MEDICAL AUSTRALIA LIMITED

A.B.N. 30 096 048 912

ANNUAL REPORT
FOR THE YEAR ENDED
30 JUNE 2012

MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES

CORPORATE DIRECTORY

DIRECTORS

Mr Gary Lewis (Chairman)

Mr Mark Donnison (Managing Director)

Mr Ian Mitchell

Dr Geoff Cumming

COMPANY SECRETARY

Mr Ian Mitchell

REGISTERED OFFICE

Level 11, 37 Bligh Street

SYDNEY NSW 2000 Australia

Phone: +61-2 9466 5300

Fax: +61-2 9922 7165

Email: info@medaust.com

Website: www.medaust.com

PRINCIPAL OFFICE

Level 17, 275 Alfred Street

NORTH SYDNEY NSW 2060

Phone: +61-2 9466 5300

Fax: +61-2 9922 7165

AUDITORS

Gould Ralph Assurance

Level 42, Suncorp Place

259 George Street

SYDNEY NSW 2000

SHARE REGISTRY

Boardroom Pty Ltd

Level 7, 207 Kent Street

SYDNEY NSW 2000

Phone: +61-2 9290 9600

Fax: +61-2 9279 0664

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CHAIRMAN'S LETTER

I am pleased to present the 2012 Annual Report for Medical Australia Limited, my first as Chairman. While turbulent global financial markets continued to deliver significant challenges to many companies, Medical Australia produced a solid performance over the past twelve months, with a number of notable achievements, including:

1. Continued revenue growth – increased by 5% year-on-year, based on organic sales growth.
2. Incorporation of a UK subsidiary and the set up of a laboratory to process and cryo-preserve animal stem cells, thereby heralding the start of a new revenue stream in that market.
3. New agreements entered into with Butler Schein, NSW Ambulance and Cabrini Health that will provide continued growth for the Company in both the human and animal healthcare markets over the next 12 months and beyond.

It is a credit to Managing Director Mark Donnison, and his Leadership Team that they have continued to move the Medical Australia business forward, and build a solid foundation for sustainable growth, in an increasingly difficult global and competitive environment.

From a strategic perspective, the Board has continued to work with Management in identifying new opportunities to diversify and increase potential revenue streams, both at the corporate and operational level; in addition to assessing areas for possible cost reduction. I am confident that we will see significant benefits flowing from these initiatives over coming months and years.

It has not been a year without tragedy for the Company, as the former Chairman Mr Thomas Hartigan passed away during the year. Tom was a very diligent and conscientious individual who provided excellent leadership and stewardship to the Company in tough and challenging times. Tom's legacy and his vision for Medical Australia will live on. The Board would like to acknowledge Tom's contribution and thank the Hartigan family for their continued support of the Company.

I would like to take this opportunity to extend my gratitude to our loyal shareholders for their continued support and belief in our people and their vision for the Company. We are confident that the hard work exerted by the Board and Management to date will be transformed into positive returns to our shareholders.

Signed at Sydney this 27th day of September 2012

Gary Lewis
Non-Executive Chairman

OPERATING AND FINANCIAL REVIEW

Chief Executive Officer's Review

Financial Year 2012 has been a formative year for the Company and the management team is confident that the foundation is now well and truly in place to make Medical Australia a profitable medical device manufacturing and distribution company. An important event that took place was the out of court settlement of the THI / Multigate case without any further costs being incurred. The court case had been ongoing for 3 years and had consumed a high level of resources (people and financial) so the closure of this case is a welcome relief for all parties.

Revenue for the year rose to $9.2 million and the company reported gross profit of $5.1 million, compared to $4.9 million in the prior year. The company recorded a net loss after tax of $669k.

Laying the foundation for future growth

The incorporation of the UK subsidiary during the year was a significant achievement. The Company is now in a position to penetrate the animal health market in the UK and Europe as the licensee for MediVet's proprietary stem cell technology. During the year many successful stem cell procedures were completed, for small animals in particular. We have also banked stem cells for future use. It is expected that the sales to veterinarians will increase as a result of the publicity generated in the UK and the Company has an aggressive marketing plan to take this technology forward as a main stream therapy.

