EASTLAND MEDICAL SYSTEMS LTD
AND CONTROLLED ENTITIES

ABN: 35 090 987 250

Financial Report For The Year Ended
30 June 2011

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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 2011.

1. 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.

There were no significant changes in the nature of the Consolidated Group's principal activities during the financial year.

2. Operating Results and Review of Operations for the year

2.1 Operating Results

The consolidated loss of the Consolidated Group amounted to $4,423,195 (2010: $4,856,312) after providing for income tax. This represented a 9% decrease on the loss reported for the year ended 30 June 2010. The decrease was due to a reduction in Revenue by $875,941 (22% on previous year) with a corresponding saving in Raw materials and consumables used of $623,793 (20% on previous year) and a reduction in the impairment loss of $569,513 to $1,517,911 (2010: $2,087,424). The impairment loss relates to the goodwill of a subsidiary company and intellectual property relating to PAP and NiCoSorb projects. Further discussion of the Group's operations now follows.

2.2 Review of Operations

The past 12 months has been a year of both change and upheaval for Eastland. The untimely death of Mr Calvin Ross in August 2010 was a great loss to us all. HC Berlin Pharma AG being placed in receivership in September 2010 resulted in a level of uncertainty for the shareholders of Eastland. The ongoing legal challenges by a former director continue to distract the Company from its core objectives.

But whilst we have had our down moments Eastland has made important progress on a number of fronts.

During this time there have been a number of key developments:

- ArTiMist™ Phase II results presented at 2010 Interscience Conference in Boston,
- Management and Board restructure,
- Successful Share Purchase Plan, Placements and Rights Offer raised approximately $6.4 million,
- ArTiMist™ Clinical Trial progressed into 2 countries,
- Operational review carried out and recommendations given to the Board,
- European based consultant to identify new projects,
- Corporate restructure to reduce corporate complexity and costs,
- Announced Priority Option Placement for EMSO and EMSOB holders,
- CEO met with key international groups in the USA to advance the understanding of ArTiMist™,
- Ongoing negotiations with HC Berlin Pharma AG (in liquidation).

2.2.1 Pharmaceutical development

(a) ArTiMist™

The Directors of Eastland have been frustrated at the delays in receiving updated clinical trial information from ProtoPharma since the death of Mr Calvin Ross in August 2010. We understand that Eastland shareholders wish to receive regular updates and we have been working diligently to try and ensure that there is a proper flow of information between the two companies. In May 2011 Eastland received notification from the Directors of ProtoPharma Limited that the ArTiMist™ trials were progressing well and that, further to the 50 patients that have been treated in Rwanda, recruitment has now commenced in Burkina Faso. A further 50 are now being recruited for treatment under the Burkina Faso component of the trial and we are advised approval has also been received from Ghana. Eastland was also advised that it is planned to treat patients from both Tanzania and Uganda and approval is pending in both. We have more recently been informed that due to the political uncertainty in Uganda, Uganda will no longer be a target country for the trial.

Whilst at this stage the Directors of Eastland are concerned at the ability of ProtoPharma to achieve the Clinical trial completion date of September 2011, Eastland has not been informed by ProtoPharma of an expected completion date.

Eastland will provide further updates as soon as we receive them from ProtoPharma, our Licensor and Consultant.

The Company was extremely pleased with the acknowledgement that was received from one of the world's largest Pharmaceutical Intelligence Groups Thompson Reuters. In February 2011 Thomson Reuters listed Eastland's lead project ArTiMist™ as being currently one of the 5 most promising drugs to enter into Phase III trials. The whole article can be viewed on Eastland's website.

The Company has always known that the ArTiMist™ project is world class, and we are pleased to see a group as prominent as Thomson Reuters further acknowledges the potential importance of the ArTiMist™ project in the global fight against malaria.

In May 2011 Eastland's CEO Stephen Carter was sponsored by Chevron to attend The Offshore Technology Conference (OTC) in Houston Texas. Chevron organised a number of meetings for Stephen to allow him the opportunity to explain the work that Eastland was carrying out in Africa with its lead product ArTiMist™. These meetings included some of Chevron's senior medical staff as well as senior medical staff from Shell, Marathon Oil and Anadarko. All of these groups have large footprints in Africa and in many cases Asia, and understand the deadly impact of malaria on their workforce and the communities that support and surround them. Chevron has a strong corporate responsibility ethos having donated $55million to the Global Fund for its fight against Malaria, HIV and TB. Our meetings have resulted in a number of ongoing discussions. Chevron also assisted Eastland in meeting with the Global Business Coalition in New York.

The Global Business Coalition serves as an entry-point for collaboration with the Global Fund, orchestrating the private sector delegation on the Global Fund Board of Directors, enabling co-investments and facilitating other corporate engagement with Fund's recipients worldwide. The Global Fund's scale and reach make it an ideal partner for the private sector bringing to the table a strategic mix of donor and recipient governments, civil society organizations, private foundations and corporations. These are early stage meetings but the Board believes that there is potential to work closely with these groups as we move the ArTiMist™ project further ahead.

(b) New Projects

Eastland has engaged the services of a consultant to identify potential new pharmaceutical projects for evaluation. Eastland's Directors acknowledge that the Company needs to identify and bring on board new projects to begin to provide a pipeline of products for the future growth and stability of the Company. It is important to begin the review as soon as practical to fill in behind the steadily maturing ArTiMist™ project. Eastland has identified a number of key therapeutic areas to target. These areas have been chosen to maximise the return on investment based on the experience and resources available to Eastland's management. Eastland's CEO met with the consultant in May this year to discuss the delivery of potential projects to the Company. It is anticipated that Eastland will be in a position to apply resources to a new project later this year.

(c) NiCoSorb™

Whilst the project had some potential it was determined that due to the rapid expansion of new products within the smoking cessation and nicotine replacement marketplace, the market was moving closer to saturation and that it would become increasingly difficult for any new product to gain market share. Moreover HC Berlin Pharma (in liquidation) was unable to meet its obligations in relation to clinical development.

Based on this knowledge we believe that there is insufficient value in the NiCoSorb™ project to warrant any further expenditure on its development. The project has now been removed from our development schedule.

(d) Safe Needle Technology

With the development of the ArTiMist™ project Eastland has moved away from its initial focus on its safe needle technology and has not carried out any significant development in this area for a number of years. Notwithstanding this, there is significant intellectual property within the Company that potentially carries with it a realisable value. Eastland management is currently working with a group that has a high level of experience and expertise in this field. It is planned to package up the technologies and to spin them out into another entity for further development and potential marketing. It is envisaged that Eastland will be a shareholder in the new entity with a view to returning any future profits back to the shareholders.

(e) Intellectual Property (IP)

As part of the review of products that are currently owned and licensed by Eastland, management has identified a number of patents and trademarks that are no longer useful to Eastland or any potential partners. This IP has no realisable value to Eastland but it is costing the Company a significant amount to maintain. There have been attempts to sell some of the IP but with no success. It has therefore been decided to save the Company's funds for key projects and to cease supporting this IP.

2.2.2 Medical Devices and Consumables Distribution

Eastland Medical Systems (WA) Pty Ltd trading as Westcoast Surgical & Medical Supplies (Westcoast)

In January this year, after a detailed review of the operations, Eastland announced that it was no longer looking at disposing of its subsidiary Westcoast Surgical & Medical Supplies and that it was proposing to reposition and expand the business. Since that time Westcoast management has transitioned the business to a cloud (internet) based computer platform that manages all aspects of the operation. The new management carried out a thorough review of the business operations that has brought about a significant rationalization of all aspects of the business. This has in turn resulted in the implementation of a customer focused system directed at providing the highest level of logistical excellence and service to our customers, vendors and stakeholders.

During the past 6 months Westcoast has had a number of challenges partly due to the aggressive nature of the medical supply business sector and partially due to internal constraints. Our commitment has been rewarded by Westcoast being awarded a number of new government health contracts, mining tenders and exclusive vendor accounts.

3. Operational Review

Our key focus over the past 12 months has been to actively review and identify the best possible paths to assist in maximising shareholder value in the future.

One of our aims has been to improve our shareholder and investor communication program and this update is a part of that process. We embarked on our Investor Relations program earlier this year and have:

- Presented at the Wholesale Investor Conference in Perth,
- Engaged Boardroom Radio to advance the market understanding of Eastland,
- Provided regular clinical trial updates,
- Provided the market with the latest in malaria research as it relates to ArTiMist™,
- Highlighted independent third party validation of our project,
- Met with overseas groups to further advance the knowledge of the ArTiMist™ story.

4. Corporate Restructuring

Eastland's new CEO has reviewed the corporate structure of the Group and the roles and operations of the existing five subsidiary companies. It was noted that two of these companies, Star Medical (Botswana) Ltd and Eastland Medical Systems South Africa Pty Ltd, were not carrying out any business. To reduce costs these were immediately wound up. Of the other three companies only one, Eastland Medical (WA) Pty Ltd trading as Westcoast Surgical & Medical Supplies, was carrying out any business operations. The other two companies Portland Surgical Products Pty Ltd and Medical Industries Australia Pty Ltd are in the process of being tidied up and will then be wound up. These changes will assist in reducing the operational costs of the parent company Eastland, and will reduce the complexity and costs associated with the annual audit and reporting requirements of the parent company. Eastland is therefore moving towards a cleaner streamlined corporate structure and as these changes take effect they will further reduce the ongoing operational costs of the Company.

5. Financial Stability

In the past 12 months Eastland has raised $6.4 million via a Share Purchase Plan and private placements. In May and June 2011 we saw the expiry of the listed options in the Company. We have informed the market that we will be carrying out a Priority Option Placement (POP) to those option holders that held options in either EMSO or EMSOB at the record dates. This POP was approved by Shareholders at a General Meeting held on the 2nd August 2011. These funds have resulted in Eastland being in a sound financial position going forward in the near term. It is anticipated that without any extraordinary situations that these monies will support the development of ArTiMist™ through the current clinical and regulatory programs.

6. HC Berlin Pharma AG (in liquidation)

In 2008 HC Berlin Pharma entered into an agreement with Eastland to acquire the exclusive manufacturing rights to ArTiMist™ in specific territories. The Licence granted to HC Berlin Pharma by Eastland was the subject of an in-kind capital contribution and in 2008 Eastland was issued with 8.0 million one euro shares in the capital of HC Berlin Pharma in exchange for the manufacturing rights.

In April 2010 the Directors of Eastland informed the ASX that it had become aware of inconsistencies between the independent valuation and the underlying documents submitted to the Commercial Register by HC Berlin Pharma. These inconsistencies arguably rendered the €8 million in-kind capital contribution invalid. Eastland received legal advice from its German lawyers Hogan Lovells LLP that there were a number of provisions under German Law to repair the contribution in order to avoid any claim for a default cash contribution.

In June 2010 HC Berlin Pharma was placed in provisional Administration.

Based on legal advice from Hogan Lovells, your Directors formed the view that any claim by the Administrator to substitute the in-kind capital contribution for a default cash contribution of 8.0 million euro would have no merit and would be defended.

On the 27th July 2010 the Administrator requested that Eastland register the manufacturing rights held by HC Berlin Pharma (in liquidation) against the patents and on 31st August 2010 Eastland informed the Administrator that it had taken the appropriate steps to do this. On the 16th September 2010 the Administrator confirmed that once the registration was verified that any claim against Eastland for €8 million would cease to endure. This process is ongoing.

