EASTLAND MEDICAL SYSTEMS LTD
AND CONTROLLED ENTITIES

ABN: 35 090 987 250

Financial Report For The Year Ended
30 June 2010

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Chairman’s Report

Dear Fellow Stakeholders,

On behalf of the Board it is my pleasure to present your Company’s Annual Report for the year ended 30 June 2010.

The past year has seen significant progress in the focussed strategies deployed to advance the Company's principal pharmaceutical project "ArTiMist™" and to implement operational restructuring by the disposal of non-core assets to achieve better efficiencies and reduced costs.

This deployment has importantly resulted in:

- The highly successful completion of the Phase IIa clinical field trials for ArTiMist™ in Rwanda, and
- The sales of the operations of the Company's subsidiary Medical Industries Australia Pty Ltd, and its Portland investment property.

ArTiMist™ - The detailed results of the Phase IIa Rwandan clinical field trial in April 2010 were enthusiastically received at the prestigious ICAAC Conference in Boston this September, and the Phase III confirmatory trials are due to start in October 2010. This momentum has enabled the Company to confidently advance the commercialisation process for ArTiMist™ which is aimed to bring the world’s first sublingual malaria treatment for children to market. In the current difficult economic environment it was particularly heartening to have successfully raised $2.27m before expenses in August 2010 to be utilised towards achieving this goal as soon as practically possible.

Domestic Operations - Last year the Board decided to rationalise the Company’s investments in non-core domestic operations. In January 2010, the Company sold the business operations of one of its medical devices and consumables distribution subsidiaries - Medical Industries Australia Pty Ltd. At the end of September 2010, the Company finalised a sale contract disposing of its Portland investment property with a settlement date in November 2010. The Board is presently ensuring that its remaining medical devices and consumables distribution operation, Westcoast Surgical and Medical Supplies, receives the focussed attention it deserves to enhance its value in readiness for possible sale when appropriate market conditions prevail.

HC Berlin Pharma AG - The Board is disappointed that its associated contracted pharmaceutical product manufacturer in Germany, HC Berlin Pharma AG, has had to commence insolvency proceedings, and appears unable to reap the potential benefits it would accrue under its contract. This development has prompted the Board to write off the balance of this investment. In the event HC Berlin Pharma AG is unable to meet its obligations and fulfil the stringent manufacturing credentials essential for pharmaceutical product manufacture, the Board will in lieu, rely on its current agreement with ProtoPharma Ltd, our strategic UK partner in the development of ArTiMist™, to provide manufactured supply of the ArTiMist™ product.

Calvin Ross - It was with great sadness that we recently announced the untimely death of our valued non-executive director, Calvin Ross. Both Eastland and ProtoPharma, are more resolved than ever to complete the ArTiMist™ project and achieve the goal of saving many young lives which would be Calvin’s most fitting legacy.

On behalf of the Board, I wish to thank everybody who supported and was involved in advancing Eastland this past year. This naturally includes our dedicated staff, our consultants and advisers, and importantly all our stakeholders. We look forward to significant progress in our focussed strategies this coming year.

Peter Jooste QC
Chairman
Eastland Medical Systems Ltd
30 September 2010

EASTLAND MEDICAL SYSTEMS LTD ABN: 35 090 987 250 AND CONTROLLED ENTITIES
DIRECTORS' REPORT

Your Directors present their report, together with the financial statements of the Group, being the Company and its controlled entities for the financial year ended 30 June 2010.

Principal Activities and Significant Changes in Nature of Activities

The principal activities of the consolidated Group during the financial year were:

- pharmaceutical development;
- medical devices and consumables distribution.

The following significant changes in the nature of the principal activities occurred during the financial year:
- the consolidated group sold the business of Medical Industries Australia Pty Ltd on 29 January 2010.

There were no other significant changes in the nature of the consolidated group's principal activities during the financial year.

Operating Results and Review of Operations for the year

Operating Results

The consolidated loss of the consolidated Group amounted to $4,856,312 after providing for income tax and eliminating minority equity interests. This represented a 53% increase on the loss reported for the year ended June 2009 . The significant increase in costs was largely attributable to impairment losses of $1,535,383 and legal and professional fees relating to legal action involving a previous director for $587,603. These actions are still continuing. Further discussion of the Group's operations now follows.

Review of Operations

During the 2009/10 financial year Eastland Medical Systems Ltd has focused its attention on four key areas:

(i) Ensuring that the Company's primary pharmaceutical project, ArTiMist™, continues to progress along the path of commercialisation. Through our contracted project consultants ProtoPharma Limited (UK), ArTiMist™ has completed phase II and progressed to phase III of the clinical trials which is expected to commence in October 2010. On the successful completion of phase III, the Company will be in a position to complete the commercialisation process. The NiCoSorb™ project remains our secondary product in the commercialisation pipeline and will progress later in the 2010/11 Financial Year. The Company continues to seek strategic partners to complete the commercialisation process of Clip-On and PAP projects. Our key focus has been on the anti-malaria treatment ArTiMist™ which is expected to be our first project to move to market.

(ii) Divest of non-core businesses. The operations of Medical Industries Australia (NSW) was successfully sold on 29 January 2010 for $1,611,649 which resulted in a profit on disposal of $171,893. Management continues to see an improvement in Westcoast Surgical and Medical Supplies (WA) and remains intent to sell the business in due course. The Company has signed an unconditional offer after the balance sheet date to sell the investment property held in its subsidiary company Portland Surgical Products Pty Ltd with a settlement date in November 2010.

(iii) Strengthening the Company's balance sheet. During the year the Company has reduced its debt levels by $2,262,959 and total liabilities of the group has reduced from $7,768,763 to $3,556,830, a reduction of $4,211,933.

(iv) The Company continues its focus on organisational restructure to improve efficiency and reduce costs.

Financial Position

The net assets of the consolidated Group have decreased by $496,585 from 30 June 2009 to $8,345,615 in 2010. This small decrease is due to the following factors:

- payout of loan facilities from the proceeds of the capital raising which was finalised in the first quarter of the financial year;
- further expenditure on development of the ArTiMist™ product;
- the sale of the business of Medical Industry Australia Pty Ltd; and
- impairment of the investment in HC Berlin Pharma AG.

The Directors believe the Group is in a strong and stable financial position to further progress its primary pharmaceutical product, ArTiMist ™ to commercialisation in the current financial year. The anticipated sale of the Group's distribution company, Westcoast Surgical and Medical Supplies (WA) as well as the sale of its investment property will further enhance the current stable position of the Group. The Company successfully raised $2,277,000 before expenses in August 2010 which will be used primarily for the finance of the ArTiMist™ phase III trial.

Significant Changes in State of Affairs

The following significant changes in the state of affairs of the parent entity occurred during the financial year:

(i) 13th July 2009: Eastland Medical Systems Ltd confirmed completion of the Rights Issue Shortfall Capital Raising by Patersons Securities Limited. A further 43,679,850 fully paid ordinary shares at $0.03 cents per share and 4,367,985 listed options exercisable at $0.10 cents expiring 30 June 2011 to raise $1,310,396 before expenses.

(ii) 22nd July 2009: Eastland Medical Systems Ltd settled the Group's finance facilities with the ANZ Bank amounting to $1,386,242.

(iii) 31st July 2009: Eastland Medical Systems Ltd confirmed the balance of the Rights Issue Shortfall Capital Raising by Cunningham Securities Pty Ltd. A further 23,333,333 fully paid ordinary shares at $0.03 cents per share and 2,333,335 listed options exercisable at $0.10 cents expiring 30th June 2011 to raise $700,000 before expenses.

(iv) 3rd September 2009 the Company issued 20,124,384 Options exercisable at $0.10 cents expiring 30th June 2011. These Options were Broker Options issued free in terms of Underwriting Agreements approved by shareholders at EGM on 28 th August 2009. This transaction represented a share–based payment to brokers. The accounting for this transaction affects equity balances only and therefore has no impact on the results for the year.

(v) 4th September 2009: placement of 12,500,000 ordinary shares at an issue price of $0.04 cents per share, together with an attaching option with an exercise price of $0.10 cents for one share expiring 30th June 2011 to raise $500,000 before expenses.

(vi) 17th September 2009 the Company settled the acquisition of the remaining stake in the African drug development company, Star Medical (Botswana) Limited to 100%.

(vii) 15th October 2009 the Company issued 4,000,000 fully paid ordinary shares at $0.03 cents per share and 7,000,000 Options exercisable at $0.10 cents expiring 30th June 2011 to raise $120,000 before expenses

(viii) 9th November 2009 the Company issued 1,000,000 Secured Convertible Notes at an issue price of $1.00 per Note to raise $1,000,000 before expenses.

(ix) 11th November 2009: Eastland Medical Systems Ltd obtained the approval from the Ethics Committee of Kigali University Teaching Hospital in Rwanda to commence clinical trials of its sublingual malaria treatment ArTiMist™.

(x) 20th November 2009, Calvin Ross was appointed to Eastland's Board of Directors as a Non-Executive Director.

(xi) 29th January 2010, the Company sold the business of its wholly owned subsidiary Medical Industries Australia Pty Ltd. The subsidiary company is no longer trading.

(xii) 28th April 2010 the Company announced the positive results of the completed Phase IIa clinical trial of ArTiMist™, a patented sublingual delivery technology designed to administer the drug Artemether.

(xiii) In the previous financial year, the Company announced its intention to dispose of its medical devices and consumables distribution division. The operations of Medical Industries Australia Pty Ltd was sold during the year as mentioned above but Eastland Medical (WA) Pty Ltd trading as Westcoast Surgical and Medical Supplies (WA) has not yet been sold. The sale of this operation is being actively marketed by external business brokers and by senior management.

Dividends Paid or Recommended

The Directors have recommended that no dividend be paid by the company in respect of the financial year ended 30 June 2010.

After Balance Date Events

(i) On 18th August 2010 the Company issued 56,925,006 fully paid ordinary shares at $0.04 cents per share to raise $2,277,000 before expenses. The purpose of the issue is to fund the continued commercialisation and clinical trials program relating to the ArTiMist™ malaria treatment project and working capital.

(ii) On 9th August 2010, the company announced the death of one of its Non-Executive Directors, Calvin Ross.

(iii) On 23rd July 2010, 150,000 secured convertible notes were converted into 5,000,000 ordinary shares at an issue price of $0.03 per share.

(iv) On 6th September 2010, 10,000 secured convertible notes were converted into 333,333 ordinary shares at an issue price of $0.03 per share.

(v) On 27th September 2010, the Company entered into an unconditional contract of sale for the disposal of its investment property for $310,000. Settlement date is in November 2010.

(vi) As at 29th September 2010, the Mediation Orders issued on 27th August in relation to all Supreme Court matters remain to be determined.

(vii) As at 29th September 2010, the German insolvency process in relation to HC Berlin Pharma AG is continuing. An insolvency administrator has been appointed.

Future Developments, Prospects and Business Strategies

Vision

Eastland Medical is an Australian drug delivery business that looks to develop and commercialise a range of innovative patient and clinician preferred, patented products for global markets using patented technology to administer drugs through the sublingual route.

Business Strategy

Eastland Medical's strategy is to create new human pharmaceutical products by combining proven drugs with innovative, patented delivery technologies. Using proven drugs means that the development time is usually shorter and the risk and expenditure lower than is typical for new drug development.

Eastland Medical and its partners combine their development skills to progress a range of products through clinical and regulatory milestones, before commercialising them in global markets through selected commercial partners, who provide expertise in the particular market. The value of each product is shared with the partner.

Fundamental features of the design of all Eastland Medical's products are that they are enhanced and offer improved features and benefits than the existing products on the market and cannot be copied by competitors through patent protection.

Environmental Issues

The consolidated Group's operations are subject to significant environmental regulations under the law of the Commonwealth and State.

Information on Directors

Mr Peter Jooste QC	—	Non Executive Chairman
Qualifications	—	Queens Counsel
Experience	—	Mr. Peter Jooste QC was appointed a non-executive director of Eastland Medical Systems Ltd on 3 July, 2006 and to the position of Chairman on 4th December 2006. Peter Jooste brings to Eastland his widespread knowledge in all areas of Corporate Law including, Mergers, Floats and Capital Raising. Born in South Africa and educated in both South Africa and England, he is well respected in his field. His experience as a Director on Company Boards, Government Councils and Advisory Boards in both South Africa and Australia, including Past President of the Australian Southern African Business Council Inc (WA) and International Business Council provides a significant level of experience to the Board of Eastland.
Interest in Shares and Options	—	2,500,000 Ordinary Shares & 50,000 Options (EMSOB)
Mr Dermot Patterson	—	Chief Executive Officer / Executive Director / Company Secretary
Qualifications	—	Masters of Business Administration
Experience	—	Dermot Patterson took up his appointment as CEO of Eastland Medical Systems Ltd in September 2006 and was made a Director of the company in November 2006. He brings to Eastland 25 years of extensive senior executive experience, having demonstrated strong management performance with both national and international companies. Dermot graduated with a Master of Business Administration from the University of Western Australia and a Surgical Technologist Diploma from Paddington College, United Kingdom. Dermot now resides in Perth, Western Australia with his wife and children.
Interest in Shares and Options	—	1,000,000 Ordinary Shares & 78,000 Options (EMSOB)
Mr Michael Stewart	—	Non-Executive Director (Appointed 11th June 2009)
Qualifications	—	Bachelor of Applied Science (GeoPhysics)
Experience	—	Michael Stewart joined the Board of Eastland on 11th June 2009. He has a broad corporate and management background and has been extensively involved in bilateral donor funded and World Bank co-financed Aid Projects in under developed countries.
Interest in Shares and Options	—	6,666,667 Ordinary Shares and 200,000 Convertible Notes in Eastland Medical Systems Ltd
Mr Calvin Ross	—	Non-Executive Director (App'd 20th November 2009, ceased to be a director on his death, 2nd August 2010)
Qualifications	—	Bachelor of Science
Experience	—	Calvin Ross was a specialist Drug Delivery Scientist who had extensive experience in the pharmaceutical industry particularly the therapeutic areas of malaria, pain management and drug addiction. He was a leading authority in the development of sublingual aerosol and spray formulations and device design. Mr Ross was the founder and Research & Development Director of ProtoPharma Ltd. he held senior R&D roles with Bespak PLC, Sosei Group, Dallas Burston Group, Terumo and Bioglan PLC.
Interest in Shares and Options	—	1,500,000 Ordinary Shares in Eastland Medical Systems Ltd

Company Secretary

Mr. Trevor Strahan resigned as the Company Secretary on 1st September 2009. Mr Dermot Patterson has been the Company Secretary since 2nd September 2009.

Meetings of Directors

During the financial year, 8 meetings of Directors (including committees of directors) were held.
Attendances by each director during the year were as follows:

	Committee Meetings			
	Directors' Meetings		Audit Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Mr Peter Jooste QC	8	8	-	-
Mr Dermot Patterson	8	8	-	-
Mr Michael Stewart	8	8	-	-
Mr Calvin Ross	4	4	-	-

No Audit Committee meetings were held during the year. Key audit matters were discussed in the Directors Meetings.

Indemnifying Officers or Auditor

During or since the end of the financial year, the Company has given an indemnity or entered into an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

The Company has paid premiums to insure each of the Directors against liabilities for costs and expenses incurred by them in defending legal proceedings arising out of their conduct while acting in the capacity of director of the company, other than conduct involving a wilful breach of duty in relation to the company. The total premium for all Directors amounted to $25,300.

Options

At the date of this report, the unissued ordinary shares of Eastland Medical Systems Ltd under option are as follows

Date of expiry	Exercise price		Number under option
31/05/2011	$	0.20	47,586,231
30/06/2011	$	0.10	50,558,905
			98,145,136

Options holders do not have any rights to participate in any issues of shares or other interests in the Company or any other entity.

There have been no unissued shares or interests under option of any controlled entity within the Group during or since reporting date.

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of any other body corporate.

Proceedings on Behalf of Company

No person has applied for leave of 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.

Non-audit Services

The Board of Directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The Directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the Board prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees were paid or payable to Grant Thornton Audit Pty Ltd for non-audit services provided during the year ended 30 June 2010:

	$
Taxation services	12,200
	12,200

Auditor's Independence Declaration

The auditor's independence declaration for the year ended 30 June 2010 has been received and can be found on page 12 of the Annual Report.

Corporate Governance

The Board is responsible for the corporate governance of the Company. Systems of control and accountability form the basis for the administration of corporate governance.

Corporate Governance information is published on Eastland's® website at www.eastlandmedical.com.au. This information includes charters (for the board and its committees or where it acts as a de-facto committee), the Company's code of conduct and other policies and procedures relating to the Board and its responsibilities such as:

- a summary of the Policy for Trading in Company Securities;
- a summary of the Company's ASX continuous disclosure procedures;
- procedure for selection appointment and rotation of external auditor;
- shareholder communication strategy; and
- a summary of the risk management policy.

