



IM MEDICAL LIMITED

ABN: 47 009 436 908

Annual Financial Report
for the Year Ended 30 June 2011

Corporate Information

Company Directors

Mr. Nigel Blaze	Chairman
Mr. Richard Wadley	Non Executive Director
Mr. Paul Quarrell	Non Executive Director
Dr Mark Scott	Executive Director

Company Secretary

Mr Richard Wadley

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Solicitors

GTP Legal
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28 Ord Street
West Perth WA 6005

Bankers

St. George Bank

Share Register

Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross WA 6153

Auditor

Deloitte Touche Tohmatsu
550 Bourke Street
Melbourne VIC 3000

Contents

	Page
Chairman's Report	4
Corporate Governance Statement	6
Directors' Report	10
Auditor's Independence Declaration	20
Independent Audit Report	21
Directors' Declaration	23
Statement of comprehensive income	24
Statement of financial position	25
Statement of changes in equity	26
Statement of cash flows	27
Notes to the Financial Statements	28
Additional Stock Exchange Information	60

Chairman's Report

Dear Shareholders

On behalf of the board, I am pleased to present the company's Annual Financial Report for the financial year ended 30 June 2011.

It has been a difficult year for IM Medical. The company recorded a loss after income tax of \$4,068,842. As has been announced by the Company previously, the performance of the Company's radiology business has been disappointing. Conditions in the Radiology sector became more difficult over past year, as has been 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 Shareholders and are taking steps to address the underlying issues.

Three 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 Directors' priority since that time has been to ensure the solvency and to strengthen the financial position by undertaking a number of steps to restructure and recapitalise the Company. As part of this process the Company completed a 1 for 50 share consolidation on 18 August 2011.

Rights Issue & Converting Loan

On 14 September 2011 the Company announced a non-renounceable pro-rata rights issue to raise up to \$3.3 million with a minimum raising of \$2.5 million. The rights issue is on the basis of 6 shares for every 1 share held at a share price of 0.5 cents per share, with a minimum subscription amount of \$2.5 million. The proceeds of the rights issue will be used to pay creditors, repay a converting loan and for general working capital purposes.

In April 2011 the Company entered into converting loans to raise \$750,000 of urgently needed funding to maintain solvency. The terms of the loans provided that no interest would be payable if the conversion of the loan into shares was approved by shareholders. Unfortunately due to actions taken by a small number of former directors and management of the Company to obstruct the approval of the required resolution, the conversion of the loans was not approved at the General Meeting held on 16 August 2011. The Company is now required to repay the converting loans together with interest and a redemption payment, incurring a significant additional cost for shareholders. The Company intends to use part of the rights issue proceeds to repay the loans.

Radiology Business

The directors considered the Company did not have the financial or management resources to turn around its loss-making Radiology business, and concluded the best decision for the Company was to sell the business. To continue with the business would have required the Company to invest significant cash and to identify management and administrative support to turn the business around, with no guarantee of success.

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, one of the largest radiology providers in Victoria.

The Company has agreed, subject to shareholder approval, to sell the radiology business to Capitol Health in exchange for 45.5 million shares in Capitol Health and up to \$600,000 in performance related payments. Pending completion of the sale of the radiology business the Company also entered into a management agreement with Capitol Health under which Capitol Health pays all costs and takes all operating risk and receives operating revenues relating to the business in consideration for a management fee of \$100,000 payable by the Company to Capitol Health.

The terms of the sale to Capitol Health also 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 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 Board believes the sale to Capitol offers the optimal outcome for shareholders and is in the best interests of the Company.

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 Company will seek shareholder approval for the sale of the radiology business and the in-specie distribution of Capitol Health shares at the Company's Annual General Meeting to be held prior to 1 December 2011.

Intelliheart

IMI's other main business Intelliheart continued to be unprofitable during 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.

Future Plans

Following completion of the recapitalisation via the current rights issue, the Company will investigate acquisition and investment opportunities in order to restore shareholder value. The Directors expect to consider opportunities across a range of sectors which may take the Company away from its medical services focus, and any decision regarding any material investment or acquisition will be subject to shareholder approval in compliance with ASX requirements.

Following completion of the rights issue, the directors will seek to employ a well-credentialed Chief Executive Officer to lead the search for investment opportunities and rebuilding the Company. Subject to confirmation regarding shareholder approval for the sale of the Company's radiology business, the directors are likely to investigate the recruitment of a CEO with resource sector expertise, given the sector is a current focus for investor interest.

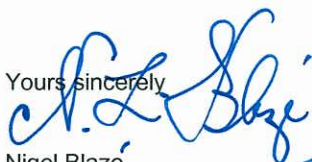
In the event shareholders decide not to sell the radiology business, the Company expects the management agreement with Capitol Health Limited will terminate, and the Company's focus will need to turn to recruitment of management with the skills and experience to lead the radiology business to attempt to reduce losses and to return it to profitability.

The directors are confident that once re-capitalised, following the sale of the radiology business, the Company will be capable of attracting the calibre of CEO required to successfully rebuild the Company. At this stage no investment commitments have been made and no specific opportunities have been identified.

The Board will review its composition as opportunities are identified to ensure the Board has appropriate skills and experience to implement the Company's revitalisation strategy going forward.

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.

Yours sincerely



Nigel Blaze
Chairman

5 October 2011

Corporate Governance Statement

IM Medical Limited remains committed to corporate governance practices that are compatible with the Company's age and size and which ensure an appropriate degree of accountability and transparency to shareholders and other stakeholders.

ASX Listing rule 4.10.30 requires that IM Medical Limited disclose the extent to which it has followed the recommendation of the ASX Corporate Governance Councils ("ASX CGC") *Corporate Governance Principles and Recommendations* (2nd Edition) during the 2011 year.

PRINCIPLE 1 – Lay solid foundations for management and oversight

Recommendations 1.1: Formalise and disclose the functions reserved to the board and those delegated to management.

The IM Medical board retains responsibility for the following areas:

- a) Setting and monitoring of objectives, goals and strategic direction for management with a view to maximising shareholder wealth;
- b) Approving annual budget and monitoring financial performances;
- c) Ensuring adequate internal controls exist and are appropriately monitored for compliance;
- d) Ensuring significant business risks are identified and appropriately managed;
- e) Approving acquisitions
- f) Ensuring and appointing new Directors; and
- g) Maintaining the highest business standards and ethical behavior

Recommendation 1.2: Disclose the process for performance evaluation of the board, its committees and individual directors and key executives.

The principles adopted for performance evaluations of key executives are outlined in the remuneration section of the director's report.

In summary the board evaluates the performance of senior executives on an annual basis. When considering performance, the board has regard for such things as:

- a) The responsibilities of the executive
- b) The approved annual budgets
- c) Any communicated key performance indicators; and
- d) Qualities as well as quantitative measures

In relation to the directors, the process for evaluating performance is more informal but none the less effective.

Directors and key executives have ongoing access to continuing education to enhance their skills and knowledge and the board has access to independent professional advice at the company's expense. In addition, all directors have access to the Company Secretary who is responsible to the board, through the Chairman, on all governance matters.

PRINCIPLE 2 – Structure the board to add value

Recommendations 2.1: A majority of the board should be independent directors.

At the date of this report, the board comprises four directors, three of which are considered independent and meet the objective assessment of quantitative, qualitative, and cumulative criteria for director independence.

The degree of independence will be reviewed periodically but the current view of the board, is that sufficient independence is adequately provided by independent directors and strategic advisers. The board recognises that the director remains in office for the benefit of and are accountable to shareholders and that shareholders have the voting power to elect members to the board regardless of their standing, independent or otherwise.

Recommendation 2.2: The chairperson should be an independent director and;

Recommendation 2.3: The roles of the Chairperson and Chief Executive Officer should not be exercised by the same individual

The current chairman is an independent director. There is currently no chief executive officer as the radiology division is being managed by Capitol Health and the company will be searching for a new chief executive officer once the rights issue has been completed.

Recommendation 2.4: The board should establish a nomination committee

Due to its limited size by lack of complexity, the board has adopted the position that this responsibility should be fulfilled by the full board.

Recommendation 2.5: Disclose the process for evaluating the performance that this responsibility should be fulfilled by the full board.

Refer to Recommendation 2.1

PRINCIPLE 3 – Promote ethical and responsible decision making

Recommendation 3.1: Establish a code of conduct to guide the Directors, the Chief Executive Officer and any other key executives.

The company recognises its corporate regulatory responsibilities, and has developed and maintained the necessary systems and operational procedures and protocols to ensure it satisfies these obligations.

The board believes that a key driver of corporate governance is to communicate the key policies to management and staff and to monitor and embed them throughout all functions. These policies are monitored and reviewed on an ongoing basis by the board and cover:

- a) Employee share trading policies
- b) Appropriate levels of disclosure and liaison with shareholders
- c) Relationships with customers and suppliers
- d) Employment practices of the company

In addition to the above, all directors and senior management strive to ensure that the company:

- a) Complies with laws and regulations; and
- b) Ethical and environmental responsibilities

Recommendation 3.2: Disclose the policy concerning trading in company securities by directors, officers, and employees.

The Company has established a "Share Trading Policy". This Policy applies to all directors, executives and employees nominated by the board, including external resources appointed to these types of roles on a contractual and/or interim basis. The policy is intended to cover employees, contractual or otherwise and will include:

- a) directors, company secretaries and senior executives of the company;
- b) accounting officers;
- c) staff members who have access to the Company's financial results.

The policy permits directors and senior executives to trade in securities during the 4 week period commencing immediately after the date of announcement of results to the ASX, of the half yearly and annual results and after the conclusion of the Annual General Meeting provided that the person is not in possession of price sensitive information and the trading is not for short term or speculative gain.

Trading in securities by directors, executives and employees as nominated is prohibited at all times other than those set out above except that a person may trade outside the allowable period with written authority from the chairman or a non executive director nominated by the chairman.

A written request for approval is required to be submitted before permission will be given for such trading and only then will approval be provided on the basis that the proposed transaction would not be:

- a) contrary to any laws; or
- b) for speculative gain; or
- c) likely to be perceived as unduly negative or unfair by the public, press, other shareholders or regulatory bodies.

As a guide, approval to trade may be given where, for example, it can be shown that securities are to be sold to realise cash in a time of need or where securities are transferred from one member of a family or trust to another when to delay the transaction to the next permitted period would be detrimental to the family's affairs.

In addition to any other ASX Listing Rule and Corporation Law requirements, the Policy requires all affected persons to provide the Company with details of any dealings, made by them or related parties, in the Company's securities within 3 days of each transaction.

PRINCIPLE 4 – Safeguard integrity of financial reporting

Recommendation 4.1: The board should establish an audit committee, and

Recommendation 4.2: Structure the audit committee so that it consists of:

- a) only non executive directors*
- b) a majority of independent directors*
- c) an independent chairperson, who is not chairperson of the board; and*
- d) at least three members*

Due to the limited size, lack of complexity and relatively small number of directors, the board has adopted the position that this responsibility should be fulfilled by only two members of the board.

The Company's financial report is subject to an annual audit by an independent professional auditor who also reviews the Company's half yearly financial report. The Audit, Risk & Compliance Committee oversees this process on behalf of the Board. The Committee comprised of two directors and the Chief Financial Officer and was led by an independent Chairman who was not the Chairman of the Board.

At the date of this report the Committee comprised of Mr. Nigel Blaze (Committee Chairman, independent non executive director), Mr. Richard Wadley (Company secretary, independent non executive director) and Mr. Mark Reynolds, the CFO. The Committee meets at a minimum, on a six monthly basis to review and consider the half-year and full year financial report of the Company. The Company's auditors are actively involved in these meetings. The Directors' Report contains further details on Committee Members skills and qualifications, together with details of meeting attendance.

Recommendation 4.3: The audit committee should have a formal operating charter.

The audit committee does not currently have a formal operating charter, although the full board does have in place a formal board charter.

PRINCIPLE 5 – Make timely and balanced disclosure

Recommendation 5.1: Establish written policies and procedures designed to ensure compliance with ASX listing rule disclosure requirements and to ensure accountability at senior management level for that compliance.

The Chairman and Company Secretary ensures compliance with the continuous disclosure requirements of the ASX Listing Rules and in particular Listing Rule 3.1, however the Company does not currently have a formal written policy in place and relies on the extensive experience of the board and senior management to ensure ongoing compliance.

PRINCIPLE 6 – Respect the rights of shareholders

Recommendation 6.1: Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.