The Administrator subsequently asked that Eastland confirm that the Administrator has the rights to dispose of the manufacturing rights. Eastland has never disputed HC Berlin Pharma's entitlement to the manufacturing rights and advised that the rights to disposal are as set out in the License Agreement.

7. Financial Position

The net assets of the Consolidated Group have increased by $2,686,620 from 30 June 2010 to $11,032,235 in 2011. This increase is largely due to the following factors:

- Proceeds from share issues raising $6,377,378; and
- Reduction in borrowings by $819,283 from 30 June 2010 to $1,193,658 in 2011.

The Directors continue to believe that the Group is in a strong and stable financial position to further progress its primary pharmaceutical product, ArTiMist™. The Company has improved efficiencies through the restructuring the organisation, including the sale of subsidiary company in the previous year and de-registering non performing subsidiary companies in the current year.

8. 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) On 9 August 2010, the Company announced the death of Calvin Ross, a Non-Executive Director of Eastland and the Research and Development Director for ProtoPharma Limited.
(ii) On 18 August 2010, the Company issued 56,925,000 ordinary shares at $0.04 each to raise $2,277,000 before expenses.
(iii) On 15 September 2010, the Company announced that the results of the Rwandan clinical phase II trial was presented to the international scientific community at the 50th Interscience Conference on Antimicrobial Agents and Chemotherapy.
(iv) On 26 October 2010, the Board appointed Mr Stephen Carter as a Director and the Chief Executive Officer of the Company on the resignation of Mr Dermot Patterson.
(v) On 23 November 2010, the Company announced that the treatment dosing of the first of its 150 paediatric patients in its Confirmatory Trial for ArTiMist™ project had commenced in Rwanda.
(vi) On 10 January 2011, the Company announced its intention not to dispose of its subsidiary company Eastland Medical (WA) Pty Ltd trading as Westcoast Surgical and Medical Supplies.
(vii) On 16 March 2011, the Company issued 28,033,297 ordinary shares at $0.03 as part of a placement to sophisticated investors, raising $841,000 before expenses.
(viii) On 30 March 2011, the Company announced that one of the world's leading Pharmaceutical Intelligence groups, Thomson Reuters, listed Eastland's leading project, ArTiMist™, as being one of the 5 most promising drugs to enter into phase III trials.
(ix) On 14 April 2011, the Company issued 112,200,019 ordinary shares at $0.03 as part of Share Purchase Plan, raising $3,366,000 before expenses.
(x) Eastland options, EMSO, expired on 31 May 2011 and options EMSOB expired on 30 June 2011.
(xi) On 31 May 2011, the Company announced its Priority Entitlement Offer to qualifying option holders for a maximum of 98,145,130 new options at $0.005 with an exercise price of $0.05 on or before 31 December 2012. The offer would raise a maximum of $490,726 before expenses. The offer was subject to shareholder approval which was received at the General Meeting held on 2 August 2011.

9. Changes in controlled entities and divisions:

(i) The wholly-owned subsidiary, Eastland Medical Systems South Africa Pty Ltd was de-registered on 16 July 2010.
(ii) The wholly-owned subsidiary, Star Medical (Botswana) Ltd, was de-registered on 28 December 2010.

10. 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 2011.

11. Events after the Reporting Period

At the General Meeting held on 2 August 2011, the Company received shareholder approval for a Priority Option Placement to raise a maximum of $490,726. The priority entitlement was for qualifying optionholders who held options EMSO and EMSOB at the expiry dates of 31 May 2011 and 30 June 2011 respectively. To date, the Company has raised $226,034.

At the General Meeting held on 2 August 2011, the Company also received shareholder approval for the issue of a total of 22,500,000 options to the Directors. The unlisted options were issued to the Directors for 7,500,000 each on 10 August 2011.

On 2 September 2011 Eastland was informed that due to cashflow issues ProtoPharma was not initiating the Tanzania and Ghana ART004 clinical trial sites. Eastland sort clarification from ProtoPharma and were informed that the Directors of ProtoPharma expected the trials to commence in Tanzania and Ghana as soon as the cashflow issue was resolved and that the delay would not impact on the integrity of the trial. The Directors of ProtoPharma also confirmed that the ART004 trial was continuing to enrol patients in Burkina Faso. The Directors of Eastland are working with the Directors of ProtoPharma to assist ProtoPharma through this difficult period.

12. 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'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 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. Fundamental features of the design of all Eastland'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.

13. Environmental Issues

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

14. 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	—	2,533,333 Ordinary Shares
Mr Stephen Carter	—	Chief Executive Officer / Executive Director
Qualifications	—	Bachelor of Science
Experience	—	Stephen Carter has extensive pharmaceutical industry experience and has held a variety of senior positions with listed public companies including roles as both Chairman and Managing Director. He has extensive contacts and experience in the financial markets and the pharmaceutical industry and is well equipped to lead executive management through the company's product commercialisation phase. He is an Australian Citizen and resides in Perth, Western Australia.
Interest in Shares and Options	—	Nil
Mr Michael Stewart	—	Non-Executive Director
Qualifications	—	Bachelor of Applied Science (GeoPhysics)
Experience	—	Michael Stewart joined the Board of Eastland on 11 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	—	983,334 Ordinary Shares
Mr Calvin Ross (deceased)	—	Non-Executive Director (ceased to be a director on his death 2 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.
Mr Dermot Patterson (resigned)	—	Chief Executive Officer / Executive Director (resigned 26 October 2010) and Company Secretary (resigned 18 March 2011)
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 brought 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.

Company Secretary

Mr Dermot Patterson resigned as Company Secretary on 18 March 2011. Mr Joseph Ohayon has worked for the Company since July 2010 as the Chief Financial Officer and was appointed Company Secretary on 18 March 2011.

15. 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:

	Directors' Meetings		Audit Committee		Remuneration Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Mr Peter Jooste QC	8	8	1	1	1	1
Mr Stephen Carter	5	5	1	1	1	1
Mr Michael Stewart	8	8	1	1	1	1
Mr Calvin Ross (deceased)	-	-	-	-	-	-
Mr Dermot Patterson (resigned)	3	3	-	-	-	-

16. 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 $28,330. The Directors made a contribution to the premium.

17. Options

At the date of this report, all options had expired.

On 2 August 2011, the shareholders approved to issue options under a priority offer. Refer to After Balance Date Events

18. 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.

19. Non-audit Services

The Board of Directors, in accordance with advice from the audit committee, 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 audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided does 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 for non-audit services provided during the year ended 30 June 2011:

	$
Taxation services	12,500
	12,500

20. Auditor’s Independence Declaration

The lead auditor’s independence declaration for the year ended 30 June 2011 has been received and can be found on page 14 of the Annual Report.

21. 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	x	
Recommendation 1.2	x	
Recommendation 2.1	x	
Recommendation 2.2	x	
Recommendation 2.3	x	
Recommendation 2.4		x
Recommendation 2.5	x	
Recommendation 3.1	x	
Recommendation 3.2	x	
Recommendation 4.1	x	
Recommendation 4.2	x	
Recommendation 4.3	x	
Recommendation 5.1	x	
Recommendation 6.1	x	
Recommendation 7.1	x	
Recommendation 7.2	x	
Recommendation 7.3	x	
Recommendation 8.1	x	
Recommendation 8.2		x

1 LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

1.1 (Establishing Roles and Responsibilities)

The Board of 3 Directors (4 Directors to 2 August 2010) 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 has 2 (3 to 2nd August 2010) independent, Non-Executive Directors (Peter Jooste QC (Chairman) and Michael Stewart). 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 and Michael Stewart were both independent Directors.

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 the Executive Director, 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.

On the resignation of Mr Dermot Patterson as CEO/Director, a new CEO/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 that will not be unreasonably withheld, may take independent professional advice at the reasonable expense of the Company.

The Board held meetings as detailed in the Directors' Report within 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 Audit Committee, including the Chief Financial Officer, acts 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 Audit 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 Audit Committee's work.

4.3 (Audit Committee Charter)

The Audit Committee has a formal Charter which is set out on the Company's website.
The main responsibilities of the 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 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 Audit 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 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)

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.

22. REMUNERATION REPORT (AUDITED)

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 by the remuneration committee 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 remuneration committee 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 remuneration committee 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. The measures are specifically tailored to the area 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 KPIs 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 remuneration committee 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.

In determining whether or not a KPI has been achieved, Eastland Medical Systems Ltd bases the assessment on audited figures, however, where the KPI 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 are 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 the majority of 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.

	2007	2008	2009	2010	2011
	$	$	$	$	$
Revenue	9,508,161	11,740,233	36,978	3,965,283	3,089,342
Net Profit	(2,008,363)	(9,633,525)	(3,168,182)	(4,856,312)	(4,423,195)
Share Price at Year-end	0.14	0.17	0.03	0.03	0.03
Dividends Paid	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 the reward schemes 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, among 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 options.

	Position Held as at 30 June 2011 and any change during the year	**Contract details (duration & termination)**
Group Key Management Personnel		
Mr Peter Jooste QC	Non Executive Chairman	No notice period
Mr Stephen Carter	Chief Executive Officer / Director	3 months notice
Mr Michael Stewart	Non Executive Director	No notice period
Mr Calvin Ross (deceased)	Non Executive Director	Deceased
Mr Dermot Patterson (resigned)	Chief Executive Officer/Company Secretary (resigned)	Retired
Mr Joseph Ohayon	Chief Financial Officer / Company Secretary	1 month notice
Mr Andrew Cox	General Manager - Westcoast Surgical (resigned)	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 Stephen Carter	-	-	-	100	100
Mr Michael Stewart	-	-	-	100	100
Mr Calvin Ross (deceased)	-	-	-	100	100
Mr Dermot Patterson (resigned)	-	-	-	100	100
Mr Joseph Ohayon	-	-	-	100	100
Mr Andrew Cox	-	-	-	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 months notice prior to termination of contract. A contracted person deemed employed on a permanent basis may terminate their employment by providing at least 1 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 19 July 2011, Andrew Cox's contract as General Manager of Eastland Medical (WA) Pty Ltd was terminated. John Billingham was appointed the new General Manager on 20 July 2011.