The Company has followed the ASX Corporate Governance Principles and Recommendations to the extent the Directors considered they genuinely improve the Company's internal processes and accountability to external stakeholders. The Board reviews its governance practices to ensure they remain appropriate to the needs of the Company. The following table sets out where Eastland® has followed the Recommendations or provided "if not, why not" reporting in connection with the 8 core Principles.

Summary Statement

Recommendations	ASX P & R	If not, why not
Recommendation 1.1	☒	
Recommendation 1.2	☒	
Recommendation 2.1	☒	
Recommendation 2.2	☒	
Recommendation 2.3	☒	
Recommendation 2.4		☒
Recommendation 2.5	☒	
Recommendation 3.1	☒	
Recommendation 3.2	☒	
Recommendation 4.1		☒
Recommendation 4.2		☒
Recommendation 4.3	☒	
Recommendation 5.1	☒	
Recommendation 6.1	☒	
Recommendation 7.1	☒	
Recommendation 7.2	☒	
Recommendation 7.3	☒	
Recommendation 8.1		☒
Recommendation 8.2		☒

1. LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

1.1 (Establishing Roles and Responsibilities) The Board of 4 Directors(3 Directors to 20 November 2009) tasks itself to provide strategic guidance for the Company and effective oversight for management. All matters of management are reserved to them, and delegations are express and specific as circumstances require.

Eastland Medical Systems Ltd's Chief Executive Officer is a member of the Board and is responsible for day to day operational management and implementation of strategy, risk management and control of systems.

Eastland Medical Systems Ltd had 3 independent, Non-Executive directors (Peter Jooste QC (Chairman), Michael Stewart and Calvin Ross). The Chair ensures the Board operates efficiently, that systems and meetings are regular and timely, that appropriate focus is maintained on enhancing stakeholder value. Together with Michael Stewart the Chairman has oversight of ensuring a balance of authority, that the skill sets of the Board are deployed to maximum advantage and proper governance generally.

The Board has tasked the Company Secretary to ensure legal compliance and proper continuous disclosure are in order.

1.2 (Evaluating the Performance of Senior Executives) Formal written appointments govern the services of the Chief Executive Officer and Chief Financial Officer whose performances are regularly measured. A set of Key Performance Indicators applies to each of these officers, and performance evaluation against indicator attainment has been carried out by the Independent Directors in the reporting period.

2. STRUCTURE THE BOARD TO ADD VALUE

2.1 (A majority of the Board should be Independent Directors)

In determining the independence of directors the Board has regard to the independence criteria as set out in the ASX Principles and Recommendations. To the extent that it is necessary for the Board to consider issues of materiality, the Board refers to the thresholds for qualitative and quantitative materiality as adopted by the Board and contained in the Board Charter, which is disclosed in full on the Company's website. The Company assesses independence at the time of appointment of directors and monitors the independence of directors as and when appropriate.

Applying the independence criteria, which include substantial shareholding and employment, the Board considers that Messrs Peter Jooste QC, Michael Stewart and Calvin Ross are all independent directors. Mr Ross was a director until his death on 2 August 2010.

2.2 & 2.3 (The Chair should be an Independent Director with a distinct and different role)

Peter Jooste QC is an Independent Director, and has a distinct and different role to the Chief Executive Officer.

2.4 (Nomination Committee)

The Board considers the Company too small at this stage to have a Nomination Committee. The Board has put in place regular agenda items to address the relevant Board issues of required competencies, performance evaluation and succession planning. The Company Secretary monitors Board policies and procedures and is accountable through the Chair.

2.5 (Board Performance)

The Independent Directors are responsible for a review of the balance of authorities in the Board and for ensuring the division of functions remains appropriate. In addition a set of Key Performance Indicators applies to each of the executive Directors, and performance evaluation against indicator attainment has been carried out by the Independent Directors in the reporting period. No adverse issue emerged.

The Chief Executive Officer must report to the Board in a timely manner and ensure the reporting gives a true and fair view of the financial condition of the Company and all operational results.

One new Director was appointed during the latest reporting period. The skills, experience, relevant expertise and period of office of each Director is set out in the Directors Report in the Annual Report of the Company.

Any new director appointment is at the invitation of the Chairman after Board approval, and there is a Company induction program in place in that event.

Any Director, with the prior approval of the Chairman, may take independent professional advice at the reasonable expense of the Company.

The Board held meetings as detailed in the Directors Report in the Annual Report. Senior managers are invited to attend meetings of the Board, and Non-executive Independent Directors may meet separately from the Executive Directors in the performance of their functions.

The Company’s constitution requires one third of the Directors (other than any Managing Director and alternate directors) to retire from office at each Annual General Meeting. Directors appointed by the Board are required to retire from office at the next Annual General Meeting and are not taken into account in determining the number of Directors to retire by rotation at the Annual General Meeting.

Directors cannot hold office for more than 3 years following their appointment without submitting themselves for re-election. Retiring directors are eligible for re-election by shareholders.

3. PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

3.1 (Code of Conduct)

The Company's Code of Conduct sets the ethical tone and expected standards of behaviour and practice for Directors, Senior Management and all Employees. The Code is set out on the Company's website.

The code sets out the standard which the Board, management and employees of the Company are encouraged to comply with when dealing with each other, shareholders and the broader community.

The Board, management and employees must not involve themselves in situations where there is a real or apparent conflict of interest between them as individuals and the interest of the Company. Where a real or apparent conflict of interest arises the matter should be brought to the attention of the Chairman in the case of a Director, or the Chief Executive Officer in the case of a member of management, or an employee, so that it may be considered and dealt with in an appropriate manner for all concerned.

The Board supports high standards of corporate governance, and requires its members and the staff to act with integrity and objectivity in relation to:

- Compliance with the law;
- Record keeping;
- Confidentiality; and
- Safe and equal opportunity employment.

The Board and management aim to fulfil their wider obligations to all the Company's stakeholders.

3.2 (Trading Policy in Company Securities)

The Company has established a Code of appropriate policies for trading in Company securities by Directors, Senior Executives and Employees. There are appropriate blackout periods, and short-term and speculative trading is prohibited. The Board endorses prompt and transparent reporting in compliance with the spirit and letter of the Law, and meticulous compliance with the prohibitions on "insider trading". The Code is set out on the Company's website. The Company Secretary monitors compliance.

4. SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

4.1 (Audit Committee)

The Board acts as a de-facto Audit Committee including the Chief Financial Officer, to focus on issues relevant to the integrity of the Company's financial reporting, and to undertake the necessary review and consideration of the financial statements, as well as appropriate steps to ensure the independence and competence of the Company's external auditor.

4.2 (Audit Committee Structure)

The de-facto Committee includes two Non-Executive Directors. The Company is a comparatively small company and the Board does not consider the extra costs involved in appointing any additional Non-Executive Independent Director would result in any greater benefits or efficiencies in the de-facto Audit Committee's work.

4.3 (Audit Committee Charter)

The de-facto Audit Committee has a formal Charter which is set out on the Company's website.

The main responsibilities of the de-facto Audit Committee are to:

- Review and report to the Board on the financial reports published by the Company or released to the market;
- Review the effectiveness of internal controls of:
  - operations
  - financial reporting
  - legal compliance;
  - risk management;
- Recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, and the scope and quality of the audit.

The de-facto Audit Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

The external auditors may communicate at any time with the Chairman of the Board.

The external auditor has not provided any non-audit services which might compromise the auditor's independence. The de-facto Committee has informed the Board on its assessments regarding the external audit, the review of risk management and internal controls. There are no unresolved issues.

5. MAKE TIMELY AND BALANCED DISCLOSURE

5.1 (Compliance with ASX Disclosure Requirements)

The Board is primarily responsible for compliance with ASX Listing Rule requirements for continuous disclosure, and have tasked the Company Secretary to manage that compliance in close collaboration with Group executive officers.

The policy established by the Board is to ensure that all senior executives report material information for immediate vetting by the Company Secretary and the Board. The Board approves all final releases.

The policy aim is to ensure all investors have equal and timely access to material information concerning the Company, particularly its financial position, performance, ownership and governance.

6. RESPECT THE RIGHTS OF SHAREHOLDERS

6.1 (Promoting Effective Communication & Participation)

The Company recognizes the importance of its relationship with shareholders and understands the importance of communication with them in accordance with the requirements of the ASX. For this purpose the Company has two policies, one for keeping shareholders up to date with Company information and one to ensure it is compliant with the continuous disclosure obligations of the ASX.

The Company maintains a website for effective communication with stakeholders. The website can be accessed on http://www.eastlandmedical.com.au. On this website shareholders can access all information provided to analysts and the media subsequent to it being released to the ASX.

The Company Secretary is tasked to assist effective communication with shareholders, investors and customers, in collaboration with the Chief Executive Officer. A shareholder database has been established and is maintained for this purpose.

The Company Secretary is accountable to the Board to ensure prompt and timely compliant Notices of General Meetings, and that shareholders are given every assistance and encouragement to attend or be represented at meetings.

7. RECOGNISE AND MANAGE RISK

7.1 (Oversight & Management of Material Business Risks)

The Board is responsible for implementation, review and monitoring of an effective risk management system.

Day-to-day management of risk is the responsibility of the Chief Executive Officer, with the assistance of senior management. The Chief Executive Officer is responsible for reporting directly to the Board on all matters associated with risk management.

In fulfilling his duties, the Chief Executive Officer has unrestricted access to all employees, contractors and records and may, with the approval of the Board, obtain independent expert advice on any matter he believes appropriate.

7.2 (Risk Management & Internal Control Systems)

Specific business risks are managed through:

- the de-facto Audit Committee and Audit Committee Charter;
- insurance programs;
- regular budgeting and financial reporting;
- limits and authorities for expenditure levels;
- procedures/controls to manage environmental and occupational health and safety matters;
- procedures for compliance with continuous disclosure obligations under the ASX listing rules; and
- procedures to assist with administering corporate governance systems and disclosure requirements.

7.3 (CEO & CFO Assurances)

The Chief Executive Officer and Chief Financial Officer give the relevant declarations, statements and certifications to the Board in relation to the Company's Annual Report.

8. REMUNERATE FAIRLY AND RESPONSIBLY

8.1 (Remuneration Committee)

The Board acts as a Remuneration Committee because the company is a comparatively small company and the majority of the Board are Non Executive Directors. Details of Board and executive remuneration, including the Company's policy on remuneration are contained in the "Remuneration Report" which forms part of the Directors' Report.

All compensation arrangements for Directors and key management personnel are determined at Board level after taking into account the current competitive rates prevailing in the market.

Remuneration levels of the Directors and key management personnel are set by reference to similar-sized companies with similar risk profiles and are set to attract and retain executives capable of managing the consolidated entity's operations. The Board undertakes an annual review of its performance against goals set at the start of the year. No bonuses are paid to non-executive Directors, nor are there any termination or other benefits paid on retirement.

Details of the nature and amount of remuneration paid to each Director of the Company and all key management personnel of the consolidated entity are provided in the 'Remuneration Report' contained within the Directors' Report.

8.2 (Distinct Structure for Non-executives)

Remuneration of non-executive Directors is determined by the Board within the maximum approved by the shareholders from time to time.

Because the Company has limited cash resources at this stage of its development, non-executive directors will be included in the Company's share option plan, with prior shareholder approval.

REMUNERATION REPORT

Remuneration policy

The remuneration policy of Eastland Medical Systems Ltd has been designed to align key management personnel objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the consolidated Group's financial results. The Board of Eastland Medical Systems Ltd believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best key management personnel to run and manage the consolidated group, as well as create goal congruence between directors, executives and shareholders.

The Board's policy for determining the nature and amount of remuneration for key management personnel of the consolidated group is as follows:

- The remuneration policy is required to be developed and approved by the board after seeking professional advice from independent external consultants.
- All key management personnel receive a base salary (which is based on factors such as length of service and experience), superannuation, fringe benefits, options and performance incentives.
- Performance incentives are generally only paid once predetermined key performance indicators have been met.
- Incentives paid in the form of options or rights are intended to align the interests of the directors and company with those of the shareholders. In this regard, key management personnel are prohibited from limiting risk attached to those instruments by use of derivatives or other means.
- The Board reviews key management personnel packages annually by reference to the consolidated group's performance, executive performance and comparable information from industry sectors.

The performance of key management personnel is measured against criteria agreed bi-annually with each executive and is based predominantly on the forecast growth of the consolidated group's profits and shareholders' value. All bonuses and incentives must be linked to predetermined performance criteria. The Board may, however, exercise its discretion in relation to approving incentives, bonuses and options, and can recommend changes to the committee's recommendations. Any changes must be justified by reference to measurable performance criteria. The policy is designed to attract the highest calibre of executives and reward them for performance results leading to long-term growth in shareholder wealth.

Key management personnel receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Some individuals, however, have chosen to sacrifice part of their salary to increase payments towards superannuation.

Upon retirement, key management personnel are paid employee benefit entitlements accrued to the date of retirement. Any options not exercised before or on the date of termination will lapse.

All remuneration paid to key management personnel is valued at the cost to the company and expensed.

The Board's policy is to remunerate non-executive directors at market rates for time, commitment and responsibilities. The Board determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting.

Key management personnel are also entitled and encouraged to participate in the employee share and option arrangements to align directors' interests with shareholder interests.

Options granted under the arrangement do not carry dividend or voting rights. Each option is entitled to be converted into one ordinary share once the interim or final financial report has been disclosed to the public and is valued using the Black-Scholes methodology.

Key management personnel subject to the arrangement are subject to a policy governing the use of external hedging arrangements. Such personnel are prohibited from entering into hedge arrangements, i.e. put options, on unvested shares and options which form part of their remuneration package. Terms of employment signed by such personnel contain details of such restrictions.

Performance based remuneration

The key performance indicators (KPIs) are set annually, with a certain level of consultation with key management personnel to ensure buy-in. The measures are specifically tailored to the areas each individual is involved in and has a level of control over. The KPIs target areas the board believes hold greater potential for Group expansion and profit, covering financial and non-financial as well as short and long-term goals. The level set for each KPI is based on budgeted figures for the Group and respective industry standards.

Performance in relation to the KPI's is assessed annually, with bonuses being awarded depending on the number and deemed difficulty of the KPIs achieved. Following the assessment, the KPIs are reviewed by the Board in light of the desired and actual outcomes, and their efficiency is assessed in relation to the Group's goals and shareholder wealth, before the KPI's are set for the following year.

involves comparison of the group or a division within the group to the market, independent reports are obtained from organisations such as Standard & Poors.

Relationship between remuneration policy and company performance

The remuneration policy has been tailored to increase goal congruence between shareholders, directors and executives. Two methods will be considered to achieve this aim, the first being a performance-based bonus based on key performance indicators, and the second being the issue of options to directors and executives to encourage the alignment of personal and shareholder interests.

The following table shows the gross revenue, profits and dividends for the last five years for the listed entity, as well as the share prices at the end of the respective financial years.

	2006	2007	2008	2009	2010
	$	$	$	$	$
Revenue	6,886,405	9,508,161	11,740,233	36,978	44,937
Net Profit	26,079	(2,008,363)	(9,633,525)	(3,168,182)	(4,780,312)
Share Price at Year-end	0.16	0.14	0.17	0.03	0.03
Dividends	0.00	0.00	0.00	0.00	0.00

Performance Conditions linked to Remuneration

The performance related proportions of remuneration based on these targets are included in the following table. The objective of any reward scheme is to both reinforce the short and long-term goals of the group and to provide a common interest between management and shareholders.

The satisfaction of the performance conditions are based on a review of the audited financial statements of the Group, as such figures reduce any risk of contention relating to payment eligibility. The Board does not believe that performance conditions should include a comparison with factors external to the Group at this time.