Ongoing communications with shareholders include:

- a) The Company maintains a corporate website to inform shareholders on historical information and developments (www.immedical.com).
- b) The Company regularly updates and provides details of recent material announcements, annual reports, and general information on the Company and its business to the ASX.
- c) The annual report is distributed to all shareholders (unless a shareholder has specifically requested not to receive the document). A copy of the full annual report is available free of charge, upon request, from the Company. The board ensures that the annual report includes relevant information about the Company's operations during the year, changes in the state of affairs and details of future developments, in addition to the other disclosures required by the *Corporations Act 2001*;
- d) The half-year report contains summarised financial information and a review of the operations of the Company during the period. The half-year financial report is prepared in accordance with the requirements of Accounting Standards and the *Corporations Act*, and is lodged with the Australian Securities and Investments Commission and the Australian Stock Exchange; and
- e) The Board encourages full participation of shareholders at the Annual General Meeting to ensure a high level of accountability and alignment with the Company's strategy and goals.

Shareholder participation at annual general meetings (AGM) is encouraged and the Company's auditor Deloitte Touche Tohmatsu, are requested to attend the AGM and be available to answer shareholder questions.

PRINCIPLE 7 – Recognise and manage risk

Recommendation 7.1: The board or appropriate board committee should establish policies on risk oversight and management.

The Audit, Risk and Compliance Committee have established a policy for risk oversight and management within the Company. This is periodically reviewed and updated.

Recommendation 7.2: The board should require management to design and implement the risk management and internal control system to manage the company's material business risks.

The company has not currently designed and implemented the risk management and internal control system to manage the company's material business risks.

Recommendation 7.3: The board should disclose whether it has received assurance from the Chief Executive Officer and the Chief Financial Officer that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The Chief Financial Officer has provided the board with a written opinion on the system of risk management, internal compliance and control systems.

The board is confident that the scale, lack of complexity and concentrated location of the Company's business activities provides a model for ensuring that internal control, compliance, and risk management are operating to the required standard and that this view is founded on policies and controls which adequately supported the board's risk profile for the 2011 financial year.

PRINCIPLE 8 – Remunerate fairly and responsibly

Recommendation 8.1: The board should establish a remuneration committee.

Due to the limited size and lack of complexity of the company, the board does not consider that a separate remuneration committee is required and thus does not fully comply with this recommendation.

The board reviews the remuneration packages and policies applicable to the senior officers on an annual basis. The board may also obtain independent advice on the appropriateness of remuneration packages.

Recommendation 8.2: Clearly distinguish the structure of non-executive directors' remuneration from that of executives.

The level of remuneration for each director and specified executive is detailed in the directors' report and notes to the financial statements. The principles, details of remuneration and terms of contracts are also outlined in the remuneration report section of the director's report. The appointment of all senior executives and board members is approved by the full board.

In summary, the board aims to structure total remuneration to take into account:

- a) both the short and long term growth and success of the Company;
- b) remuneration that is competitive with the market place; and
- c) remuneration that is demonstrably linked to the Company's overall performance.

Non-executive Directors are remunerated by way of fees only, they do not receive any additional retirement benefits nor do they currently participate in any other incentive arrangement/s such as the share option plan.

Directors' Report

The directors of IM Medical Limited submit herewith the annual financial report of the Company for the financial year ended 30 June 2011. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names and particulars of the directors of the Company during or since the end of the financial year are:

Mr. Dipak Sanghvi

Chairman and Non Executive Director (appointed 6 December 2007)

Mr Sanghvi has been president of the Victorian branch of the Pharmacy Guild of Australia since 2005 and is a Fellow of the Australian Institute of Company Directors. He was vice chairman of Amcal for six years. A practicing pharmacist, he is regarded as one of the industry's foremost leaders.

Mr. Sanghvi has held no listed company directorships within the last 3 years before the financial year ended 30 June 2011.

Mr. Sanghvi resigned on 4 February 2011.

Mr. Craig Cook

Non Executive Director (appointed 29 December 2006)

Craig brings to the board extensive experience in governance and risk management issues and an in depth knowledge of the machinery of government. Craig is currently a Deputy Chairman of the Goulburn Murray Rural Water Authority and a director of the Rural Finance Corporation of Victoria. Mr. Cook, who was Manager of Corporate Relations at Rio Tinto Limited, is also deputy director of VicSuper Limited.

Mr. Cook has held no listed company directorships within the last 3 years before the financial year ended 30 June 2011.

Mr. Cook resigned on 4 February 2011.

Dr. Ross Walker

Non Executive Director (appointed 12 June 2008)

Dr Walker is a practicing cardiologist as well as a high-profile author, presenter and media commentator on heart disease and preventative health. Dr Walker graduated from the University of NSW in 1979 and was awarded the FRACP in 1986. He runs a cardiology practice in Pymble, on Sydney's North Shore. He is a regular contributor on health issues on commercial radio stations and the Nine Network. He is the author of seven books; including *If I Eat Another Carrot I'll Go Crazy*, *The Cell Factor* and *The Life Factor*. He lectures in Australia and overseas to major corporations and medical groups on health and lifestyle.

Dr Walker held no listed company directorships within the last 3 years before the financial year ended 30 June 2011.

Dr Walker resigned on 29 September 2010.

Dr. Mark Scott

Executive Director (appointed 30 July 2010)

Dr Mark Scott is the founder of Melbourne Specialist Imaging. Dr Scott has over 25 years experience in radiology, specialising in head, neck and dental imaging. Dr Scott has held senior positions in public and private hospitals and has been an independent specialist provider of radiology services since the early 1990's. As current Director of Radiology at the Royal Victorian Eye and Ear Hospital, he is involved in a wide range of ongoing research and training and conducts regular teaching sessions for registrars

Dr Scott held no listed company directorships within the last 3 years before the financial year ended 30 June 2011

Mr. Sergio Del Vecchio

Executive Director (appointed 30 July 2010)

Mr Sergio Del Vecchio has significant and vast experience in and around the diagnostic imaging sector, spanning almost 25 years. In 2002, Mr Del Vecchio completed an MBA at Latrobe University. Mr Del Vecchio has also separately worked as a consultant to diagnostic imaging businesses including in providing specialist IT solutions. Mr Del Vecchio joined the Mark Scott Group in late 2006, initially in a marketing role before becoming its General Manager in April 2007.

Mr. Del Vecchio held no listed company directorships within the last 3 years before the financial year ended 30 June 2011

Mr. Del Vecchio resigned on 23 March 2011.

Mr. Peter Jess

Non Executive Director (appointed 11 November 2010)

Mr Peter Jess has significant and vast experience in business development and an extensive network of associates in the Business, Sports and Arts. Mr Jess is a practising Chartered Accountant and is the principal of Peter W. Jess & Associates Pty Ltd. Mr Jess has a broad based exposure to many industries both here and around the world and has represented sports people, actors and professionals with a list of high profile clientele.

Mr Jess was a co founder of the Australian Football League Player Association's Education and Training Board and was instrumental in setting up the Players Agents Accreditation system in the AFL. Mr Jess is active in the number of charities and not for profit organisations including Humour Foundation, Sports Health Check Australia – Indigenous Health and has been active in a wide range of indigenous issues including the Mirimbank Nations Aboriginal Corporation, the official land rights group in Victoria.

Mr. Jess held no listed company directorships within the last 3 years before the financial year ended 30 June 2011

Mr. Jess resigned on 23 March 2011.

Mr. Nigel Blaze

Non Executive Director (appointed 23 March 2011)

Mr Blaze is a Fellow of the Institute of Chartered Accountants and has practised as a Chartered Accountant for approximately 25 years. Mr Blaze his professional accounting career with Ernst & Young and over a 7 year period worked firstly in the Business Services area subsequently moving into a management role in their Specialist Taxation Advisory division. Since leaving Ernst & Young in 1989, Mr Blaze has acted as a director of the Chartered Accounting firms Griffiths and Co and McLean Manuell before establishing his own firm in July 2003.

Mr Blaze is currently the managing director of Blaze BMD Pty Ltd, Accountants and Business Advisors and has extensive commercial advisory experience including specialisation in the medical services sector, property sector, agri-business sector and the retail and manufacturing sectors.

Mr Blaze was, until June 2003, a director of the Blaxland Rural Investments Ltd a company that successfully raised capital and managed a number of agri-business projects prior to the sale of its operations to a predecessor of Seven Fields Management Limited. He has also acted and continues to act as a director on many private company boards and has successfully managed a number of investment projects.

Mr Blaze has acted as Chairman of the Company since 23 March 2011.

Mr Blaze holds a Bachelor of Business (Accounting) degree, a Diploma of Taxation Law from Monash University, and a Certified Financial Planning qualification.

Mr. Blaze held no listed company directorships within the last 3 years before the financial year ended 30 June 2011

Mr. Richard Wadley

Non Executive Director/Company Secretary (appointed 23 March 2011)

Mr. Richard Wadley was appointed as a Director of the Company on 23 March 2011 in accordance with Article 13.4 of the Constitution. Mr Wadley was also appointed as the company secretary of the Company.

Mr Wadley FCCA specialises in providing financial and company secretarial services to mainly earlier stage life science companies. He has had extensive experience in the areas of financial management, tax planning, investor relations, technology licensing and capital raisings. He was formerly CFO and company secretary of Biota Holdings Limited and is currently the CFO and company secretary for ASX listed BioDiem Limited. Mr Wadley is also a director of Origin Capital Limited (a pooled development fund) and the company secretary of Relevare Pharmaceuticals Limited. Mr Wadley has practised as a chartered accountant and has worked in both stock broking and for the ASX. Mr Wadley was named Chief Financial Officer of the Year in 1998 by C.F.O. Magazine.

Mr. Wadley held no listed company directorships within the last 3 years before the financial year ended 30 June 2011

Mr. Paul Quarrell

Non Executive Director (appointed 23 March 2011)

Mr Paul Quarrell was appointed as a Director of the Company on 23 March 2011 in accordance with Article 13.4 of the Constitution.

Mr Quarrell has extensive business experience, specialising in mergers, acquisitions as well as corporate strategy, advice and governance. He has held senior executive positions with NAB/MLC and Ipac (now owned by Axa) as well as a self-employed Consultant working with companies such as Tauro Capital, Challenger, Q Invest, Strategic Capital Management and Seaview Consulting. Mr Quarrell was the managing director of Techdrill Services Pty Ltd, an exploration drilling company which grew its revenue and profit by 700% under his leadership and was a founding partner and director of Lachlan Group Pty Ltd (now known as Westoria Capital), a boutique resource investment company.

After beginning his career as a financial adviser, Mr Quarrell was appointed acquisitions manager by Ipac and successfully completed the foundation transactions that were aggregated into the significant operation that it has become today. Subsequently Mr Quarrell acted as the principal of his own consulting business and worked on a number of successful advisory projects highlighted by his involvement in the Challenger acquisition and integration team that successfully negotiated and integrated the acquisition of Associated Planners for \$100 million.

Mr Quarrell holds a Master of Business Administration (MBA), Bachelor of Economics (Honours), Diploma of Financial Planning (DFP) and Certified Financial Planner (CFP).

Mr. Quarrell held no listed company directorships within the last 3 years before the financial year ended 30 June 2011

Mr. Roman Najdecki

Company Secretary & Chief Financial Officer (appointed 13 November 2006)

Mr. Najdecki is a CPA with a strong background in accounting and finance within a small cap listed company environment. He has an extensive Australian commercial financial background, with almost 25 years experience in senior finance roles in a number of industries, covering manufacturing, distribution, consulting and biotechnology. Previously he has been CFO / Company Secretary of small cap ASX listed companies Lowan Australia Limited and Latia Limited. He is also a member of the Chartered Institute of Company Secretaries in Australia. He commenced as acting Chief Executive Officer on 20 July 2008 and was appointed Chief Executive Officer on 7 May 2009 reverting to Chief Financial Officer on August 2 2010.

Mr. Najdecki resigned on 30 September 2010.

Principal activities

The consolidated entity's principal activities in the course of the financial year were the operation of radiology clinics and the advancement of human health through innovative prevention and management of cardiovascular and other life threatening diseases. The company operated radiology clinics and key sites across Melbourne delivering a full range of radiology services under the brand Melbourne Specialist Imaging. The company also operated the Intelliheart system as a new approach to the assessment and management of cardiovascular disease and the delivery of new chronic disease management services to achieve better health outcomes for chronically ill patients. There were no significant changes in the nature of the consolidated entity's principal activities during the financial year.

Dividends

No amounts have been paid, declared or recommended by the Company by way of dividend since the commencement of the financial year (2010: Nil).

Review and results of operations

In preparing the Review of Operations, the directors have omitted material that would otherwise have been included under s.299A(1)(c) concerning the consolidated entity's business strategies and prospects for future financial years, as they believe it is likely to result in unreasonable prejudice to the consolidated entity or any entity that is part of the consolidated entity.

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

For the year ended 30 June 2011 the consolidated entity and the company incurred a net loss of \$4,068,842 and \$4,099,226 respectively and incurred negative cash flows from operations of \$922,388 and \$1,088,910 respectively during the year ended 30 June 2011. As at 30 June 2011 the consolidated entity has current assets in excess of its current liabilities by \$424,263, and the company has current liabilities in excess of its current assets by \$1,003,201. As at 30 June 2011 the consolidated entity and the company have accumulated losses of \$20,254,915 and \$20,259,500 respectively.