Supply chain

The Company continues to work very closely with its suppliers to ensure the highest product quality and service is delivered to our customers. The Company's engineering and innovations team have been working with many of our suppliers in designing new products. The broad range of products we offer our customers as a result of our close association with our suppliers is paramount to our success.

Quality Systems

MLA continues to invest in its quality management systems with complaint rates below 0.003% of products distributed. Many additional product registrations have been completed to enter various new markets including Singapore, the Philippines and Iran. The Company will continue its focus on getting the best quality to our customers every time.

International markets

The growth in international markets has continued during FY 2012 with a focus on the Asia-Pacific region and USA. In FY 2012, the international sales made up 16.4% of total sales which was higher than the previous year (15.9%). It is envisaged that international sales, especially in the UK, will grow rapidly in FY 2013.

Financial platform

The financial position at 30 June 2012 shows that cash and cash equivalents of $578k and a positive net asset position of $4.9m compared to $4.3m in the previous financial year.

Signed at Sydney this 27th day of September 2012

Mark Donnison
Chief Executive Officer

STATEMENT OF CORPORATE GOVERNANCE

The Directors of Medical Australia Limited ("MLA") are responsible for the corporate governance of the Medical Australia Group ("Group"). The Board guides and monitors the business and affairs of Medical Australia on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Company and its main corporate governance practices are applicable to all subsidiaries and are summarised below.

1. Compliance with ASX best practice recommendations

The ASX Listing Rules require a statement in a listed company's Annual Report which discloses the extent to which the ASX 30 best practice recommendations have been followed in the reporting period. As a listed company, Medical Australia must identify those recommendations which have not been followed and provide reasons for non-compliance.

This Statement sets out in detail the Company's compliance with the ASX Corporate Governance Council's best practice recommendations. The Company considers that its practices comply with all 30 of the ASX best practice recommendations as at 30 June 2012. The Company has established and implemented a diversity policy during the year. A checklist summarising this is set out in Page 15 to 17 of this report.

2. The Board of Directors

(a) Membership

The Board has a range of relevant financial and other skills, experience and expertise to meet its objectives. The current Board composition, including details of director backgrounds is contained within the Directors Report.

ASX Recommendation 2.6

The Company's Constitution requires a minimum of 3 directors and a maximum of 9 directors. As at 30 June 2012, there were three non-executive Directors and one executive director, in conformity with the Company's policy that the Board has a majority of non-executive directors. The Chairman, Mr Gary Lewis, is a non-executive director. The terms and conditions of appointment and retirement of directors are set out in the Company's Constitution. The Board believes that its membership should have enough directors to serve on various committees of the Board without overburdening the Directors or making it difficult for them to fully discharge their responsibilities.

(b) Board role and responsibilities

The Board is responsible to shareholders and investors for the Group's overall corporate governance.

The Board has established and approved a Board Charter. Under this Charter the Board is responsible for:

- Considering and approving the corporate strategies proposed by the Managing Director and monitoring their implementation;

2. The Board of Directors (Continued)

- Approving, overseeing and monitoring financial and other reporting to shareholders, investors, employees and other stakeholders of the Company;
- Ensuring that the Company has the appropriate human, financial and physical resources to execute its strategies;
- Appointing and monitoring the performance of, and removing the Managing Director;
- Ratifying the appointment, and where appropriate, the removal of the Chief Financial Officer (or equivalent) and / or Company Secretary;
- Reviewing the effectiveness of the Company's policies and procedures regarding risk management, including internal controls and accounting systems; and
- Ensuring appropriate governance structures are in place including standards of ethical behaviour and a culture of corporate and social responsibility.

(c) Chairman

The Chairman, satisfies the requirements for an Independent Chairman under ASX Recommendations 2.1 and 2.2 as Mr Gary Lewis is a non-executive, and has 4.2% of the Shares (Recommendations permit 5%).

The Chairman is elected by the full Board of directors and is responsible for:

- Leadership of the Board;
- The efficient organisation and conduct of the Board's functions;
- The promotion of constructive and respectful relations between Board members and between the Board and management;
- Contributing to the briefing of Directors in relation to issues arising at Board meetings;
- Facilitating the effective contribution of all Directors; and
- Committing the time necessary to effectively discharge the role of the Chairman.