Employment Details of Members of Key Management Personnel and Other Executives

The following table provides employment details of persons who were, during the financial year, members of key management personnel of the consolidated Group, and to the extent different, were amongst the five group executives or company executives receiving the highest remuneration. The table also illustrates the proportion of remuneration that was performance and non-performance based and the proportion of remuneration received in the form of

	Position Held as at 30 June 2010 and any change during the year	Contract details (duration & termination)
Group Key Management Personnel		
Mr Peter Jooste QC	Non Executive Chairman	Ongoing legal retainer - no notice period
Mr Dermot Patterson	Chief Executive Officer / Company Secretary	Ongoing - six months notice
Mr Michael Stewart	Non Executive Director	Ongoing consulting retainer - no notice period
Mr Calvin Ross	Non Executive Director	Deceased
Mr Peter Tiede	Chief Financial Officer (resigned)	Retired
Mr Trevor Strahan	Company Secretary (resigned)	Retired
Mr Angus Taylor	General Manager - Medical Industries (resigned)	Retired
Mr Craig Inglis	General Manager - Westcoast Surgical (resigned)	Retired
Mr Jesper Sentow	Chief Financial Officer (resigned 2 July 2010)	Retired
Ms Nicolette Mullin	General Manager - Westcoast Surgical	Retired

	Proportions of elements of remuneration related to performance			Proportions of elements of remuneration not related to performance	
	Non-salary cash based incentives %	Shares/ Units %	Options/ Rights %	Fixed Salary/Fees %	Total %
Group Key Management Personnel					
Mr Peter Jooste QC	-	-	-	100	100
Mr Dermot Patterson	-	-	-	100	100
Mr Michael Stewart	-	-	-	100	100
Mr Calvin Ross	-	-	-	100	100
Mr Douglas Sims	-	-	-	100	100
Mr Peter Tiede	-	-	-	100	100
Mr Trevor Strahan	-	-	-	100	100
Mr Angus Taylor	-	-	-	100	100
Mr Craig Inglis	-	-	-	100	100
Mr Jesper Sentow	-	-	-	100	100
Ms Nicolette Mullin	-	-	-	100	100

The employment terms and conditions of key management personnel and group executives are formalised in contracts of employment. Terms of employment require that the relevant group entity provide an executive contracted person with a minimum of 3 - 6 months notice prior to termination of contract. A contracted person deemed employed on a permanent basis may terminate their employment by providing at least 3 months notice. Termination payments are not payable on resignation or under the circumstances of unsatisfactory performance.

Note A:
Non-executive directors are not subject to similar contracts.

Changes in Directors and Executives Subsequent to Year End

On 2 August 2010, Calvin Ross ceased to be a Non-executive Director on his death.
On 2 July 2010, Jesper Sentow resigned from the position of Chief Financial Officer.

Remuneration Details for the Year Ended 30 June 2010

The following table of payments and benefits details, in respect to the financial year, the components of remuneration for each member of the key management personnel for the consolidated group and, to the extent different, the five group executives and five company executives receiving the highest remuneration:-

Table of Benefits and Payments for the year ended 30 June 2010

	Short-term benefits				**Post Employment Benefits**	
2010	Salary, Fees and Leave $	Profit Share and bonuses $	Non-monetary $	Other $	Pension and superannuation $	Other $
Group Key Management Personnel						
Mr Peter Jooste QC	25,000	-	-	38,000	2,250	-
Mr Dermot Patterson	178,259	-	-	-	16,043	-
Mr Michael Stewart	25,000	-	-	58,600	2,250	-
Mr Calvin Ross	13,888	-	-	-	-	-
Mr Douglas Sims	-	-	-	-	-	-
Mr Peter Tiede	51,298	-	-	-	2,364	-
Mr Trevor Strahan	44,913	-	-	-	1,890	-
Mr Angus Taylor	91,945	-	-	-	8,048	-
Mr Craig Inglis	66,422	-	-	-	1,090	-
Mr Jesper Sentow	132,189	-	-	-	-	-
Ms Nicolette Mullin	120,656	-	-	-	-	-
	749,570	-	-	96,600	33,935	-

	Long-term benefits		**Equity-settled share-based payments**				
2010	Incentive Plans $	LSL $	Shares/Units $	Options/Rights $	**Cash-settled shared based payments $**	**Termination benefits $**	**Total $**
Group Key Management Personnel							
Mr Peter Jooste QC	-	-	-	-	-	-	65,250
Mr Dermot Patterson	-	5,112	-	-	-	-	199,414
Mr Michael Stewart	-	-	-	240,000	-	-	325,850
Mr Calvin Ross	-	-	-	-	-	-	13,888
Mr Douglas Sims	-	-	-	-	-	-	-
Mr Peter Tiede	-	-	-	-	-	-	53,662
Mr Trevor Strahan	-	-	-	-	-	-	46,803
Mr Angus Taylor	-	-	-	-	-	34,615	134,608
Mr Craig Inglis	-	-	-	-	-	-	67,512
Mr Jesper Sentow	-	-	-	-	-	-	132,189
Ms Nicolette Mullin	-	-	-	-	-	-	120,656
	-	5,112	-	240,000	-	34,615	1,159,832

2009	Short-term benefits				Post Employment Benefits	
	Salary, Fees and Leave	Profit Share and bonuses	Non-monetary	Other	Pension and superannuation	Other
	$	$	$	$	$	$
Group Key Management Personnel						
Mr Peter Jooste QC	25,000	-	-	64,400	-	-
Mr Dermot Patterson	175,109	-	14,500	-	15,759	-
Mr Michael Stewart	1,408	-	-	-	-	-
Mr Calvin Ross	-	-	-	-	-	-
Mr Douglas Sims	131,013	-	5,047	-	11,337	-
Mr David Whitelaw	18,750	-	-	-	1,687	-
Mr Peter Tiede	160,977	-	11,522	-	13,269	-
Mr Trevor Strahan	125,192	-	-	-	8,685	-
Mr Angus Taylor	145,174	-	8,716	-	13,066	-
Mr Craig Inglis	150,000	-	-	-	13,500	-
Mr Jesper Sentow	-	-	-	-	-	-
Ms Nicolette Mullin	-	-	-	-	-	-
	932,623	-	39,785	64,400	77,303	-

2009	Long-term benefits		Equity-settled share-based payments		Cash-settled shared based payments	Termination benefits	Total
	Incentive Plans	LSL	Shares/Units	Options/Rights			
	$	$	$	$	$	$	$
Group Key Management Personnel							
Mr Peter Jooste QC	-	-	-	-	-	-	89,400
Mr Dermot Patterson	-	-	-	-	-	-	205,368
Mr Michael Stewart	-	-	-	-	-	-	1,408
Mr Calvin Ross	-	-	-	-	-	-	-
Mr Douglas Sims	-	-	-	-	-	-	147,397
Mr David Whitelaw	-	-	-	-	-	-	20,437
Mr Peter Tiede	-	-	-	-	-	-	185,768
Mr Trevor Strahan	-	-	-	100,000	-	-	233,877
Mr Angus Taylor	-	-	-	-	-	-	166,956
Mr Craig Inglis	-	-	-	-	-	-	163,500
Mr Jesper Sentow	-	-	-	-	-	-	-
Ms Nicolette Mullin	-	-	-	-	-	-	-
	-	-	-	100,000	-	-	1,214,111

Securities Received that are not Performance Related

No members of key management personnel are entitled to receive securities which are not performance-based as part of their remuneration package.

Cash Bonuses, Performance-Related Bonuses and Share-based Payments

There were no cash bonuses, performance-related bonuses or share-based payments made during the year.

Options and Rights Granted

There were no options or rights granted during the year.

This Report of the Directors, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors.

Mr Dermot Patterson

Dated: 30/09/2010

Grant Thornton

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Auditor's Independence Declaration
To the Members of Eastland Medical Systems Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Eastland Medical Systems Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

P. Warr.

P W Warr
Director - Audit & Assurance Services

Perth, 30 September 2010

EASTLAND MEDICAL SYSTEMS LTD ABN: 35 090 987 250
AND CONTROLLED ENTITIES
INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated Group 2010 $	Consolidated Group 2009 $
Continuing operations			
Revenue	2	44,937	36,978
Other income	2	30,954	132,063
Raw materials and consumables used		-	(69,010)
Employee benefits expense		(551,202)	(1,060,871)
Depreciation and amortisation expense		(70,164)	(78,725)
Finance costs		(116,833)	(103,927)
Impairment losses	3	(1,535,383)	(451,747)
Other expenses		(1,495,538)	(1,383,459)
Loss before income tax	3	(3,693,229)	(2,978,698)
Income tax expense	4	-	-
Loss from continuing operations		(3,693,229)	(2,978,698)
Discontinued operations			
Loss for the year from discontinued operations after tax	5	(1,163,083)	(189,484)
Loss for the year	3	(4,856,312)	(3,168,182)
Loss attributable to:			
Members of the parent entity		(4,856,312)	(3,168,182)
		(4,856,312)	(3,168,182)
Earnings per share			
From continuing and discontinued operations			
Basic earnings per share (cents)	8	(0.01)	(0.02)
Diluted earnings per share (cents)	8	(0.01)	(0.02)
From continuing operations:			
Basic earnings per share (cents)	8	(0.01)	(0.02)
Diluted earnings per share (cents)	8	(0.01)	(0.02)
From discontinued operations:			
Basic earnings/(loss) per share (cents)	8	0.00	0.00

The accompanying notes form part of these financial statements.

EASTLAND MEDICAL SYSTEMS LTD ABN: 35 090 987 250
AND CONTROLLED ENTITIES
STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated Group 2010 $	2009 $
(Loss) for the year		(4,856,312)	(3,168,182)
Other comprehensive income:			
Exchange differences on translating foreign controlled entities		(4,218)	74,190
Other comprehensive income for the year, net of tax		(4,218)	74,190
Total comprehensive income for the year		(4,860,530)	(3,093,992)
Total comprehensive income attributable to:			
Members of the parent entity		(4,860,530)	(3,093,992)
		(4,860,530)	(3,093,992)

The accompanying notes form part of these financial statements.

EASTLAND MEDICAL SYSTEMS LTD ABN: 35 090 987 250
AND CONTROLLED ENTITIES
STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

	Note	Consolidated Group 2010 $	2009 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	9	859,023	2,899,329
Trade and other receivables	10	395,534	1,456,287
Other financial assets	12	-	361,824
Other assets	17	10,000	1,153
		1,264,557	4,718,593
Assets of disposal group classified as held for sale	5	1,528,358	3,290,208
TOTAL CURRENT ASSETS		2,792,915	8,008,801
NON-CURRENT ASSETS			
Trade and other receivables	10	16,480	16,480
Other financial assets	12	-	935,290
Property, plant and equipment	14	105,120	185,582
Investment property	15	-	397,612
Intangible assets	16	8,987,930	7,067,198
TOTAL NON-CURRENT ASSETS		9,109,530	8,602,162
TOTAL ASSETS		11,902,445	16,610,963
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	18	1,475,126	3,166,701
Borrowings	19	743,772	2,468,420
Short-term provisions	20	63,651	199,132
		2,282,549	5,834,253
Liabilities associated with the assets classified as held for sale	5	-	99,067
TOTAL CURRENT LIABILITIES		2,282,549	5,933,320
NON-CURRENT LIABILITIES			
Trade and other payables	18	-	27,963
Borrowings	19	1,269,169	1,807,480
Other long-term provisions	20	5,112	-
TOTAL NON-CURRENT LIABILITIES		1,274,281	1,835,443
TOTAL LIABILITIES		3,556,830	7,768,763
NET ASSETS		8,345,615	8,842,200
EQUITY			
Issued capital	21	31,486,166	27,793,066
Reserves	32	1,108,786	442,159
Retained earnings		(24,249,337)	(19,393,025)
TOTAL EQUITY		8,345,615	8,842,200

The accompanying notes form part of these financial statements.

EASTLAND MEDICAL SYSTEMS LTD ABN: 35 090 987 250
AND CONTROLLED ENTITIES
STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2010

	Note	Share Capital Ordinary	Retained Earnings	Share Redemption Reserve	Foreign Currency Translation Reserve	Option Reserve	Non-controlling interests	Total
Consolidated Group		$	$	$	$	$	$	$
Balance at 1 July 2008		26,376,681	(16,224,843)	5,310	(45,324)	183,334	214,530	10,509,688
Shares issued during the year		1,854,856	-	-	-	-	-	1,854,856
Transaction costs		(438,471)	-	-	-	-	-	(438,471)
Loss attributable to members of parent entity		-	(3,168,182)	-	-	-	-	(3,168,182)
Total other comprehensive income for the year		-	-	-	74,190	-	-	74,190
Transfers from share redemption reserve		-	-	(1,337)	-	-	-	(1,337)
Transfers to option reserve		-	-	-	-	225,986	-	225,986
Adjustments from translation of foreign controlled entities		-	-	-	-		(214,530)	(214,530)
Sub-total		27,793,066	(19,393,025)	3,973	28,866	409,320	-	8,842,200
Dividends paid or provided for		-	-	-	-	-	-	-
Balance at 30 June 2009		27,793,066	(19,393,025)	3,973	28,866	409,320	-	8,842,200
Balance at 1 July 2009		27,793,066	(19,393,025)	3,973	28,866	409,320	-	8,842,200
Loss attributable to members of parent entity		-	(4,856,312)	-	-	-	-	(4,856,312)
Total other comprehensive income for the year		-	-	-	(4,218)	-	-	(4,218)
Shares issued during the year		4,543,944	-	-	-	-	-	4,543,944
Transaction costs		(850,844)	-	-	-	670,844	-	(180,000)
Sub-total		31,486,166	(24,249,337)	3,973	24,648	1,080,164	-	8,345,615
Dividends paid or provided for		-	-	-	-	-	-	-
Balance at 30 June 2010		31,486,166	(24,249,337)	3,973	24,648	1,080,164	-	8,345,615

The accompanying notes form part of these financial statements.

EASTLAND MEDICAL SYSTEMS LTD ABN: 35 090 987 250
AND CONTROLLED ENTITIES
STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2010

	Note	Consolidated Group 2010 $	2009 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		8,058,200	13,211,315
Interest received		21,055	122,092
Payments to suppliers and employees		(10,270,395)	(14,542,980)
Finance costs		(168,462)	(467,937)
Net cash provided by/(used in) operating activities	25	(2,359,602)	(1,677,510)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		55,182	-
Proceeds from sale of medical devices and consumables distribution		1,611,649	-
Proceeds from disposal of intellectual property		-	60,823
Purchase of property, plant and equipment		(30,135)	(34,247)
Purchase of available-for-sale investments		-	(1,894)
Development costs		(1,857,475)	(69,772)
Payment for subsidiary, net of cash acquired		-	(136,715)
Loans advanced		(7,994)	-
Net cash provided by/(used in) investing activities		(228,773)	(181,805)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		3,195,781	2,912,646
Proceeds from borrowings		-	1,724,447
Repayment of borrowings		(2,296,820)	(211,664)
Payments for Capital Raising Costs		(306,339)	(83,874)
Repayment of finance leases		(69,281)	-
Net cash provided by/(used in) financing activities		523,341	4,341,555
Net increase(decrease) in cash held		(2,065,034)	2,482,240
Cash and cash equivalents at beginning of financial year	9	2,899,329	417,089
Cash and cash equivalents at end of financial year	9	834,295	2,899,329

The accompanying notes form part of these financial statements.

This financial report includes the consolidated financial statements and notes of Eastland Medical Systems Ltd and controlled entities ('Consolidated Group' or 'Group').

Note 1 Summary of Significant Accounting Policies

Basis of Preparation

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards. Material accounting policies adopted in the preparation of this financial report are presented below and have been consistently applied unless otherwise stated.

The financial report has been prepared on an accruals basis and is based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

(a) Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by Eastland Medical Systems Ltd at the end of the reporting period. A controlled entity is any entity over which Eastland Medical Systems Ltd has the power to govern the financial and operating policies so as to obtain benefits from the entity's activities. Control will generally exist when the parent owns, directly or indirectly through subsidiaries, more than half of the voting power of an entity. In assessing the power to govern, the existence and effect of holdings of actual and potential voting rights are also considered.

Where controlled entities have entered or left the group during the year, the financial performance of those entities are included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 13 to the financial statements.
In preparing the consolidated financial statements, all inter-group balances and transactions between entities in the consolidated group have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with those adopted by the parent entity.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are shown separately within the Equity section of the consolidated Statement of Financial Position and income statement. The non-controlling interests in the net assets comprise their interests at the date of the original business combination and their share of changes in equity since that date.

Business Combinations

Business combinations occur where an acquirer obtains control over one or more businesses and results in the consolidation of its assets and liabilities.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The acquisition method requires that for each business combination one of the combining entities must be identified as the acquirer (i.e. parent entity). The business combination will be accounted for as at the acquisition date, which is the date that control over the acquiree is obtained by the parent entity. At this date, the parent shall recognise, in the consolidated accounts, and subject to certain limited exceptions, the fair value of the identifiable assets acquired and liabilities assumed. In addition, contingent liabilities of the acquiree will be recognised where a present obligation has been incurred and its fair value can be reliably measured.

The acquisition may result in the recognition of goodwill (refer note 1(j)) or a gain from a bargain purchase. The method adopted for the measurement of goodwill will impact on the measurement of any non-controlling interest to be recognised in the acquiree where less than 100% ownership interest is held in the acquiree.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements. Consideration may comprise the sum of the assets transferred by the acquirer, liabilities incurred by the acquirer to the former owners of the acquiree and the equity interests issued by the acquirer.