(c) Future development

On 25 March 2011, the Directors of IM Medical Limited entered into a heads of agreement with Capitol Health Limited (CAJ Ltd) 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, CAJ Ltd will provide IM Medical Limited with 45,559,021 ordinary shares in CAJ Ltd (with a market value as at 30 June 2011 of \$1,594,565), plus three bonus payments which have been valued collectively at \$217,453. IM Medical Limited has agreed to distribute the shares received in CAJ Ltd by way of an in-specie distribution to IM Medical Limited shareholders within three months of the completion of the sale. The sale will require shareholder approval at a general meeting which is to be held on 21 October 2011.

Patersons Securities has now been appointed as Lead Manager in respect of an entitlement issue by IM Medical Limited announced on 14 September 2011. The company is making a non-renounceable pro-rata offer of shares at an issue price of 0.5 cents each to eligible shareholders on the basis of 6 shares for every 1 share held, together with one free attaching new option (exercisable at 1 cent per share on or before 30 September 2016) for each share subscribed for, to raise up to approximately \$3,300,000. There is a minimum subscription of 560,000,000 shares to raise \$2,800,000 before expenses of the offer. The offer will require shareholder approval at a general meeting which is to be held on 21 October 2011.

The directors' focus for the short term will be to finalise the sale of the radiology business, and completion of the entitlement issue. 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 entitlement offer, 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 2011 financial 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.

Change in the state of affairs

During the financial year, there was no significant change in the state of affairs of the consolidated entity other than that referred to in the financial statements or notes thereto.

Future developments

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly, this information has not been disclosed in this report.

Environmental regulation and performance

The Company is involved in medical research and development in the advancement of human health, and the activities of the Company do not create any significant environmental impact. The Company's medical research activities are in full compliance with all prescribed environmental regulations.

Share options

As at the date of this report, there were 4,731,862,273 unissued ordinary shares of IM Medical Limited under options.

Since the 30th June 2011 there have been no additional unlisted options issued.

Shares issued as a result of the exercise of options

During the year ended 30 June 2011, no fully paid ordinary shares were issued by IM Medical Limited as a result of exercised options. During the year ended 30 June 2010, no fully paid ordinary shares were issued by IM Medical Limited as a result of exercised options.

Indemnification and insurance of directors and officers

During the financial year, the company paid a premium in respect of a contract insuring the directors of the company (as named above), the company secretary, and all the executive officers of the company and of any related body corporate against liability incurred as such a director, secretary or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The company has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the company or any related body corporate against a liability incurred as such an officer or auditor.

Directors' meeting

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member). During the financial year, there were a total of 10 Board meetings held. The held column in the table below indicates the number of board meetings held whilst that director was in office.

Director	Board of Directors	
	Held	Attended
D. Sanghvi	7	6
C. Cook	7	7
R. Walker	2	0
M. Scott	10	2
S. Del Vecchio	7	7
P. Jess	5	5
N. Blaze	3	3
R. Wadley	3	3
P. Quarrell	3	3

Director's shareholding

The following table sets out each director's relevant interest in shares or options in shares of the Company or a related body corporate as at the date of this report.

Director	Ordinary shares	Options over ordinary shares
M. Scott	-	54,847,603
N. Blaze	-	-
R. Wadley	-	-
P. Quarrell	-	-

Remuneration Report

This report which forms part of the directors' report outlines the remuneration arrangements in place for directors and executives of IM Medical Limited for the financial year ended 30 June 2011.

Remuneration philosophy

The performance of the Company depends upon the quality of its directors and executives. To prosper, the Company must attract, motivate and retain highly skilled directors and executives.

To that end, the Company embodies the following principles in its remuneration framework:

- Provide competitive rewards to attract high calibre executives;
- Focus on creating sustained shareholder value;
- Significant portion of executive remuneration "at risk", dependent upon meeting predetermined performance benchmarks; and
- Differentiation of individual rewards commensurate with contribution to overall results and according to individual accountability, performance and potential.

During the year, a review of the reward structures has been conducted against the backdrop of these philosophies and against the Company's growth strategies and corporate governance principles. As a result, a number of changes are planned to be incorporated into future remuneration arrangements for both new and existing directors and executives.

In the absence of a specific Remuneration Committee, the Board of Directors accepts direct responsibility for determining and reviewing compensation arrangements for the directors, chief executive officer (CEO) and the senior management team. The Board assesses the appropriateness of the nature and amount of remuneration of directors and senior managers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality board and executive team.

Remuneration structure

In line with best practice corporate governance, the structure of non executive director, executive director and senior manager remuneration is separate and distinct.

Non executive director remuneration

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of non executive directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the directors as agreed. The latest determination was at the Annual General Meeting held on 25 November 2004 when shareholders approved an aggregate remuneration of \$250,000.

Non executive director remuneration continued

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst directors is reviewed annually. The board considers any advice received from external consultants as well as the fees paid to non executive directors of comparable companies when undertaking the annual review process.

Each director receives a fee for being a director of the Company and is entitled to be paid an additional fee for each Board Committee on which the director sits. The entitlement to the additional fees for serving on a committee recognises the additional time commitment required by directors in discharging their responsibilities to the board.

Senior management and executive director remuneration

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company and so as to:

- Reward executives for company, business unit and individual performance against targets set by reference to appropriate benchmarks;
- Align the interests of executives with those of shareholders;
- Link reward with the strategic goals and performance of the company; and
- Ensure total remuneration is competitive by market standards.

The executive remuneration program is designed to support the Company's reward philosophies and to underpin the Company's growth strategy. The program comprises the following components:

- Fixed remuneration component
- Variable remuneration component including short term incentive (STI) and long term incentive (LTI)

Fixed remuneration

The level of fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market. Senior managers are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicles and shares. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company.

Variable remuneration – short term incentive (STI)

The objective of the STI program is to link the achievement of the Company's operational targets with the remuneration received by the executives charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the senior manager to achieve the operational targets and such that the cost to the Company is reasonable.

Actual STI payments granted to each senior manager depend on the extent to which specific operating targets set at the beginning of the year are met. The operational targets consists of a number of Key Performance Indicators (KPIs) covering both financial and non-financial measures of performance. Typically included are measures such as contribution to revenue, net profit after tax, customer service, risk management, product management, leadership and team contribution. The Company has predetermined benchmarks which must be met in order to trigger payments under the short term incentive scheme.

On an annual basis, after consideration of performance against KPIs, an overall performance rating for the Company is approved by the Board. The individual performance of each executive is also rated and taken into account when determining the amount, if any, of the short term incentive pool allocated to each executive. The aggregate of annual STI payments available for executives across the Company are usually delivered in the form of a cash bonus. In the 2011 year, no payments have been made (2010: nil) under the STI program.

Variable remuneration – long term incentive (LTI)

The objective of the LTI plan is to reward senior managers in a manner which aligns this element of remuneration with the creation of shareholder wealth. As such, LTI grants are only made to executives who are able to influence the generation of shareholder wealth and thus have a direct impact on the Company's performance against relevant long term performance hurdles. LTI granted to executives are delivered in the form of options or shares. In the 2011 year, no issue of options or shares has been made (2010: nil) under the LTI plan.

Relationship between the remuneration policy and company performance

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. However, no base remuneration of key management personnel or directors is dependent or related to company performance. The following table shows the gross revenue, losses, share price and dividends for the last five years for the consolidated entity.

Consolidated	30 June 2011	30 June 2010	30 June 2009	30 June 2008	30 June 2007
Revenue	8,877	75,478	429,994	1,110,646	1,232,987
Net loss before tax	(4,068,842)	(1,686,566)	(2,431,847)	(5,472,046)	(3,384,691)
Net loss after tax	(4,068,842)	(1,686,566)	(2,451,565)	(5,468,358)	(3,387,099)

Consolidated	30 June 2011	30 June 2010	30 June 2009	30 June 2008	30 June 2007
Share price at start of year	\$0.001	\$0.004	\$0.016	\$0.019	\$0.010
Share price at end of year	\$0.001	\$0.001	\$0.004	\$0.016	\$0.019
Interim and final dividend	-	-	-	-	-
Basic earnings per share(cents)	(0.01)	(0.10)	(0.19)	(0.46)	(0.35)
Diluted earnings per share(cents)	(0.01)	(0.10)	(0.19)	(0.46)	(0.35)

Key management personnel

• Details of key management personnel

Names and positions held of key management personnel in office at any time during the financial year are:

- Roman Najdecki (Chief Executive Officer, Chief Financial Officer & Company Secretary, Resigned 30 September 2010)
- Dr Ross Walker (Non executive director, Resigned 29 September 2010)
- Dipak Sanghvi (Non executive director, Resigned 4 February 2011)
- Craig Cook (Non executive director, Resigned 4 February 2011)
- Sergio Del Vecchio (Chief Executive Officer & Company Secretary, Appointed 30 July 2010 Resigned 23 March 2011)
- Peter Jess (Non executive director, Appointed 11 November 2010 , Resigned 23 March 2011)
- Dr Mark Scott (Executive Director, Appointed 30 July 2010)
- Mark Reynolds (Chief Financial Officer, Appointed 1 October 2010)
- Nigel Blaze (Non executive director, Appointed 23 March 2011)
- Richard Wadley (Non executive director, Appointed 23 March 2011)
- Paul Quarrell (Non executive director, Appointed 23 March 2011)

The compensation of each member of the key management personnel of IM Medical Limited for the current year is set out below.

2011	Short term employee benefits			Share Based Payments	Post employment benefits Superannuation	Termination benefits	Total
	Salary & fees \$	Non – Monetary \$	Other Cash Benefits \$	\$	\$	\$	\$
Non executive Directors							
D Sanghvi	14,583	-	-	-	-	-	14,583
C Cook	14,583	-	-	-	-	-	14,583
R Walker	-	-	-	-	6,250	-	6,250
P Jess	6,250	-	-	-	-	-	6,250
M Scott	417,083	-	-	-	-	-	417,083
N Blaze	6,731	-	-	-	-	-	6,731
R Wadley	6,250	-	-	-	-	-	6,250
P Quarrell	6,250	-	-	-	-	-	6,250
Total	471,730	-	-	-	6,250	-	477,980
Executive officers							
R Najdecki	62,613	-	-	30,000	5,635	-	98,248
S Del Vecchio	135,705	-	-	-	10,688	-	146,393
M Reynolds	72,179	-	-	15,000	6,496	-	93,675
Total	270,497	-	-	45,000	22,819	-	338,316
							816,296

2010	Short term employee benefits				Post employment benefits	Termination benefits	Total
	Salary & fees	Non – Monetary	Other Cash Benefits	Share Based payments	Superannuation		
	\$	\$	\$	\$	\$	\$	\$
Non executive Directors							
C Cook	25,000	-	-	-	-	-	25,000
D Sanghvi	25,000	-	-	-	-	-	25,000
R Walker	-	-	-	-	25,000	-	25,000
Total	50,000	-	-	-	-	-	75,000
Executive officers							
R.Najdecki	180,000	-	-	-	16,200	-	196,200
Total	230,000	-	-	-	41,200	-	196,200
							271,200

Key terms of employment contracts

All executives of the Company are employed under a letter of appointment / service agreements with a minimum 1 month (or otherwise mutually agreed time period) notice period required to terminate the appointment. The letters of appointment do not contain specified option incentive entitlements.

Other major provisions of the agreements relating to remuneration are set out below.

Mark Reynolds, Chief Financial Officer

- Term of the agreement – full-time permanent.
- Base salary, inclusive of superannuation is \$109,000
- Payment of termination benefit on early termination by the employer, other than for gross misconduct, equal to 3 months fixed remuneration.

End of Audited Remuneration Report

Employees

The consolidated entity employed 38 employees as at 30 June 2011 (2010:6 employees). On completion of the disposal of the radiology division to Capitol Health 37 of the employees will be reassigned to Capitol health.

Proceedings on Behalf of Company

No person has applied for leave of the Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings. The company was not a party to any such proceedings during the year.

Subsequent events

- A meeting of shareholders was held on 16 August 2011. At this meeting the shareholders voted against the conversion of a Converting loan for \$750,000. As a consequence the Converting Loan became immediately 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 became due and payable.
- Due to market conditions post year-end, a termination event occurred within the underwriting agreement held with Patersons Securities and this agreement has now lapsed. Patersons Securities has now been appointed as Lead Manager in respect of an entitlement issue announced by IM Medical Limited on 14 September 2011. The company is making a non-renounceable pro-rata offer of shares at an issue price of 0.5 cents each to eligible shareholders on the basis of 6 shares for every 1 share held, together with one free attaching new option (exercisable at 1 cent per share on or before 30 September 2016) for each share subscribed for, to raise up to approximately \$3,300,000. There is a minimum subscription of 560,000,000 shares to raise \$2,800,000 before expenses of the offer. The offer will require shareholder approval at a general meeting which is to be held on 21 October 2011.