ASX Recommendation 2.3

(d) Independent directors

The Company recognises that independent directors are important in assuring shareholders that the Board is properly fulfilling its role and is diligent in holding senior management accountable for its performance. The Board assesses each of the directors against specific criteria to decide whether they are in a position to exercise independent judgement. Directors are considered to be independent if they are independent of management and free from any business or other relationship that could materially interfere with, the exercise of their unfettered and independent judgement. Materiality is assessed on a case-by-case basis by reference to each director's individual circumstances rather than general materiality thresholds. In assessing independence, the Board considers whether the director has a business or other relationship with the Company, directly or as a partner, shareholder or officer of a Company or other entity that has an interest or a business relationship with the Company or another Medical Australia group member.

Mr Gary Lewis, Mr Ian Mitchell and Dr Geoff Cumming meet the Recommendations' various tests of independence. Therefore there is a majority of independent non-executive Directors and independent Directors on the Board.

2. The Board of Directors (Continued)

ASX Recommendation 2.1, 2.6

(e) Avoidance of conflicts of interest by a director

In accordance with the Corporations Act and the Company's Constitution, Directors must keep the Board advised of any interest that could potentially conflict with those of the Company.

In the event that a conflict of interest may arise, involved Directors must withdraw from all deliberations concerning the matter. They are not permitted to exercise any influence over other Board members further when that matter is being considered the Director may not vote on that matter, in accordance with the Corporations Act.

(f) Board Meetings

The Board regularly monitors the operational and financial performance of the Company and the economic entity against budget and other key financial risks. Appropriate risk management strategies are developed to mitigate all identified risks of the business.

The number of times the Board has formally met and the number of meetings attended by directors during the financial year are reported in the Directors' Report. The Board Charter dictates that the Board will hold ten scheduled meetings each year and, other meetings may be held at short notice as required.

(g) Review of Board Performance

The process for conducting the Board's annual performance review was agreed by the Board and was performed by the Chairman of the Board. Matters covered in the annual performance review include:

- The Board's contribution to developing strategy and policy;
- Interaction between the Board and management, and between Board members;
- The Board's processes to monitor business performance and compliance, control risk and evaluate Management;
- Board composition and structure; and
- The operation of the Board, including the conduct of Board meetings, Board Committee meetings and group behaviours.

ASX Recommendation 2.5

(h) Nomination and appointment of new directors

Recommendations for nominations of new directors are made by the Board Nominations Committee and considered by the Board in full. Mr Gary Lewis and Dr Geoff Cumming are members of the Board Nominations Committee during the financial year and Dr Cumming is Chairman of the Committee.

Board membership is reviewed annually by the Committee to ensure the Board has appropriate mix of qualifications, skills and experience. External advisers may be used in this process. Candidates are appointed by the Board and must stand for election at the next general meeting of shareholders. If a

2. The Board of Directors (Continued)

new director is appointed during that year, that person will stand for election by shareholders at the next annual general meeting. Shareholders are provided with relevant information on the candidates for election. The Nominations Committee reviews appointment criteria from time to time and makes recommendations concerning the re-election of any director by shareholders.

ASX Recommendations 2.1, 2.4

(i) Retirement and re-election of directors

The Company's Constitution states that one-third of directors excluding the Managing Director must retire each year. The maximum term that each director can serve in any single term is three years. A director appointed during the year must, under the Constitution, retire at the next annual general meeting. At that meeting, they can stand for re-election. The Board Nominations Committee conducts a peer review of those directors during the year in which that director will become eligible for re-election.

ASX Recommendation 2.4

(j) Board access to information and advice

All directors have unrestricted access to Company records and information and receive regular detailed financial and operational reports from executive management to enable them to carry out their duties. Each Director has the right, subject to prior consultation with the Chairman, to seek independent professional advice at the Company's expense if such advice is essential to the proper discharge of the Director's duties. The Chairman may notify other Directors of the approach with any resulting advice being made available to all other Board members.

To assist the Board in fulfilling its duties and responsibilities, it has established the following committees:

- Audit and Risk Committee;
- Board Nominations Committee; and
- Remuneration Committee.