Remuneration Details for the Year Ended 30 June 2011

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 2011

	Short-term benefits		Post Employment Benefits	Long-term benefits	Equity-settled share-based	Termination benefits	Total $
	Salary, Fees and Leave	Other	Pension and superannuation	LSL	Options/Rights		
2011	$	$	$	$	$		
Group Key Management Personnel							
Mr Peter Jooste QC	35,000	30,800	3,150	-	-	-	68,950
Mr Stephen Carter	126,949	-	11,425	-	-	-	138,374
Mr Michael Stewart	31,250	24,500	2,812	-	-	-	58,562
Mr Calvin Ross	3,015	-	-	-	-	-	3,015
Mr Dermot Patterson	157,420	-	12,507	-	-	8,750	178,677
Mr Joseph Ohayon	102,191	-	-	-	-	-	102,191
Mr Andrew Cox	127,959	-	-	-	-	-	127,959
	583,784	55,300	29,894	-	-	8,750	677,728

	Short-term benefits		Post Employment Benefits	Long-term benefits	Equity-settled share-based	Termination benefits	Total $
	Salary, Fees and Leave	Other	Pension and superannuation	LSL	Options/Rights		
2010	$	$	$	$	$		
Group Key Management Personnel							
Mr Peter Jooste QC	25,000	38,000	2,250	-	-	-	65,250
Mr Michael Stewart	25,000	58,600	2,250	-	240,000	-	325,850
Mr Calvin Ross	13,888	-	-	-	-	-	13,888
Mr Dermot Patterson	178,259	-	16,043	5,112	-	-	199,414
Mr Peter Tiede	51,298	-	2,364	-	-	-	53,662
Mr Trevor Strahan	44,913	-	1,890	-	-	-	46,803
Mr Angus Taylor	91,945	-	8,048	-	-	34,615	134,608
Mr Craig Inglis	66,422	-	1,090	-	-	-	67,512
Mr Jesper Sentow	132,189	-	-	-	-	-	132,189
Ms Nicolette Mullin	120,656	-	-	-	-	-	120,656
	749,570	96,600	33,935	5,112	240,000	34,615	1,159,832

Securities Received that are not Performance Related

No

Options and Rights Granted

There were no options or rights granted during the year.

The following options lapsed during the year:

	For the financial year ended 30 June 2011		Overall		
	Lapsed No.	Vested No.	Vested %	Unvested %	Lapsed %
Group Key Management Personnel					
Mr Peter Jooste QC	50,000	50,000	100.00%	0.00%	100.00%
Mr Michael Stewart	240,000	240,000	100.00%	0.00%	100.00%
	290,000	290,000			

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

....
Mr Stephen Carter

Dated: 29/09/2011

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Auditor's Independence Declaration
To the Directors 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 2011, 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 AUDIT PTY LTD
Chartered Accountants

P W Warr
Director - Audit & Assurance

Perth, 29 September 2011

EASTLAND MEDICAL SYSTEMS LTD ABN: 35 090 987 250
AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2011

	Note	Consolidated Group 2011 $	2010 $
Revenue	3	3,089,342	3,965,283
Other income	3	137,702	59,662
Raw materials and consumables used	4	(2,538,772)	(3,162,565)
Employee benefits expense		(1,431,257)	(1,222,359)
Depreciation and amortisation expense		(95,508)	(99,448)
Finance costs	4	(145,071)	(173,908)
Impairment losses	4	(1,517,911)	(2,087,424)
Other expenses	4	(1,927,501)	(1,968,748)
Profit on deregistration of business		5,781	-
Loss before income tax	4	(4,423,195)	(4,689,507)
Income tax expense	5	-	-
Loss from continuing operations		(4,423,195)	(4,689,507)
Loss from discontinued operations after tax	6	-	(166,805)
Loss for the year		(4,423,195)	(4,856,312)
Other comprehensive income:			
Exchange differences on translating foreign controlled entities		(24,648)	(4,218)
Other comprehensive income for the year, net of tax		(24,648)	(4,218)
Total comprehensive income for the year		(4,447,843)	(4,860,530)
Earnings per share			
From continuing and discontinued operations			
Basic earnings per share (cents)	9	(0.9)	(1.4)
Diluted earnings per share (cents)	9	(0.9)	(1.4)
From continuing operations:			
Basic earnings per share (cents)	9	(0.9)	(1.3)
Diluted earnings per share (cents)	9	(0.9)	(1.3)
From discontinued operations:			
Basic earnings/(loss) per share (cents)	9	-	(0.1)

The accompanying notes form part of these financial statements.

EASTLAND MEDICAL SYSTEMS LTD ABN: 35 090 987 250
AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2011

	Note	Consolidated Group	
		2011	2010
		$	$
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	10	3,560,542	859,023
Trade and other receivables	11	456,035	395,534
Inventories	12	641,861	-
Other assets	18	109,356	10,000
		4,767,794	1,264,557
Non current assets classified as held for sale	6	1,011,284	1,528,358
TOTAL CURRENT ASSETS		5,779,078	2,792,915
NON-CURRENT ASSETS			
Trade and other receivables	11	-	16,480
Property, plant and equipment	15	100,413	105,120
Intangible assets	17	7,646,468	8,987,930
TOTAL NON-CURRENT ASSETS		7,746,881	9,109,530
TOTAL ASSETS		13,525,959	11,902,445
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	19	1,254,063	1,475,126
Borrowings	20	1,193,658	743,772
Provisions	21	46,003	63,651
TOTAL CURRENT LIABILITIES		2,493,724	2,282,549
NON-CURRENT LIABILITIES			
Borrowings	20	-	1,269,169
Other provisions	21	-	5,112
TOTAL NON-CURRENT LIABILITIES		-	1,274,281
TOTAL LIABILITIES		2,493,724	3,556,830
NET ASSETS		11,032,235	8,345,615
EQUITY			
Issued capital	22	38,620,980	31,486,166
Reserves	30	1,083,787	1,108,786
Retained earnings		(28,672,532)	(24,249,337)
TOTAL EQUITY		11,032,235	8,345,615

The accompanying notes form part of these financial statements.

EASTLAND MEDICAL SYSTEMS LTD ABN: 35 090 987 250
AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2011

	Note	Share Capital Ordinary Shares	Retained Earnings	Foreign Currency Translation Reserve	Share Redemption Reserve	Option Reserve	Total
Consolidated Group		$	$	$	$	$	$
Balance at 1 July 2009		27,793,066	(19,393,025)	28,866	3,973	409,321	8,842,201
Comprehensive income							
Loss for the year		-	(4,856,312)	-	-	-	(4,856,312)
Other comprehensive income for the year		-	-	(4,218)	-	-	(4,218)
Total comprehensive income for the year		-	(4,856,312)	(4,218)	-	-	(4,860,530)
Transactions with owners, in their capacity as owners, and other transfers							
Shares issued during the year		4,543,944	-	-	-	-	4,543,944
Transaction costs		(850,844)	-	-	-	670,844	(180,000)
Total transactions with owners and other transfers		3,693,100	-	-	-	670,844	4,363,944
Balance at 30 June 2010		31,486,166	(24,249,337)	24,648	3,973	1,080,165	8,345,615
Balance at 1 July 2010		31,486,166	(24,249,337)	24,648	3,973	1,080,165	8,345,615
Comprehensive income							
Profit for the year		-	(4,423,195)	-	-	-	(4,423,195)
Other comprehensive income for the year		-	-	(24,648)	-	-	(24,648)
Total comprehensive income for the year		-	(4,423,195)	(24,648)	-	-	(4,447,843)
Transactions with owners, in their capacity as owners, and other transfers							
Shares issued during the year		7,231,336	-	-	-	-	7,231,336
Transaction costs		(96,522)	-	-	-	-	(96,522)
Total transactions with owners and other transfers		7,134,814	-	-	-	-	7,134,814
Other							
Purchase of unmarketable parcels		-	-	-	(351)	-	(351)
Total Other		-	-	-	(351)	-	(351)
Balance at 30 June 2011		38,620,980	(28,672,532)	-	3,622	1,080,165	11,032,235

The accompanying notes form part of these financial statements.

EASTLAND MEDICAL SYSTEMS LTD ABN: 35 090 987 250
AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 30 JUNE 2011

	Note	Consolidated Group 2011 $	2010 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		3,424,992	8,058,200
Interest received		58,996	21,055
Payments to suppliers and employees		(6,539,457)	(10,270,395)
Finance costs		(133,807)	(168,462)
Net cash provided by/(used in) operating activities	26a	(3,189,276)	(2,359,602)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		329,203	55,182
Proceeds from sale of medical devices and consumables distribution		-	1,611,649
Purchase of property, plant and equipment		(37,478)	(30,135)
Purchase of other non-current assets		(509,574)	(1,857,475)
Loan to related parties			
- payments made		(20,000)	-
- proceeds from repayments		2,308	-
Loans advanced		-	(7,994)
Net cash provided by/(used in) investing activities		(235,541)	(228,773)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		6,465,912	3,195,781
Repayment of borrowings		(226,314)	(2,296,820)
Payments for Capital Raising Costs		(88,534)	(306,339)
Repayment of finance leases		-	(69,281)
Net cash provided by/(used in) financing activities		6,151,064	523,341
Net increase(decrease) in cash held		2,726,247	(2,065,034)
Cash and cash equivalents at beginning of financial year		834,295	2,899,329
Cash and cash equivalents at end of financial year	10	3,560,542	834,295

The accompanying notes form part of these financial statements.

These consolidated financial statements and notes represent those of Eastland Medical Systems Ltd and Controlled Entities (the "consolidated group" or "group").
The separate financial statements of the parent entity, Eastland Medical Systems Ltd, have not been presented within this financial report as permitted by the Corporations Act 2001.
The financial statements were authorised for issue on 29 September 2011 by the directors of the company.

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 Standards (including 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 financial statements 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 as issued by the IASB. Material accounting policies adopted in the preparation of the financial statements 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 ability and right to govern the financial and operating policies so as to obtain benefits from the entity's activities.

Where controlled entities have entered or left the Group during the year, the financial performance of those entities is included only for the period of the year that they were controlled. A list of controlled entities is contained in Note 14 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 in full on consolidation.

Non-controlling interests, being the equity in a subsidiary not attributable, directly or indirectly, to a parent, are reported separately within the Equity section of the consolidated Statement of Financial Position and Statement of Comprehensive Income. 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.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exemptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. 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 liability is remeasured each reporting period to fair value, recognising any change to fair value in profit or loss, 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 statement of comprehensive income.

The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

Goodwill

Goodwill is carried at cost less accumulated impairment losses. 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 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.

Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of comprehensive income. 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. 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 statement of comprehensive income 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 statement of comprehensive income.

The amount of goodwill recognised on acquisition of each subsidiary in which the Group holds less than a 100% interest will depend on the method adopted in measuring the non-controlling interest. The Group can elect in most circumstances 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). In such circumstances, the Group determines which method to adopt for each acquisition and this is stated in the respective notes to these financial statements disclosing the business combination.

Under the full goodwill method, the fair value of the non-controlling interest is 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.

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, representing the lowest level at which goodwill is monitored 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 disposed of.

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

(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 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 as unused tax losses.

Current and deferred income tax expense (income) is charged or credited outside profit or loss when the tax relates to items that are recognised outside profit or loss.

Except for business combinations, no deferred income tax is recognised from the initial recognition of an asset or liability, 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 and 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) a legally enforceable right of set-off exists; and (b) 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.

(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.

(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 and therefore carried at cost less accumulated depreciation and any accumulated impairment. In the event the carrying amount of plant and equipment is greater than the estimated recoverable amount, the carrying amount is written down immediately to the estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset. A formal assessment of recoverable amount is made when impairment indicators are present (refer to Note 1(h) for details of impairment).

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

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 statement of comprehensive income 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	20%
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 statement of comprehensive income. 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 o 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 lease term.

(g) Financial Instruments

Recognition and Initial 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 of fair value, amortised cost using the effective interest rate method, or cost.

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

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.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that 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, where they are expected to mature within 12 months after the end of the reporting period.

(iii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Group's intention to hold these investments to maturity. They are subsequently measured at amortised cost.

Held-to-maturity investments are included in non-current assets where they are expected to mature within 12 months after the end of the reporting period. Al other investments are classified as current assets.

(iv) 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 tc 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.