Fair value uplifts in the value of pre-existing equity holdings are taken to the income statement. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

Included in the measurement of consideration transferred is any asset or liability resulting from a contingent consideration arrangement. Any obligation incurred relating to contingent consideration is classified as either a financial liability or equity instrument, depending upon the nature of the arrangement. Rights to refunds of consideration previously paid are recognised as a receivable. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or a liability is remeasured each reporting period to fair value through the income statement unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to the business combination are expensed to the income statement.

(b) Income Tax

The income tax expense (revenue) for the year comprises current income tax expense (income) and deferred tax expense (income).

Current income tax expense charged to the profit or loss is the tax payable on taxable income calculated using applicable income tax rates enacted, or substantially enacted, as at the end of the reporting period. Current tax liabilities (assets) are therefore measured at the amounts expected to be paid to (recovered from) the relevant taxation authority.

Deferred income tax expense reflects movements in deferred tax asset and deferred tax liability balances during the year as well unused tax losses.

Current and deferred income tax expense (income) is charged or credited directly to equity instead of the profit or loss when the tax relates to items that are credited or charged directly to equity.

Deferred tax assets and liabilities are ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets also result where amounts have been fully expensed but future tax deductions are available. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates enacted or substantively enacted at reporting date. Their measurement also reflects the manner in which management expects to recover or settle the carrying amount of the related asset or liability.

Deferred tax assets relating to temporary differences and unused tax losses are recognised only to the extent that it is probable that future taxable profit will be available against which the benefits of the deferred tax asset can be utilised.

Where temporary differences exist in relation to investments in subsidiaries, branches, associates and joint ventures, deferred tax assets and liabilities are not recognised where the timing of the reversal of the temporary difference can be controlled and it is not probable that the reversal will occur in the foreseeable future.

Current tax assets and liabilities are offset where a legally enforceable right of set-off exists and it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur. Deferred tax assets and liabilities are offset where a legally enforceable right of set-off exists, the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where it is intended that net settlement or simultaneous realisation and settlement of the respective asset and liability will occur in future periods in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Tax Consolidation

Eastland Medical Systems Ltd and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under tax consolidation legislation. Each entity in the group recognises its own current and deferred tax assets and liabilities. Such taxes are measured using the ‘stand-alone taxpayer’ approach to allocation. Current tax liabilities (assets) and deferred tax assets arising from unused tax losses and tax credits in the subsidiaries are immediately transferred to the head entity.

The Group notified the Australian Tax Office that it had formed an income tax consolidated group to apply from 1 July 2009. The tax consolidated group has entered a tax funding arrangement whereby each company in the group contributes to the income tax payable by the group in proportion to their contribution to the group’s taxable income. Differences between the amounts of net tax assets and liabilities derecognised and the net amounts recognised pursuant to the funding arrangement are recognised as either a contribution by, or distribution to the head entity.

(c) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of manufactured products includes direct materials, direct labour and an appropriate portion of variable and fixed overheads. Overheads are applied on the basis of normal operating capacity. Costs are assigned on the basis of weighted average costs. Refer to Note 1(ab) for further details on changes in accounting policy.

(d) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value as indicated less, where applicable, any accumulated depreciation and impairment losses.

Plant and equipment

Plant and equipment are measured on the cost basis.

The cost of fixed assets constructed within the consolidated Group includes the cost of materials, direct labour, borrowing costs and an appropriate proportion of fixed and variable overheads. Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation

The depreciable amount of all fixed assets including buildings and capitalised lease assets, but excluding freehold land, is depreciated on a straight-line basis over the asset's useful life to the consolidated Group commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Leasehold improvements	10%
Plant and equipment	20%
Leased plant and equipment	20%

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset’s carrying amount is written down immediately to its recoverable amount if the asset’s carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When revalued assets are sold, amounts included in the revaluation surplus relating to that asset are transferred to retained earnings.

(e) Investment Property

Investment property, comprising freehold office complexes, is held to generate long-term rental yields. All tenant leases are on an arm's length basis. Investment property is carried at fair value, determined annually by independent valuers. Changes to fair value are recorded in the income statement as other income.

(f) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that is transferred to entities in the consolidated Group, are classified as finance leases. Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term. Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred. Lease incentives under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

(g) Financial Instruments

Initial Recognition and Measurement

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted). Financial instruments are initially measured at fair value plus transactions costs except where the instrument is classified 'at fair value through profit or loss' in which case transaction costs are expensed to profit or loss immediately.

Classification and Subsequent Measurement

Finance instruments are subsequently measured at either fair value, amortised cost using the effective interest rate method or cost. Fair value represents the amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties. Where available, quoted prices in an active market are used to determine fair value. In other circumstances, valuation techniques are adopted.

Amortised cost is calculated as:

(a) the amount at which the financial asset or financial liability is measured at initial recognition

(b) less principal repayments

(c) plus or minus the cumulative amortisation of the difference, if any, between the amount initially recognised and the maturity amount calculated using the effective interest method; and

(d) less any reduction for impairment.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that exactly discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) through the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying value with a consequential recognition of an income or expense in profit or loss.

The Group does not designate any interests in subsidiaries, associates or joint venture entities as being subject to the requirements of accounting standards specifically applicable to financial instruments.

(i) Financial assets at fair value through profit or loss

Financial assets are classified at 'fair value through profit or loss' when they are either held for trading for the purpose of short term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost.

Loans and receivables are included in current assets, except for those which are not expected to mature within 12 months after the end of the reporting period. (All other loans and receivables are classified as non-current assets.)

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either not suitable to be classified into other categories of financial assets due to their nature, or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

Available-for-sale financial assets are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. (All other financial assets are classified as current assets.)

(iv) Financial Liabilities

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortised cost.

Fair value

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Impairment

At the end of each reporting period, the Group assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen. Impairment losses are recognised in the income statement.

Derecognition

Financial assets are derecognised where the contractual rights to receipt of cash flows expires or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised where the related obligations are either discharged, cancelled or expire. The difference between the carrying value of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in

(h) Impairment of Non Financial Assets

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information including dividends received from subsidiaries, associates or jointly controlled entities deemed to be out of pre-acquisition profits. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

(i) Investments in Associates

Associate companies are companies in which the Group has significant influence through holding, directly or indirectly, 20% or more of the voting power of the company. Investments in associates are accounted for in the financial statements by applying the equity method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post acquisition change in the Group's share of net assets of the associate company. In addition the Group's share of the profit or loss of the associate company is included in the Group's profit or loss.

The carrying amount of the investment includes goodwill relating to the associate. Any excess of the Group's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the investor's share of the associate's profit or loss in the period in which the investment is acquired.

Profits and losses resulting from transactions between the Group and the associate are eliminated to the extent of the relation to the Group's investment in the associate.

When the reporting dates of the Group and the associate are different, the associate prepares, for the Group's use, financial statements as of the same date as the financial statements of the Group with adjustments being made for the effects of significant transactions or events that occur between that date and the date of the investor's financial statements.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group discontinues recognising its share of further losses unless it has incurred legal or constructive obligations or made payments on behalf of the associate. When the associate subsequently makes profits, the Group will resume the recognition of its share of those profits once its share of the profits equals the share of the losses not recognised.

Details of the Group's investment in associates are shown at Note 11.

(j) Intangibles

Goodwill

Goodwill is calculated as the excess of the sum of:
(i) the consideration transferred;
(ii) any non-controlling interest; and
(iii) the acquisition date fair value of any previously held equity interest, over the acquisition date fair value of net identifiable assets acquired.

The value of goodwill recognised on acquisition of each subsidiary in which the Group holds a less than 100% interest will depend on the method adopted in measuring the aforementioned non-controlling interest. The Group can elect to measure the non-controlling interest in the acquiree either at fair value ('full goodwill method') or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets ('proportionate interest method'). The group determines which method to adopt for each acquisition.

Under the 'full goodwill' method, the fair values of the non-controlling interests are determined using valuation techniques which make the maximum use of market information where available. Under this method, goodwill attributable to the non-controlling interests is recognised in the consolidated financial statements.

Fair value uplifts in the value of pre-existing equity holdings are taken to the income statement. Where the investment had been equity accounted, any credit reserve balances are recycled to the income statement.

In determining the net identifiable assets acquired, contingent liabilities of the acquiree are included to the extent to which they represent a present obligation and can be measured reliably.

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is tested for impairment annually and is allocated to the Group's cash generating units or groups of cash generating units, which represent the lowest level at which goodwill is monitored but where such level is not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity sold.

Changes in the ownership interests in a subsidiary are accounted for as equity transactions and do not affect the carrying values of goodwill.

Patents and trademarks

Patents and trademarks are recognised at cost of acquisition. Patents and trademarks have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Patents and trademarks are amortised on a systematic basis matched to the future economic benefits over their useful life, when available for use.

Research and development

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

(k) Foreign Currency Transactions and Balances

Functional and presentation currency

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

Transaction and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the year-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items are recognised in the income statement, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

Group companies

The financial results and position of foreign operations whose functional currency is different from the Group's presentation currency are translated as follows:

— assets and liabilities are translated at year-end exchange rates prevailing at that reporting date;
— income and expenses are translated at average exchange rates for the period; and
— retained earnings are translated at the exchange rates prevailing at the date of the transaction.

Exchange differences arising on translation of foreign operations are transferred directly to the Group's foreign currency translation reserve in the statement of financial position. These differences are recognised in the income statement in the period in which the operation is disposed.

(l) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled.

Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits. In determining the liability, consideration is given to employee wage increases and the probability that the employee may satisfy vesting requirements. Those cashflows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cashflows.

Equity-settled compensation

The Group operates equity-settled share-based payment employee share and option schemes. The fair value of the equity to which employees become entitled is measured at grant date and recognised as an expense over the vesting period, with a corresponding increase to an equity account. The fair value of shares is ascertained as the market bid price. The fair value of options is ascertained using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting date such that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

(m) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

(n) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of 3 months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the statement of financial position.

(o) Revenue and Other Income

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts and volume rebates allowed. Any consideration deferred is treated as the provision of finance and is discounted at a rate of interest that is generally accepted in the market for similar arrangements. The difference between the amount initially recognised and the amount ultimately received is interest revenue.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and the cessation of all involvement in those goods.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets is the rate inherent in the instrument.

All dividends received shall be recognised as revenue when the right to receive the dividend has been established.

Revenue recognition relating to the provision of services is determined with reference to the stage of completion of the transaction at the end of the reporting period and where outcome of the contract can be estimated reliably. Stage of completion is determined with reference to the services performed to date as a percentage of total anticipated services to be performed. Where the outcome cannot be estimated reliably, revenue is recognised only to the extent that related expenditure is recoverable.

Investment property revenue is recognised on a straight-line basis over the period of lease term so as to reflect a constant periodic rate of return on the net investment.

All revenue is stated net of the amount of goods and services tax (GST).

(p) Trade and Other Payables

Trade and other payables represent the liability outstanding at the end of the reporting period for goods and services received by the Group during the reporting period which remains unpaid. The balance is recognised as a current liability with the amount being normally paid within 30 days of recognition of the liability.

(q) Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in income in the period in which they are incurred.

(r) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense.

Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cashflows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(s) Going Concern

The consolidated entity has reported a net loss of $4,856,312 and a cash outflow from operating activities of $2,359,602 for the year ended 30 June 2010. The current liabilities exceed currents assets (excluding assets held for sale) of $1,017,992

Due to the cash requirements and the under performance of various operating businesses within the Group, the Company has sold one of these businesses and plans to dispose of another business to enable the Company to recapitalise and focus on its core project, being ArTiMist™. There has been significant interest in the operating business which is available for sale and we are optimistic that this sale will be concluded at a satisfactory price.

In addition, after the Balance Sheet date, the Company issued 56,925,006 fully paid ordinary shares to raise $2,277,000 before expenses, and also the Company has entered into a contract to sell its investment property to generate future cash flows.

The Directors are confident that the consolidated entity will be able to continue its operations as a going concern. This is supported by the proceeds from the sale of the Portland property, proceeds from the intended sale of Westcoast Surgical and Medical Supplies and the Directors will continue to monitor and control operating expenditure.

(t) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year. When the Group applies an accounting policy retrospectively, makes a retrospective restatement or reclassifies items in its financial statements, a statement of financial position as at the beginning of the earliest comparative period will be disclosed.

(u) Critical Accounting Estimates and Judgments

The directors evaluate estimates and judgments incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group.

Key Estimates

Impairment

The Group assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Group that may be indicative of impairment triggers. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

The following impairment on continuing operations have been recognised during the period:

	Note	Consolidated
Impairment in Investment Property	(i)	96,912
Impairment to Receivables in Controlled and Associated Entities	(ii)	141,357
Impairment in Investment	(iii)	1,297,114
		1,535,383
The following impairment on discontinued operations have been recognised during the period:		
Impairment of goodwill	(iv)	552,041

(i) Impairment of $96,912 has been recognised in respect of the value of the property held within Portland Surgical Products Pty Ltd for the year ended 30 June 2010. The Company has received an offer to sell the property for $310,000 less fees.

(ii) Impairment of loan receivable from Ampack Medical, an associated company, for $107,137 plus other receivables for $34,220

(iii) Impairment of $1,297,114 being the investment in HC Berlin Pharma AG. HC Berlin Pharma filed an application for insolvency in Germany in June 2010 and the directors have decided to write off the balance of its investment and amounts receivable.

(iv) Impairment of goodwill in discontinued operations of $552,041 as disclosed in Note 5.

No impairment has been recognised in respect of development costs and trademarks and licences for the year ended 30 June 2010 (Refer Note 16)

(v) Adoption of new and revised accounting standards

During the current year the Group has adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory.

The adoption of these standards has impacted the recognition, measurement and disclosure of certain transactions. The following is an explanation of the impact the adoption of these standards and interpretations has had on the financial statements of Eastland Medical Systems Ltd.

AASB 8 Operating Segments

In February 2007 the Australian Accounting Standards Board issued AASB 8 which replaced AASB 114: Segment Reporting. As a result, some of the required operating segment disclosures have changed with the addition of a possible impact on the impairment testing of goodwill allocated to the cash generating units (CGUs) of the entity. Below is an overview of the key changes and the impact on the Group's financial statements.

Measurement impact

Identification and measurement of segments – AASB 8 requires the 'management approach' to the identification measurement and disclosure of operating segments. The 'management approach' requires that operating segments be identified on the basis of internal reports that are regularly reviewed by the entity's chief operating decision maker, for the purpose of allocating resources and assessing performance. This could also include the identification of operating segments which sell primarily or exclusively to other internal operating segments. Under AASB 114 segments were identified by business and geographical areas, and only segments deriving revenue from external sources were considered.

The adoption of the 'management approach' to segment reporting has resulted in the identification of reportable segments largely consistent with the prior

Under AASB 8, operating segments are determined based on management reports, using the 'management approach', whereas under AASB 114 financial results of such segments were recognised and measured in accordance with Australian Accounting Standards. This has resulted in changes to the presentation of segment results, with inter-segment sales and expenses such as depreciation and impairment now being reported for each segment rather than in aggregate for total group operations, as this is how they are reviewed by the chief operating decision maker.

Impairment Testing of the Segments Goodwill

AASB 136: Impairment of Assets, para 80 requires that goodwill acquired in a business combination shall be allocated to each of the acquirer's CGUs, or group of CGUs that are expected to benefit from the synergies of the combination. Each cash generating unit (CGU) which the goodwill is allocated to must represent the lowest level within the entity at which goodwill is monitored, however it cannot be larger than an operating segment. Therefore, due to the changes in the identification of segments, there is a risk that goodwill previously allocated to a CGU which was part of a larger segment could now be allocated across multiple segments if a segment had to be split as a result of changes to AASB 8.

Management have considered the requirements of AASB 136 and determined implementation of AASB 8 has not impacted the CGU's of each operating segment.

Disclosure impact

AASB 8 requires a number of additional quantitative and qualitative disclosures, not previously required under AASB 114, where such information is utilised by the chief operating decision maker. This information is now disclosed as part of the financial statements.

AASB 101 Presentation of Financial Statements

In September 2007 the Australian Accounting Standards Board revised AASB 101, and as a result there have been changes to the presentation and disclosure of certain information within the financial statements. Below is an overview of the key changes and the impact on the Group's financial statements.

Disclosure impact

Terminology changes – The revised version of AASB 101 contains a number of terminology changes, including the amendment of the names of the primary financial statements.

Reporting changes in equity – The revised AASB 101 requires all changes in equity arising from transactions with owners in their capacity as owners to be presented separately from non-owner changes in equity. Owner changes in equity are to be presented in the statement of changes in equity, with non-owner changes in equity presented in the income statement. The previous version of AASB 101 required that owner changes in equity and other comprehensive income be presented in the statement of changes in equity.

