggered a termination clause in underwriting agreement. The Company is renegotiating the Rights Issue with the Lead Manager and will advise shareholders when the outcome is confirmed. A successful replacement for the Rights Issue funding is required to secure the financial position of the Company.

Accordingly resolution 4 will not be put to shareholders at this meeting.

The Directors note the unaudited value of net assets per share as at 30 June 2011 is 0.018 cents, which is significantly below the minimum price of 0.1 cents that the Company's shares can trade at on the ASX. This situation will be addressed by the proposed 1 for 50 share consolidation. The Board notes the share consolidation is necessary to restore liquidity to the Company's shares on the ASX. The consolidation treats all shareholders equally and should allow the shares to trade at more normal levels.

Future Plans

The Company's business strategy is:

- (a) To stabilise the Company's financial position by completing the proposed sale of the Radiology Business, and return the value of the Capitol Health shares to IM Medical shareholders
- (b) To restore balance sheet strength
- (c) Complete the review of the Company's Intelliheart business to determine the most appropriate means of maximising value for shareholders
- (d) Once the financial position is stabilised, the Company will focus its attention on acquisition and investment opportunities to restore and create shareholder value. At this early stage no decisions have been made.

The Directors are aware of actions being taken by a small number of former directors and management of IM Medical to try to obstruct the passage of the necessary resolutions. The Directors consider these actions to be counter-productive and potentially very damaging for the Company, and not in shareholder's interests.

If the necessary resolutions are not approved, the Board considers there is a risk the Company will face solvency issues that may require the Board to consider voluntary administration. This would inevitably destroy value for all shareholders.

Please be assured your Board is working as hard as it can to effect the restructure and protect shareholder value. The Directors look forward to your on-going support to work through this difficult period, restructure the business and seek opportunities to create shareholder value.