They are subsequently measured at fair value with changes in such fair value (i.e. gains or losses) recognised in other comprehensive income (except for impairment losses and foreign exchange gains and losses). When the financial asset is derecognised, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are included in non-current assets where they are expected to be sold within 12 months after the end of the reporting period All other financial assets are classified as current assets.

(v) Financial Liabilities

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

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 profit or loss. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified to profit or loss at this point.

Financial Guarantees

Where material, financial guarantees issued that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due are recognised as a financial liability at fair value on initial recognition.

The guarantee is subsequently measured at the higher of the best estimate of the obligation and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity gives guarantees in exchange for a fee, revenue is recognised under AASB 118.

The fair value of financial guarantee contracts has been assessed using a probability weighted discounted cash flow approach. The probability has been based on:
– the likelihood of the guaranteed party defaulting in a year period;
– the proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
– the maximum loss exposed if the guaranteed party were to default.

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 profit or loss.

(h) Impairment of 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 amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard (e.g. in accordance with the revaluation model in AASB 116). Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

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

Associates are companies in which the Group has significant influence through holding, directly or indirectly, 20% or more of the voting power of the Group. 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 discount on acquisition whereby the Group's share of the net fair value of the associate exceeds the cost of investment is recognised in 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 Group's interest in the associate.

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 recognising 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 13.

(j) Other Intangibles

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 is expected to deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis based on 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 profit or loss, 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 other comprehensive income to the extent that the underlying gain or loss is recognised in other comprehensive income, otherwise the exchange difference is recognised in the profit or loss.

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 exchange rates prevailing at the end of the reporting period;
— 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 with functional currencies other than Australian dollars are recognised in other comprehensive income and included in the foreign currency translation reserve in the statement of financial position. These differences are recognised in the profit or loss in the period in which the operation is disposed.

(l) Employee Benefits

Provision is made for the Group's liability for employee benefits arising from services rendered by employees to the end of the reporting period. 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 cash flows are discounted using market yields on national government bonds with terms to maturity that match the expected timing of cash flows.

(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.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

(n) Provision for Warranties

Provision is made in respect of the Group's estimated liability on all products and services under warranty at the end of the reporting period. The provision is measured as the present value of future cash flows estimated to be required to settle the warranty obligation. The future cash flows have been estimated by reference to the consolidated group's history of warranty claims.

(o) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments, and bank overdrafts. Bank overdrafts are reported within short-term borrowings in current liabilities in the statement of financial position.

(p) 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. When the inflow of consideration is deferred it is treated as the provision of financing 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.

Dividend revenue is recognised when the right to receive a dividend has been established
Dividends received from associates and joint venture entities are accounted for in accordance with the equity method of accounting.

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).

(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 the income statement 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 Australian Taxation Office (ATO).

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the ATO are presented as operating cash flows included in receipts from customers or payments to suppliers.

(s) Going Concern

The financial report has been prepared on the going concern basis which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. This includes the continued development and commercialisation of its current projects.

The consolidated entity has reported a net loss from continuing operations for the period of $4,423,195 (2010: $4,689,507) and a cash outflow from operating activities of $3,189,276 (2010: $2,359,601). The current assets (excluding assets held for sale) exceed current liabilities by $2,274,070 (2010: ($1,017,992)).

During the year the consolidated entity has raised $6,377,378 from the issue of shares and is seeking to raise an additional $490,725 through an options issue (before expenses) with $226,034 received to date. The consolidated entity is also in discussion with alternative financiers for its subsidiary company following the payout of the bank loan on 31 August 2011 and will also consider future capital raising, if and when required. The trading subsidiary company has been restructured and it is envisaged its financial performance will improve.

The consolidated entity is dependent upon the achievement of the above initiatives to enable it to continue to pay its debts as and when they fall due and to also continue the development and commercialisation of its current projects.

The directors are confident that the consolidated entity will be able to continue its operations as a going concern, however, the above conditions indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and, therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

(t) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Where the Group has retrospectively applied an accounting policy, made a retrospective restatement of items in the financial statements or reclassified items in its financial statements, an additional statement of financial position as at the beginning of the earliest comparative period will be disclosed.

(u) Critical Accounting Estimates and Judgments

Management evaluates estimates and judgments incorporated into the financial report based on historical knowledge and best reasonably 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. Refer to Note 17 for details.

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

	Note	Consolidated
Impairment in intangible assets - trademarks and licences	i	426,500
Impairment in intangible assets - development costs	ii	591,411
Impairment of goodwill	iii	500,000
		1,517,911

(i) Impairment of $426,500 has been recognised in respect of licences and trademarks relating to the PAP project. The Board has taken a conservative approach regarding the PAP project and, as the estimates of carrying value can not be fully substantiated, it has decided to impair the carrying value.

(ii) Impairment of $75,819 relates to the NiCoSorb project which, following the death of a previous director, the Board was uncertain as to the future value of the project. Also, the PAP project costs has been fully impaired for $515,592 as discussed in note (i) above.

(iii) Impairment of $500,000 relates to goodwill of the subsidiary company trading as Westcoast Surgical and Medical Supplies. The directors are of the opinion that, although Westcoast is expected to generate good returns in the future, current trading results suggest that a conservative approach is required and have eliminated the goodwill.

With respect to cash flow projections for the Clip-On technology, the Board is of the opinion that the carrying value of this technology is reasonable and has been included as assets held for sale.

(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 and which the Group has decided not to early adopt. A discussion of those future requirements and their impact on the Group is as follows:

— *AASB 9: Financial Instruments [December 2010] (applicable for annual reporting periods commencing on or after 1 January 2013).*

This Standard is applicable retrospectively and includes revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments . The Group has not yet determined any potential impact on the financial statements.

The key 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;
- requiring financial assets 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; and
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in the other comprehensive income, except when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required present all changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

— *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 transactions 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 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2: Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements [AASB 1, 2, 3, 5, 7, 8, 101, 102, 107, 108, 110, 111, 112, 116, 117, 119, 121, 123, 124, 127, 128, 131, 133, 134, 136, 137, 138, 140, 141, 1050 & 1052 and Interpretations 2, 4, 5, 15, 17, 127, 129 & 1052] (applicable for annual reporting periods commencing on or after 1 July 2013)*

AASB 1053 establishes a revised differential financial reporting framework consisting of two tiers of financial reporting requirements for those entities preparing general purpose financial statements:

- Tier 1: Australian Accounting Standards; and
- Tier 2: Australian Accounting Standards - Reduced Disclosure Requirements.

Tier 2 of the framework comprises the recognition, measurement and presentation requirements of Tier 1, but contains significantly fewer disclosure requirements.

The following entities are required to apply Tier 1 reporting requirements (i.e. full IFRS):

- for-profit private sector entities that have public accountability; and
- the Australian Government and state, territory and local governments.

Since the Group is a for-profit private sector entity that has public accountability, it does not qualify for the reduced disclosure requirements for Tier 2 entities.

AASB 2010-2 makes amendments to Australian Accounting Standards and Interpretations to give effect to the reduced disclosure requirements for Tier 2 entities. It achieves this by specifying the disclosure paragraphs that a Tier 2 entity need not comply with as well as adding specific 'RDR' disclosures.

— *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 judgment 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 2009–14: Amendments to Australian Interpretation — Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011).*
This Standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.

This Standard is not expected to impact the Group.

— *AASB 2010-4: Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101 & AASB 134 and Interpretation 13] (applicable for annual reporting periods commencing on or after 1 January 2011)*
This standard details numerous non-urgent but necessary changes to accounting standards arising from the IASB's annual improvements project. Key changes include:

- clarifying the application of AASB 108 prior to an entity's first Australian Accounting Standard financial statements;
- adding an explicit statement to AASB 7 that qualitative disclosures should be made in the context of the quantitative disclosures to better enable users to evaluate an entity's exposure to risks arising from financial instruments;
- amending AASB 101 to the effect that disaggregation of changes in each component of equity arising from transactions recognised in other comprehensive income is required to be presented, but is permitted to be presented in the statement of changes in equity or in the notes;
- adding a number of examples to the list of events or transactions that require disclosure under AASB 134; and
- making sundry editorial amendments to various Standards and Interpretations.

This Standard is not expected to impact the Group.

— *AASB 2010-5: Amendments to Australian Accounting Standards [AASB 1, 3, 4, 5, 101, 107, 112, 118, 119, 121, 132, 133, 134, 137, 139, 140, 1023 & 1038 and Interpretations 112, 115, 127, 132 & 1042] (applicable for annual reporting periods beginning on or after 1 January 2011).*
This Standard makes numerous 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. However, these editorial amendments have no major impact on the requirements of the respective amended pronouncements.

— *AASB 2010-6: Amendments to Australian Accounting Standards – Disclosures on Transfers of Financial Assets [AASB 1 & AASB 7] (applicable for annual reporting periods beginning on or after 1 July 2011).*

This Standard adds and amends disclosure requirements about transfers of financial assets, especially those in respect of the nature of the financial assets involved and the risks associated with them. Accordingly, this standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards; and AASB 7: Financial Instruments: Disclosures; establishing additional disclosure requirements in relation to transfers of financial assets.

This Standard is not expected to impact the Group.

— *AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023 & 1038 and Interpretations 2, 5, 10, 12, 19 & 127] (applies to periods beginning on or after 1 January 2013).*

This standard makes amendments to a range of Australian Accounting Standards and Interpretations as a consequence of the issuance of AASB 9: Financial Instruments in December 2010. Accordingly, these amendments will only apply when the entity adopts AASB 9.

This Standard is not expected to impact the Group.

— *AASB 2010-8: Amendments to Australian Accounting Standards – Deferred Tax: Recovery of Underlying Assets [AASB 112] (applies to periods beginning on or after 1 January 2012).*

This Standard makes amendments to AASB 112: Income Taxes.

The amendments brought in by this Standard introduce a more practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model under AASB 140: Investment Property.

Under the current AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover an asset by using it or by selling it. The amendments introduce a presumption that an investment property is recovered entirely through sale. This presumption is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

The amendments brought in by this Standard also incorporate Interpretation 121 into AASB 112.

The amendments are not expected to impact the Group.

— *AASB 2010-9: Amendments to Australian Accounting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters [AASB 1] (applies to periods beginning on or after 1 July 2011).*

This Standard makes amendments to AASB 1: First-time Adoption of Australian Accounting Standards.

The amendments brought in by this standard provide relief for first-time adopters of Australian Accounting Standards from having to reconstruct transactions that occurred before their date of transition to Australian Accounting Standards.

Furthermore, the amendments brought in by this standard also provide guidance for entities emerging from severe hyperinflation either to resume presenting Australian-Accounting-Standards financial statements or to present Australian-Accounting-Standards financial statements for the first time.

This Standard is not expected to impact the Group.

— *AASB 2010-10: Further Amendments to Australian Accounting Standards – Removal of Fixed Dates for First-time Adopters [AASB 2009-11 & AASB 2010-7] (applies to periods beginning on or after 1 January 2013).*

This Standard makes amendments to AASB 2009-11: Amendments to Australian Accounting Standards arising from AASB 9; and AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010).

The amendments brought in by this standard ultimately affect AASB 1: First-time Adoption of Australian Accounting Standards and provide relief for first-time adopters from having to reconstruct transactions that occurred before their transition date.

