



14 October 2105

Cheng Tang
Adviser, Listing Compliance
ASX Limited

Dear Cheng

IM Medical Limited

We refer to your letter dated 6 October 2015 seeking a response of IM Medical Limited (**the Company**) to numerous questions of the ASX contained in the ASX letter.

The Company has set out each question of the ASX together with the Company's response.

- 1. Is the Company able to confirm that in the Directors' opinion the Annual Accounts:*
(a) comply with the relevant Accounting Standards; and
(b) give a true and fair view of the financial performance and financial position of the Company?

The Directors resolved to approve the financial statements for the year ended 30 June 2015 on 30 September 2015. The Directors signed off on the Annual Accounts on the basis that they were satisfied that the Annual Accounts:

- (a) comply with the relevant Accounting Standards; and*
(b) give a true and fair view of the financial performance and financial position of the Company.

- 2. Given the Disclaimer relates to the Auditor's inability to obtain sufficient appropriate audit evidence to support the estimation of the required provision for legal fees at 30 June 2015, please explain on what basis the Company is satisfied as to the appropriateness of the legal fees being classified as a contingent liability only. In answering this question, please also comment on whether there are any further updates as to the legal claim, and what steps have been taken, or will be taken in order to reach a resolution on the claim.*

In late August the Company announced that it had received a claim for payment of unpaid legal fees from a law firm that had assisted on a transaction that had not completed and had terminated some 12 months earlier (with no legal work having been performed for almost 18 months). The amount of the claim was \$269,766 excl. GST. The Company had not previously been sent the invoices the subject of the claim. The law firm in question was at the time also acting for various entities related to the vendors of the transaction including the target company which the Company was proposing to acquire.

The Company disputes the legal invoices received and the Company's lawyers have sent details of the dispute to the law firm in question. Broadly the Company is of the view that the invoices issued include services performed prior to the engagement of the law firm by the Company, relate to



matters which are not in the scope of services the law firm was engaged to provide, include significant over-servicing on various matters and include charges for matters which it is clearly inappropriate to charge and the rates charged exceed the rates charged under applicable scales. The Company is still waiting for a response to the issues raised. The Company will continue a dialogue with the law firm in question in an attempt to resolve this dispute.

Given the extent of the above issues, it is impossible to reasonably determine what amount may ultimately be owing in respect of the invoices. This is particularly the case when no response to the issues has been received. The Company considered that it would be misleading to book the full amount of the invoices at this stage and accordingly believes it more appropriate that they be disclosed as a contingent liability (refer note 19).

The Company understands that the Company's auditors, Deloitte, have no other issues with the Company's Annual Accounts other than in relation to the invoices which are in dispute. Deloitte has advised that their "no opinion" report is based on their view that the uncertainty surrounding the legal claim was so pervasive that it significantly impacted on their ability to form a view on the going concern of the Company and as a result express any opinion at all on the Annual Accounts of the Company. Deloitte have advised that even if the Company books the disputed invoices as a liability, rather than a contingent liability, this would not change their "no opinion" on the Annual Accounts. The Company does not agree with Deloitte's view as the potential net working capital deficit as a result of the disputed invoices is not significant (even when the claimed amount is accepted at full face value, which as per the above is disputed). The Company has put this to Deloitte but as can be appreciated, the Company is not in a position to influence the view of Deloitte or change its sign off.

3. What steps does the Company intend to take to obtain an unqualified audit/review report for future financial periods?

The Company intends to resolve the above dispute in a timely manner. Further at the time of the receipt of the disputed invoices the Company was in early discussions with another party regarding a possible acquisition. Given the issues regarding the disputed invoices, the Company has halted these discussion for the time being. Subject to establishing certainty around the disputed invoices, the Company intends to move forward with a possible acquisition and capital raising which should facilitate an unqualified audit opinion going forward.

4. What steps does the Company intend to take to address the going concern issues of the Company? The company should specifically address the net current and non-current liability position and its ability to meet its current debts as and when they fall due.