Income statement – The revised AASB 101 requires all income and expenses to be presented in either one statement, the income statement, or two statements, a separate income statement and a income statement. The previous version of AASB 101 required only the presentation of a single income statement.

The group's financial statements now contain an income statement.

Other comprehensive income – The revised version of AASB 101 introduces the concept of "other comprehensive income" which comprises of income and expense that are not recognised in profit or loss as required by other Australian Accounting Standards. Items of other comprehensive income are to be disclosed in the income statement. Entities are required to disclose the income tax relating to each component of other comprehensive income. The previous version of AASB 101 did not contain an equivalent concept.

(w) New Accounting Standards for application in future periods

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Group has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Group follows:

● *AASB 9: Financial Instruments and AASB 2009-11: Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12] (applicable for annual reporting periods commencing on or after 1 January 2013)*

These standards are applicable retrospectively and amend the classification and measurement of financial assets. The Group has not yet determined any potential impact on the financial statements.

The changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value
- simplifying the requirements for embedded derivatives
- removing the tainting rules associated with held-to-maturity assets
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost

— allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument

— financial assets will need to be reclassified where there is a change in an entity's business model as they are initially classified based on
(a) the objective of the entity's business model for managing the financial assets; and
(b) the characteristics of the contractual cash flows

● *AASB 124: Related Party Disclosures (applicable for annual reporting periods commencing on or after 1 January 2011)*

This standard removes the requirement for government related entities to disclose details of all transaction with the government and other government related entities and clarifies the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the Group.

● *AASB 2009-8 "Amendments to Australian Accounting Standards – Group Cash-settled Share-based Payment Transactions [AASB 2]" (applicable for annual reporting periods commencing on or after 1 January 2010)*

These amendments clarify the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when the entity has no obligation to settle the share-based payment transaction. The amendments incorporate the requirements previously included in Interpretation 8 and Interpretation 11 and as a consequence these two Interpretations are superseded by the amendments. These amendments are not expected to impact the Group.

● *AASB 2009-10: Amendments to Australian Accounting Standards – Classification of Rights Issues [AASB 132] (applicable for annual reporting periods commencing on or after 1 February 2010)*

The amendments clarify that rights, options or warrants to acquire a fixed number of an entity's own equity instruments for a fixed amount in any currency are equity instruments if the entity offers the rights, options or warrants pro-rata to all existing owners of the same class of its own non-derivative equity instruments. The amendments are not expected to impact the Group.

● *AASB 2009-12: Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052] (applicable for annual reporting periods commencing on or after 1 January 2011)*

This standard makes a number of editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB. The standard also amends AASB 8 to require entities to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. The amendments are not expected to impact the Group.

● *AASB 2009-13: Amendments to Australian Accounting Standards arising from Interpretation 19 [AASB 1] (applicable for annual reporting periods commencing on or after 1 July 2010)*

This standard makes amendments to AASB 1 arising from the issue of Interpretation 19. The amendments allow a first-time adopter to apply the transitional provisions in Interpretation 19. This Interpretation is not expected to impact the Group.

● *AASB Interpretation 19 "Extinguishing Financial Liabilities with Equity Instruments" (applicable for annual reporting periods commencing from 1 July 2010).*

This Interpretation deals with how a debtor would account for the extinguishment of a liability through the issue of equity instruments. The Interpretation states that the issue of equity should be treated as the consideration paid to extinguish the liability, and the equity instruments issued should be recognised at their fair value unless fair value cannot be measured reliably in which case they shall be measured at the fair value of the liability extinguished. The Interpretation deals with situations where either partial or full settlement of the liability has occurred. This Interpretation is not expected to impact the Group.

The Group does not anticipate early adoption of any of the above Australian Accounting Standards.

Note 2 Revenue and Other Income

	Note	Consolidated Group 2010	2009
Revenue from Continuing Operations		$	$
Sales Revenue			
— sale of goods		14,215	19,353
		14,215	19,353
Other Revenue			
— interest received	2(a)	21,055	7,125
— rental revenue		9,667	10,500
		30,722	17,625
Total Revenue		44,937	36,978
Other Income			
— gain on disposal of property, plant and equipment		20,000	-
— gains on disposal of non-current investments		-	125,000
— other income		10,954	7,063
Total Other Income		30,954	132,063

(a)	Interest revenue from:		
	— other persons	21,055	7,125
	Total interest revenue on financial assets not at fair value through profit or loss	21,055	7,125

Note 3 Loss for the Year

		Note	Consolidated Group 2010 $	2009 $
(a)	Expenses			
	Cost of sales		-	69,010
	Interest expense on financial liabilities not at fair value through profit or loss:			
	— Other persons		116,833	103,927
	Total interest expense		116,833	103,927
	Impairment of financial assets	12	1,297,114	-
	Impairment of goodwill		-	69,060
	Impairment of investment property	15	96,912	-
	Impairment to receivables in controlled and associated	10	141,357	382,687
			1,535,383	451,747
	Bad and doubtful debts:			
	— trade receivables		-	45,752
	— other related parties		-	72,967
	Total bad and doubtful debts		-	118,719
	Rental expense on operating leases			
	— minimum lease payments		28,970	493,006
	Loss on disposal of property, plant and equipment		-	239,177
	Legal and Professional fees		901,202	-
	Write-off of obsolete stock		-	238,062
(b)	Significant Revenue and Expenses			
	The following significant revenue and expense items are relevant in explaining the financial performance:			
	Consideration on disposal of medical devices and consumables division - Medical Industries Australia Pty Ltd	5	1,611,649	-
	Carrying amount of net assets sold		(1,439,756)	-
	Net gain on disposal of Medical Industries Australia Pty Ltd	5	171,893	-

Note 4 Income Tax Expense

		Note	Consolidated Group 2010 $	2009 $
(a)	The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax as follows:			
	Prima facie tax payable on profit from ordinary activities before income tax at 30% (2009: 30%)			
	— consolidated group		(1,456,894)	(950,455)
	Add:			
	Tax effect of:			
	— other non-allowable items		(4,197)	162,200
			(1,461,091)	(788,255)
	Less:			
	Tax effect of:			
	— temporary differences and tax losses not brught to account		1,461,091	788,255
	Income tax attributable to entity		-	-

(b) Tax effects relating to each component of other comprehensive income

Consolidated Group	2010 Before-tax amount $	2010 Tax (expense) benefit $	2010 Net-of-tax amount $	2009 Before-tax amount $	2009 Tax (expense) benefit $	2009 Net-of-tax amount $
Exchange diff. on translating foreign controlled entities	(4,218)	-	(4,218)	74,190	-	74,190
	(4,218)	-	(4,218)	74,190	-	74,190

		Consolidated Group 2010 $	2009 $
(c)	**Unrecognised Deferred Tax Balances of Australian income tax consolidated group:**		
	Unrecognised deferred tax asset - revenue losses	4,540,578	3,797,145
	Unrecognised deferred tax asset - capital losses	1,316,921	-
	Unrecognised deferred tax asset - other	310,943	2,344,909
	Unrecognised deferred tax equity	-	-
	Unrecognised deferred tax liabilities	(395,660)	(466,670)
		5,772,782	5,675,384

Note 5 Discontinued Operations

	Note	Consolidated Group 2010 $	Consolidated Group 2009 $
Assets of disposal group classified as held for sale			
Inventory	(i)	674,335	1,794,024
Capital assets	(i)	53,323	324,201
Goodwill	(i)	500,000	1,171,983
		1,227,658	3,290,208
Land & Buildings	(ii)	300,700	-
		1,528,358	3,290,208
Liabilities associated with the assets clarified as held for sale			
Lease liabilities	(i)	-	99,067

(i) In the previous year, the consolidated group announced its decision to dispose of its medical devices and consumables distribution division, thereby discontinuing its operations in this business segment.

Medical Industries Australia Pty Ltd was sold on 29 January 2010, however Eastland Medical (WA) Pty Ltd trading as Westcoast Surgical and Medical Supplies has not been sold at balance sheet date.

The Consolidated Group maintains its intention to divest of this entity.

(ii) The Consolidated Group has, after the balance sheet date, entered into an unconditional contract of sale for its investment property with a settlement date in November 2010.

Financial information relating to the discontinued operation to the date of disposal is set out below:

The financial performance of the discontinued operation to the date of sale which is included in profit/(loss) from discontinued operations per the income statement is as follows:

	2010	2009
Revenue	6,995,407	12,228,519
Expenses	(7,778,342)	(12,418,003)
Impairment - goodwill	(552,041)	-
Loss before income tax	(1,334,976)	(189,484)
Income tax expense	-	-
Loss attributable to members of the parent entity	(1,334,976)	(189,484)
Profit on sale before income tax	171,893	-
Income tax expense	-	-
Profit on sale after income tax	171,893	-
Total (loss) after tax attributable to the discontinued operations	(1,163,083)	(189,484)

The net cash flows of the discontinuing division which have been incorporated into the statement of cash flows are as follows:

	2010	2009
Net cash inflow/(outflow) from operating activities	(50,780)	233,513
Net cash inflow/(outflow) from investing activities	1,181,576	10,983
Net cash inflow/(outflow) from financing activities	(1,189,702)	(160,000)
Net cash increase in cash generated by the discontinuing division	(58,906)	84,496

Gain on disposal of the division included in gain from discontinued operations per the income statement.

Note 6 Interests of Key Management Personnel (KMP)

Refer to the Remuneration Report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Group's key management personnel for the year ended 30 June 2010.

The totals of remuneration paid to KMP of the Company and the Group during the year are as follows:

	Consolidated Group 2010 $	Consolidated Group 2009 $
Short-term employee benefits	846,170	1,036,808
Post-employment benefits	33,935	77,303
Other long term benefits	5,112	-
Termination benefits	34,615	-
Share-based payments	240,000	100,000
	1,159,832	1,214,111

KMP Options and Rights Holdings

The number of options over ordinary shares held during the financial year by each KMP of the Group is as follows:

30 June 2010	Balance at beginning of year	Granted as remuneration during the year	Exercised during the year	Other changes during the year	Balance at end of year	Vested during the year	Vested and exercisable	Vested and unexercisable
Mr Peter Jooste QC	50,000	-	-	-	50,000	-	-	-
Mr Dermot Patterson	78,000	-	-	-	78,000	-	-	-
Mr Michael Stewart	-	-	-	240,000	240,000	-	-	-
Mr Peter Tiede	36,001	-	-	-	36,001	-	-	-
Mr Trevor Strahan	3,116,695	-	-	(3,116,695)	-	-	-	-
Mr Craig Inglis	-	-	-	-	-	-	-	-
	3,280,696	-	-	(2,876,695)	404,001	-	-	-

30 June 2009	Balance at beginning of year	Granted as remuneration during the year	Exercised during the year	Other changes during the year	Balance at end of year	Vested during the year	Vested and exercisable	Vested and unexercisable
Mr Peter Jooste QC	-	-	-	50,000	50,000	-	-	-
Mr Dermot Patterson	-	-	-	78,000	78,000	-	-	-
Mr Peter Tiede	-	-	-	36,001	36,001	-	-	-
Mr Trevor Strahan	3,000,000	-	-	116,695	3,116,695	1,000,000	1,000,000	2,000,000
Mr Craig Inglis	500,000	-	-	(500,000)	-	-	-	-
	3,500,000	-	-	(219,304)	3,280,696	1,000,000	1,000,000	2,000,000

KMP Shareholdings

The number of ordinary shares in Eastland Medical Systems Ltd held by each KMP of the Group during the financial year is as follows:

30 June 2010	Balance at beginning of year	Granted as remuneration during the year	Issued on exercise of options during the year	Other changes during the year	Balance at end of year
Mr Peter Jooste QC	2,500,000	-	-	-	2,500,000
Mr Dermot Patterson	1,000,000	-	-	-	1,000,000
Mr Michael Stewart	6,666,667	-	-	-	6,666,667
Mr Calvin Ross	-	-	-	1,500,000	1,500,000
Mr Peter Tiede	413,596	-	-	-	413,596
Mr Trevor Strahan	740,675	-	-	768,290	1,508,965
Mr Angus Taylor	-	-	-	-	-
Mr Craig Inglis	213,636	-	-	(203,636)	10,000
Mr Jesper Sentow	-	-	-	-	-
Ms Nicolette Mullin	-	-	-	-	-
	38,262,307	-	-	2,064,654	40,326,961

30 June 2009	Balance at beginning of year	Granted as remuneration during the year	Issued on exercise of options during the year	Other changes during the year	Balance at end of year
Mr Peter Jooste QC	-	-	-	2,500,000	2,500,000
Mr Dermot Patterson	220,000	-	-	780,000	1,000,000
Mr Michael Stewart	-	-	-	6,666,667	6,666,667
Mr Calvin Ross	-	-	-	-	-
Mr Douglas Sims	26,733,127	-	-	(136,644)	26,596,483
Mr Peter Tiede	53,575	-	-	360,021	413,596
Mr Trevor Strahan	655,310	-	-	85,365	740,675
Mr Angus Taylor	-	-	-	-	-
Mr Craig Inglis	1,752,467	-	-	(1,538,831)	213,636
Mr Jesper Sentow	-	-	-	-	-
Ms Nicolette Mullin	-	-	-	-	-
	29,545,729	-	-	8,716,578	38,262,307

Other KMP Transactions

There have been no other transactions involving equity instruments other than those described in the tables above.

For details of other transactions with KMP, refer to Note 28: Related Party Transactions. For details of loans to KMP, refer to Note 10: Trade and Other Receivables.

Note 7 Auditors' Remuneration

	Consolidated Group 2010 $	2009 $
Remuneration of the auditor of the consolidated group for:		
— auditing or reviewing the financial report	96,300	122,156
— taxation services	12,200	14,589

Note 8 Earnings per Share

		Consolidated Group 2010 $	2009 $
(a)	Reconciliation of earnings to profit or loss		
	Profit	(4,856,312)	(3,168,182)
	Earnings used to calculate basic EPS	(4,856,312)	(3,168,182)
	Earnings used in the calculation of dilutive EPS	(4,856,312)	(3,168,182)
(b)	Reconciliation of earnings to profit or loss from continuing operations		
	Profit from continuing operations	(3,693,229)	(2,978,698)
	Earnings used to calculate basic EPS from continuing operations	(3,693,229)	(2,978,698)
	Earnings used in the calculation of dilutive EPS from continuing operations	(3,693,229)	(2,978,698)
(c)	Reconciliation of earnings to profit or loss from discontinuing operations		
	Profit from discontinuing operations	(1,163,083)	(189,484)
	Earnings used to calculated basic EPS from discontinuing operations	(1,163,083)	(189,484)
		No.	No.
(d)	Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	356,625,455	199,345,089
	Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	356,625,455	199,345,089

Options convertible to ordinary shares are not considered to be dilutive as their exercise will not result in diluted earnings per share

Note 9 Cash and Cash Equivalents

	Note	Consolidated Group 2010 $	2009 $
Cash at bank and in hand		859,023	2,796,701
Short-term bank deposits		-	102,628
	29	859,023	2,899,329

	Note	2010	2009
Reconciliation of cash			
Cash at the end of the financial year as shown in the statement of cash flows is reconciled to items in the statement of financial position as follows:			
Cash and cash equivalents		859,023	2,899,329
Bank overdrafts	19	(24,728)	(54,404)
		834,295	2,844,925

A floating charge over cash and cash equivalents has been provided for certain debt. Refer to Note 19 for further details.

Note 10 Trade and Other Receivables

	Note	Consolidated Group 2010 $	2009 $
CURRENT			
Trade receivables	10e	487,141	1,513,674
Provision for impairment	10b(i)	(91,607)	(57,387)
		395,534	1,456,287
— key management personnel	10a	-	-
Total current trade and other receivables		395,534	1,456,287
NON-CURRENT			
Amounts receivable from:			
— associated companies		432,437	325,300
— provision for impairment - associated companies	10d(ii)	(432,437)	(325,300)
— HC Berlin Pharma AG		16,480	16,480
Total non-current trade and other receivables		16,480	16,480

(a) **Key Management Personnel Loans**

	Balance at Beginning of Year $	Balance at End of Year $	Interest Charged $	Interest Not Charged $	Provision for Impairment $	Number of Individuals
Key Management Personnel						
2010	-	-	-	-	-	-
2009	30,000	30,000	-	-	-	1

The above loan to Douglas Sims (previous director) represented an unsecured loan to Fee-Zone Pty Ltd, a related entity associated with Douglas Sims. Mr Sims resigned from the Company on 9th June 2009. The loan remains unpaid at 30 June 2010. As Mr Sims is not a KMP in 2010, the loan has been included in trade receivables.