[The amendments to AASB 2009-11 will only affect early adopters of AASB 2009-11 (and AASB 9: Financial Instruments that was issued in December 2009) as it has been superseded by AASB 2010-7].

This Standard is not expected to impact the Group.

Note 2 Parent Information

The following information has been extracted from the books and records of the parent and has been prepared in accordance with the Accounting Standards.

	2011	2010
	$	$
STATEMENT OF FINANCIAL POSITION		
ASSETS		
Current Assets	4,423,183	2,050,425
Non-current Assets	9,085,571	10,003,806
TOTAL ASSETS	13,508,754	12,054,231
LIABILITIES		
Current Liabilities	1,185,160	616,257
Non-current Liabilities	-	1,217,582
TOTAL LIABILITIES	1,185,160	1,833,839
NET ASSETS	**12,323,594**	**10,220,392**
EQUITY		
Issued Capital	38,620,980	31,443,906
Retained earnings	(27,381,173)	(22,307,651)
Share Redemption Reserve	3,622	3,973
Option reserve	1,080,165	1,080,164
TOTAL EQUITY	**12,323,594**	**10,220,392**
STATEMENT OF COMPREHENSIVE INCOME		
Total loss	(5,073,522)	(3,652,710)
Other comprehensive income	-	-
Total comprehensive income	(5,073,522)	(3,652,710)

Guarantees in relation to the debts of subsidiaries

Eastland Medical Systems Ltd has provided a deed of cross guarantee with its wholly owned subsidiary Eastland Medical (WA) Pty Ltd.

Contingent liabilities

Refer to note 24 for details.

Contractual commitments

At 30 June 2011 Eastland Medical Systems Ltd had not entered into any contractual commitments for the acquisition of property, plant and equipment (2010: Nil).

Note 3 Revenue and Other Income

	Note	Consolidated Group 2011	2010
(a) Revenue from continuing operations		$	$
Sales revenue			
— sale of goods		3,003,798	3,934,172
		3,003,798	3,934,172
Other revenue			
— interest received		80,144	21,444
— rental revenue		5,400	9,667
		85,544	31,111
Total revenue		3,089,342	3,965,283
Other income			
— gain on disposal of property, plant and equipment		23,456	20,000
— gain on debt defeasance		85,743	-
— other income		28,503	39,662
Total other income		137,702	59,662
Interest revenue from:			
— other persons		80,144	21,444
Total interest revenue on financial assets not at fair value through profit or los:		80,144	21,444

Note 4 Loss for the Year

		Note	Consolidated Group	
Loss before income tax from continuing operations includes the following specific expenses:			2011	2010
(a)	Expenses		$	$
	Cost of sales		2,454,346	2,668,734
	Write-down of inventories to net realisable value		35,509	159,719
	Write-off of obsolete stock		48,917	334,112
	Total raw materials and consumables used		2,538,772	3,162,565
	Interest expense on financial liabilities not at fair value through profit or loss			
	— Other persons		145,071	173,908
	Total finance cost		145,071	173,908
	Impairment of non-current investments		-	1,297,114
	Impairment of goodwill	1 (u)	500,000	552,041
	Impairment of investment property		-	96,912
	Impairment to receivables in controlled and associated entities		-	141,357
	Impairment of intellectual property	1 (u)	1,017,911	-
			1,517,911	2,087,424
	Included in Other expenses:			
	Legal fees		211,310	649,151
	Professional fees		219,377	261,559
	Legal settlement		325,500	-
	Bad and doubtful debts:			
	— trade receivables		52,753	-
	Rental expense on operating leases			
	— minimum lease payments		21,980	28,970
(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		-	1,611,649
	Carrying amount of net assets sold		-	(1,439,756)
	Net gain on disposal of Medical Industries Australia Pty Ltd	6	-	171,893

Note 5 Income Tax Expense

		Note	Consolidated Group 2011 $	2010 $
(a)	The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:			
	Prima facie tax benefit on loss from ordinary activities before income tax at 30% (2010: 30%)			
	— consolidated group		(1,326,959)	(1,406,852)
	Add:			
	Tax effect of:			
	— other non-allowable items		67,782	(4,197)
			(1,259,177)	(1,411,049)
	Less:			
	Tax effect of:			
	— temporary differences and tax losses not brought to account		1,259,177	1,411,049
	Income tax attributable to entity		-	-
	The applicable weighted average effective tax rates are as follows:		0.0%	0.0%

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

	Note	2011 Before-tax amount	2011 Tax (expense) benefit	2011 Net-of-tax amount	2010 Before-tax amount	2010 Tax (expense) benefit	2010 Net-of-tax amount
Consolidated Group		$	$	$	$	$	$
Exchange differences on translating foreign controlled entities		(24,648)	-	(24,648)	(4,218)	-	(4,218)
		(24,648)	-	(24,648)	(4,218)	-	(4,218)

	Consolidated Group 2011	Consolidated Group 2010
	$	$
(c) Unrecognised deferred tax balances of Australian income tax consolidated group:		
Unrecognised deferred tax asset - revenue losses	5,812,562	4,540,578
Unrecognised deferred tax asset - capital losses	1,652,852	1,316,921
Unrecognised deferred tax asset - other	63,634	310,943
Unrecognised deferred tax equity	66,829	-
Unrecognised deferred tax liabilities	(428,272)	(395,660)
Net unrecognised deferred tax asset	7,167,605	5,772,782

Note 6 Discontinued Operations

	Note	Consolidated Group 2011	Consolidated Group 2010
		$	$
Assets of disposal group classified as held for sale			
Inventory		-	674,335
Capital assets		-	53,323
Goodwill		-	500,000
Intangible assets	(i)	1,011,284	-
Land & Buildings		-	300,700
		1,011,284	1,528,358

(i) The intangible assets classified as held for sale relate to the Clip-On needle project. Eastland management are currently working with a group that has a high level of experience and expertise in this field. It is planned to package up the technologies and to spin them out into another entity for further development and potential marketing.

Note: As at 30 June 2010, the subsidiary company Eastland Medical (WA) Pty Ltd trading as Westcoast Surgical & Medical Supplies was held for sale. On 10 January 2011, Eastland announced that the Board had performed a review and decided not to sell the subsidiary company and have taken steps to reposition and expand the business.

As a result of this decision, the Income Statement has been restated to reflect Westcoast as a continuing operation.

	2011	2010
The financial performance of the discontinued operation to the date of sale which is included in profit/(loss) from discontinued operations per the statement of comprehensive income is as		
Revenue	-	3,047,265
Expenses	-	(3,385,963)
Profit before income tax	-	(338,698)
Income tax expense	-	-
Profit attributable to members of the parent entity	-	(338,698)
Profit on sale before income tax	-	171,893
Income tax expense	-	-
Profit (loss) on sale after income tax	-	171,893
Total profit after tax attributable to the discontinued operation	-	(166,805)
The net cash flows of the discontinuing division which have been incorporated into the statement of cash flows are as follows:		
Net cash inflow/(outflow) from operating activities	-	(50,780)
Net cash inflow/(outflow) from investing activities	-	1,181,576
Net cash inflow/(outflow) from financing activities	-	(1,189,702)
Net cash increase in cash generated by the discontinuing division	-	(58,906)

Note 7 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 2011.

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

	2011	2010
	$	$
Short-term employee benefits	639,084	846,170
Post-employment benefits	29,894	33,935
Other long term benefits	-	5,112
Termination benefits	8,750	34,615
Share-based payments	-	240,000
	677,728	1,159,832

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 2011	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
Mr Peter Jooste QC	50,000	-	-	(50,000)	-	-
Mr Stephen Carter	-	-	-	-	-	-
Mr Michael Stewart	240,000	-	-	(240,000)	-	-
Mr Dermot Patterson	78,000	-	-	(78,000)	-	-
Mr Joseph Ohayon	-	-	-	-	-	-
	368,000	-	-	(368,000)	-	-

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
Mr Peter Jooste QC	50,000	-	-	-	50,000	-
Mr Michael Stewart	-	-	-	240,000	240,000	240,000
Mr Dermot Patterson	78,000	-	-	-	78,000	-
Mr Peter Tiede	36,001	-	-	-	36,001	-
Mr Trevor Strahan	3,116,695	-	-	(3,116,695)	-	-
	3,280,696	-	-	(2,876,695)	404,001	240,000

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 2011	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	-	-	33,333	2,533,333
Mr Michael Stewart	6,666,667	-	-	(5,683,333)	983,334
Mr Calvin Ross (deceased)	1,500,000	-	-	-	1,500,000
Mr Dermot Patterson (resigned)	1,000,000	-	-	-	1,000,000
Mr Joseph Ohayon	-	-	-	-	-
	11,666,667	-	-	(5,650,000)	6,016,667

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 Michael Stewart	6,666,667	-	-	-	6,666,667
Mr Calvin Ross (deceased)	-	-	-	1,500,000	1,500,000
Mr Dermot Patterson (resigned)	1,000,000	-	-	-	1,000,000
Mr Peter Tiede	413,596	-	-	-	413,596
Mr Trevor Strahan	740,675	-	-	768,290	1,508,965
Mr Craig Inglis	213,636	-	-	(203,636)	10,000
	11,534,574	-	-	2,064,654	13,599,228

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 28: Related Party Transactions.

Note 8 Auditors' Remuneration

	Consolidated Group 2011 $	Consolidated Group 2010 $
Remuneration of the auditor of the parent entity for:		
— auditing or reviewing the financial report	60,000	65,000
— taxation services	12,500	12,200

Note 9 Earnings per Share

		Consolidated Group 2011 $	Consolidated Group 2010 $
(a)	Reconciliation of earnings to profit or loss		
	Profit	(4,423,195)	(4,856,312)
	Earnings used to calculate basic EPS	(4,423,195)	(4,856,312)
	Earnings used in the calculation of dilutive EPS	(4,423,195)	(4,856,312)
(b)	Reconciliation of earnings to profit or loss from continuing operations		
	Profit from continuing operations	(4,423,195)	(4,689,507)
	Earnings used to calculate basic EPS from continuing operations	(4,423,195)	(4,689,507)
	Earnings used in the calculation of dilutive EPS from continuing operations	(4,423,195)	(4,689,507)
(c)	Reconciliation of earnings to profit or loss from discontinuing operations		
	Profit from discontinuing operations	-	(166,805)
	Earnings used to calculate basic EPS from discontinuing operations	-	(166,805)
		No.	No.
(d)	Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	471,643,409	356,625,455
	Weighted average number of ordinary shares outstanding during the year used in calculating dilutive EPS	471,643,409	356,625,455

Note 10 Cash and Cash Equivalents

	Note	Consolidated Group 2011 $	Consolidated Group 2010 $
Cash at bank and in hand		1,485,542	859,023
Short-term bank deposits		2,075,000	-
	29	3,560,542	859,023

The effective interest rate on short-term bank deposits was 5.9%. These deposits have an average maturity of 159 days.

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:

	Note	2011 $	2010 $
Cash and cash equivalents		3,560,542	859,023
Bank overdrafts	20	-	(24,728)
		3,560,542	834,295

A floating charge over cash and cash equivalents has been provided for certain debt. Refer to Note 20 for further details.