The Company's level of expenditure have been reduced to a minimum, and the directors have agreed to defer payment of their fees for financial year 2016. The Company completed an Underwritten Share Purchase Plan in July 2015 which raised \$632,259. On 22 July 2015 the Company repaid the Convertible Note holders \$385,890. Liabilities as at 7 October amount to \$89,508 (excluding the disputed invoices). This creditor position is represented by accrued directors'



fees (being \$88,982 of this amount). The directors have communicated their willingness to the Company to defer payment of these outstanding fees. The cash position of the Company at the same date of 7 October was \$128,517. The Company expects it has sufficient funds to pay new creditors as and when they arise and fall due.

As per the response to question 3 above, subject to establishing certainty around the disputed invoices, the Company intends to move forward with a possible acquisition and capital raising which should alleviate going concerns of the Company.

5. Does the Company consider that its level of operations is sufficient to warrant continued quotation of its securities on ASX in accordance with the requirements of listing rule 12.1? In answering this question, please explain the basis for this conclusion. In answering this question, please comment on the nature of the Company's current business activities.

As announced by the Company to the ASX its main undertaking and strategy is to identify and assess new business opportunities with a view to making a value adding acquisition. The Company has 4,900 shareholders and continues to pursue this strategy to identify and implement an acquisition, which would include a capital raising, to reinvigorate the Company and add value for existing shareholders by moving forward in a new direction.

During 2014/15 the Company announced two merger transactions on which the Company spent considerable time and resources, both of which for reasons out of its control terminated prior to completion. The Company was in discussions regarding a prospective acquisition at the time of receiving the disputed legal invoices referred to above. The Company is confident these discussions can be reconvened, subject to resolving the disputed legal fee invoices.

6. Does the Company consider that the financial condition of the Company is sufficient to warrant continued listing on ASX in accordance with the requirements of listing rule 12.2? In answering this question, please also explain the basis for this conclusion.

The Company does believe that its financial condition is sufficient to warrant continued listing. The Company is in the process of restructure. It is normal for the Company in this phase to experience periods where working capital is constrained. During this time the Company has been able to maintain sufficient cash resources to be able to move towards achieving its strategy of identifying and implementing an acquisition, which would include a capital raising, to reinvigorate the Company thereby adding value for existing shareholders and moving forward in a new direction.

7. If the answer to questions 5 or 6 is "No", please explain what steps the Company has taken, or proposes to take, to warrant continued listing on ASX in accordance with the requirements of listing rules 12.1 and 12.2.

N/A

8. Please confirm that the Company is in compliance with the listing rules and, in particular, listing rule 3.1.

The Company confirms that it has complied with the requirement of ASX Listing Rule 3.1

Your Faithfully

A handwritten signature in black ink, appearing to read 'R. Wadley'.

Richard Wadley
Company Secretary and Director
IM Medical Limited



6 October 2015

Richard Wadley
Company Secretary & Director
IM Medical Limited

By email only

Dear Richard

IM Medical Limited (the “Company”)

ASX refers to the following:

1. The Company’s 2015 full year accounts for the year ended 30 June 2015, lodged with ASX on 1 October 2015 (the “Annual Accounts”).
2. The Independent Auditor’s Report set out on pages 21 and 22 of the Annual Accounts (“Auditor’s Report”) which contains a Disclaimer of Opinion (the “Disclaimer”) stating the following:

“Basis for Disclaimer of Opinion

In August 2015 the company received a claim totalling \$296,000 for legal costs in relation to a proposed capital raising in connection with the proposed acquisition of White Data Limited. The acquisition and capital raising did not proceed and legal services performed on the capital raising ceased in February 2014. The company has not reached settlement in relation to the outstanding claim, nor has it provided for a likely payment sum in the statement of financial position at 30 June 2015. This matter is disclosed in Note 19 to the financial statements as a contingent liability. We were unable to obtain sufficient appropriate audit evidence about the estimation of the required provision for legal fees at 30 June 2015. Consequently, we were unable to determine the amount of the adjustment required to the statement of profit or loss and other comprehensive income and the statement of financial position at 30 June 2015.