(b) **Provision For Impairment of Receivables**

Current trade and term receivables are non-interest bearing loans and generally on 30-day terms. Non-current trade and term receivables are assessed for recoverability based on the underlying terms of the contract. A provision for impairment is recognised when there is an objective evidence that an individual trade or term receivable is impaired. These amounts have been included in the other expenses item.

Movement in the provision for impairment of receivables is as follows:

	Consolidated Group	Opening Balance 01.07.08 $	Charge for the Year $	Amounts Written Off $	Closing Balance 30.06.09 $
(i)	Current trade receivables	279,535	57,387	(279,535)	57,387
(ii)	Non-current associated companies	938,020	325,300	(938,020)	325,300
		1,217,555	382,687	(1,217,555)	382,687

	Consolidated Group	Opening Balance 01.07.09 $	Charge for the Year $	Amounts Written Off $	Closing Balance 30.06.10 $
(i)	Current trade receivables	57,387	34,220	-	91,607
(ii)	Non-current associated companies	325,300	107,137	-	432,437
		382,687	141,357	-	524,044

(c) **Credit risk - Trade and Other Receivables**

The Group has no significant concentration of credit risk with respect to any single counter party or group of counter parties other than those receivables specifically provided for and mentioned within Note 10. The class of assets described as Trade and Other Receivables is considered to be the main source of credit risk related to the Group.

On a geographic basis, the Group has significant credit risk exposures in Australia . The Group's exposure to credit risk for receivables at reporting period in this region is as follows:

AUD	Consolidated Group 2010 $	2009 $
Australia	395,534	1,472,767
	395,534	1,472,767

The following table details the Group's trade and other receivables exposed to credit risk (prior to collateral and other credit enhancements) with ageing analysis and impairment provided for thereon. Amounts are considered as 'past due' when the debt has not been settled with the terms and conditions agreed between the Group and the customer or counter party to the transaction. Receivables that are past due are assessed for impairment by ascertaining solvency of the debtors and are provided for where there are specific circumstances indicating that the debt may not be fully repaid to the Group.

The balances of receivables that remain within initial trade terms (as detailed in the table) are considered to be of high credit quality.

Consolidated Group			Past due but not impaired (days overdue)				
2010	Gross Amount $	Past due and impaired $	<30 $	31-60 $	61-90 $	>90 $	Within initial trade terms $
Trade and term receivables	487,141	91,607	227,918	92,767	6,656	68,193	227,918
Other receivables	341,780	432,437	-	-	-	16,480	-
Total	828,921	524,044	227,918	92,767	6,656	84,673	227,918

Consolidated Group			Past due but not impaired (days overdue)				
2009	Gross Amount $	Past due and impaired $	<30 $	31-60 $	61-90 $	>90 $	Within initial trade terms $
Trade and term receivables	1,513,674	57,387	537,659	537,308	321,358	59,962	537,659
Other receivables	341,780	325,300	-	-	-	16,480	
Total	1,855,454	382,687	537,659	537,308	321,358	76,442	537,659

Neither the Group nor parent entity holds any financial assets with terms that have been renegotiated, but which would otherwise be past due or impaired.

	Note	Consolidated Group 2010 $	2009 $
(d) **Financial Assets classified as loans and receivables**			
Trade and other Receivables			
— Total Current		395,534	1,456,287
— Total Non-Current		16,480	16,480
Financial Assets	29	412,014	1,472,767

(e) **Collateral pledged**
A floating charge over trade receivables has been provided for certain debt. Refer to Note 19 for further details.

Note 11 Associated Companies

Interests are held in the following associated companies

Name	Principal Activities	Country of Incorporation	Shares	Ownership Interest 2010 %	2009 %	Carrying Amount of Investment 2010 $000	2009 $000
Unlisted:							
Ampack Medical Pty Ltd	Sterile Wrap Manufacture	Australia	Ordinary	0.00%	50.00%	-	-
Health In Form	Medical Consumables	South Africa	Ordinary	45.00%	45.00%	-	-
Eastland Medical Ltd	Medical Consumables	United Kingdom	Ordinary	35.00%	35.00%	-	-
						-	-

The Company sold its interest in Ampack Medical Pty Ltd for $20,000 (cash $15,000, shares in acquiring entity $5,000)

Note 12 Other Financial Assets

	Note	Consolidated Group 2010 $	2009 $
CURRENT			
Available-for-sale financial assets	12a	-	361,824
		-	361,824
NON CURRENT			
Available-for-sale financial assets	12a	-	935,290
		-	935,290
Total available-for-sale financial assets		-	1,297,114

The financial assets relate to HC Berlin Pharma AG. The company commenced insolvency proceedings in June 2010 and the amount has been fully impaired.

	Note	2010 $	2009 $
(a) **Available-for-sale financial assets comprise:**			
CURRENT			
Listed investments, at cost			
— shares in listed corporations		-	361,824
Total available-for-sale financial assets	29	-	361,824
NON CURRENT			
Listed Investments, at cost			
— shares in listed corporations		-	935,290
Total non-current available-for-sale financial assets	29	-	935,290

Note 13 Controlled Entities

(a) **Controlled Entities Consolidated**

	Country of Incorporation	Percentage Owned (%)* 2010	2009
Subsidiaries of Eastland Medical Systems Ltd:			
Portland Surgical Products Pty Ltd	Australia	100.00	100.00
Medical Industries Australia Pty Ltd	Australia	100.00	100.00
Eastland Medical (WA) Pty Ltd	Australia	100.00	100.00
Star Medical (Botswana) Ltd	Botswana	100.00	100.00
Eastland Medical Systems S.A. Pty Ltd	South Africa	100.00	100.00

* Percentage of voting power is in proportion to ownership

Note 14 Property, Plant and Equipment

	Consolidated Group 2010 $	2009 $
PLANT AND EQUIPMENT		
Plant and equipment:		
At cost	484,808	492,022
Accumulated depreciation	(379,688)	(318,698)
	105,120	173,324
Leasehold improvements		
At cost	-	13,882
Accumulated amortisation	-	(1,624)
Total Leasehold Improvements	-	12,258
Total plant and equipment	105,120	185,582
Total Property, Plant and Equipment	105,120	185,582

(a) **Movements in Carrying Amounts**

Movements in carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year.

Consolidated Group:	Leasehold Improvements $	Plant and Equipment $	Leased Plant and Equipment $	Total $
Balance at 1 July 2008	72,619	397,372	240,431	710,422
Additions	-	61,335	-	61,335
Disposals	-	-	(54,527)	(54,527)
Transfer to Non Current assets classified as held for sale	(60,361)	(209,046)	(185,904)	(455,311)
Depreciation expense	-	(76,337)	-	(76,337)
Balance at 30 June 2009	12,258	173,324	-	185,582
Additions	-	7,083	-	7,083
Disposals	(11,216)	(6,165)	-	(17,381)
Depreciation expense	(1,042)	(69,122)	-	(70,164)
Balance at 30 June 2010	-	105,120	-	105,120

Note 15 Investment Property

		Consolidated Group 2010 $	2009 $
Balance at beginning of year		397,612	-
Transfer from Disposal group			400,000
Transfer to Disposal group		(300,700)	-
Depreciation		-	(2,388)
Fair value adjustments	3a	(96,912)	-
Balance at end of year		-	397,612

The fair value model is applied to all investment property. The investment property has been transferred to the Disposal group as the Company received an unconditional contract of sale for $310,000 with a settlement in November 2010

Note 16 Intangible Assets

	Consolidated Group 2010 $	Consolidated Group 2009 $
Goodwill		
Cost	7,414,031	7,338,031
Accumulated impaired losses	(6,448,278)	(6,448,278)
Net carrying value	965,753	889,753
Trademarks and licences		
Cost	2,192,663	2,192,663
Net carrying value	2,192,663	2,192,663
Development costs		
Cost	5,829,514	3,984,782
Net carrying value	5,829,514	3,984,782
Total intangibles	8,987,930	7,067,198

Consolidated Group:

	Goodwill $	Trademarks & Licences $	Development Costs $
Year ended 30 June 2009			
Balance at the beginning of year	2,421,293	2,492,663	3,083,294
Additions	19,000	-	901,488
Disposals	-	(300,000)	-
Transfer to Disposal Group	(1,192,265)	-	-
Amortisation charge	(162,000)	-	-
Impairment losses	(196,275)	-	-
	889,753	2,192,663	3,984,782

	Goodwill $	Trademarks & Licences $	Development Costs $
Year ended 30 June 2010			
Balance at the beginning of year	889,753	2,192,663	3,984,782
Additions	76,000	-	1,844,732
Disposals	-	-	-
Amortisation charge	-	-	-
Impairment losses	-	-	-
Closing value at 30 June 2010	965,753	2,192,663	5,829,514

Intangible assets, other than goodwill, have finite useful lives. The current amortisation charges for intangible assets are included under depreciation and amortisation expense per the income statement. Goodwill has an infinite life.

Impairment Disclosures

Goodwill is allocated to cash-generating units which are based on the group's reporting segments

	Consolidated Group 2010 $	Consolidated Group 2009 $
Medical devices and consumables distribution segment (discontinuing operations)	-	-
Pharmaceutical development segment	965,753	889,753
Total	965,753	889,753

The intangible assets above relate to development of the Company's suite of pharmaceutical products. The Company intends to develop its products to either commercial status or trade sale status.

Note 17 Other Assets

	Note	Consolidated Group 2010 $	2009 $
CURRENT			
Prepayments		10,000	1,153
		10,000	1,153

Note 18 Trade and Other Payables

	Note	Consolidated Group 2010 $	2009 $
CURRENT			
Unsecured liabilities			
Trade payables		1,335,979	1,736,683
Sundry payables and accrued expenses		139,147	157,854
Amounts payable to:			
— Proceeds from Non-Renounceable Rights Issue - June		-	1,272,164
	18(a)	1,475,126	3,166,701
NON-CURRENT			
Unsecured liabilities			
Trade payables		-	27,963
		-	27,963
(a) Financial liabilities at amortised cost classified as trade and other payables			
Trade and other payables			
— Total Current		1,475,126	3,166,701
— Total Non-Current		-	27,963
Financial liabilities as trade and other payables	29	1,475,126	3,194,664

Note 19 Borrowings

	Note	Consolidated Group 2010 $	2009 $
CURRENT			
Unsecured liabilities			
Bank overdrafts		-	-
Lease liability	22	28,970	44,693
Convertible Notes		-	383,000
Government loans		25,074	-
		54,044	427,693
Secured liabilities			
Bank overdrafts	19a,c	24,728	54,404
Bank loans	19a,c	665,000	1,986,323
		689,728	2,040,727
Total current borrowings		743,772	2,468,420
NON-CURRENT			
Unsecured liabilities			
Lease liability	22	-	4,929
Government loans		85,669	-
		85,669	4,929
Secured liabilities			
Bank loans		-	152,184
Convertible Notes	19a,d	1,183,500	1,650,367
		1,183,500	1,802,551
Total non-current borrowings		1,269,169	1,807,480
Total borrowings	29	2,012,941	4,275,900

		Note	Consolidated Group 2010 $	2009 $
(a)	Total current and non-current secured liabilities:			
	Bank overdraft		24,728	54,404
	Bank loan		665,000	2,138,507
	Convertible Notes		1,183,500	1,650,367
			1,873,228	3,843,278
(b)	The carrying amounts of non-current assets pledged as security are:			
	Freehold land and buildings		-	397,612
	Floating charge over assets, including listed investments at market value		621,600	2,151,630
			621,600	2,549,242

(c) **Collateral provided**

(i) The bank debt is secured by a fixed and floating charge over all the assets and undertakings of Eastland Medical (WA) Pty Ltd with a guarantee and indemnity provided by Eastland Medical Systems Ltd. Covenants imposed by the bank as at 30 June 2010 require:

Interest cover not less than 2.5:1, Debt service ratio not less than 1.2:1, Debtors to be not less than $340,000 and Minimum EBITDA $300,000.

The company did not fulfill the minimum EBITDA amount as required by the Commercial Advance Facility of which the current balance is $665,000. The Company negotiated an extension of the facility in August 2010 until 31 December 2010. The amended covenants imposed by the bank require:

Interest cover ratio not less than 2.5:1 and Debtors to be greater than $340,000.

(ii) Convertible notes are secured by fixed and floating charges over the assets of the parent entity.
(iii) Lease liabilities are secured by the underlying leased assets.
(iv) Financial assets that have been pledged as part of the total collateral for the benefit of convertible note holders and bank debt are as follows:-

	Note	Consolidated Group 2010 $	2009 $
Cash and cash equivalents	9	859,023	2,899,329
Trade receivables	10	395,534	1,456,287
Total financial assets pledged		1,254,557	4,355,616

The collateral over cash and cash equivalents represents a floating charge. Listed investments cannot be disposed without the consent of banks.

(d) **Convertible Notes**

The redemption profile of convertible notes on issue is as follows:

Maturity Dates	Interest Rates (%)		
14/8/2009	14.0	-	203,000
31/8/2009	14.0	-	180,000
30/6/2012	6.0	1,183,500	1,650,367
		1,183,500	2,033,367

Note 20 Provisions

	Consolidated Group 2010 $	2009 $
CURRENT		
Short-term Employee Benefits		
Opening balance at 1 July 2009	199,132	208,511
Additional provisions	54,496	125,667
Amounts used	(189,977)	(135,046)
Balance at 30 June 2010	63,651	199,132
NON CURRENT		
Long-term Employee Benefits		
Opening balance at 1 July 2009	-	-
Additional provisions	5,112	-
Balance at 30 June 2010	5,112	-

Analysis of Total Provisions

Current	63,651	199,132
Non-current	5,112	-
	68,763	199,132

Provision for Long-term Employee Benefits

A provision has been recognised for employee entitlements relating to long service leave. In calculating the present value of future cash flows in respect of long service leave, the probability of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits has been included in Note 1 to this report.

Note 21 Issued Capital

	Consolidated Group	
	2010	2009
	$	$
Gross capital proceeds	32,775,482	28,231,537
Capital raising costs	(1,289,316)	(438,471)
374,507,678 (2009: 228,471,789) fully paid ordinary shares	31,486,166	27,793,066

(a) **Ordinary Shares**

	Consolidated Group	
	2010	2009
	No.	No.
At the beginning of the reporting period	228,471,789	191,977,021
Shares issued during the year		36,494,768
— Issued on 01/07/2009 - Pro-rata Non-Renounceable Rights Issue	42,372,712	
— Issued on 15/07/2009 - Shortfall placement (Patersons Securities) Rights Issue	43,679,850	
— Issued on 03/08/2009 - Shortfall placement (Cunninghams) Rights Issue	23,333,333	
— Issued on 04/09/2009 - Capital Raising / Placement	12,500,000	
— Issued on 17/09/2009 - D O'Sullivan - Settlement for Star Medical shares	1,266,667	
— Issued on 15/10/2009 - R M Corporate Finance - Corporate Advisory Mandate	4,000,000	
— Issued on 14/01/2010 - Conversion of Convertible Notes	333,333	
— Issued on 08/02/2010 - Conversion of Convertible Notes	250,000	
— Issued on 09/02/2010 - Conversion of Convertible Notes	1,300,000	
— Issued on 07/04/2010 - Conversion of Convertible Notes	500,000	
— Issued on 23/04/2010 - Conversion of Convertible Notes	8,033,329	
— Issued on 30/04/2010 - Conversion of Convertible Notes	1,366,666	
— Issued on 19/05/2010 - Conversion of Convertible Notes	7,099,999	
At the end of the reporting period	374,507,678	228,471,789

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held
At the shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands

(b) **Capital Management**

Management control the capital of the Group in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital includes ordinary share capital, redeemable preference shares, convertible preference shares and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the group's capital by assessing the groups financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the group since the prior year. This strategy is to ensure that the group's gearing ratio remains between 20% and 30%. The gearing ratio's for the year ended 30 June 2010 and 30 June 2009 are as follows:

		Consolidated Group	
		2010	2009
	Note	$	$
Total borrowings	18, 19	3,488,067	7,470,564
Less cash and cash equivalents	9	(859,023)	(2,899,329)
Net debt		2,629,044	4,571,235
Total equity		8,345,615	8,842,200
Total capital		10,974,659	13,413,435
Gearing ratio		24%	34%

Note 22 Capital and Leasing Commitments

	Note	Consolidated Group 2010 $	2009 $
(a) Finance Lease Commitments			
Payable — minimum lease payments			
— not later than 12 months		29,038	49,701
— between 12 months and 5 years		-	4,929
— greater than 5 years		-	-
Minimum lease payments		29,038	54,630
Less future finance charges		(68)	(5,009)
Present value of minimum lease payments	19	28,970	49,621

The finance lease on manufacturing plant and equipment is a 3 year lease with an option to refinance at the end. The equipment being leased have lease payments paid monthly in advance with a residual of 20%.

