



**ASX ANNOUNCEMENT FOR RELEASE ON 2 FEBRUARY 2009.**

**AVASTRA SLEEP CENTRES LIMITED**

The Directors of Avastra Sleep Centres Limited (the Company) wish to announce that they have reached an in principle agreement with a number of the former owners of the sleep diagnostic centres purchased by the Company's subsidiaries throughout the USA (the Creditors), that the Company and the Creditors will commence negotiations with a view to agreeing a basis upon which certain future earn out entitlements of the Creditors will be converted to equity in the Company.

One of the Company's Directors, Dr Milt Erman MD. is a related party pursuant to Section 228 of the Corporations Act as he holds a beneficial interest in one of the creditor sleep centres subject to the recapitalization proposal however his interest is less than 5% of any recapitalization amount. There are no other related parties that the Company is aware of.

Pricing relevant to the new shares is still to be determined and finalization of the amount of earn out is nearing completion and is expected shortly. The estimated value of future earn out entitlements to all former owners of sleep diagnostic centres purchased by the Company's subsidiaries as at 31 December 2008 is approximately \$US15 million.

The proposed recapitalisation would, if agreed with all former owners, negate the need to fund future earn out entitlements by way of either raising equity or borrowings where cash generated from operations would have been insufficient for these needs. In the event that the proposed recapitalization is not approved the Company would need to raise additional capital from investors such as issue of additional convertible notes

Negotiations and due process are continuing and further announcements will be made as required. Reaching an agreement with some or all of the former owners cannot be guaranteed.

It is planned that upon finalization of successful discussions the Company will convene an extraordinary general meeting of shareholders to approve the issuance of ordinary shares required to satisfy the debt for equity swap entitlements.

Geoff Garside  
Chairman

2 February 2009

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