ASX Recommendation 2.5, 2.6

3. Board Committees

a) Audit and Risk Committee

The Audit and Risk Committee is governed by its charter, as approved by the Board. The Audit and Risk Committee comprises two Directors, who are non-executive Directors. The non-executive Directors are Mr Gary Lewis and Mr Ian Mitchell, Chairman of the Audit Committee. The qualifications of the committee are located in the Directors Report. The Audit Committee's responsibilities include:

- Reviewing procedures, and monitoring and advising on the quality of financial reporting (including accounting policies and financial presentation);

3. Board Committees (Continued)

- Reviewing the proposed fees, scope, performance and outcome of external audits. However, the auditors are appointed by a general meeting of the Shareholders.
- Reviewing the procedures and practices that have been implemented by management regarding internal control systems;
- Ensuring that management have established and implemented a system for managing material financial and non-financial risks impacting the Company;
- Reviewing the corporate governance practices and policies of the Company; and
- Reviewing procedures and practices for protecting intellectual property (IP) and aligning IP to strategy.

The Committee complies with the requirement to have an independent chairperson, who is not the chairperson of the Board. Mr Mitchell is Chairman of the Committee. The Board does not comply with the ASX requirement to have at least 3 members on the Audit Committee. The Board believes that the experience that Mr Lewis and Mr Mitchell have in the finance industry adequately mitigates this non-compliance.

The number of times the Audit and Risk Committee has formally met and the number of meetings attended by directors during the financial year are reported in the Directors' Report. The Audit and Risk Committee monitors and reviews:

- The effectiveness and appropriateness of the framework used by the Company for managing operational risk;
- The adequacy of the Company's internal controls including information systems controls and security;
- The adequacy of the process for reporting and responding to significant control and regulatory breaches;
- The effectiveness of the compliance function in ensuring adherence to applicable laws and regulations, including the action of legal and regulatory developments which may have a significant impact;
- Operational risk issues;
- Action plans to address control improvement areas.

The Company's Auditor, is requested to attend the Annual General Meeting and to be available to answer shareholders questions about the conduct of the audit and the preparation and content of the Auditor's Report.

ASX Recommendations 4.1, 4.2, 4.3, 4.4

b) Board Nominations Committee

The Board Nominations Committee is governed by its charter, as approved by the Board. Mr Gary Lewis and Dr Geoff Cumming were the members of the Board Nominations Committee during the financial year and Dr Cumming is Chairman of the Committee. The primary function of the Nominations Committee is performing review procedures to assist the Board in fulfilling its oversight responsibility to shareholders by ensuring that the Board comprises individuals best able to discharge the responsibilities of directors having regard to the law and the highest standards of governance. The Committee as delegated by the Board is responsible for:

3. Board Committees (Continued)

- developing and reviewing policies on Board composition, strategic function and size;
- performance review process of the Board, its Committees and individual directors;
- developing and implementing induction programs for new directors and ongoing education for existing directors;
- developing eligibility criteria for nominating directors;
- recommending appointment of directors of the Board;
- reviewing director independence; and
- succession planning for the Board by considering a diverse range of candidates.

The number of times the Board Nominations Committee has formally met and the number of meetings attended by directors during the financial year are reported in the Directors' Report.

ASX Recommendations 2.4, 2.6

c) Remuneration Committee

The Remuneration Committee is governed by its charter, as approved by the Board. Mr Gary Lewis and Dr Geoff Cumming were the members of the Remuneration Committee during the financial year and Dr Cumming is Chairman of the Committee. The Remuneration Committee advises the Board on remuneration policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors, senior executives and non-executive directors. Each member of the senior executive team signs a formal employment contract at the time of their appointment covering a range of matters including their duties, rights and responsibilities. Executive remuneration and other terms of employment are reviewed annually by the Committee having regard to personal and corporate performance contribution to long-term growth, relevant comparative information and independent expert advice. As well as base salary, remuneration packages may include superannuation and retirement and termination entitlements.

The Remuneration Report, which has been included in the Directors' Report, provides information on the Group's remuneration policies and payment details for Directors and Key Management Personnel.