	Consolidated Group 2010 $	2009 $
(b) Operating Lease Commitments		
Payable — minimum lease payments		
— not later than 12 months	152,100	410,640
— between 12 months and 5 years	282,297	-
— greater than 5 years	-	-
	434,397	410,640

The property leases are a non-cancellable lease with a three-year term, with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased by the lower of CPI or 5% per annum. An option exists to renew the lease at the end of the three-year term for an additional term of three years. The lease allows for subletting of all lease areas.

	Consolidated Group 2010 $	2009 $
(c) Operating Lease revenue		
Operating property lease:		
Receivable — minimum lease payments		
— not later than 12 months	5,760	7,700
— between 12 months and 5 years	-	-
— greater than 5 years	-	-
	5,760	7,700

Note 23 Contingent Liabilities and Contingent Assets

	Consolidated Group 2010 $	2009 $
Estimates of the potential financial effect of contingent liabilities that may become payable:		
Contingent Liabilities		
The Company is party to Supreme Court legal proceedings involving a former director and associates which involve claims and counter-claims for return of property of the Company as well as reimbursement of expenses due to the former director. In these proceedings an interim injunction exists in respect of dealings in the property where the Company has given the customary indemnity for any damages the Court may order. The expenses claim and counter-claim involve $121,000 and $90,000 respectively. these proceedings continue but are subject to a forthcoming mediation.	121,000	-

The Group was subject to a review by the Office of State Revenue in Western Australia. An assessment by the Office of State Revenue has not been received as at 28 September 2010. The current directors' estimate is $150,000.	150,000	-

Related party guarantees provided by the parent entity

The parent entity has provided guarantees to third parties in relation to the performance and obligations of controlled entities in respect to banking facilities. The guarantees are for the terms of the facilities.	665,000	-

Note 24 Operating Segments

Segment Information

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the board of directors (chief operating decision makers) in assessing performance and in determining the allocation of resources.

The Group is managed primarily on the basis of product category and service offerings since the diversification of the Group's operations inherently have notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- the products sold and/or services provided by the segment;
- the manufacturing process;
- the type or class of customer for the products or service;
- the distribution method; and
- any external regulatory requirements.

Types of products and services by segment

(i) Pharmaceutical Development
The pharmaceutical development segment performs research and development to create new human pharmaceutical products by combining proven drugs with innovative patented delivery technologies. ArTiMist™ malaria treatment has successfully completed phase 2 trials and will commence phase 3 trials in October 2010. NiCoSorb™ is in laboratory development.

(ii) Medical Devices and Consumables Distribution
This division is included in Discontinuing Operations. The business operations of Medical Industries Australia Pty Ltd was sold in January 2010 and Eastand Medical (WA) Pty Ltd is currently available for sale. The performance of this division is not included in the operating segments.

Basis of accounting for purposes of reporting by operating segments

(a) Accounting policies adopted
Unless stated otherwise, all amounts reported to the Board of Directors as the chief decision maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

(b) Inter-segment transactions
An internally determined transfer price is set for all inter-segment sales. This price is re-set quarterly and is based on what would be realised in the event the sale was made to an external party at arm’s length. All such transactions are eliminated on consolidation for the Group's financial statements.
Inter-segment loans payable and receivable are initially recognised at the consideration received/to be received net of transaction costs. If intersegment loans receivable and payable are not on commercial terms, these are not adjusted to fair value based on market interest rates. This policy represents a departure from that applied to the statutory financial statements.

(c) Segment assets
Where an asset is used across multiple segments, the asset is allocated to that segment that receives the majority of economic value from that asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

(d) Segment liabilities
Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Borrowings and tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

(e) Unallocated items
The following item of revenue, expense, assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:
• Discontinuing operations
• Net gains on disposal of available-for-sale investments
• Impairment of assets and other non-recurring items of revenue or expense
• Income tax expense
• Deferred tax assets and liabilities
• Current tax liabilities
• Other financial liabilities
• Intangible assets
• Retirement benefit obligations

(f) Comparative information
This is the first reporting period in which AASB 8 has been adopted. Comparative information has been restated to conform to the requirements of this standard.

(i) Segment performance

30 June 2010	**Pharmaceutical Development $**	**All Other Segments $**	**Total $**
REVENUE			
External sales	-	23,882	23,882
Inter-segment sales	-	-	-
Interest revenue	21,055	-	21,055
Total segment revenue	21,055	23,882	44,937
Reconciliation of segment revenue to group revenue			
Inter segment elimination			-
Total group revenue			44,937
Segment net profit/(loss) before tax	(2,033,601)	62,752	(1,970,849)
Reconciliation of segment result to group net profit/loss before tax			
i. Amounts not included in segment result but reviewed by Board			
— Depreciation and amortisation	(70,164)	-	(70,164)
— Impairment of property, plant and equipment	(1,297,114)	(238,269)	(1,535,383)
ii. Unallocated items			
— Finance costs			(116,833)
— Other			
Net loss before tax from continuing operations			(3,693,229)

30 June 2009	**Pharmaceutical development $**	**All Other Segments $**	**Total $**
REVENUE			
External sales	-	29,853	29,853
Inter-segment sales	-	-	-
Interest revenue	7,125	-	7,125
Total segment revenue	7,125	29,853	36,978
Reconciliation of segment revenue to group revenue			
Inter segment elimination			-
Total group revenue			36,978
Segment net loss before tax	(1,937,411)	(406,888)	(2,344,299)
Reconciliation of segment result to group net profit/loss before tax			
i. Amounts not included in segment result but reviewed by Board			
— Depreciation and amortisation	(72,615)	(6,110)	(78,725)
— Impairment of property, plant and equipment	(46,087)	(405,660)	(451,747)
ii. Unallocated items			
— Finance costs			(103,927)
— Other			-
Net loss before tax from continuing operations			(2,978,698)

(ii) Segment assets

30 June 2010	**Pharmaceutical development $**	**All Other Segments $**	**Total $**
Segment assets	9,642,451	731,636	10,374,087
Segment asset increases for the period:			
— capital expenditure	7,083	-	7,083
— acquisitions	-	-	-
	7,083	-	7,083
Included in segment assets are:			
— Equity accounted associates and joint ventures	-	-	-
Reconciliation of segment assets to group assets			
Unallocated assets:			
— Discontinuing operations			1,528,358
Total group assets			11,902,445

30 June 2009	Pharmaceutical development $	All Other Segments $	Total $
Segment assets	13,756,889	(436,134)	13,320,755
Segment asset increases for the period:			
— capital expenditure	69,721	-	69,721
— acquisitions	-	-	-
	69,721	-	69,721
Included in segment assets are:			
— Equity accounted associates and joint ventures	-	-	-
Reconciliation of segment assets to group assets			
Intersegment eliminations			-
Unallocated assets:			
— Discontinuing operations			3,290,208
Total group assets			16,610,963

(iii) Segment liabilities

30 June 2010	Pharmaceutical development $	All Other Segments $	Total $
Segment liabilities	1,833,838	1,722,990	3,556,828
Reconciliation of segment liabilities to group liabilities			
Intersegment eliminations			-
Unallocated liabilities:			
— Discontinuing operations			-
Total group liabilities			3,556,828

30 June 2009	Pharmaceutical development $	All Other Segments $	Total $
Segment liabilities	4,093,812	3,575,883	7,669,695
Reconciliation of segment liabilities to group liabilities			
Intersegment eliminations			-
Unallocated liabilities:			
— Discontinuing operations			99,067
Total group liabilities			7,768,762

(iv) Revenue by geographical region

Revenue attributable to external customers is disclosed below, based on the location of the external customer:

	2010 $	2009 $
Australia	44,937	36,978
Total revenue	44,937	36,978

(v) Assets by geographical region

The location of segment assets by geographical location of the assets is disclosed below:

	2010 $	2009 $
Australia	11,902,445	16,610,963
Total Assets	11,902,445	16,610,963

Note 25 Cash Flow Information

	Consolidated Group 2010 $	Consolidated Group 2009 $
(a) Reconciliation of Cash Flow from Operations with Profit after Income Tax		
Profit after income tax	(4,856,312)	(3,168,182)
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit		
Amortisation	-	162,000
Depreciation	154,261	428,497
Write-off of obsolete stock	321,820	518,185
Net (gain)/loss on disposal of property, plant and equipment	(20,000)	239,177
Net (gain)/loss on disposal of sale of Medical Industries Australia Pty Ltd	(171,893)	
Net (gain)/loss on disposal of investments	-	(125,000)
Share options expensed	-	200,000
Impairment loss	2,099,716	451,747
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
(Increase)/decrease in trade and term receivables	1,270,588	821,386
(Increase)/decrease in prepayments	8,847	-
(Increase)/decrease in inventories	797,869	1,140,577
Increase/(decrease) in trade payables and accruals	(1,834,129)	521,574
Increase/(decrease) in provisions	(130,369)	(2,867,471)
Cash flow from operations	(2,359,602)	(1,677,510)

	Consolidated Group 2010 $	Consolidated Group 2009 $
(b) Credit Standby Arrangements with Banks		
Credit facility	100,000	460,000
Amount utilised	(24,728)	(300,000)
	75,272	160,000

The major facilities are summarised as follows:
Bank overdrafts

Bank overdraft facilities are arranged with an Australian bank with the general terms and conditions being set and agreed to annually

Interest rates are variable and subject to adjustment

(c) Loan Facilities		
Loan facilities	775,743	1,764,166
Amount utilised	(775,743)	(1,764,166)
	-	-

The major facilities are summarised as follows:
Revolving loan facility

The current bank loan facility for $665,000 expires on 31 December 2010. Termination of the agreement can be effected by notice in writing from either party.
Finance will be provided under all facilities provided the company and the consolidated group have not breached any borrowing requirements and the required financial ratios are met. Refer to note 19 for further details.

Note 26 Share-based Payments

(i) On 24/04/2008, 6,000,000 share options were granted to employees under the Eastland Medical Systems Ltd employee option plan to take up ordinary shares at an exercise price of $0.15 cents each. The options were cancelled in February 2010.

	Consolidated Group	
A summary of the movements of all company options issued is as follows:	Number	Weighted average exercise price
Outstanding as at 30 June 2008	6,000,000	$0.15
Granted	-	
Forfeited	-	
Exercised	-	
Expired	-	
Outstanding as at 30 June 2009	6,000,000	
Granted	-	
Forfeited	(6,000,000)	
Exercised	-	
Expired	-	
Outstanding as at 30 June 2010	-	
Options exercisable as at 30 June 2010:	-	
Options exercisable as at 30 June 2009:	2,000,000	

Note 27 Events After the Reporting Period

On 18th August 2010 the Company issued 56,925,006 fully paid ordinary shares at $0.04 cents per share to raise $2,277,000 before expenses. The purpose of the issue is to fund the continued commercialisation and clinical trials program relating to the ArTiMist™ malaria treatment project and working capital.

On 23rd July 2010, 150,000 secured convertible notes were converted into 5,000,000 ordinary shares at an issue price of $0.03 per share.

On 6th September 2010, 10,000 secured convertible notes were converted into 333,333 ordinary shares at an issue price of $0.03 per share.

On 27th September 2010, the Company entered into an unconditional contract of sale for its investment property for $310,000

On 29th September 2010, 15,000 secured convertible notes were converted into 500,000 ordinary shares at an issue price of $0.03 per share.

Note 28 Related Party Transactions

	Consolidated Group	
	2010 $	2009 $
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.		
Transactions with related parties:		
(a) **Other Related Parties**		
Purchase of surgical instruments from Australian Medical Supplies Pty Ltd of which Mr Craig Inglis has a controlling interest were transacted during the year.	11,414	297,003
Rent paid on 56 Catalano Circuit Canningvale by Eastland Medical (WA) Pty Ltd to Granworld Pty Ltd, a company of which Craig Inglis has a controlling interest.	21,564	108,150
Loan from Mr Douglas Sims Super Fund to Eastland Medical Systems Ltd	-	76,819
Purchase of 9,617,975 ordinary Star Medical (Botswana) Limited shares from David Anderson, a minority shareholder of the company, for 977,170 of Eastland Medical Systems Ltd ordinary shares at fair value of $0.081 cents per share.	-	79,150
Services rendered by David Anderson to Eastland Medical Systems SA.	-	86,000

(b) **Key Management Personnel**		
Mr Trevor Strahan - Convertible Note (maturing 14/08/2009)	-	50,000
Mr Peter Jooste - legal retainer	38,000	30,000
Mr Peter Jooste - additional legal services rendered over above legal	-	28,545
Mr Michael Stewart - consulting retainer	38,000	-
Mr Michael Stewart - additional consulting services rendered above retainer	20,600	-
Mr Michael Stewart - convertible notes	200,000	-

Note 29 Financial Risk Management

The Group's financial instruments consist mainly of deposits with banks, local money market instruments, short-term investments, accounts receivable and payable, loans to and from subsidiaries, bills and leases.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

		Consolidated Group	
		2010	2009
	Note	$	$
Financial Assets			
Cash and cash equivalents	9	859,023	2,899,329
Loans and receivables	10f	412,014	1,472,767
Available-for-sale financial assets			
— at fair value			
— listed investments	12b	-	1,297,114
Total available-for-sale financial assets		-	1,297,114
Total Financial Assets		1,271,037	5,669,210
Financial Liabilities			
Financial liabilities at amortised cost			
— Trade and other payables	18	1,475,126	3,194,664
— Borrowings		2,012,941	4,275,900
Total Financial Liabilities		3,488,067	7,470,564

Financial Risk Management Policies

The Board of Directors, in conjunction with the Chief Financial Officer, maintains responsibility for, amongst other issues, monitoring and managing financial risk exposures of the Group. The Board monitors the Group's financial risk management policies and exposures and approves financial transactions. It also reviews the effectiveness of internal controls relating to commodity price risk, counterparty credit risk, currency risk, financing risk and interest rate risk.

The Board's overall risk management strategy seeks to assist the consolidated group in meeting its financial targets, while minimising potential adverse effects on financial performance. Its functions include the review of credit risk policies and future cash flow requirements.

Specific Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk and market risk consisting of interest rate risk, foreign currency risk and commodity and equity price risk.

a. Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance by counterparties of contract obligations that could lead to a financial loss to the Group.

Credit risk is managed through the maintenance of procedures (such procedures include the utilisation of systems for the approval, granting and renewal of credit limits, regular monitoring of exposures against such limits and monitoring of the financial stability of significant customers and counterparties), ensuring to the extent possible, that customers and counterparties to transactions are of sound credit worthiness. Such monitoring is used in assessing receivables for impairment. Depending on the division within the Group, credit terms are generally 30 to 60 days from the invoice date.

Risk is also minimised through investing surplus funds in financial institutions that maintain a high credit rating or in entities that the Board has otherwise cleared as being financially sound. Where the Group is unable to ascertain a satisfactory credit risk profile in relation to a customer or counterparty, the risk may be further managed through title retention clauses over goods or obtaining security by way of personal or commercial guarantees over assets of sufficient value which can be claimed against in the event of any default.

Credit Risk Exposures

The maximum exposure to credit risk by class of recognised financial assets at balance date, excluding the value of any collateral or other security held is equivalent to the carrying value and classification of those financial assets (net of any provisions) as presented in the statement of financial position. Credit risk also arises through the provision of financial guarantees, as approved at Board level, given to parties securing the liabilities of certain subsidiaries (refer to Note 19 for details).

Collateral held by the Group securing receivables are detailed in Note 10(e).

The Group has no significant concentration of credit risk with any single counterparty or group of counterparties. However, on a geographic basis, the Group has significant credit risk exposures to Australia given the substantial operations in this region. Details with respect to credit risk of Trade and Other Receivables is provided in Note 10.

Trade and other receivables that are neither past due or impaired are considered to be of high credit quality. Aggregates of such amounts are as detailed at Note 10.

Credit risk related to balances with banks and other financial institutions is managed by the Board. Such policy requires that surplus funds are only invested with counterparties with a Standard and Poor's rating of at least AA-. The following table provides information regarding the credit risk relating to cash and money market securities based on Standard and Poor's counterparty credit ratings.