Subsequent events continued

- Following the approval by shareholders at the General Meeting held on 16 August 2011 a share consolidation has taken place on 25 August 2011 on the basis that every 50 shares be consolidated into 1 share and that all options on issue be adjusted in accordance with terms and conditions of the options.
- On 19 September 2011, a Deed of Variation of the Radiology Business Purchase Agreement was signed by Capitol Health Limited (CAJ Ltd) and IM Medical Limited. The Deed of Variation includes an extension to the completion date to 30 November 2011, a fee of \$100,000 payable to CAJ Ltd on completion, and a management fee of \$20,000 per month payable from 1 September 2011 until a key premises lease has been reassigned. The sale of the radiology business and assets remains subject to conditions precedent within the sale agreement. These conditions include:
 - The sale must be approved by IM Medical Limited shareholders at a General Meeting to be held on 21 October 2011;
 - Satisfactory assignment of the business premises leases. If this condition is not satisfied, CAJ Ltd are entitled to reduce the number of shares issued in consideration for the purchase of the radiology business by between 20% and 50% for each lease not assigned; and
 - All necessary consents and approvals of all appropriate government authorities for the sale and purchase must be received.

Non-audit services

The directors are satisfied that the provision of non-audit services during the year, by the auditor (or any person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors' reasons for being satisfied that the provision of the non-audit services did not compromise the auditor independence requirements of the Act are:

- All non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit, Risk and Compliance Committee to ensure they do not impact the integrity and objectivity of the auditor; and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out in APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards.

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 8 to the financial statements.

Auditor's independence declaration

The auditor's independence declaration is included on page 20 of the financial report.

Signed in accordance with a resolution of the directors made pursuant to s298 (2) of the Corporations Act 2001.

On behalf of the Directors



Nigel Blaze
Chairman
Melbourne, 5 October 2011

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

5 October 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 audit of the financial statements of IM Medical Limited for the financial year ended 30 June 2011, 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 audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely


DELOITTE TOUCHE TOHMATSU



Rachel Smith
Partner
Chartered Accountants

Independent Auditor's Report to the Members of IM Medical Limited

Report on the Financial Report

We have audited the accompanying financial report of IM Medical Limited, which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 23 to 59.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Auditor's Independence Declaration

In conducting our audit, 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 report.

Opinion

In our opinion:

- (a) the financial report of IM Medical Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2011 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Material Uncertainty Regarding Continuance as a Going Concern

Without qualifying our opinion, we draw attention to Note 1 in the financial report which states that the consolidated entity and the company incurred a net loss of \$4,068,842 and \$4,099,226 respectively and incurred negative cash flows from operations of \$922,388 and \$1,088,910 respectively during the year ended 30 June 2011. As at 30 June 2011 the company's current liabilities exceeded its current assets by \$1,003,201. These conditions, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's and company's ability to continue as going concerns and therefore, the consolidated entity and company may be unable to realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 15 to 18 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of IM Medical Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.


DELOITTE TOUCHE TOHMATSU



Rachel Smith

Partner

Chartered Accountants

Melbourne, 5 October 2011

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;
- (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 give a true and fair view of the financial position and performance of the company and of the consolidated entity;
- (c) in the directors' opinion, the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board as described in Note 1 to the financial statements; and
- (d) the directors have been given declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the directors made pursuant to s295 (5) of the Corporations Act 2001.

On behalf of the Directors

A handwritten signature in blue ink, appearing to read 'N. Blazé', with a long horizontal stroke extending to the right.

Nigel Blazé
Chairman

Melbourne
5 October 2011

Statement of comprehensive income for the financial year ended 30 June 2011

	Notes	Consolidated		Company	
		2011	2010	2011	2010
		\$	\$	\$	\$
Continuing operations					
Revenue from continuing operations	2	8,877	75,478	2,962	40,950
Depreciation and amortisation	3	(170,220)	(227,510)	(10,016)	(19,373)
(Impairment) reversal of non current assets	3	(7,991)	46,445	(2,726,143)	(595,434)
Corporate administration	3	(544,064)	(623,030)	(525,249)	(584,589)
Travel and entertainment		(10,336)	(14,258)	(9,497)	(10,632)
Office occupancy and administration		(99,355)	(126,584)	(99,355)	(125,564)
Consultancy fees		(163,449)	(19,775)	(163,449)	(14,796)
Director expenses		(60,895)	(75,000)	(60,895)	(75,000)
Employee benefits	3	(385,904)	(660,750)	(325,731)	(269,148)
Marketing and promotion		-	(24,688)	-	(9,280)
Research and development		-	(9,880)	-	(9,880)
Finance costs	3	(1,237)	(7,014)	(1,237)	(6,661)
Convertible note expenses	18	(165,616)	-	(165,616)	-
Other expenses		(15,000)	(20,000)	(15,000)	(20,000)
		(1,624,067)	(1,762,044)	(4,102,188)	(1,740,357)
Loss before income tax		(1,615,190)	(1,686,566)	(4,099,226)	(1,699,407)
Income tax (expense)/benefit	4	-	-	-	-
Loss for the year from continuing activities		(1,615,190)	(1,686,566)	(4,099,226)	(1,699,407)
Discontinued Operations					
Loss from discontinued operations	7	(2,453,652)	-	-	-
Loss for the year		(4,068,842)	(1,686,566)	(4,099,226)	(1,699,407)
Other comprehensive income		-	-	-	-
Total comprehensive loss for the year		(4,068,842)	(1,686,566)	(4,099,226)	(1,699,407)
Earnings per share					
From continuing and discontinuing operations:					
Basic earnings (loss) per share (cents per share)	17	(0.08)	(0.10)		
Diluted earnings (loss) per share (cents per share)	17	(0.08)	(0.10)		
From continuing operations:					
Basic earnings (loss) per share (cents per share)	17	(0.03)	(0.10)		
Diluted earnings (loss) per share (cents per share)	17	(0.03)	(0.10)		

The accompanying notes form part of these financial statements.

Statement of financial position as at 30 June 2011

	Notes	Consolidated		Company	
		2011	2010	2011	2010
		\$	\$	\$	\$
Current assets					
Cash and cash equivalents	23(a)	382,598	29,300	301,652	21,553
Trade and other receivables	9	41,553	80,778	-	74,307
Prepayments		50,621	-	50,621	-
Assets classified as held for sale	7	2,093,482	-	-	-
Total current assets		2,568,254	110,078	352,273	95,860
Non current assets					
Trade and other receivables	10	-	-	1,591,409	328,834
Other financial assets	11	-	-	100	100
Plant and equipment	12	168,630	346,842	-	18,007
Total non current assets		168,630	346,842	1,591,509	346,941
Total assets		2,736,884	456,920	1,943,782	442,801
Current liabilities					
Trade and other payables	13	938,736	360,773	431,648	320,855
Borrowings	14	2,457	9,673	2,457	9,673
Convertible note	18	915,616	-	915,616	-
Provisions	15	5,753	19,374	5,753	19,374
Liabilities classified as held for sale	7	281,429	-	-	-
Total current liabilities		2,143,991	389,820	1,355,474	349,902
Non current liabilities					
Borrowings	14	-	1,649	-	1,649
Total non current liabilities		-	1,649	-	1,649
Total liabilities		2,143,991	391,469	1,355,474	351,551
Net assets		592,893	65,451	588,308	91,250
Equity					
Issued capital	5	20,847,808	16,251,524	20,847,808	16,251,524
Accumulated losses	16	(20,254,915)	(16,186,073)	(20,259,500)	(16,160,274)
Total equity		592,893	65,451	588,308	91,250

The accompanying notes form part of these financial statements.

**Statement of changes in equity
for the financial year ended 30 June 2011**

Consolidated	Issued capital	Accumulated losses	Total
	\$	\$	\$
Balance at 1 July 2009	15,323,978	(14,499,507)	824,471
Total comprehensive loss for the year	-	(1,686,566)	(1,686,566)
Movements in shares on issue	927,546	-	927,546
Balance as 30 June 2010	16,251,524	(16,186,073)	65,451
Total comprehensive loss for the year	-	(4,068,842)	(4,068,842)
Movements in shares on issue	4,596,284	-	4,596,284
Balance as 30 June 2011	20,847,808	(20,254,915)	592,893

Company	Issued capital	Accumulated losses	Total
	\$	\$	\$
Balance at 1 July 2009	15,323,978	(14,460,867)	863,111
Total comprehensive loss for the year	-	(1,699,407)	(1,699,407)
Movements in shares on issue	927,546	-	927,546
Balance as 30 June 2010	16,251,524	(16,160,274)	91,250
Total comprehensive loss for the year	-	(4,099,226)	(4,099,226)
Movements in shares on issue	4,596,284	-	4,596,284
Balance as 30 June 2011	20,847,808	(20,259,500)	588,308

The accompanying notes form part of these financial statements.

Statement of cash flows for the financial year ended 30 June 2011

	Notes	Consolidated		Company	
		2011 \$	2010 \$	2011 \$	2010 \$
Cash flows from operating activities					
Receipts from customers		3,740,715	221,729	-	110,722
Payments to suppliers and employees		(4,661,850)	(1,420,497)	(1,090,535)	(927,469)
Interest received		3,742	9,412	2,862	9,412
Interest paid		(4,995)	(7,014)	(1,237)	(6,661)
Net cash flows used in operating activities	23	(922,388)	(1,196,370)	(1,088,910)	(813,996)
Cash flows from investing activities					
Payment for plant and equipment		(127,235)	(8,550)	-	-
Amounts advanced to related parties		-	-	-	(365,150)
Proceeds from the sale of Plant & Equipment		32,235	33,880	100	7,730
Amounts advanced from related parties		-	-	97,330	-
Net cash flows (used in)/provided by investing activities		(95,000)	25,330	97,430	(357,420)
Cash flows from financing activities					
Proceeds from issue of shares	5(b)(i)	587,600	927,546	587,600	927,546
Proceeds from convertible note		750,000	-	750,000	-
Proceeds from borrowings		104,500	-	-	-
Capital raising costs		(57,156)	-	(57,156)	-
Repayment of borrowings		(14,258)	(7,503)	(8,865)	(7,503)
Net cash flows from financing activities		1,370,686	920,043	1,271,579	920,043
Net increase/(decrease) in cash held		353,298	(250,997)	280,099	(251,373)
Cash at beginning of the year		29,300	280,297	21,553	272,926
Cash at the end of the year	23	382,598	29,300	301,652	21,553

The accompanying notes form part of these financial statements.

Notes to the financial statements

Note	Contents
1	Summary of significant accounting policies
2	Revenue from continuing operations
3	Loss for the year before income tax from continuing operations
4	Income tax
5	Issued capital
6	Acquisition of business
7	Discontinuing operations
8	Remuneration of auditors
9	Current trade and other receivables
10	Non current trade and other receivables
11	Non current other financial assets
12	Plant & equipment
13	Current trade and other payables
14	Borrowings
15	Provisions
16	Accumulated losses
17	Earnings per share
18	Converting loan
19	Subsidiaries
20	Commitments for expenditure
21	Dividends
22	Segment information
23	Notes to the statement of cash flows
24	Subsequent events
25	Contingent liabilities
26	Related party transactions
27	Financial Instruments
28	Company details

1. Summary of significant accounting policies

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and complies with other requirements of the law. The financial report includes the separate financial statements of the company and the consolidated financial statements of the Group.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the company and the Group comply with International Financial Reporting Standards ('IFRS').

Basis of preparation

The financial report has 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 in exchange for assets.

The financial report has been prepared on a going concern basis which assumes the realisation of assets and the extinguishment of liabilities in the normal course of business and at the amounts stated in the financial report. IM Medical Limited is a public company limited by shares. The financial report is presented in Australian dollars. IM Medical Limited was incorporated in Australia and is the parent entity whose shares publicly trade on the ASX. The financial report covers both IM Medical Limited as an individual entity and IM Medical Limited and its controlled entities as a group of entities.

Accounting policies are selected and applied in a manner which ensures that the resulting financial information satisfies the concepts of relevance and reliability, thereby ensuring that the substance of the underlying transactions or other events is reported.

The accounting policies have been consistently applied unless otherwise stated.

Going concern basis

For the year ended 30 June 2011 the consolidated entity and the company incurred a net loss of \$4,068,842 and \$4,099,226 respectively and incurred negative cash flows from operations of \$922,388 and \$1,088,910 respectively. As at 30 June 2011 the company's current liabilities exceeded its current assets by \$1,003,201. As at 30 June 2011 the consolidated entity and the company have accumulated losses of \$20,254,915 and \$20,259,500 respectively.