The number of times the Board Nominations Committee has formally met and the number of meetings attended by directors during the financial year are reported in the Directors' Report.
ASX Recommendation 8.1

4. Recognising and managing risks

A range of factors and risks some of which are beyond the Company's control can influence performance. The Company has in place a range of procedures such as the Delegated Authority Matrix and Employee Handbook to identify, assess and control risks which are reviewed by the Audit and Risk Committee and also by the Board periodically.

4. Recognising and managing risks (Continued)

a) Board oversight of the risk management system

The Company recognises five main types of risk:

- Market risk, relates to the risk to earnings from changes in market conditions including economic activity, interest rates, foreign exchange, investor sentiment and world events.
- Operational risk, relates to inadequacy of or a failure of internal processes, people or systems or from external events.
- Credit risk, relates to the risk that the other party to a transaction will not honour their obligation; and
- Regulatory risk, relates to the risk that there may be changes to legislation (including but not limited to laws which relate to corporations and taxation) in the future which restricts or limits in some way the Company's activities and
- Financial risk, relates to the risk that there may be insufficient cashflow generated in order to meet financial obligations.

ASX recommendations 7.1, 7.4

The Board, based on the recommendations of the Chief Executive Officer and Chief Financial Officer, makes decisions on investments for the Company. The Board considers that the general retention by it of the power to make the final investment or divestment decision by majority vote provides an effective review of the investment strategy.

A majority of the Directors must approve any modification to the investment parameters applying to the Company's assets. Any proposed major change in investment strategy is first put to Shareholders for their approval.

The Board is also responsible for identifying and monitoring areas of significant business risk. Internal control measures currently adopted by the Board include:

- monthly reporting to the Board in respect of operations and the Company's financial position, with a comparison of actual results against budget; and
- regular reports to the Board by appropriate members of the management team and/or independent advisers, outlining the nature of particular risks and highlighting measures which are either in place or can be adopted to manage or mitigate those risks.

b) Risk management roles and responsibilities

The Board is responsible for approving and reviewing the Company's risk management strategy and policy.

Executive management is responsible for implementing the Board approved risk management strategy and developing policies, controls, processes and procedures to identify and manage risks in all of the Company's activities.

ASX Recommendation 7.2

4. Recognising and managing risks (Continued)

c) Chief Executive Officer and Chief Financial Officer Certification

The Chief Executive Officer and Chief Financial Officer provide to the Board written certification that in all material respects:

- The Company's financial statements present a true and fair view of the Company's financial condition and operational results and are in accordance with relevant accounting standards;
- The statement given to the Board on the integrity of the Company's financial statements is founded on a sound system of risk management and internal compliance and controls which implements the policies adopted by the Board; and
- The Company's risk management and internal controls are operating efficiently and effectively in all material respects.

ASX recommendations 7.3

d) Internal review and risk evaluation

Assurance is provided to the Board by senior management on the adequacy and effectiveness of management controls for risk.

5. Remuneration

a) Overview

The Remuneration Committee is responsible for reviewing the compensation arrangements for the Chief Executive Officer and other Key Management Personnel. The Remuneration Committee is also responsible for reviewing management incentive schemes, superannuation, retirement and termination entitlements, fringe benefits policies, and professional indemnity and liability insurance policies. The nature and amount of each element of the fee or salary of each director and each of the Company's officers and executives are set out in the Remuneration Report on pages 22 to 26. Non-executive Directors' fees and payments are reviewed annually by the Board. Executive Directors are, subject to the information above, paid in salary or fees.

ASX recommendations 8.1, 8.2, 8.3

b) Equity-based key management personnel remuneration

The Company is committed to the link between employee remuneration and their performance and will continue the practice in the next 12 months to ensure that our staff are rewarded for their output, increased employee motivation and become an employer of choice.

6. Timely and balanced disclosure

The Company believes that all shareholders should have equal and timely access to material information about the Company including its financial situation, performance, ownership and governance. The Company's market disclosure policy approved by the Board governs how the

Company communicates with shareholders and the market. Shareholders are encouraged to participate in general meetings.

a) Market disclosure policy and practices

This policy includes provision for communications by the Company to:

- Be factual and subject to internal vetting and authorisation before issue;
- Be made in a timely manner;
- Not omit material information;
- Be expressed in a clear and objective manner to allow investors to assess the impact of the information when making investment decisions; and
- Be in compliance with ASX Listing Rules continuous disclosure requirements.