Note 11 Trade and Other Receivables

	Note	Consolidated Group 2011 $	Consolidated Group 2010 $
CURRENT			
Trade receivables		406,907	487,141
Provision for impairment	11a(i)	(65,859)	(91,607)
		341,048	395,534
Other receivables		97,295	-
Amounts receivable from:			
— key management personnel		17,692	-
Total current trade and other receivables		456,035	395,534

	Note	Consolidated Group 2011 $	Consolidated Group 2010 $
NON-CURRENT			
Amounts receivable from:			
— associated companies		168,236	432,437
— provision for impairment - associated companies	11a(iii)	(168,236)	(432,437)
— hc Berlin Pharma AG		16,480	16,480
— provision for impairment - hc Berlin Pharma AG	11a(ii)	(16,480)	-
Total non-current trade and other receivables		-	16,480

(a) **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 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:

		Note	Opening Balance 01.07.09	Charge for the Year	Amounts Written Off	Closing Balance 30.06.10
	Consolidated Group		$	$	$	$
(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

		Note	Opening Balance 01.07.10	Charge for the Year	Amounts Written Off	Closing Balance 30.06.11
	Consolidated Group		$	$	$	$
(i)	Current trade receivables		91,607	36,273	(62,021)	65,859
(ii)	Non-current related parties	28	-	16,480	-	16,480
(iii)	Non-current associated companies		432,437	-	(264,201)	168,236
			524,044	52,753	(326,222)	250,575

Credit risk

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 11. 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:

	Consolidated Group 2011	Consolidated Group 2010
AUD	$	$
Australia	456,035	395,534
	456,035	395,534

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)				
	Gross Amount	Past due and impaired	<30	31-60	61-90	>90	Within initial trade terms
2011	$	$	$	$	$	$	$
Trade and term receivables	406,907	65,859	226,715	76,332	16,351	21,650	226,715
Other receivables	299,703	184,716	64,875	-	-	50,112	64,875
Total	706,610	250,575	291,590	76,332	16,351	71,762	291,590

Consolidated Group			Past due but not impaired (days overdue)				
	Gross Amount	Past due and impaired	<30	31-60	61-90	>90	Within initial trade terms
2010	$	$	$	$	$	$	$
Trade and term receivables	487,141	91,607	227,918	92,767	6,656	68,193	227,918
Other receivables	448,917	432,437	-	-	-	16,480	-
Total	936,058	524,044	227,918	92,767	6,656	84,673	227,918

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

		Consolidated Group	
		2011	2010
(b) **Financial Assets Classified as Loans and Receivables**	**Note**	$	$
Trade and other Receivables			
— Total current		456,035	395,534
— Total non-current		-	16,480
Financial assets	29	456,035	412,014

(c) **Collateral Pledged**

A floating charge over trade receivables has been provided for certain debt. Refer to Note 20 for further details

Note 12 Inventories

	Note	Consolidated Group	
		2011	2010
		$	$
CURRENT			
At cost:			
Finished goods		502,722	-
		502,722	-
At net realisable value:			
Finished goods		139,139	-
		139,139	-
		641,861	-

The Company reviews the carrying value of inventory on a regular basis and reduces the cost to net realisable value where applicable.

Note 13 Associated Companies

Interests are held in the following associated companies

	Name	Principal Activities	Country of Incorporation	Shares	Ownership Interest 2011	Ownership Interest 2010	Carrying Amount of Investment 2011	Carrying Amount of Investment 2010
					%	%	$000	$000
	Unlisted:							
(i)	Health In Form	Medical Consumables	South Africa	Ordinary	30.00%	30.00%	-	-
(ii)	Eastland Medical Systems PLC	Medical Consumables	United Kingdom	Ordinary	35.00%	35.00%	-	-
							-	-

Note 14 Controlled Entities

Controlled Entities Consolidated

	Country of Incorporation	Percentage Owned (%)* 2011	Percentage Owned (%)* 2010
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	0.00	100.00
Eastland Medical Systems S.A. Pty Ltd	South Africa	0.00	100.00

* Percentage of voting power is in proportion to ownership

Eastland Medical Systems S.A. Pty Ltd was de-registered 16 July 2010 and Star Medical (Botswana) Ltd was de-registered on 28 December 2010

Note 15 Property, Plant and Equipment

	Consolidated Group 2011 $	Consolidated Group 2010 $
PLANT AND EQUIPMENT		
Plant and equipment:		
At cost	608,785	484,808
Accumulated depreciation	(524,676)	(379,688)
	84,109	105,120
Leasehold improvements		
At cost	33,235	-
Accumulated amortisation	(16,931)	-
Total Leasehold Improvements	16,304	-
Total property, plant and equipment	100,413	105,120

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.

	Leasehold Improvements $	Plant and Equipment $	Total $
Consolidated Group:			
Balance at 1 July 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
Additions	8,435	29,044	37,479
Transfer from Discontinued Operations	18,591	34,731	53,322
Disposals	-	-	-
Depreciation expense	(10,722)	(84,786)	(95,508)
Balance at 30 June 2011	16,304	84,109	100,413

Note 16 Investment Property

	Consolidated Group 2011 $	Consolidated Group 2010 $
Balance at beginning of year	-	397,612
Transfer to Disposal group	-	(300,700)
Fair value adjustments	-	(96,912)
Balance at end of year	-	-

Note 17 Intangible Assets

	Consolidated Group 2011 $	Consolidated Group 2010 $
Goodwill		
Cost	1,556,042	7,414,031
Accumulated impaired losses	(1,556,042)	(6,448,278)
Net carrying value	-	965,753
Trademarks and licences		
Cost	2,192,663	2,192,663
Accumulated amortisation and impairment	(426,500)	-
Net carrying value	1,766,163	2,192,663
Development costs		
Cost	6,483,652	5,829,514
Accumulated amortisation and impairment	(603,347)	-
Net carrying value	5,880,305	5,829,514
Total intangibles	7,646,468	8,987,930

Consolidated Group:

		Goodwill	Trademarks & Licences	Development Costs	Total
		$	$	$	$
Year ended 30 June 2010					
Balance at the beginning of year		889,753	2,192,663	3,984,782	7,067,198
Additions		76,000	-	1,844,732	1,920,732
Closing value at 30 June 2010		965,753	2,192,663	5,829,514	8,987,930
Year ended 30 June 2011					
Balance at the beginning of year		965,753	2,192,663	5,829,514	8,987,930
Additions		-	-	699,669	699,669
Prior period reclassification (note (i))		(965,753)	-	965,753	-
Transfer from Discontinuing Operations		500,000	-	-	500,000
Transfer to Assets Held For Sale		-	-	(1,011,284)	(1,011,284)
Amortisation charge		-	-	(11,936)	(11,936)
Impairment losses	1 (u)	(500,000)	(426,500)	(591,411)	(1,517,911)
Closing value at 30 June 2011		-	1,766,163	5,880,305	7,646,468

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 statement of comprehensive income. Goodwill has an infinite life.

Note (i) A prior period adjustment relating to the classification of goodwill relating to ArTiMist to development costs has been made.

The recoverable amount of the intangible assets above are determined based on value-in-use calculations. Value-in-use is calculated based on the present value of cash flow projections over a 5 year period using an estimated growth rate. The cash flows are discounted using the weighted average cost of capital at the beginning of the budget period which was 16.4%.

Management has based the value-in-use calculations on budgets for the pharmaceutical development segment. These budgets use internal and external inputs in determining growth rates to project revenue. Costs are calculated taking into account industry standard gross margins as well as estimated weighted average inflation rates over the period which are consistent with inflation rates applicable to the locations in which the segments operate. Discount rates are post-tax and are adjusted to incorporate risks associated with a particluar segment.

Note 18 Other Assets

	Consolidated Group 2011	2010
	$	$
CURRENT		
Prepayments	109,356	10,000
	109,356	10,000

Note 19 Trade and Other Payables

	Note	Consolidated Group 2011	2010
		$	$
CURRENT			
Unsecured liabilities			
Trade payables		946,634	1,335,979
Sundry payables and accrued expenses		307,429	139,147
		1,254,063	1,475,126
Financial liabilities at amortised cost classified as trade and other payables			
Trade and other payables			
— Total current		1,254,063	1,475,126
Financial liabilities as trade and other payables	29	1,254,063	1,475,126

Note 20 Borrowings

	Note	Consolidated Group 2011 $	2010 $
CURRENT			
Unsecured liabilities			
Lease liability	23	-	28,970
Government loans		25,000	25,074
		25,000	54,044
Secured liabilities			
Bank overdrafts	20a,c	-	24,728
Bank loans	20a,c	467,658	665,000
Convertible notes	20a,d	701,000	-
		1,168,658	689,728
Total current borrowings		1,193,658	743,772
NON-CURRENT			
Unsecured liabilities			
Government loans		-	85,669
		-	85,669
Secured liabilities			
Convertible notes	20a,d	-	1,183,500
Total non-current borrowings		-	1,269,169
Total borrowings	29	1,193,658	2,012,941

(a) Total current and non-current secured liabilities:

	2011 $	2010 $
Bank overdraft	-	24,728
Bank loan	467,658	665,000
Convertible Notes	701,000	1,183,500
	1,168,658	1,873,228

(b) The carrying amounts of non-current assets pledged as security are:

	2011 $	2010 $
Floating charge over assets, including listed investments at market value	100,414	621,600
	100,414	621,600

(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. The Company also provided cash security of $200,000. The loan was fully repaid on 31 August 2011. .

(ii) Convertible Notes are secured by a 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	2011 $	2010 $
Cash and cash equivalents	10	3,560,542	859,023
Trade receivables	11	341,048	395,534
Total financial assets pledged		3,901,590	1,254,557

The collateral over cash and cash equivalents represents a floating charge.

(d) Convertible Notes

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

Maturity Date	Interest rate (%)	2011 $	2010 $
30/6/2012	6.0	701,000	1,183,500

Note 21 Provisions

	Consolidated Group	
	2011	2010
CURRENT	$	$
Short-term Employee Benefits		
Opening balance at 1 July 2010	63,651	199,132
Additional provisions	58,591	54,496
Amounts used	(76,239)	(189,977)
Balance at 30 June 2011	46,003	63,651
NON CURRENT		
Long-term Employee Benefits		
Opening balance at 1 July 2010	5,112	-
Additional provisions	-	5,112
Unused amounts reversed	(5,112)	-
Balance at 30 June 2011	-	5,112
Analysis of Total Provisions		
Current	46,003	63,651
Non-current	-	5,112
	46,003	68,763

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 have been included in Note 1.