Whilst the consolidated entity and the company do not have sufficient cash resources to fund their 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 a reasonable expectation that they can raise the required additional funding. 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:

- On 25 March 2011, the Directors of IM Medical Limited entered into a heads of agreement with Capitol Health Limited (CAJ Ltd) 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, CAJ Ltd will provide IM Medical Limited with 45,559,021 ordinary shares in CAJ Ltd (with a market value as at 30 June 2011 of \$1,594,565), plus three bonus payments which have been valued collectively at \$217,453. IM Medical Limited has agreed to distribute the shares received in CAJ Ltd by way of an in-specie distribution to IM Medical Limited shareholders within three months of the completion of the sale.

On 19 September 2011, a Deed of Variation of the Business Purchase Agreement was signed by CAJ Ltd and IM Medical Limited. The Deed of Variation includes an extension to the completion date to 30 November 2011, a fee of \$100,000 payable to CAJ Ltd on completion, and a management fee of \$20,000 per month payable from 1 September 2011 until key business premises leases have been reassigned.

Going concern basis continued

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 a General Meeting to be held on 21 October 2011;
- Satisfactory assignment of the business premises leases. If this condition is not satisfied, CAJ are entitled to reduce the number of shares issued in consideration for the purchase of the radiology business by between 20% and 50% for each lease not assigned; and
- All necessary consents and approvals of all appropriate government authorities for the sale and purchase must be received.

Except for those matters outlined in the subsequent Deed of Variation, a full explanation of the proposed sale can be found in the ASX announcement dated Friday 25 March 2011. If the radiology business sale does not complete, the company will retain ownership of the radiology business. The company may not have sufficient funds to support the radiology business if it is loss making, therefore if the radiology business sale does not occur there is a risk that the solvency of the company may be jeopardised.

- 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 which provided \$750,000 to the company. The converting loan was subject to shareholder approval on 16 August 2011 where shareholders did not vote in favour of the converting loan. As a consequence the loan is now recognised as a current liability in the statement of financial position as at 30 June 2011 inclusive of applicable interest and penalties.

Due to market conditions post year-end, a termination event occurred within the rights issue underwriting agreement held with Patersons Securities and this agreement has now lapsed. Patersons Securities has now been appointed as Lead Manager in respect of an entitlement issue by IM Medical Limited which was announced on 14 September 2011. The company is making a non-renounceable pro-rata offer of shares at an issue price of 0.5 cents each to eligible shareholders on the basis of 6 shares for every 1 share held, together with one free attaching new option (exercisable at 1 cent per share on or before 30 September 2016) for each share subscribed for, to raise up to approximately \$3,300,000. There is a minimum subscription of 560,000,000 shares to raise \$2,800,000 before expenses of the offer. The offer will require shareholder approval at a general meeting which is to be held on 21 October 2011.

In the event that shareholder approval is not obtained, or if the offer is unsuccessful, the Directors do not expect to have sufficient available funds to meet all obligations to the consolidated entity's and company's creditors and it is therefore likely that the company 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 non-renounceable pro-rata offer of shares. 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 non-renounceable pro-rata offer of shares.

Having carefully assessed the uncertainties relating to the likelihood of securing additional funding and the company and consolidated entity's ability to effectively manage their expenditures, the directors believe that the consolidated entity and company will continue to operate as going concerns 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 and company are unable to raise sufficient funds as set out above and the sale of the radiology business is not approved by shareholders, there is significant uncertainty whether the consolidated entity and company will continue as going concerns and there is a significant risk that the consolidated entity and company will face solvency issues which will require the Board to consider voluntary administration. If the consolidated entity and company are unable to continue as going concerns they may be required to realise their assets and extinguish their 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 to the amount and classification of liabilities that might be necessary should the consolidated entity and company not continue as going concerns.

Changes in accounting policies on initial application of Accounting Standards

In the current year, 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 its operations and effective for the current annual reporting period. Details of the impact of the adoption of these new accounting standards are set out in the individual accounting policy notes set out below.

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

(a) Principles of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. A list of subsidiaries appears in note 19 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

The consolidated financial statements include the information and results of each subsidiary from the date on which the company obtains control and until such time as the company ceases to control such entities. In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits/losses arising within the consolidated entity are eliminated in full.

(b) Cash and cash equivalents

For the purposes of the Cash Flow Statement, cash and cash equivalents includes cash on hand and in banks, and money market investments readily convertible to cash within 2 working days, net of outstanding bank overdrafts. Bank overdrafts are carried at the principal amount and shown within borrowings in current liabilities in the Statement of Financial Position. Interest is charged as an expense as it accrues.

(c) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred. Receivables from related parties are recognised and carried at the nominal amount due less any impairment provision.

(d) Impairment of assets

At each reporting date, the consolidated entity reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. Impairment testing is performed annually for goodwill, and intangible assets with indefinite lives. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the consolidated entity estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash generating unit) in prior years. A reversal of an impairment loss is recognised in the statement of comprehensive income immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

(e) Plant and equipment

Plant and equipment, leasehold improvements and equipment under finance lease are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item.

Depreciation is provided on plant and equipment and is calculated on a straight line basis so as to write off the net cost or other revalued amount of each asset over its estimated useful life to its estimated residual value. Depreciation on leasehold improvements is based on the shorter of useful life or lease term. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period.

The following depreciation rates are used in the calculation of depreciation:

Depreciation rates are:	2011	2010
Leasehold improvements	7% to 20%	7% to 20%
Computer equipment	25% to 40%	25% to 40%
Plant and equipment	5% to 30%	5% to 30%
Equipment under lease	7.5% to 15%	7.5% to 15%

(f) Investment in subsidiaries

In the separate financial statements of IM Medical Limited, investments in subsidiaries, that are not classified as held for sale or included in a disposal group classified as held for sale, are accounted for at cost less impairment.

(g) Trade and other payables

Trade payables and other payables are recognised when the consolidated entity becomes obliged to make future payments resulting from the purchase of goods and services.

(h) Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

(i) Issued capital

Ordinary issued capital is recognised at the fair value of the consideration received by the Company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

(j) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable.

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

- *Rendering of services* – Revenue from the rendering of services is recognised in the statement of comprehensive income when the service is performed and there are no unfulfilled service obligation that will restrict the entitlement to receive the sales consideration.
- *Interest* - Control of the right to receive the interest payment.
- *Dividends* - Control of the right to receive the dividend payment.

(k) Income tax

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or loss for the year. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by the reporting date. Current tax for current and prior years is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base for those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the assets and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the company/consolidated entity intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the statement of comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

Tax consolidation

The company and its wholly owned Australian resident entities are part of a tax consolidated group formed on 21 September 2004 under Australian taxation law. IM Medical Limited is the head entity in the tax consolidated group. Tax expense/income, deferred tax assets and deferred tax liabilities arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the 'separate taxpayer within group' approach. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and tax credits of the members of the tax consolidated group are recognised by the company (as head entity in the tax consolidated group).

Due to the existence of a tax funding arrangement and a tax sharing agreement between the entities in the tax consolidated group, amounts are recognised as payable to or receivable by the company. Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

Tax losses

Based on the probability test required under Australian Accounting Standards the directors have determined that the deferred tax asset relating to revenue tax losses will not be recognised on the statement of financial position.

(l) Employee benefits

A liability is made for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities made in respect of employee benefits expected to be settled within 12 months are measured at their nominal values using the remuneration rate expected to apply at the time of settlement. Liabilities made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

Contributions to defined contribution plans are expensed when employees have rendered service entitling them to the contributions.

(m) Earnings per share

Basic earnings per share (EPS) is calculated by dividing the profit/loss attributable to equity holders of the company for the financial period, after excluding any costs of servicing equity (other than ordinary shares) by the weighted average number of ordinary shares of the company, adjusted for any bonus issue.

Diluted EPS is calculated by dividing the basic EPS earnings, adjusted by the after tax effect of financing costs associated with the dilutive potential ordinary shares and the effect on revenues and expenses of conversion to ordinary shares associated with dilutive potential ordinary shares, by the weighted average number of ordinary shares and dilutive potential ordinary shares of the Company adjusted for any bonus issue.

Where a net loss is made for the period, basic EPS and diluted EPS are the same, because, the inclusion of options in the earnings per share calculations does not result in further dilution.

(n) Intangible assets

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period as incurred. An intangible asset arising from development is recognised if, and only if, all of the following are demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial, and other resources to complete the development and use or sell the intangible asset; and
- The ability to measure reliably the expenditure attributable to the intangible asset during its development.

Licences

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets acquired separately. Licences are amortised over the life of the licence agreement.

(o) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership, are transferred to entities in the economic entity are classified as finance leases. Finance leases are capitalised, recording an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual values. Leased assets are depreciated on a straight line basis over their estimated useful life where it is likely that the economic entity will obtain ownership of the asset or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as an expenses on a straight line basis over the life of the lease.

(p) Critical accounting estimates and judgements

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about the carrying value of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstance, the results of which form the basis of making the judgements. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revisions affect both current and future periods.

Judgments made in the application of Australian Accounting Standards that have significant effects on the financial statements and estimates with a significant risk of material adjustments in the next year are disclosed, where applicable in the relevant notes to the financial statements.

Tax Losses

Based on the probability test required under Australian Accounting Standards the directors have determined that the deferred tax asset relating to revenue tax losses do not meet the criteria for recognition as an asset..

Sale of the Radiology Division

On 25 March 2011, the Directors of IM Medical Limited entered into a heads of agreement with Capitol Health Limited (CAJ Ltd) 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, CAJ Ltd will provide IM Medical Limited with 45,559,021 ordinary shares in CAJ Ltd (with a market value as at 30 June 2011 of \$1,594,565), plus three bonus payments which have been valued collectively at \$217,453. 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. The final disposal proceeds will be determined by the share price of CAJ Ltd at the date the sale is completed.

(q) Adoption of new and revised accounting standards

1. Standards and Interpretations affecting amounts reported in the current year (and/or prior years)

The following new and revised Standards and Interpretations have been adopted in the current year and have affected the amounts reported in these financial statements. Details of other Standards and Interpretations adopted in these financial statements but that have had no effect on the amounts reported are set out in section 2.

Standards affecting presentation and disclosure

Amendments to AASB 101 'Presentation of Financial Statements' (adopted in advance of effective date of 1 January 2011)

The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

Amendments to AASB 107 'Statement of Cash Flows'

The amendments (part of AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') specify that only expenditures that result in a recognised asset in the statement of financial position can be classified as investing activities in the statement of cash flows.

Standards and Interpretations affecting the reported results or financial position

There are no new and revised Standards and Interpretations adopted in these financial statements affecting the reporting results or financial position.

(q) Adoption of new and revised accounting standards continued

2. Standards and Interpretations adopted with no effect on financial statements

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

Amendments to AASB 7 'Financial Instruments: Disclosure' (adopted in advance of effective date of 1 January 2011)	The amendments (part of AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project') clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans.
AASB 2009-5 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	Except for the amendments to AASB 107 described earlier this section, the application of AASB 2009-5 has not had any material effect on amounts reported in the financial statements.
AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	Except for the amendments to AASB 101 described earlier this section, the application of AASB 2010-4 has not had any material effect on amounts reported in the financial statements.

3. Standards and Interpretations in issue not yet adopted

At the date of authorisation of the financial statements, the Standards and Interpretations listed below were in issue but not yet effective.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
• AASB 124 'Related Party Disclosures' (revised December 2009), AASB 2009-12 'Amendments to Australian Accounting Standards'	1 January 2011	30 June 2012
• AASB 9 'Financial Instruments', AASB 2009-11 'Amendments to Australian Accounting Standards arising from AASB 9' and AASB 2010-7 'Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)'	1 January 2013	30 June 2014
• AASB 1053 'Application of Tiers of Australian Accounting Standards' and AASB 2010-2 'Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements'	1 July 2013	30 June 2014
• AASB 2010-4 'Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project'	1 January 2011	30 June 2012
• AASB 2010-5 'Amendments to Australian Accounting Standards'	1 January 2011	30 June 2012

(r) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

(s) Share –based payments

Equity-settled share-based payments with employees and others providing similar services are measured at the fair value of the equity instrument at the grant date. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest.

At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in the statement of comprehensive income over the remaining vesting period, with corresponding adjustment to the equity-settled employee benefits reserve. No amount has been recognised in the financial statements in respect of the other equity-settled share-based payments.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods and services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service. For cash-settled share-based payments, a liability equal to the portion of the goods or services received is recognised at the current fair value determined at each reporting date.