	Note	Consolidated Group 2010 $	Consolidated Group 2009 $
Cash and cash equivalents			
- AA Rated		859,023	2,896,257
- A Rated		-	-
	9	859,023	2,896,257

b. Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through the following mechanisms:

- preparing forward looking cash flow analysis in relation to its operational, investing and financing activities
- using derivatives that are only traded in highly liquid markets
- monitoring undrawn credit facilities
- obtaining funding from a variety of sources
- maintaining a reputable credit profile
- managing credit risk related to financial assets
- only investing surplus cash with major financial institutions
- comparing the maturity profile of financial liabilities with the realisation profile of financial assets

The tables below reflect an undiscounted contractual maturity analysis for financial liabilities. Bank overdrafts have been deducted in the analysis as management does not consider that there is any material risk that the bank will terminate such facilities. The bank does however maintain the right to terminate the facilities without notice and therefore the balances of overdrafts outstanding at year end could become repayable within 12 months.

Cash flows realised from financial assets reflect management's expectation as to the timing of realisation. Actual timing may therefore defer from that disclosed. The timing of cash flows presented in the table to settle financial liabilities reflect the earliest contractual settlement dates and do not reflect management's expectations that banking facilities will be rolled forward.

Financial liability and financial asset maturity analysis

	Within 1 Year		1 to 5 years		Over 5 years		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Consolidated Group	$	$	$	$	$	$	$	$
Financial liabilities due for payment								
Bank overdrafts and loans	689,728	2,267,636	-	-	-	-	689,728	2,267,636
Convertible Notes	-	383,000	1,183,500	1,650,000	-	-	1,183,500	2,033,000
Trade and other payables (excl. est. annual leave)	1,475,126	1,746,799	-	-	-	-	1,475,126	1,746,799
Other third party loans	-	25,068	-	99,362	-	-	-	124,430
Financial lease liabilities	28,970	44,692	-	4,929	-	-	28,970	49,621
Total contractual outflows	2,193,824	4,467,195	1,183,500	1,754,291	-	-	3,377,324	6,221,486
Less bank overdrafts	(28,970)	(154,404)	-	-	-	-	(28,970)	(154,404)
Total expected outflows	2,164,854	4,312,791	1,183,500	1,754,291	-	-	3,348,354	6,067,082

	Within 1 Year		1 to 5 years		Over 5 years		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
Consolidated Group	$	$	$	$	$	$	$	$
Financial Assets - cash flows realisable								
Cash and cash equivalents	859,023	2,896,257	-	-	-	-	859,023	2,896,257
Trade, term and loans receivables	395,534	1,487,818	16,480	-	-	-	412,014	1,487,818
Other investments	-	1,297,114	-	-	-	-	-	1,297,114
Total anticipated inflows	1,254,557	5,681,189	16,480	-	-	-	1,271,037	5,681,189
Net (outflow) / inflow on financial instruments	(910,297)	1,368,398	(1,167,020)	(1,754,291)	-	-	(2,077,317)	(385,893)

c. Market Risk

i. Interest rate risk

Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Group is also exposed to earnings volatility on floating rate instruments.

Interest rate risk is managed using a mix of fixed and floating rate debt.

At balance date, the details of outstanding contracts, all of which are to receive floating/pay-fixed interest rate swaps, are as follows:

	Consolidated Group			
	Effective Average Interest Rate Payable		Notional Principle	
	2010	2009	2010	2009
Maturity of notional amounts	%	%	$	$
Less than 1 year	8.55%	8.55%	28,970	452,760
1 to 2 years	-	8.75%	-	104,291
2 to 5 years	6.00%	6.00%	1,183,500	1,650,000
			1,212,470	2,207,051

The net effective variable interest rate borrowings (i.e. unhedged debt) exposes the group to interest rate risk which will impact future cash flows and interest charges and is indicated by the following floating interest rate financial liabilities :

	Note	Consolidated Group	
		2010	2009
Floating rate instruments		$	$
Bank loans and overdrafts		689,728	2,267,636
		689,728	2,267,636

ii. Foreign exchange risk

Exposure to foreign exchange risk may result in the fair value or future cash flows of a financial instrument fluctuating due to movement in foreign exchange rates of currencies in which the Group holds financial instruments which are other than the AUD functional currency of the Group.

The following table shows the foreign currency risk on the financial assets and liabilities of the Group's operations denominated in currencies other than the functional currency of the operations. The foreign currency risk in the books of the parent is considered immaterial and is therefore not shown.

2010	Net financial assets/(liabilities) in AUD $				
Consolidated	USD	AUD	GBP	Other	Total AUD
Functional currency of Group entity					
Australian Dollars	(169,704)	-	22,318	-	(147,386)
Statement of financial position exposure	(169,704)	-	22,318	-	(147,386)

2009	Net financial assets/(liabilities) in AUD $				
Consolidated	USD	AUD	GBP	Other	Total AUD
Functional currency of Group entity					
Australian Dollars	(264,749)	-	-	-	(264,749)
Statement of financial position exposure	(264,749)	-	-	-	(264,749)

The cost for the phase III trials for ArTiMist™ are payable in British Pound Sterling and are subject to foreign exchange risk.

Sensitivity Analysis

The following table illustrates sensitivities to the Group's exposures to changes in interest rates and exchange rates. The table indicates the impact on how profit and equity values reported at balance date would have been affected by changes in the relevant risk variable that management considers to be reasonably possible. These sensitivities assume that the movement in a particular variable is independent of other variables.

	Consolidated Group	
	Profit	Equity
Year ended 30 June 2010	$	$
+/- 2% in interest rates	(36,970)	36,970
+/- 5% in $A/$US	(9,799)	10,831

	Consolidated Group	
	Profit	Equity
Year ended 30 June 2009	$	$
+/- 2% in interest rates	(70,729)	70,729
+/- 5% in $A/$US	(85,948)	94,995

Net Fair Values

Fair value estimation

The fair values of financial assets and financial liabilities are presented in the following table and can be compared to their carrying values as presented in the statement of financial position. Fair values are those amounts at which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair values derived may be based on information that is estimated or subject to judgment, where changes in assumptions may have a material impact on the amounts estimated. Areas of judgment and the assumptions have been detailed below. Where possible, valuation information used to calculate fair value is extracted from the market, with more reliable information available from markets that are actively traded. In this regard, fair values for listed securities are obtained from quoted market bid prices. Where securities are unlisted and no market quotes are available, fair value is obtained using discounted cash flow analysis and other valuation techniques commonly used by market participants.

Differences between fair values and carrying values of financial instruments with fixed interest rates are due to the change in discount rates being applied by the market since their initial recognition by the Group. Most of these instruments which are carried at amortised cost (i.e. term receivables, held-to-maturity assets, loan liabilities) are to be held until maturity and therefore the net fair value figures calculated bear little relevance to the Group.

Consolidated Group	Footnote	2010 Net Carrying Value $	2010 Net Fair Value $	2009 Net Carrying Value $	2009 Net Fair Value $
Financial assets					
Cash and cash equivalents	(i)	859,023	859,023	2,899,329	2,899,329
Trade and other receivables	(i)	395,534	395,534	1,456,287	1,456,287
Available-for-sale financial assets:					
- at fair value					
- listed investments	(ii)	-	309,464	1,297,114	1,919,982
Total financial assets		1,254,557	1,564,021	5,652,730	6,275,598
Financial liabilities					
Trade and other payables	(i)	1,475,126	1,475,126	3,194,664	3,194,664
Convertible Notes		1,183,500	1,183,500	1,650,367	1,650,367
Lease liability		28,970	28,970	49,622	49,622
Bank debt	(iv)	689,728	689,728	2,192,911	2,192,911
Total financial liabilities		3,377,324	3,377,324	7,087,564	7,087,564

The fair values disclosed in the above table have been determined based on the following methodologies:

(i) Cash and cash equivalents, trade and other receivables and trade and other payables are short term instruments in nature whose carrying value is equivalent to fair value. Trade and other payables excludes amounts provided for relating to annual leave which is not considered a financial instrument.

(ii) For listed available-for-sale and held-for-trading financial assets, closing quoted bid prices at reporting date are used. In determining the fair values of the unlisted available-for-sale financial assets, the directors have used inputs that are observable either directly (as prices) or indirectly (derived from prices).
The directors have determined that the fair values of the available-for-sale financial assets has been dramatically reduced and, hence, fully impaired.

Included within Level 1 of the hierarchy are listed investments. The fair value of these financial assets has been based on the closing quoted bid prices at reporting date, excluding transaction costs.

In valuing unlisted investments, included in Level 2 of the hierarchy, valuation techniques such as those using comparisons to similar investments for which market observable prices are available have been adopted to determine the fair values of these investments.

Derivative instruments are included in Level 2 of the hierarchy with the fair value being determined using valuation techniques incorporating observable market data relevant to the hedged position.

Note 31 Parent Company Information

	Parent 2010 $	Parent 2009 $
Parent entity		
Assets		
Current assets	2,050,425	4,242,146
Non-current assets	10,003,807	8,181,414
Total assets	12,054,231	12,423,560
Liabilities		
Current liabilities	616,257	2,490,879
Non-current liabilities	1,217,582	1,655,296
Total liabilities	1,833,838	4,146,175
Net assets	10,220,393	8,277,385
Equity		
Issued capital	31,443,906	27,793,066
Reserves	1,084,137	413,293
Retained earnings	(22,307,651)	(19,928,974)
	10,220,393	8,277,385
Reserves		
Asset revaluation reserve	3,973	3,973
Option reserve	1,080,164	409,320
Total reserves	1,084,137	413,293
Financial performance		
Loss for the year	(3,652,710)	(2,792,129)
Other comprehensive income	-	-
Total comprehensive income	(3,652,710)	(2,792,129)

Guarantees in relation to relation to the debts of subsidiaries
Guarantee provided under the deed of cross guarantee
Eastland Medical Systems Ltd has entered into a deed of cross guarantee with its wholly-owned subsidiary Eastland Medical (WA) Pty Ltd.

Contingent liabilities
Refer to Note 24 for details

Note 32 Reserves

a. *Share Redemption Reserve*
The share redemption reserve records the value of un-marketable share parcels for redemption.
b. *Foreign Currency Translation Reserve*
The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled entity.
c. *Option Reserve*
The option reserve records items recognised as expenses on valuation of employee share options and share-based payments.

Note 33 Economic Dependency

A significant portion of the development and manufacture of parenteral devices and pharmaceutical products is obtained under intellectual property and patents owned by the ultimate parent entity, Eastland Medical Systems Ltd.

Note 34 Company Details

The registered office of the company is:
Eastland Medical Systems Ltd
Suite 29, 25 Walters Drive
Osborne Park, Western Australia 6017

The principal places of business are:
Eastland Medical Systems Ltd
Suite 29, 25 Walters Drive
Osborne Park, Western Australia, 6017

Eastland Medical (WA) Pty Ltd trading as Westcoast Surgical and Medical Supplies
17 Meares Way
Canning Vale, Western Australia, 6155

EASTLAND MEDICAL SYSTEMS LTD ABN: 35 090 987 250
AND CONTROLLED ENTITIES
DIRECTORS' DECLARATION

1. In the opinion of the Directors of Eastland Medical Systems Limited (the "Company"):

   (a) the financial statements and notes set out on pages 13 to 47, and the Remuneration disclosures that are contained in pages 8 to 11 of the Remuneration Report in the Directors' Report, are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the Group's financial position as at 30 June 2010 and of its performance, for the financial year ended on that date; and

      (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

      (iii) complying with International Financial Reporting Standards as disclosed in Note 1.

   (b) the remuneration disclosures that are contained in page 8 to 11 of the Remuneration Report in the Directors' Report comply with Australian Accounting Standard AASB 124 Related Party Disclosures and

   (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2010.

Signed in accordance with a resolution of the Directors:

Director

Mr Dermot Patterson

Dated this 30th day of September 2010

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Independent Auditor's Report
To the Members of Eastland Medical Systems Limited

We have audited the accompanying financial report of Eastland Medical Systems Limited, (the company) which comprises the statement of financial position as at 30 June 2010, and the income statement, statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes 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.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Act 2001. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies 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. These Auditing 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 and fair presentation of the financial report 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 opinions.

Independence
In conducting our audit, we complied with applicable independence requirements of the Corporations Act 2001.

Basis for Qualified Auditor's Opinion
A limitation in scope of our work exists for the reasons described below:
As disclosed in Note 16 to the financial statements, the consolidated entity has, included in the non current assets, intangible assets representing trademarks and licences and development costs reported at 30 June 2010 at $2,192,663 and $2,152,542 respectively (the assets). This relates to intellectual property of needle technology. As set out in Note 16, the recoverability of the carrying values of the assets is dependent on the ability of the company and consolidated entity to achieve certain matters. Australian Accounting Standard AASB 136 *Impairment of Assets* requires an asset to be carried at no more than its recoverable amount. We have been unable to obtain sufficient appropriate audit evidence to support the director assessment of the recoverable amount of the assets and, accordingly, we have been unable to determine whether the recoverable amounts of the assets are at least equal to their carrying values. In the event that the carrying value of the assets exceeds their recoverable amount, it would be necessary for the carrying value of the assets to be written down to their recoverable amount.

As disclosed in Note 5 to the financial statements, the consolidated entity has included in the assets held for sale the assets of a subsidiary company reported at 30 June 2010 of $1,227,658. Accounting Standard AASB 5 Non-current Assets Held for Sale and Discontinued Operations requires assets held for sale to be at the lower of carrying value and fair value less cost to sell. We have been unable to obtain sufficient appropriate audit evidence to support the fair value less cost to sell amount of these assets are at least equal to it's carrying value. In the event that the carrying value of these assets exceeds the fair value less cost to sell of these assets, it would be necessary for the carrying value of these assets to be written down to their recoverable amount.

Qualified Auditor's opinion
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves in relation to the abovementioned matters:

a the financial report of Eastland Medical Systems Limited is in accordance with the Corporations Act 2001, including:

i giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

b the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 11 of the directors' report for the year ended 30 June 2010. 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.

Auditor's opinion

In our opinion the Remuneration Report of Eastland Medical Systems Limited for the year ended 30 June 2010, complies with section 300A of the Corporations Act 2001.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

P. Warr.

P W Warr
Director – Audit & Assurance

Perth, 30 September 2010

EASTLAND MEDICAL SYSTEMS LTD ABN: 35 090 987 250
AND CONTROLLED ENTITIES
ADDITIONAL INFORMATION FOR LISTED PUBLIC COMPANIES

The following additional information is required by the Australian Stock Exchange Ltd in respect of listed public companies only.

1. **Shareholding**

a. **Distribution of Shareholders**

Category (size of holding)	Number Ordinary
1 – 1,000	29
1,001 – 5,000	171
5,001 – 10,000	353
10,001 – 100,000	1,272
100,001 – and over	692
	2,517

b. The number of shareholdings held in less than marketable parcels is 556

c. The names of the substantial shareholders listed in the holding company's register as at 22 September 2010 are:

Nil

d. **Voting Rights**

The voting rights attached to each class of equity security are as follows:

Ordinary shares

– Each ordinary share is entitled to one vote when a poll is called, otherwise each member present at a meeting or by proxy has one vote on a show of hands.

Redeemable and converting preference shares

– These shares have no voting rights.

e. 20 Largest Shareholders — Ordinary Shares

		Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1	RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LIMITEΓ	20,694,009	4.73%
2	JP MORGAN NOMINEES AUSTRALIA LTD	12,100,120	2.77%
3	MR F D O'SULLIVAN + MRS P O'SULLIVAN	6,848,361	1.56%
4	KAMALA HOLDINGS PTY LTD	6,816,667	1.56%
5	NATIONAL NOMINEES LIMITED	6,033,999	1.38%
6	MR R DOUGALL + MS R TOOHER	5,220,885	1.19%
7	FOSKIN PTY LTD	4,857,007	1.11%
8	AJAVA HOLDINGS PTY LTD	4,500,000	1.03%
9	BANLAN PTY LTD	4,000,000	0.91%
10	ONICAS INVESTMENTS PTY LTD	3,850,000	0.88%
11	BEAD-CHEATA NOMINEES PTY LTD	3,555,525	0.81%
12	PHILP HOLDINGS PTY LTD	3,200,000	0.73%
13	BOND STREET CUSTODIANS LTD	3,146,755	0.72%
14	WILLIAM TAYLOR NOMINEES PTY LTD	3,000,000	0.69%
15	PALOS PTY LTD	2,875,000	0.66%
16	REEF INVESTMENTS PTY LTD	2,850,000	0.65%
17	AUSTRALIAN GLOBAL CAPITAL P/L	2,791,298	0.64%
18	MR H A TONDOWSKI	2,537,597	0.58%
19	GLENNBROWN PTY LTD	2,500,000	0.57%
20	ZULU (WA) PROPRIETARY	2,500,000	0.57%
		103,877,223	23.74%

2. The name of the company secretary is Dermot Patterson

3. The address of the principal registered office in Australia is:
Suite 29, 25 Walters Drive, Osborne Park, Western Australia 6017
Telephone Number: (08) 6142 5555

4. **Stock Exchange Listing**
Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the Australian Stock Exchange Limited.