Note 22 Issued Capital

	Consolidated Group	
	2011	2010
	$	$
594,372,331 (2010: 374,507,678) fully paid ordinary shares	38,620,980	31,486,166
	38,620,980	31,486,166

(a) **Ordinary Shares**

		Consolidated Group	
		2011	2010
		No.	No.
At the beginning of the reporting period		374,507,678	228,471,789
Shares issued during the year			146,035,889
23/7/2010	Conversion of Convertible Notes	5,000,000	
19/8/2010	Capital Raising / Placement	56,925,006	
6/9/2010	Conversion of Convertible Notes	333,333	
29/9/2010	Conversion of Convertible Notes	500,000	
5/10/2010	Conversion of Convertible Notes	2,333,333	
21/10/2010	Conversion of Convertible Notes	6,749,999	
12/11/2010	Conversion of Convertible Notes	1,166,666	
26/11/2010	Settlement of litigation	4,123,000	
30/11/2010	Settlement of litigation	1,500,000	
18/1/2011	New Share Issue for services rendered	1,000,000	
16/3/2011	Capital Raising / Placement	28,033,297	
14/4/2011	Capital Raising / Share Purchase Plan	112,200,019	
At the end of the reporting period		594,372,331	374,507,678

Ordinary shares participate in dividends and the proceeds on winding up of the parent entity is 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) **Listed Options**

	EMSO		EMSOB	
	2011	2010	2011	2010
	No.	No.	No.	No.
At the beginning of the reporting period	47,586,231	47,586,231	50,558,899	-
Options issued during the year	-	-	-	50,558,899
Options expired during the year	(47,586,231)	-	(50,558,899)	-
At the end of the reporting period	-	47,586,231	-	50,558,899

Listed options EMSO expired on 31 May 2011.
Listed options EMSOB expired on 30 June 2011.

(c) **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, convertible notes and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's 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.

The Company has undertaken a Share Purchase Plan and private placements during the current financial year raising $6,377,378. This enabled the Company to reduce its debt levels and have sufficient cash to fund ongoing development of its core project.

		Consolidated Group	
		2011	2010
	Note	$	$
Total borrowings	19, 20	2,447,721	3,488,067
Less cash and cash equivalents	10	(3,560,542)	(859,023)
Net debt		(1,112,821)	2,629,044
Total equity		11,032,235	8,345,615
Total capital		9,919,414	10,974,659
Gearing ratio		N/A	24%

Note 23 Capital and Leasing Commitments

		Consolidated Group	
		2011	2010
	Note	$	$
(a) **Finance Lease Commitments**			
Payable — minimum lease payments			
— not later than 12 months		-	29,038
Minimum lease payments		-	29,038
Less future finance charges		-	(68)
Present value of minimum lease payments	20	-	28,970
(b) **Operating Lease Commitments**			
Non-cancellable operating leases contracted for but not capitalised in the financial statements			
Payable — minimum lease payments			
— not later than 12 months		179,521	152,100
— between 12 months and 5 years		190,053	282,297
— greater than 5 years		-	-
		369,574	434,397

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 CPI. 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.

		2011	2010
(c) **Operating Lease Revenue**			
Operating property lease:			
Receivable - minimum lease payments			
— not later than 12 months		-	5,760
		-	5,760

Note 24 Contingent Liabilities and Contingent Assets

	Consolidated Group 2011 $	2010 $
Estimates of the potential financial effect of contingent liabilities that may become payable:		
Contingent Liabilities		
Employee disputes		
An action in the District Court between a former director and the Company in relation to past employment. This is in addition to the litigation claims outlined below that has now been settled. The Company is not able to attach a value to the action at the date of this report. The Company will defend the action.	-	-
An action in the Magistrates Court between a former CEO / director and the Company in relation to their past employment. The Company will defend the action.	5,000	-
The consolidated group is currently defending two outstanding litigation claims brought against the consolidated group by former directors in relation to their past employment. The consolidated group has received legal advice that it has a strong case and should be able to successfully defend both cases. All claims are expected to settle within the next 12 months. The amount disclosed is based on legal advice and represents the potential financial amount that the consolidated group may be liable for. The claim was settled in November 2010.	-	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. The assessment for $126,000 was received and processed during the 2011 year.	-	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.	467,658	665,000

Note 25 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) Eastland Medical Systems
Eastland Medical Systems is the pharmaceutical development segment and performs research and development to create new human pharmaceutical products by combining proven drugs with innovated, patented, delivery technologies. ArTiMist™ malaria treatment has successfully completed phase II trials and commenced phase III trials in October 2010.

(ii) Westcoast Surgical & Medical Supplies
Eastland Medical (WA) Pty Ltd trading as Westcoast Surgical & Medical Supplies is a sales and logistic operation for medical devices and consumables.

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 of the Group's financial statements.
Corporate charges are allocated to reporting segments based on the segment's overall proportion of revenue generation within the Group. The Board of Directors believes this is representative of likely consumption of head office expenditure that should be used in assessing segment performance and cost recoveries.

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 tha 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 items 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:

• Derivatives
• 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
• Discontinuing operations
• Retirement benefit obligations

(i) Segment performance

	Eastland Medical Systems	Westcoast Surgical & Medical Supplies	All other segments	Total
30 June 2011	**$**	**$**	**$**	**$**
REVENUE				
External sales	-	3,003,798	5,400	3,009,198
Interest revenue	67,538	-	12,606	80,144
Total segment revenue	67,538	3,003,798	18,006	3,089,342
Reconciliation of segment revenue to group revenue				
Other revenue				-
Total group revenue				3,089,342
Segment net profit from continuing operations before tax	(2,000,678)	(849,574)	185,547	(2,664,705)
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				(95,508)
— Impairment of property, plant and equipment				(1,517,911)
ii. Unallocated items				
— Finance costs				(145,071)
Net profit before tax from continuing operations				(4,423,195)

	Eastland Medical Systems	Westcoast Surgical & Medical Supplies	All other segments	Total
30 June 2010	$	$	$	$
REVENUE				
External sales	13,826	3,920,346	10,056	3,944,228
Interest revenue	21,055	-	-	21,055
Total segment revenue	34,881	3,920,346	10,056	3,965,283
Reconciliation of segment revenue to group revenue				
Other revenue				-
Total group revenue				3,965,283
Segment net profit from continuing operations before tax	(2,033,602)	(357,880)	62,755	(2,328,727)
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				(99,448)
— Impairment of property, plant and equipment				(2,087,424)
ii. Unallocated items				
— Finance costs				(173,908)
Net profit before tax from continuing operations				(4,689,507)

(ii) Segment assets

	Eastland Medical Systems	Westcoast Surgical & Medical Supplies	All other segments	Total
30 June 2011	$	$	$	$
Segment assets	12,497,469	1,336,429	67,500	13,901,398
Reconciliation of segment assets to group assets				
Intersegment eliminations				(1,386,723)
Unallocated assets:				
— Discontinuing operations				1,011,284
Total group assets				13,525,959
Segment asset increases for the period:				
— capital expenditure	711,404	25,744	-	737,148

	Eastland Medical Systems	Westcoast Surgical & Medical Supplies	All other segments	Total
30 June 2010	$	$	$	$
Segment assets	9,642,451	-	731,636	10,374,087
Reconciliation of segment assets to group assets				
Unallocated assets:				
— Discontinuing operations				1,528,358
Total group assets				11,902,445
Segment asset increases for the period:				
— capital expenditure	1,851,815	-	-	1,851,815

(iii) Segment liabilities

	Eastland Medical Systems	Westcoast Surgical & Medical Supplies	All other segments	Total
30 June 2011	$	$	$	$
Segment liabilities	484,160	2,482,929	212,358	3,179,447
Reconciliation of segment liabilities to group liabilities				
Intersegment eliminations				(1,386,723)
Unallocated liabilities:				
— Other financial liabilities				701,000
Total group liabilities				2,493,724

	Eastland Medical Systems	Westcoast Surgical & Medical Supplies	All other segments	Total
30 June 2010	$	$	$	$
Segment liabilities	1,833,838	-	1,722,992	3,556,830
Reconciliation of segment liabilities to group liabilities				
Intersegment eliminations				-
Total group liabilities				3,556,830

(iv) Revenue by geographical region

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

	30 June 2011	30 June 2010
	$	$
Australia	3,089,342	3,965,283
Total revenue	3,089,342	3,965,283

(v) Assets by geographical region

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

	30 June 2011	30 June 2010
	$	$
Australia	13,525,959	11,902,445
Total Assets	13,525,959	11,902,445

(vi) Major customers

The Group has a number of customers to whom it provides both products and services. The Group supplies a single external customer in the medical devices and consumables segment who accounts for 39% of external revenue (2010: 39%). The next most significant client accounts for 2% (2010: 2%) of external revenue.

Note 26 Cash Flow Information

	Consolidated Group 2011	2010
	$	$
(a) **Reconciliation of Cash Flow from Operations with Profit after Income Tax**		
Profit after income tax	(4,423,195)	(4,856,312)
Non-cash flows in profit		
Depreciation	95,508	154,261
Write-off of obsolete stock	48,917	334,112
Write-down of inventory to fair value	35,509	-
Net (gain)/loss on disposal of property, plant and equipment	(23,456)	(20,000)
Net (gain)/loss on disposal of sale of Medical Industries Australian Pty Ltd	-	(171,893)
(Gain)/loss on debt defeasance	(85,743)	-
Impairment loss	1,517,911	2,087,424
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries		
(Increase)/decrease in trade and term receivables	(44,021)	1,270,588
(Increase)/decrease in prepayments	(99,356)	8,847
(Increase)/decrease in inventories	32,474	797,869
Increase/(decrease) in trade payables and accruals	(221,064)	(1,834,129)
Increase/(decrease) in provisions	(22,760)	(130,369)
Cash flow from operations	(3,189,276)	(2,359,602)

	Consolidated Group 2011	2010
	$	$
(b) **Credit Standby Arrangements with Banks**		
Credit facility	-	100,000
Amount utilised	-	(24,728)
	-	75,272
(c) **Loan Facilities**		
Loan facilities	485,000	775,743
Amount utilised	(467,658)	(775,743)
	17,342	-

The major facilities are summarised as follows:

Loan facility

The facility expired 31 August 2011. 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. Refer to Note 2(for further details.

Note 27 Events After the Reporting Period

On 2 August 2011, the Company held a General Meeting. The shareholders approved the Priority Entitlement Offer to qualifying optionsholders of EMSO and EMSOB to issue a maximum 98,145,130 new Options at an issue price of $0.005 each and exercisable at $0.05 each on or before 31 December 2012. To date, the Company has raised $226,034.

At the same General Meeting, the shareholders also approved the issue of a total 22,500,000 unlisted options to the directors. 7,500,000 unlisted options were issued to each of the directors on 10 August 2011.

Note 28 Related Party Transactions

(a) The Group's main related parties are as follows:

i. Entities exercising control over the Group:
The ultimate parent entity, which exercises control over the group, is Eastland Medical Systems Ltd which is incorporated in Australia.

ii. Key Management Personnel:
Any person(s) having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity are considered key management personnel.

For details of disclosures relating to key management personnel, refer to Note 7: Interests of Key Management Personnel.

iii. Entities subject to significant influence by the Group:
An entity which has the power to participate in the financial and operating policy decisions of an entity, but does not have control over those policies is an entity which holds significant influence. Significant influence may be gained by share ownership, statute or agreement.

For details of interests held in associated companies, refer to Note 13: Associated Companies.

iv. Other Related Parties
Other related parties include entities controlled by the ultimate parent entity and entities over which key management personnel exercise significant influence.

(b) Transactions with related parties:
Transactions between related parties are on normal commercial terms and conditions no more favourable than those available to other parties unless otherwise stated.