(t) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3 'Business Combinations' are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 'Non-current Assets Held for Sale and Discontinued Operations', which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the statement of comprehensive income. The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

(u) Goodwill

Goodwill acquired in a business combination is initially measured at its cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised at the date of the acquisition. Goodwill is subsequently measured at its cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units, or groups of cash-generating units, expected to benefit from the synergies of the business combination. Cash-generating units or groups of cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

If the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or groups of cash-generating units), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or groups of cash-generating units) and then to the other assets of the cash-generating units pro-rata on the basis of the carrying amount of each asset in the cash-generating unit (or groups of cash-generating units). An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period. On disposal of an operation within a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

(v) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

(w) Financial instruments issued by the company

Debt and equity instruments

Debt and equity instruments are classified as either liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Compound instruments

The component parts of compound instruments are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangement. At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for a similar non-convertible instrument. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or upon the instruments reaching maturity. The equity component initially brought to account is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects and is not subsequently remeasured.

Financial guarantee contract liabilities

Financial guarantee contract liabilities are measured initially at their fair values and subsequently at the higher of:

- the amount of the obligation under the contract, as determined under AASB 137 'Provisions, Contingent Liabilities and Contingent Assets'; and
- the amount initially recognised less, where appropriate, cumulative amortisation in accordance with the revenue recognition policies described in note 1(j).

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at fair value through profit or loss' or other financial liabilities.

Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss where the financial liability is either held for trading or it is designated as at fair value through profit or loss.

A financial liability is held for trading if:

- it has been incurred principally for the purpose of repurchasing in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading is designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and AASB 139 'Financial Instruments: Recognition and Measurement' permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis. The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

2. Revenue from continuing operations

	Consolidated		Company	
	2011	2010	2011	2010
	\$	\$	\$	\$
Revenue				
Revenue from rendering of services	5,915	85,168	-	-
	5,915	85,168	-	-
Other revenue				
Interest revenue – Bank deposits	2,862	9,412	2,862	9,412
Interest revenue from related party	-	-	-	50,640
R&D tax offsets	-	(13,499)	-	(13,499)
	2,862	(4,087)	2,862	46,553
Other income				
Profit (loss) on sale of non current assets	100	(5,603)	100	(5,603)
	100	(5,603)	100	(5,603)
Total revenue from continuing operations	8,877	75,478	2,962	40,950

3. Loss for the year before income tax from continuing operations

Profit / (loss) for the year from continuing operations has been arrived at after charging the following expenses, gains and losses

	Consolidated		Company	
	2011	2010	2011	2010
	\$	\$	\$	\$
(a) Expenses				
<i>Depreciation of non current assets:</i>				
Computer equipment	-	24,833	-	4,359
Plant and equipment	165,851	195,354	5,647	7,691
Equipment under lease	4,369	7,323	4,369	7,323
Total depreciation of non current assets	170,220	227,510	10,016	19,373
<i>Impairment losses on non current assets:</i>				
Impairment loss on loan to related entities	-	-	2,718,152	621,406
Impairment/(reversal) of impairment loss	7,991	(46,445)	7,991	(25,972)
Total impairment losses/(reversals) on non current Assets	7,991	(46,445)	2,726,143	595,434
Total depreciation, amortisation and impairment	178,211	181,065	2,736,159	614,807
Accounting, auditing and other expenses	479,045	538,749	460,230	500,308
Share registry and listing expenses	65,019	84,281	65,019	84,281
Total corporate administration	544,064	623,030	525,249	584,589
Interest on obligations under finance leases	1,237	2,601	1,237	2,601
Interest on bank accounts	-	328	-	(25)
Other Interest	-	4,085	-	4,085
Total Finance costs	1,237	7,014	1,237	6,661
Post –employment benefits				
Defined contribution plans	23,724	22,050	23,724	22,050
Share based payments	221,600	-	221,600	-
Other employee benefits	140,580	638,700	140,580	247,098
Total Employee benefits	385,904	660,750	325,731	269,148

Loss for the year before income tax from continuing operations continued

	Consolidated		Company	
	2011	2010	2011	2010
	\$	\$	\$	\$
(b) Gains and losses – Discontinued				
(Loss)/Gain on disposal of plant and equipment	27,555	(23,874)	-	-
Total Gains and Losses	27,555	(23,874)	-	-

4. Income Tax

	Consolidated		Company	
	2011	2010	2011	2010
	\$	\$	\$	\$
(a) Income tax recognised in the statement of comprehensive income				
Tax expense/(income) comprises:				
Deferred tax expense/(income) relating to the origination and reversal of temporary differences	-	-	-	-
Total tax expense/(income) in the Statement of Comprehensive Income	-	-	-	-

(b) The prima facie income tax expense on pre-tax accounting profit (loss) from operations reconciles to the income tax expense / (income) in the financial statements as follows:

Loss from operations	(4,068,842)	(1,686,566)	(4,099,226)	(1,699,407)
Income tax benefit calculated at 30% (2010: 30%)	(1,220,653)	(505,970)	(1,229,768)	(509,822)
Non deductible expenses	-	452	-	452
Tax losses not recognised as deferred tax assets	1,220,653	505,518	1,229,768	509,370
Income tax expense/(income)	-	-	-	-

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate when compared with the previous reporting period.

	Consolidated		Company	
	2011	2010	2011	2010
	\$	\$	\$	\$
(c) Amounts recognised directly in equity				
Aggregate current and deferred tax arising in the reporting period and recognised directly into equity	-	-	-	-

(d) Deferred tax balances

Deferred tax assets comprise:

Temporary differences

Accruals	-	-	-	-
Provisions	-	-	-	-
Total Temporary differences	-	-	-	-

(e) Unrecognised deferred tax balances

The following deferred tax assets have not been brought to account as assets:

Tax losses	5,176,227	3,955,574	5,185,342	3,955,574
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Income Tax continued

(f) Franking account balance

Franking account balance	-	-	-	-
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Tax consolidation

The company and its wholly owned Australian resident entities have formed a tax consolidated group and are therefore taxed as a single entity from that date. The head entity within the tax consolidated group is IM Medical Limited. Entities within the tax consolidated group have entered into a tax funding arrangement and a tax sharing agreement with the head entity. Under the terms of the tax funding arrangement, IM Medical Limited and each of the entities in the tax consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax consolidated group. The tax sharing agreement entered into between members of the tax consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

5. Issued Capital

	Company 30 June 2011		Company 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 – year ended 30 June 2011

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

Issued Capital continued

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 pre-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.

	Company 30 June 2011		Company 30 Jun 2010	
	Number	\$	Number	\$
(c) Movements in share option reserve				
Balance at beginning of the financial year	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 year	4,731,862,273	-	92,704,355	-

(d) Share Consolidation

The Company completed a share consolidation on 26 August 2011 on the basis that every 50 shares were consolidated into 1 share and that all options on issue were adjusted in accordance with terms and conditions of the options.

6. 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

Acquisition of business continued

- (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 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>

	\$
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 consolidated loss for the year is a loss of \$2,453,652 attributable to the business from the Mark Scott Group. Revenue for the period includes \$3,708,955 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 year ended 30 June 2011 would have been \$4,243,789, and the loss for the period from discontinued operations would have been \$2,807,470. The directors consider these "pro-forma" numbers to represent an approximate measure of the performance of the combined group for the financial year.

7. 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 general meeting to be held on 21 October 2011. The following were the results for the period of the radiology division:

Revenue	\$ 3,708,955
Operating expenses	(4,578,269)
Impairment	(1,584,338)
Loss before income tax expense	(2,453,652)
Income tax expense	-
Loss after income tax expense	(2,453,652)

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

Cash flows from operating activities	\$
Receipts from customers	3,722,699
Payments to suppliers and employees	(3,452,134)
Interest received	1,032
Interest paid	(3,757)
Net cash flows provided by operating activities	267,840
Cash flows from investing activities	
Proceeds on sale of plant and equipment	32,235
Advances to related parties	(191,544)
Payment for plant and equipment	(127,235)
Net cash flows used in investing activities	(286,544)
Cash flows from financing activities	
Proceeds from borrowings	104,500
Repayment of borrowings	(5,330)
Net cash flows provided by financing activities	99,170
Net increase in cash held	80,466
Cash at beginning of financial period	-
Cash at end of financial period	80,466

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 30 June 2011	\$
Assets	
Goodwill on acquisition	876,951
Less provision for impairment	(876,951)
	-
Plant and equipment	174,340
Less accumulated depreciation	(11,323)
	163,017
Medical equipment	586,110
Less accumulated depreciation	(51,900)
	534,210
Computer equipment	165,690
Less accumulated depreciation	(27,530)
	138,160

Discontinuing Operations continued

Carrying value of radiology division at 30 June 2011

	\$
Licence fee	2,482,714
Less accumulated amortization	(517,232)
Less provision for impairment	(707,387)
	1,258,095

Amount transferred to assets held for sale **2,093,482**

Liabilities

Provision for employee entitlements	182,260
Other financial liabilities	99,169
Amount transferred to liabilities held for sale	281,429

8. Remuneration of auditors

	Consolidated		Company	
	2011	2010	2011	2010
	\$	\$	\$	\$
Auditor of the parent company				
Auditing or reviewing the financial report (a)	73,600	50,750	73,600	50,750
Taxation services (b)	11,812	10,500	11,812	10,500
	85,412	61,250	85,412	61,250

(a) Deloitte Touche Tohmatsu is the auditor of IM Medical Limited.

(b) Deloitte Touche Tohmatsu has been provided with remuneration of \$11,812 (2010: \$10,500) for provision of taxation services

9. Current trade and other receivables

	Consolidated		Company	
	2011	2010	2011	2010
	\$	\$	\$	\$
Trade receivables	41,553	5,382	-	-
Less allowance for doubtful debts	-	(4,508)	-	-
Net trade receivables	41,553	874	-	-
Goods and services tax recoverable	-	18,077	-	12,480
Other debtors	-	33,995	-	33,995
Prepayments	-	27,832	-	27,832
	-	79,904	-	74,307
	41,553	80,778	-	74,307

Ageing of past due trade receivables but not impaired

30 -60 days	41,533	-	-	-
60-90 days	-	404	-	-
90-120 days	-	-	-	-
Total	41,533	404	-	-

In determining the recoverability of a trade receivable, the consolidated entity considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the greater majority of the net trade receivables, being Government organizations. The average credit period on sales of goods and rendering of services is 30 days. No interest is charged on the trade receivables. The Group reviews its receivables on a regular basis and writes off or credits due debts that are not considered recoverable. There are no customers who represent more than 10% of the total balance of trade receivables.

10. Non current trade and other receivables

	Consolidated		Company	
	2011	2010	2011	2010
	\$	\$	\$	\$
Loans to subsidiaries	-	-	11,540,241	7,611,106
Provision for impairment loss on loan	-	-	(9,948,832)	(7,282,272)
Loans to subsidiaries are non interest bearing, unsecured and at call	-	-	1,591,409	328,834

11. Non current other financial assets

	Consolidated		Company	
	2011	2010	2011	2010
	\$	\$	\$	\$
Investment in subsidiaries at cost	-	-	100	100
Represented by:				
Investment in eCardio Pty Ltd	-	-	100	100
Investment in subsidiaries at recoverable amount	-	-	100	100

IM Medical Limited has a 100% equity interest in eCardio Pty Ltd (2010: 100%). eCardio Pty Ltd was previously known as Cardanal Pty Ltd.

12. Plant & equipment

	Consolidated			
	Leasehold improvements (at cost)	Computer equipment (at cost)	Plant and equipment (at cost)	Equipment under lease (at cost)
	\$	\$	\$	\$
Gross carrying amount				
Balance at 1 July 2009	33,700	148,860	1,380,465	29,291
Additions	-	-	8,550	-
Disposals	(33,700)	(2,255)	(93,488)	-
Balance at 30 June 2010	-	146,605	1,295,527	29,291
Accumulated depreciation				
Balance at 1 July 2009	(33,700)	(148,860)	(811,353)	(21,291)
Depreciation expense	-	(24,833)	(195,354)	(7,323)
Impairment losses	17,920	24,833	-	3,692
Disposals	15,780	2,255	53,653	-
Balance at 30 June 2010	-	(146,605)	(953,054)	(24,922)
Net book value				
As at 30 June 2009	-	-	569,112	8,000
As at 30 June 2010	-	-	342,473	4,369

Plant & equipment continued

	Consolidated				
	Leasehold improvements (at cost) \$	Computer equipment (at cost) \$	Plant and equipment (at cost) \$	Equipment under lease (at cost) \$	Total \$
Gross carrying amount					
Balance at 1 July 2010	-	146,605	1,295,527	29,291	1,471,423
Additions (i)	-	165,690	765,450	-	931,140
Disposals	-	-	(5,000)	-	(5,000)
Assets transferred as held for sale	-	(165,690)	(760,450)	-	(926,140)
Balance at 30 June 2011	-	146,605	1,295,527	29,291	1,471,423
Accumulated depreciation					
Balance at 1 July 2010	-	(146,605)	(953,054)	(24,922)	(1,124,581)
Depreciation expense	-	(11,323)	(245,061)	(4,369)	(260,753)
Impairment losses	-	-	(7,991)	-	(7,991)
Disposals	-	-	(220)	-	(220)
Assets transferred as held for sale	-	11,323	79,430	-	90,753
Balance at 30 June 2011	-	(146,605)	(1,126,896)	(29,291)	(1,302,792)
Net book value					
As at 30 June 2011	-	-	168,630	-	168,630

(i) Of the assets acquired, \$803,906 related to the current year business acquisition. Refer Note 6.

