



Eastland Medical  
Systems LTD

ACN 090 987 250

7 March 2011

ASX Compliance Pty Ltd  
Level 8, Exchange Plaza  
2 The Esplanade  
PERTH WA 6000

Attn: Sebastian Bednarczyk

Dear Mr. Bednarczyk

**Query in relation to Appendix 4D – 31<sup>st</sup> December 2010**

The Company acknowledges and responds to your letter received by email on 3<sup>th</sup> March 2011.

In specific response to each question:

1. It would be incorrect to conclude that the Company may not have sufficient cash to fund its activities. Other factors, as outlined below, must be taken into account in assessing the Company's position.
2. The Company does not expect future negative operating cash flows to reach the same extent as reported in the 4D for 31<sup>st</sup> December 2010. There were a number of significant one off expenses in the half year that amounted to \$761,000. These relate primarily to the confidential legal settlement and the restructure, repositioning and expansion of our subsidiary Westcoast Medical and Surgical Supplies. Further, there was a \$1,000,000 non cash impairment relating to intangible assets that was recognised in the half year accounts. We are also expecting the settlement of the sale of an investment property in this coming quarter. The Company has just completed a placement for \$821,000 at \$0.03 to 708 sophisticated investors. Further, the Company will be introducing a SPP to all eligible shareholders, to further increase the cash reserves of the Company.
3. The revenue and expenses were within expectations.
4. Not applicable
5. The cash reserves, capital raising and repositioning of Westcoast Medical and Surgical Supplies will enable the Company to continue to meet its business objectives.
6. The company remains in compliance with Listing Rules, in particular Listing Rule 3.1.

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7. On the basis of the information outlined above it is the opinion of the Company that its financial position (as described in Listing Rule 12.2) is adequate to warrant continued quotation and listing of its securities on the ASX.

Yours sincerely,

Dermot Patterson  
Company Secretary

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Osborne Park WA 6017

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3 March 2011

Mr Dermot Patterson  
Company Secretary  
Eastland Medical Systems Limited  
Suite 29, 25 Walters Drive  
OSBORNE PARK WA 6017

By e-mail: [dppatterson@eastlandmedical.com.au](mailto:dppatterson@eastlandmedical.com.au)

Dear Dermot

**Eastland Medial Systems Limited (the "Company")**

I refer to the Company's Appendix 4D and Half Year Report for the year ended 31 December 2010, released to ASX Limited ("ASX") on 28 February 2011 (the "Half Year Report").

ASX notes that the Company has reported the following as at 31 December 2010:

1. Net loss for the period of \$2,840,000.
2. Total current assets of \$2,424,471.
3. Total current liabilities of \$2,426,516.
4. Net assets of \$8,312,119.
5. Net negative working capital of \$2,045
6. Negative cashflow from operating activities of \$1,746,599.

ASX listing rule 12.2 provides, that an entity's financial condition (including operating results) must, in ASX's opinion, be adequate to warrant the continued quotation of its securities and its continued listing.

The note to the listing rule states the composition of the balance sheet, relative size of liabilities to assets and access to funds are some of the indicators of an entity's financial condition.

ASX notes the comments in the Half Year Report regarding continuation of the Company as a going concern which are reflected in the auditor's review. ASX also notes the qualified conclusion of the independent auditor on the basis of a limitation in scope. It is stated that sufficient appropriate audit evidence was not obtained to support the director assessment of the recoverable amount of the assets and, accordingly, the auditor was unable to determine whether the recoverable amounts of intangible assets relating to intellectual property of needle technology are at least equal to their

carrying values. In addition, the auditor has also stated a significant uncertainty regarding the carrying value of goodwill of \$500,000 from the Company's acquisition of Eastland Medical (WA) Pty Ltd.

In light of the information contained in the Half Year Report, please respond to each of the following questions.

1. Is it possible to conclude on the basis of the information provided that if the Company were to continue to expend cash at the rate for the financial year indicated by the Half Year Report, the Company may not have sufficient cash to fund its activities in the near term? Is this the case, or are there other factors that should be taken into account in assessing the Company's position?
2. Does the Company expect that in the future it will have negative operating cash flows similar to that reported in the Half Year Report and, if so, what steps has it taken to ensure that it has sufficient funds in order to continue its operations at that rate?
3. To what extent have the Company's actual revenues and expenses in the financial year, as reported in the Half Year Report, matched the Company's anticipated revenues and expenses for that reporting period?
4. If the Company's actual revenues and expenses are not substantially in accordance with the Company's anticipated revenues and expenses, when did the Company become aware that its revenues and expenses would not substantially match the anticipated revenues and expenses? You may wish to outline any circumstances that may have had an effect on the Company's revenues and expenses.
5. What steps has the Company taken, or what steps does it propose to take, to enable it to continue to meet its business objectives?
6. Can the Company confirm that it is in compliance with the listing rules, and in particular, listing rule 3.1?
7. Please comment on the Company's compliance with listing rule 12.2, with reference to the matters discussed in the note to the rule.

### Monthly Reporting

In light of the information contained in the Half-year Report I advise that, going forward, ASX will require the Company to lodge a monthly cash flow report in the form of Appendix 4C for release to the market by 5:00 PM (WST) time by the 18<sup>th</sup> of each month, for 12 months or until such time that the ASX requires. The first monthly report is due on 18 March 2011 at 5:00 PM (WST) for the month of February 2011. This requirement is additional to existing reporting requirements under the listing rules.

### Listing rule 3.1

Listing rule 3.1 requires an entity to give ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of the entity's securities. The exceptions to this requirement are set out in the rule.

In responding to this letter you should consult listing rule 3.1 and the guidance note titled "Continuous disclosure: listing rule 3.1".

If the information requested by this letter is information required to be given to ASX under listing rule 3.1 your obligation is to disclose the information immediately.

Your responsibility under listing rule 3.1 is not confined to, or necessarily satisfied by, answering the questions set out in this letter.

This letter and your response will be released to the market. If you have any concerns about your response being released, please contact me immediately. Your response should be sent to me on **facsimile number (08) 9221 2020**. It should not be sent to the Company Announcements Office.

Unless the information is required immediately under listing rule 3.1, a response is requested as soon as possible and, in any event, **not later than 7:00 am WST on Monday, 7 March 2011**.

If you are unable to respond by the time requested you should consider a request for a trading halt in the Company's securities. If you have any queries, please contact me on (08) 9224 0053.

Yours sincerely

*[sent electronically without signature]*

Sebastian Bednarczyk  
**Adviser, Listings (Perth)**

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