The following transactions occurred with related parties:

	Consolidated Group	
	2011	2010
	$	$
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:		
i. 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
Rent paid on 56 Catalano Circuit, Canning Vale by Eastland Medical (WA) Pty Ltd to Granworld Pty Ltd, a company of which Mr Craig Inglis has a controlling interest	-	21,564
ii. Key Management Personnel		
Mr Peter Jooste QC - legal retainer	30,800	38,000
Mr Michael Stewart - consulting retainer	24,500	38,000
Mr Michael Stewart - additional consulting services rendered above retainer	-	20,600
Mr Michael Stewart - Convertible Notes	200,000	200,000
iii. Loans to Key Management Personnel		
Beginning of the year	-	30,000
Loans advanced	20,000	-
Loan repayment received	(2,308)	-
Transferred to sundry debtors	-	(30,000)
Interest charged	-	-
End of the year	17,692	-

The number of KMP which have received loans during the period include:	1
The highest amount of indebtedness during the reporting period for each KMP which received loans:	20,000
Andrew Cox	

Temporary loans advanced do not incur interest. The balance of the loan was fully repaid after balance sheet date.

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, convertible notes 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:

	Note	Consolidated Group 2011 $	2010 $
Financial Assets			
Cash and cash equivalents	10	3,560,542	859,023
Loans and receivables	11	456,035	412,014
Total Financial Assets		4,016,577	1,271,037
Financial Liabilities			
Financial liabilities at amortised cost			
— Trade and other payables	19	1,254,063	1,475,126
— Borrowings	20	1,193,658	2,012,941
Total Financial Liabilities		2,447,721	3,488,067

Financial Risk Management Policies

The Board of Directors, in conjunction with the Chief Financial Officer, maintains responsibility for, among 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 within the scope of its authority. 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 financia 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 the end of the reporting period, 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 Note 20 for details)

Collateral held by the Group securing receivables is detailed in Note 11(c).

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 11.

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 11.

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 2011 $	2010 $
Cash and cash equivalents			
- AA Rated		3,560,542	859,023
- A Rated		-	-
	10	3,560,542	859,023

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 financia liabilities. The Group manages this risk through the following mechanisms:

- preparing forward looking cash flow analysis in relation to its operational, investing and financing activitie:
- 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 differ 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 expectation: 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**	
	2011	2010	2011	2010	2011	2010	2011	2010
Consolidated Group	$	$	$	$	$	$	$	$
Financial liabilities due for payment								
Bank overdrafts and loans	492,658	714,802	-	85,669	-	-	492,658	800,471
Convertible Notes	701,000	-	-	1,183,500	-	-	701,000	1,183,500
Trade and other payables (excl. est. annual leave)	1,254,063	1,475,126	-	-	-	-	1,254,063	1,475,126
Financial lease liabilities	-	28,970	-	-	-	-	-	28,970
Total contractual outflows	2,447,721	2,218,898	-	1,269,169	-	-	2,447,721	3,488,067
Less bank overdrafts	-	(24,728)	-	-	-	-	-	(24,728)
Total expected outflows	2,447,721	2,194,170	-	1,269,169	-	-	2,447,721	3,463,339

	Within 1 Year		**1 to 5 years**		**Over 5 years**		**Total**	
	2011	2010	2011	2010	2011	2010	2011	2010
Consolidated Group	$	$	$	$	$	$	$	$
Financial Assets - cash flows realisable								
Cash and cash equivalents	3,560,542	859,023	-	-	-	-	3,560,542	859,023
Trade, term and loans receivables	456,035	395,534	-	16,480	-	-	456,035	412,014
Total anticipated inflows	4,016,577	1,254,557	-	16,480	-	-	4,016,577	1,271,037
Net (outflow) / inflow on financial instruments	1,568,856	(939,613)	-	(1,252,689)	-	-	1,568,856	(2,192,302)

The periods in which cash flows related to cash flow hedges are expected to occur are as depicted in the above maturity analysis table. The periods in which the cash flow: related to cash flow hedges are expected to affect profit or loss are as follows:

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 the end of the reporting period, the details of outstanding contracts are as follows:

	Consolidated Group			
	Effective Average Fixed Interest Rate Payable		Notional Principal	
	2011	**2010**	**2011**	**2010**
Maturity of notional amounts	**%**	**%**	**$**	**$**
Less than 1 year	6.00%	8.55%	701,000	28,970
1 to 2 years		6.00%	-	1,183,500
			701,000	1,212,470

The net effective variable interest rate borrowings (i.e. unhedged debt) expose 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 2011	Consolidated Group 2010
Floating rate instruments		**$**	**$**
Bank loans and overdrafts	20	467,658	689,728
		467,658	689,728

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.

2011	**Net financial assets/(liabilities) in AUD $**			
Consolidated Group	USD	GBP	Other	Total AUD
Functional currency of entity				
Australian Dollars	(106,077)	777,818	-	671,741
Statement of financial position exposure	(106,077)	777,818	-	671,741

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

Sensitivity Analysis

The following table illustrates sensitivities to the Group's exposures to changes in interest rates, exchange rates and commodity and equity prices. 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 2011	**$**	**$**
+/- 2% in interest rates	(23,373)	23,373
+/- 5% in $A/$US	(5,051)	5,583
+/- 5% in $A/GBP	(55,815)	61,690

	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
+/- 5% in $A/GBP	(1,882)	2,080

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.

	Footnote	2011		2010	
		Net Carrying Value	Net Fair Value	Net Carrying Value	Net Fair Value
Consolidated Group		$	$	$	$
Financial assets					
Cash and cash equivalents	(i)	3,560,542	3,560,542	859,023	859,023
Trade and other receivables	(i)	438,343	438,343	395,534	395,534
Loans and advances - related parties		17,692	17,692	16,480	-
		4,016,577	4,016,577	1,271,037	1,254,557
Available-for-sale financial assets:					
- at fair value					
- listed investments		-	-	-	309,464
Total available-for-sale financial assets	(ii)	-	-	-	309,464
Total financial assets		4,016,577	4,016,577	1,271,037	1,564,021
Financial liabilities					
Trade and other payables	(i)	1,254,063	1,254,063	1,475,126	1,475,126
Convertible Notes		701,000	701,000	1,183,500	1,183,500
Lease liability		-	-	28,970	28,970
Bank debt and other loans		492,658	492,658	689,728	689,728
Total financial liabilities		2,447,721	2,447,721	3,377,324	3,377,324

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 annual leave, which is outside the scope of AASB 139

(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.

Note 30 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 subsidiary.

c. *Option Reserve*
The option reserve records items recognised as expenses on valuation of employee share options and share-based payments

Note 31 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 System Ltd.

Note 32 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

The Directors of the Company declare that:

1. the financial statements and notes, as set out on pages 15 to 47, are in accordance with the Corporations Act 2001 and:
   (a) comply with Accounting Standards, which, as stated in accounting policy note 1 to the financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and
   (b) give a true and fair view of the financial position as at 30 June 2011 and of the performance for the year ended on that date of the company and consolidated group;

2. the Chief Executive Officer and Chief Finance Officer have each declared that:
   (a) the financial records of the Company for the financial year have been properly maintained in accordance with section 286 of the *Corporations Act 2001;*
   (b) the financial statements and notes for the financial year comply with Accounting Standards; and
   (c) the financial statements and notes for the financial year give a true and fair view; and

3. in the Directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.

Director

Mr Stephen Carter

Dated this 29th day of September 2011

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

Report on the financial report

We have audited the accompanying financial report of Eastland Medical Systems Limited (the "Company"), which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors responsibility for the financial report

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view of the financial report in accordance with Australian Accounting Standards and the Corporations Act 2001. This responsibility includes such internal controls as the Directors determine are necessary to enable the preparation of the financial report to be free from material misstatement, whether due to fraud or error. The Directors also state, in the notes to the financial report, 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 which require us to 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 Company'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 Company'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 qualified audit opinion.

Independence

In conducting our audit, we have complied with the 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 Notes 6 and 17 to the financial statements, the consolidated entity has included in the assets held for sale an amount of $1,011,284, and in non-current assets, intangible assets amounting to $1,766,163, relating to equipment and intellectual property of needle technology.

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 of these assets is at least equal to its carrying value. In the event that the carrying value of these assets exceeds the fair value less cost to sell, it would be necessary for the carrying value of these assets to be written down to their recoverable amount.

As set out in Note 17, the recoverability of the carrying values of the intangible asset is dependent on the ability of the 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 asset and, accordingly, we have been unable to determine whether the recoverable amount of the asset is at least equal to its carrying value. In the event that the carrying value of the asset exceeds its recoverable amount, it would be necessary for the carrying value of the asset to be written down to its 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 as 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 2011 and of its performance for the year ended on that date; and

ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Material uncertainty regarding continuation as a going concern

Without qualifying our opinion, we draw attention to Note 1(s) in the financial report which indicates that the consolidated entity incurred a net loss of $4,423,195 during the year ended 30 June 2011 and, had operating cash outflows of $3,189,276. These conditions, along with other matters as set forth in Note 1(s), indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.

Report on the remuneration report

We have audited the remuneration report included in pages 10 to 12 of the directors' report for the year ended 30 June 2011. The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion on the remuneration report

In our opinion, the remuneration report of Eastland Medical Systems Limited for the year ended 30 June 2011, 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, 29 September 2011

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

The following information is current as at 2 September 2011:

1. **Shareholding**

a. **Distribution of Shareholders**

Category (size of holding)	Number Ordinary
1 – 1,000	46
1,001 – 5,000	166
5,001 – 10,000	321
10,001 – 100,000	1,304
100,001 – and over	928
	2,765

b. The number of shareholdings held in less than marketable parcels is 923.

c. The names of the substantial shareholders listed in the holding company's register 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.

e. **20 Largest Shareholders — Ordinary Shares**

	Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1.	JP Morgan Nominees Australia Limited	14,556,810	2.45
2.	RBC Dexia Investor Services Australia Nominees Pty Limited	11,277,696	1.90
3.	Tadea Pty Ltd	8,800,000	1.48
4.	National Nominees Limited	6,033,999	1.02
5.	Mr R Dougall & Ms R Tooher	5,220,885	0.88
6.	Mr FD O'Sullivan & Mrs P O'Suliivan	4,605,000	0.78
7.	Mr TP McGellin & Ms TM Karal	4,049,665	0.68
8.	RBO Pty Ltd	4,000,000	0.67
9.	Onicas Investments Pty Ltd	3,850,000	0.65
10.	Mr T Szabo	3,500,000	0.59
11.	Mr R Byrne & Mrs MA Byrne	3,500,000	0.59
12.	Mr CP Coupe	3,252,707	0.55
13.	Mr AB Nruning	3,236,200	0.54
14.	Mr A Trolio	3,200,000	0.54
15.	Obi-Wan Investments Pty Ltd	3,050,000	0.51
16.	William Taylor Nominees Pty Ltd	3,000,000	0.51
17.	Mr JWM Johnson & Mrs A Johnson	3,000,000	0.51
18.	Reef Investments Pty Ltd	2,850,000	0.48
19.	Banlan Pty Ltd	2,750,000	0.46
20.	Philp Holdings Pty Ltd	2,750,000	0.46
		96,482,962	16.23

2. The name of the company secretary is Joseph Ohayon

3. The address of the principal registered office in Australia is Suite 29, 25 Walters Drive, Osborne Park, Western Australia 6017. Telephone (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 Securities Exchange Limited. The stock codes under which the shares trade are:

Ordinary Shares: **EMS**

5. **Annual General Meeting**

The Annual General Meeting of the Company will be held at 10:30am (WST) on 29th November 2011 at The Boulevard Centre, 99 The Boulevard, Floreat, WA.