	Company				
	Leasehold improvements (at cost) \$	Computer equipment (at cost) \$	Plant and equipment (at cost) \$	Equipment under lease (at cost) \$	Total \$
Gross carrying amount					
Balance at 1 July 2009	33,700	25,934	66,145	29,291	155,070
Additions	-	-	-	-	-
Disposals	(33,700)	-	(19,040)	-	(52,740)
Balance at 30 June 2010	-	25,934	47,105	29,291	102,330
Accumulated depreciation					
Balance at 1 July 2009	(33,700)	(25,934)	(31,483)	(21,291)	(112,408)
Depreciation expense	-	(4,359)	(7,691)	(7,323)	(19,373)
Impairment losses	17,921	4,359	-	3,692	25,972
Disposals	15,779	-	5,707	-	21,486
Balance at 30 June 2010	-	(25,934)	(33,467)	(24,922)	(84,323)
Net book value					
As at 30 June 2010	-	-	34,662	8,000	42,662
Gross carrying amount					
Balance at 1 July 2010	-	25,934	47,105	29,291	102,330
Disposals	-	-	-	-	-
Balance at 30 June 2011	-	25,934	47,105	29,291	102,330
Accumulated depreciation					
Balance at 1 July 2010	-	(25,934)	(33,467)	(24,922)	(84,323)
Depreciation expense	-	-	(5,647)	(4,369)	(10,016)
Impairment losses	-	-	(7,991)	-	(7,991)
Disposals	-	-	-	-	-
Balance at 30 June 2011	-	(25,934)	(47,105)	(29,291)	(102,330)
Net book value					
As at 30 June 2011	-	-	-	-	-

13. Current trade and other payables

	Consolidated		Company	
	2011	2010	2011	2010
	\$	\$	\$	\$
Trade payables (i)	774,674	236,046	267,586	196,128
Director related accruals	164,062	56,250	164,062	56,250
Accruals	-	68,477	-	68,477
	938,736	360,773	431,648	320,855

(i) Amounts stated in Trade payables are on commercial terms and conditions and generally payable in 30 days. Interest is not charged on any amounts overdue. The Group has financial risk management practices in place to ensure that all payables are paid within the credit timeframe.

14. Borrowings

	Consolidated		Company	
	2011	2010	2011	2010
	\$	\$	\$	\$
Current				
Lease liability (note 20)	2,457	9,673	2,457	9,673
Non current				
Lease liability (note 20)	-	1,649	-	1,649

The above borrowings are secured by the assets leased. The lease terms do not exceed 5 years.

15. Provisions

	Consolidated		Company	
	2011	2010	2011	2010
	\$	\$	\$	\$
Current				
Employee benefits	5,753	19,374	5,753	19,374

The current provision for employee benefits includes \$5,753 (company: \$5,753) of annual leave (2010 \$19,374 for the Group and the company respectively).

16. Accumulated losses

	Consolidated		Company	
	2011	2010	2011	2010
	\$	\$	\$	\$
Balance at beginning of the financial year	(16,186,073)	(14,499,507)	(16,160,274)	(14,460,867)
Net loss attributable to members of the Company	(4,068,842)	(1,686,566)	(4,099,226)	(1,699,407)
Balance at the end of the financial year	(20,254,915)	(16,186,073)	(20,259,500)	(16,160,274)

17. Earnings per share

	Consolidated	
	2011 Cents	2010 Cents
	Per share	Per share
<i>From continuing and discontinuing operations:</i>		
Basic earnings profit/(loss) per share	(0.08)	(0.10)
Diluted earnings profit/(loss) per share	(0.08)	(0.10)
<i>From continuing operations:</i>		
Basic earnings profit/(loss) per share	(0.03)	(0.10)
Diluted earnings profit/(loss) per share	(0.03)	(0.10)
Net loss used in the calculation of basic and diluted EPS – Continuing and Discontinuing	(4,068,842)	(1,686,566)
Net loss used in the calculation of basic and diluted EPS – Continuing Operations	(1,615,190)	(1,686,566)
	Company	
	Number	Number
Weighted average number of ordinary shares on issue during the financial year used in the calculation of basic earnings profit/(loss) per share	5,085,843,815	1,722,255,141
Weighted average number of ordinary shares on issue during the financial year used in the calculation of dilutive earnings profit/(loss) per share	5,085,843,815	1,722,255,141

Based on market conditions at balance date, the number and nature of potential ordinary shares that are not dilutive are as follows:

- 4,731,862,273 unlisted options (2010: 92,704,355) exercisable on or before various dates at a range of exercise prices per option. Refer note 5(c)

Potential ordinary shares are not dilutive as they would decrease the loss per share.

18. Converting loan

On 15 April 2011 the company entered into an agreement for a \$750,000 convertible note. Under the terms of the agreement the loan became due and payable on 16 August 2011 when the resolution to approve its conversion to ordinary shares was not passed. The penalty for this was 20% of the original convertible note and interest becoming payable from the date the note was established. The table below sets out the balance of the converting loan in the financial statements at 30 June 2011.

	Consolidated		Company	
	2011 \$	2010 \$	2011 \$	2010 \$
Converting loan	750,000	-	750,000	-
Penalty (i)	150,000	-	150,000	-
Interest (ii)	15,616	-	15,616	-
Balance at the end of the financial year	915,616	-	915,616	-

- Under the convertible note agreement as the loan did not convert after the EGM on 16 August 2011 due to the resolution to approve its conversion to ordinary shares not being passed, a penalty of 20% of the convertible note amount is incurred.
- Under the convertible note agreement as the loan did not convert after the EGM on 16 August 2011 due to the resolution to approve its conversion to ordinary shares not being passed, interest of 10% per annum accrues on the original balance of the convertible from the date of establishment being 15 April 2011.

19. Subsidiaries

Name of subsidiary	Country of incorporation	2011 Ownership interest	2010 Ownership interest
Intelliheart Pty Ltd (a)	Australia	100%	100%
eCardio Pty Ltd (a)(b)	Australia	100%	100%
eHealth Imaging Pty Ltd (a)	Australia	100%	100%

(a) Members of the tax consolidated group where the head entity is IM Medical Limited

(b) Cardanal Pty Ltd changed its name to eCardio Pty Ltd on 16 June 2009.

20. Commitments for expenditure

(a) Finance Leases

The finance leases relate to plant and equipment with a lease term of five years. The consolidated entity has the option to purchase the equipment for a nominal amount at the conclusion of the leasing arrangement.

	Consolidated		Company	
	2011 \$	2010 \$	2011 \$	2010 \$
Not later than one year	2,526	10,104	2,526	10,104
Later than one year and not later than five years	-	2,526	-	2,526
Minimum lease payments	2,526	12,630	2,526	12,630
Future finance charges	(69)	(1,308)	(69)	(1,308)
Liability	2,457	11,322	2,457	11,322
Lease liabilities:				
Current (note 14)	2,457	9,673	2,457	9,673
Non-current (note 14)	-	1,649	-	1,649
	2,457	11,322	2,457	11,322

(b) Operating Leases

The operating lease relates to the premises and car parking leased at Level 1, 117 Church Street, Hawthorn for use as the company's head office. The lease term is three years and contains market review clauses in the event that the consolidated entity exercises its option to renew. The consolidated entity does not have the right to purchase the leased asset at the expiry of the lease period.

	Consolidated		Company	
	2011 \$	2010 \$	2011 \$	2010 \$
Not later than one year	74,797	71,920	74,797	71,920
Later than one year and not later than five years	12,546	87,343	12,546	87,343
Total	87,343	159,263	87,343	159,263

21. Dividends

The Directors resolved not to declare any dividends for the year ended 30 June 2011, (2010: Nil).

22. Segment information

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

	Revenue		Segment loss	
	Year ended		Year ended	
	30 June 2011 \$	30 June 2010 \$	30 June 2011 \$	30 June 2010 \$
Continuing operations				
Intelliheart tests	5,915	85,168	(234,116)	(608,565)
Corporate	2,962	(9,690)	(1,381,074)	(1,078,001)
Discontinuing operations				
Radiology	3,708,955	-	(2,453,652)	-
Loss before tax			(4,068,842)	(1,686,566)
Income tax expense			-	-
Consolidated segment revenue and loss for the period	3,717,832	75,478	(4,068,842)	(1,686,566)

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:

	Assets		Liabilities	
	30 June 2011 \$	30 June 2010 \$	30 June 2011 \$	30 June 2010 \$
Continuing operations				
Intelliheart tests	169,110	343,052	35,734	39,920
Discontinuing operations				
Radiology	2,215,501	-	752,442	-
Total segment assets and liabilities	2,384,611	343,052	788,176	39,920
Corporate assets and liabilities	352,273	113,868	1,355,815	351,549
Total assets and liabilities	2,736,884	456,920	2,143,991	391,469

23. Notes to the statement of cash flows

	Consolidated		Company	
	2011	2010	2011	2010
	\$	\$	\$	\$
(a) Reconciliation of cash				
Cash balance comprises:				
- cash at bank	382,598	29,300	301,652	21,553
	382,598	29,300	301,652	21,553
(b) Reconciliation of the operating profit/(loss) after tax to the net cash flows from operations				
(Loss) from ordinary activities after tax	(4,068,842)	(1,686,566)	(4,099,226)	(1,699,407)
(Gain)/loss on sale of intangibles		-		-
(Gain)/loss on sale of non current assets	(27,455)	23,874	(100)	5,603
<u>Non-cash items</u>				
Depreciation, amortisation and write downs	2,386,951	181,065	2,736,159	632,728
Non cash expense(i)	45,000	-	45,000	-
Non cash income	-	-	-	(50,640)
<u>Change in assets and liabilities net of acquisitions:</u>				
(Increase)/Decrease in receivables	(11,396)	131,788	23,686	106,300
(Decrease)/Increase in payables	734,716	147,788	219,192	185,739
(Decrease)/Increase in employee benefits	18,638	5,681	(13,621)	5,681
Net cash flow (used in) operating activities	(922,388)	(1,196,370)	(1,088,910)	(813,996)

(i) Bonus/Wages paid in ordinary shares. Refer note 5(b)(ii)

(c) Non-cash Financing and Investing Activities

Acquisition of the Mark Scott Group

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

(c) Non-cash Financing and Investing Activities continued

- (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.

There were no non cash acquisitions during the 2010 year.

24. Subsequent Events

- A meeting of shareholders was held on 16 August 2011. At this meeting the shareholders voted against the conversion of a Converting loan for \$750,000. As a consequence the Converting Loan became immediately 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 became due and payable.
- Following the approval by shareholders at the General Meeting held on 16 August 2011 a share consolidation has taken place on 26 August 2011 on the basis that every 50 shares be consolidated into 1 share and that all options on issue be adjusted in accordance with terms and conditions of the options.
- Due to market conditions post year-end, a termination event occurred within the underwriting agreement held with Patersons Securities and this agreement has now lapsed. Patersons Securities has now been appointed as Lead Manager in respect of an entitlement issue announced by IM Medical Limited on 14 September 2011. The company is making a non-renounceable pro-rata offer of shares at an issue price of 0.5 cents each to eligible shareholders on the basis of 6 shares for every 1 share held, together with one free attaching new option (exercisable at 1 cent per share on or before 30 September 2016) for each share subscribed for, to raise up to approximately \$3,300,000. There is a minimum subscription of 560,000,000 shares to raise \$2,800,000 before expenses of the offer. The offer will require shareholder approval at a general meeting which is will held on 21 October 2011.

Subsequent Events continued

- On 19 September 2011, a Deed of Variation of the Business Purchase Agreement was signed by CAJ Ltd and IM Medical Limited. The Deed of Variation includes an extension to the completion date to 30 November 2011, a fee of \$100,000 payable to CAJ Ltd on completion, and a management fee of \$20,000 per month payable from 1 September 2011 until key business premises leases have been reassigned. The sale of the radiology business and assets remains subject to conditions precedent within the sale agreement. These conditions include:
 - The sale must be approved by IM Medical Limited shareholders at a General Meeting expected to be held on 21 October 2011;
 - Satisfactory assignment of the business premises leases. If this condition is not satisfied, CAJ are entitled to reduce the number of shares issued in consideration for the purchase of the radiology business by between 20% and 50% for each lease not assigned; and
 - All necessary consents and approvals of all appropriate government authorities for the sale and purchase must be received.

25. 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.