We also draw attention to Note 1 ‘Going Concern’ in the financial report which indicates that the company and consolidated entity incurred a net loss attributable to members of \$487,622 and \$523,762 respectively for the year ended 30 June 2015. As of that date the company and consolidated entity had a net deficiency of \$489,182 and \$471,188 respectively. Further, as described in Note 1 the company and consolidated entity may expend their cash reserves before March 2016. These conditions, along with the matter described above, indicate the existence of material uncertainties which cast significant doubt on the company’s and consolidated entity’s ability to continue as going concerns and therefore, they may be unable to realise their assets and discharge their liabilities in the normal course of business.

Given the above circumstances, in our opinion, the uncertainties are so material and pervasive that we are unable to express an opinion on the financial report taken as a whole.



Disclaimer of Opinion

Because of the significance of the matters described in the Basis for Disclaimer of Opinion paragraph, we have not been able to, and do not, express an opinion as to whether 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 2015 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) we do not express an opinion as to whether or not the financial statements comply with International Financial Reporting Standards as disclosed in Note 1.

Relevant Listing Rules and Guidance

- Listing Rule 12.1 – The level of an entity's operations must, in ASX's opinion, be sufficient to warrant the continued quotation of the entity's securities and its continued listing.
- Listing Rule 12.2 – An entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.
- Listing Rule 19.11A – If a listing rule requires an entity to give ASX accounts, the following rules apply:
...
(b) The accounts must be prepared to Australian accounting standards. If the entity is a foreign entity the accounts may be prepared to other standards agreed by ASX.

Questions for Response

In light of the Auditor's Report, the information contained in the Annual Accounts, and the application of the listing rules stated above, please respond to each of the following questions:

1. Is the Company able to confirm that in the Directors' opinion the Annual Accounts:
 - (a) comply with the relevant Accounting Standards; and
 - (b) give a true and fair view of the financial performance and financial position of the Company?
2. Given the Disclaimer relates to the Auditor's inability to obtain sufficient appropriate audit evidence to support the estimation of the required provision for legal fees at 30 June 2015, please



explain on what basis the Company is satisfied as to the appropriateness of the legal fees being classified as a contingent liability only. In answering this question, please also comment on whether there are any further updates as to the legal claim, and what steps have been taken, or will be taken in order to reach a resolution on the claim.

3. What steps does the Company intend to take to obtain an unqualified audit/review report for future financial periods?
4. What steps does the Company intend to take to address the going concern issues of the Company? The company should specifically address the net current and non-current liability position and its ability to meet its current debts as and when they fall due.
5. Does the Company consider that its level of operations is sufficient to warrant continued quotation of its securities on ASX in accordance with the requirements of listing rule 12.1? In answering this question, please explain the basis for this conclusion. In answering this question, please comment on the nature of the Company's current business activities.
6. Does the Company consider that the financial condition of the Company is sufficient to warrant continued listing on ASX in accordance with the requirements of listing rule 12.2? In answering this question, please also explain the basis for this conclusion.
7. If the answer to questions 5 or 6 is "No", please explain what steps the Company has taken, or proposes to take, to warrant continued listing on ASX in accordance with the requirements of listing rules 12.1 and 12.2.
8. Please confirm that the Company is in compliance with the listing rules and, in particular, listing rules 3.1.

Please note that ASX reserves its right under listing rule 18.7A to release this letter and the Company's response to the market. Accordingly, the Company's response should address each question separately and be in a format suitable for release to the market.

Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible and, in any event by no later than 9.30 a.m. AEST on Wednesday, 14 October 2015.

Any response should be sent to me by return email. It should not be sent to the ASX Market Announcements Office.

If you have any questions in relation to any of the above, please do not hesitate to contact me.

Yours sincerely,

[Sent electronically without signature]

Cheng Tang
Adviser, Listings Compliance (Melbourne)