The policy also contains guidelines on information that may be price sensitive. The Company Secretary has been nominated as the person responsible for communications with the Australian Securities Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements with the ASX Listing Rules and overseeing and coordinating disclosure of information to the ASX.

ASX Recommendations 5.1, 5.2, 6.1, 6.2

b) Communication strategy

The Company publishes on its website the annual reports, profit announcements, press releases and notices to meeting to encourage shareholder and investor participation in Medical Australia. The Board has adopted a share trading policy and has ensured that all officers and employees are aware of the terms thereof.

ASX Recommendations 6.1, 6.2

7. Ethical and responsible decision-making

a) Code of Ethics and Conduct

The Board endeavours to ensure that the Directors, officers and employees of Medical Australia act with integrity and observe the highest standards of behaviour and business ethics in relation to their corporate activities. All officers and employees are expected to:

- comply with the law;
- act in the best interests of the Company;
- be responsible and accountable for their actions; and
- observe the ethical principles of fairness, honesty and truthfulness, including prompt disclosure of potential conflicts.

ASX Recommendations 3.1, 3.2, 3.3

7. Ethical and responsible decision-making (Continued)

b) Policy concerning trading in Company securities

The Company has compliance standards and procedures which deal with staff trading in shares when they are in possession of inside information. Employees are made aware of the legal and ethical aspects associated with their private investment activities, especially as they relate to potential insider trading and front running. All staff must keep an up-to-date register of their securities holdings, including the dates of acquisition and disposal.

ASX Recommendation 3.2

c) Policy regarding gender diversity and proportion of women in the Company

The Company has established a Diversity Policy which includes the measureable objectives in achieving gender diversity. Some of them include:

- Work / Life Balance policy which will aid female participation through flexible working hours
- Hiring of staff who are competent in their role irrespective of their gender at both Management and Board level
- Policy of hiring females from a variety of backgrounds and it is expected that the current approach will continue for the immediate future

The Company currently has a 47% female participation. Given the size and nature of the Company the plan is to keep this balance for the immediate future.

ASX Recommendations 3.2, 3.3, 3.4

8. Remuneration Report and Nominations Policies

The responsibilities of the Remuneration & Nomination Committee include making recommendations to the Board regarding the remuneration of senior executives, executive directors and non-executive directors of the Company.

In accordance with the Constitution of Medical Australia, shareholders determine the aggregate annual remuneration of the Non-Executive Directors.

Non-Executive Directors are eligible to receive options over the Company's shares at the time of their retirement where it is considered an appropriate element of remuneration in situations when the Non-Executive Director's skills and experiences are recognised as important to the Company's future development. The terms of the options are set out in agreements between the Company and Non-Executive Directors and will vary depending on the age of the relevant Director at the time of retirement.

ASX Recommendations 8.2, 8.3

Disclosure on Company Website

The following corporate governance policies can be found on the Company's website at www.medaust.com:

- Corporate Governance Policy
- Remuneration & Nomination Committee Charter
- Audit & Risk Committee Charter
- Code of Conduct
- Diversity Policy
- Share Trading Policy
- Continuous Disclosure Policy