26. Related party disclosures

The names of the directors of the Company during the financial year are:

- Dipak Sanghvi,
- Craig Cook
- Dr Ross Walker
- Dr Mark Scott
- Sergio Del Vecchio
- Peter Jess
- Nigel Blaze
- Richard Wadley
- Paul Quarrell

(a) *Equity interests in controlled entities*

Details of the percentage of ordinary shares held in controlled entities are disclosed in note 19 to the financial statements.

(b) *Loan disclosures*

There are no related party loans between the disclosing entity and any of the key management personnel.

(c) *Transactions within the wholly owned group*

The wholly owned group includes:

- The ultimate parent entity in the wholly owned group; and
- Wholly owned controlled entities

The ultimate parent company in the wholly owned group is IM Medical Limited.

(d) *Transactions with other related parties*

Other related parties include:

- the parent entity
- subsidiaries
- key management personnel
- other related parties

Related party disclosures continued

(e) Director and executive remuneration

The aggregate compensation of the key management personnel of the consolidated entity and company is set out below:

	Consolidated		Company	
	2011	2010	2011	2010
	\$	\$	\$	\$
Short term employee benefits	742,227	230,000	742,227	230,000
Post employment benefits	29,069	41,200	29,069	41,200
Other long term benefits	-	-	-	-
Share based payments	45,000	-	45,000	-
Termination benefits	-	-	-	-
	816,296	271,200	816,296	271,200

(f) Details of key management personnel

Names and positions held of key management personnel in office at any time during the financial year are:

- Roman Najdecki (Chief Executive Officer, Chief Financial Officer & Company Secretary, Resigned 30 September 2010)
- Dipak Sanghvi (Non executive director, Resigned 4 February 2011)
- Craig Cook (Non executive director, Resigned 4 February 2011)
- Dr Ross Walker (Non executive director, Resigned 29 September 2010)
- Dr Mark Scott (Executive Director, Appointed 30 July 2010)
- Sergio Del Vecchio (Chief Executive Officer & Company Secretary, Appointed 30 July 2010 Resigned 23 March 2011)
- Mark Reynolds (Chief Financial Officer, Appointed 1 October 2010)
- Peter Jess (Non executive director, Appointed 11 November 2010 , Resigned 23 March 2011)
- Nigel Blaze (Non executive director, Appointed 23 March 2011)
- Richard Wadley (Non executive director, Appointed 23 March 2011)
- Paul Quarrell (Non executive director, Appointed 23 March 2011)

(g) Options holding of directors and key management personnel

2011	Balance at 1 Jul 10	Received as remuneration	Options exercised	Net change other	Balance at 30 Jun 11	Total exercisable and vested	Options vested during the year
Dr Mark Scott	-	-	-	2,742,380,141	2,742,380,141	-	-
Sergio Del Vecchio	-	-	-	1,600,000,000	1,600,000,000	-	-
2010	Balance at 1 Jul 09	Received as remuneration	Options exercised	Net change other	Balance at 30 Jun 10	Total exercisable and vested	Options vested during the year
Nil	-	-	-	-	-	-	-

(h) Shareholdings of key management personnel

2011	Balance at 1 Jul 10	Granted as remuneration	On exercise of options	Net change other	Balance at 30 Jun 11
M. Reynolds	-	15,000,000	-	-	15,000,000
Dr Mark Scott	-	-	-	2,822,380,141	2,822,380,141

Note that directors who have resigned during the financial period have been excluded from the table above.

Related party disclosures continued

(h) Shareholdings of key management personnel continued

2010	Balance at 1 Jul 09	Granted as remuneration	On exercise of options	Net change other	Balance at 30 Jun 10
C. Cook	300,000	-	-	-	300,000
R. Najdecki	315,586	-	-	-	315,586
D. Sanghvi	1,407,150	-	-	-	1,407,150

(i) Loans to key management personnel

There are no loans made by the disclosing entity or any of its subsidiaries to any key management personnel, including their personally related entities.

(j) Other transactions and balances with key management personnel

The following transactions and/or balances between the disclosing entity and any of its subsidiaries to any key management personnel, including their personally related entities were as follows:

During the year, the Company procured services to a value of \$417,083 (GST inclusive) (2010: Nil) from Dr Mark Scott for the provision of radiology consulting services. The value of the services was determined on an arm's length basis at commercial terms.

During the year, the Company paid property rental to a value of \$55,507 (GST inclusive) (2010: Nil) for properties owned by Dr Mark Scott and his related entities for the radiology practice in Moorabbin Victoria. The value of the rent was determined on an arm's length basis at commercial terms.

During the year, the Company procured services to a value of \$25,260 (GST inclusive) (2010: Nil) from Peter Jess for the provision of consulting services. The value of the services was determined on an arm's length basis at commercial terms.

During the year, the Company procured services to a value of \$41,598 (GST inclusive) (2010: Nil) from Nigel Blaze for the provision of consulting services. The value of the services was determined on an arm's length basis at commercial terms. At 30 June 2011 \$41,598 of the consulting services provided to the company remained unpaid.

During the year, the Company procured services to a value of \$4,890 (GST inclusive) (2010: Nil) from Richard Wadley for the provision of consulting services. The value of the services was determined on an arm's length basis at commercial terms. At 30 June 2011 \$4,890 of the consulting services provided to the company remained unpaid.

During the year, the Company procured services to a value of \$11,005 (GST inclusive) (2010: Nil) from Paul Quarrell for the provision of consulting services. The value of the services was determined on an arm's length basis at commercial terms. At 30 June 2011 \$11,005 of the consulting services provided to the company remained unpaid.

27. Financial instruments

(a) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from 2008. The capital structure of the Group consists of debt, which includes borrowings disclosed in note 14, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital and accumulated losses as disclosed in notes 5 and 16 respectively. The Group operates within Australia, primarily through subsidiary companies established in the markets in which the Group trades. None of the Group's entities are subject to externally imposed capital requirements. Operating cash flows are used to maintain and expand the group's service assets, as well as to make the routine outflows of repayment of debt. The Group's policy is to borrow centrally, using a variety of capital market issues and borrowing facilities, to meet anticipated funding requirements.

Gearing ratio

The Group's Audit, Risk and Compliance committee reviews the capital structure on an as needs basis. As a part of this review the committee considers the cost of capital and the risks associated with each class of capital. The Group currently has no target gearing ratio. Based on recommendations of the committee the Group will balance its overall capital structure through new share issues as well as the issue of new debt or redemption of existing debt.

The gearing ratio at year end was as follows:

	Consolidated		Company	
	2011	2010	2011	2010
	\$	\$	\$	\$
Financial assets				
Debt (i)	2,457	11,322	2,457	11,322
Cash and cash equivalents	(382,598)	(29,300)	(301,652)	(21,553)
Net debt	(380,141)	(17,978)	(299,195)	(10,231)
Equity (ii)	592,893	65,451	588,308	91,250
Net debt to equity ratio	(64.1%)	(27%)	(50.8%)	(11%)

(i) Debt is defined as long- and short-term borrowings, as detailed in note 14.

(ii) Equity includes all capital, losses and reserves.

(b) Categories of financial instruments

	Consolidated		Company	
	2011	2010	2011	2010
	\$	\$	\$	\$
Financial assets				
Cash and cash equivalents	382,598	29,300	301,652	21,553
Trade Receivables	41,553	874	-	-
Other Receivables	-	52,072	-	46,475
	424,151	82,246	301,652	68,028
Financial liabilities				
Trade Payable	774,674	304,524	267,586	264,605
Borrowings – Finance leases	2,457	11,322	2,457	11,322
	777,131	315,846	270,043	275,927

(c) Financial risk management objectives

The Group's Corporate Treasury function is provided by the Chief Financial Officer, who monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk, credit risk, liquidity risk and cash flow interest rate risk. The Group seeks to minimize the effects of these risks and invests excess liquidity. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Financial Instruments Continued

(d) Market risk

The Group's activities expose it primarily to the financial risks of changes in interest rates (refer note 27(e)). The Group enters into a variety of financial instruments to manage its exposure to interest rate risk, including:

- Excess liquidity is invested in short term deposits only to take advantage in movements of interest rate

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

(e) Interest rate risk management

The company and the Group are exposed to interest rate risk as entities in the Group borrow funds at fixed interest rates. The risk is managed by the Group by maintaining fixed rate borrowings. The company and the Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Interest rate sensitivity analysis

The Group's sensitivity to interest rates has decreased during the current period mainly due to increases in term deposit investment rates. All of the Group's borrowings are at fixed interest rates through finance leases.

At reporting date, if interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's net loss would reduce by \$1,913 and increase by \$1,913 (2010: reduce by nil and increase by nil).

(f) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group transacts with companies and government organizations by providing credit facilities to these groups. Credit facilities are granted on information supplied by the company or organization and sometimes supplemented by information provided by independent rating agencies. The Group's exposure of its counterparties is continuously monitored. Trade receivables, at report date, are concentrated with Medicare Australia, which generally pays its accounts within 30 days and consequently does not have any significant credit risk exposure.

The company has also provided bank guarantees to the lessors of the company's rented premises. These guarantees cover rental security and total \$5,800. The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the Group's maximum exposure to credit risk without taking account of the value of any collateral obtained.

(g) Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, who have built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate cash reserves and banking facilities by monitoring actual cash flows.

The table below reflects all contractually fixed payouts and receivables for settlement, repayments and interest resulting from recognized financial assets and liabilities. The respective undiscounted cash flows for the respective upcoming fiscal years for other obligations are presented.

The remaining contractual maturity of the Group's financial liabilities are:

	Consolidated		Company	
	2011	2010	2011	2010
	\$	\$	\$	\$
6 months or less	1,862,562	383,119	1,355,474	344,850
6-12 months	-	5,052	-	5,052
1-5 years	-	1,649	-	1,649
	1,862,562	389,820	1,355,474	351,551

(h) Fair value of financial instruments

The methods for estimating fair value are outlined in the relevant notes to the financial statements. The directors consider that the carrying amounts of financial assets and liabilities, recorded at amortised cost in the financial statements, approximates their fair value.

28. Company details

The registered office and principal place of business of the company is:
Level 1, 117 Church Street
Hawthorn. Vic 3122.

Additional stock exchange information

Additional information required by the Australian Stock Exchange and not shown elsewhere in this report is as follows.
The information is current as at 5 October 2011.

Following the approval by shareholders of resolution 2 at the General Meeting held on 16 August 2011 a share consolidation has taken place on 26 August 2011 on the basis that every 50 shares be consolidated into 1 share and that all options on issue be adjusted in accordance with terms and conditions of the options.

Ordinary share capital

- 110,549,965 ordinary shares held by 5,270 holders
- All issued ordinary shares carry one vote per share

Options

Unlisted

- 1,854,088 options exercisable on or before dates ranging from 4 Sept 2011 to 21 June 2013 at prices ranging from \$0.0905 to \$0.405 per option.
- 22,847,603 Options exercisable at \$0.175 with expiry 12 August 2013.
- 69,935,559 Options exercisable at \$0.125 with expiry 12 August 2013.

Options do not carry a right to vote. Voting rights will be attached to the unissued shares when the options have been exercised.

Distribution of holders in each class of equity securities

	Number of shareholders	Number of fully paid ordinary share
1 to 1,000	2,211	796,718
1,001 to 5,000	1,558	4,099,508
5,000 to 10,000	559	4,343,730
10,001 to 100,000	821	25,778,062
100,001 and over	121	75,531,938
Total	5,270	110,549,956

Twenty largest holders

Issued equity securities

#	Ordinary shareholder	Number of shares	% of ordinary shares
1	FERNLAND HOLDINGS PTY LTD	4,200,000	3.80
2	JASPER HILL RESOURCES PTY LTD	3,805,576	3.44
3	MR MARK JOHN BAHEN	3,368,624	3.05
4	MR MICHAEL FRANK MANFORD	2,659,575	2.41
5	MR ALEXANDER FLEMING WYLIE	2,659,575	2.41
6	KAHALA HOLDINGS PTY LTD	2,544,045	2.30
7	NICK CONIDI PTY LTD	2,444,802	2.21
8	CORNELA PTY LTD	2,350,000	2.13
9	KURRALI NOMINEES PTY LTD	2,350,000	2.13
10	TECCA PTY LTD	2,292,001	2.07
11	ST MORITZ (1985) PTY LTD	1,833,601	1.66
12	HOPPSCOTCH PTY LTD	1,610,001	1.46
13	SCE SUPERANNUATION PTY LTD	1,528,001	1.38
14	SEVENTY THREE PTY LTD	1,528,001	1.38
15	T T NICHOLLS PTY LTD	1,528,001	1.38
16	KOBIA HOLDINGS PTY LTD	1,445,743	1.31
17	BLU BONE PTY LTD	1,445,737	1.31
18	CHEETAH HOLDINGS PTY LTD	1,175,000	1.06
19	CYPRESS SECURITIES PTY LTD	1,175,000	1.06
20	MR MARK WILLIAM TOMLINSON	1,146,001	1.04
Total		43,089,284	38.98%