Checklist for summarising the best practice recommendations and compliance

ASX Principle	Reference	Compliance (Y / N)
Principle 1: Lay solid foundations for management and oversight		
1.1 Companies should establish the function reserved to the board and those delegated to senior executives and disclose those functions.	2b	Y
1.2 Companies should disclose the process for evaluating the performance of senior executives.	5a, 5b	Y
1.3 Companies should provide the information indicated in the Guide to reporting on Principle 1.	2a, 2b, 5a, 5b	Y
Principle 2: Structure the board to add value		
2.1 A majority of the board should be independent directors.	2.1 2a, 2d, 2h	Y
2.2 The chair should be an independent director.	2c	Y
2.3 The roles of chair and chief executive officer should not be exercised by the same individual.	2a, 2c	Y
2.4 The board should establish a nomination committee.	2h, 2i. 3b	Y
2.5 Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	2g, 3c	Y
2.6 Companies should provide the information indicated in the Guide to reporting on this Principle 2.	2a, 2b, 2d, 2j, 3b	Y
Principle 3: Promote ethical and responsible decision-making		
3.1 Companies should establish a code of conduct and disclose the code or a summary of the code as to: 3.1.1 the practices necessary to maintain confidence in the company's integrity; 3.1.2 the practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders; and 3.1.3 the responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	7a	Y
3.2 Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.	7c	Y
3.3 Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	7c	Y
3.4 Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive positions and women on the board.	7c	Y
3.5 Companies should provide the information indicated in the Guide to reporting on Principle 3	7a	Y

Principle 4: Safeguard integrity in financial reporting		
4.1 The board should establish an audit committee.	3a	Y
4.2 The audit committee should be structured so that it:	3a	Y
4.2.1 consists only of non-executive directors;		
4.2.2 consists of a majority of independent directors;		
4.2.3 is chaired by an independent chair, who is not the chair of the board; and		
4.2.4 has at least three members		
4.3 The audit committee should have a formal charter.	3a	Y
4.4 Companies should provide the information indicated in the Guide to reporting on this Principle 4.	2a, 3a	Y
Principle 5: Make timely and balanced disclosure		
5.1 Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclose those policies or a summary of those policies.	6a	Y
5.2 Companies should provide the information indicated in the Guide to reporting on this Principle 5.	6a	Y
Principle 6: Respect the rights of shareholders		
6.1 Companies should design a communications policy for promoting effective communication with shareholders and encourage participation at general meetings and disclose their policy or a summary of that policy.	6a, 6b	Y
6.2 Companies should provide the information indicated in the Guide to reporting on Principle 6.	6a, 6b	Y
Principle 7: Recognise and manage risk		
7.1 Companies should establish policies for the oversight and management of material businesses risks and disclose a summary of those policies.	4a	Y
7.2 The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of business risks.	4b	Y
7.3 The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material aspects in relation to financial reporting risks.	4c	Y
7.4 Companies should provide the information in the Guide to reporting on this Principle 7	4a	Y

Principle 8: Remunerate fairly and responsibly

8.1	The board should establish a remuneration committee	3c, 5a	Y
8.2	The remuneration committee should be structured so that it: 8.2.1 consists of a majority of independent directors 8.2.2 is chaired by an independent chair 8.2.3 has at least three members	5a, 8	Y
8.3	Companies should clearly distinguish the structure of non-executive director's remuneration from that of executive directors and senior executives.	3c, 5a, 8	Y
8.4	Companies should provide the information indicated in the Guide to reporting on this Principle 8	5a	Y

DIRECTORS' REPORT

Your directors have pleasure in submitting their annual report together with the consolidated financial report of Medical Australia Limited (the Company), being the Company and its controlled entities, for the year ended 30 June 2012, and the auditor's report thereon.

Directors

The names of directors of the Company holding office at any time during or since the financial year are:

Gary Lewis	Chairman since 10 January 2012
Thomas Hartigan	Chairman from 3 March 2010 to 30 November 2011
Ian Mitchell	Director since 6 November 2008
Mark Donnison	Managing Director since 30 June 2011
Dr Geoff Cumming	Director since 23 January 2009

Gary Lewis, Chairman

Gary Lewis holds both Bachelor of Commerce and a Masters of Business & Technology (MBT) degrees from the University of NSW. In addition to running his own investment and marketing services businesses, Gary has worked in senior management positions in some of Australia's largest organisations, including 15 years in the pharmaceutical industry. He has also worked with a number of Australian publicly listed companies over the past 11 years in advisory positions, with an emphasis on corporate strategy and business development. He is currently also a director of Robust Resources Limited and Reliance Resources Ltd.

Mr Lewis had been a Director since 24 November 2006 and was appointed Managing Director on 1 March 2007. He resigned from Managing Director on 3 March 2010 and took-up a role as an Independent Non-Executive Director. He was appointed Chairman on 10 January 2012.

Thomas Hartigan, Chairman (Resigned 30 November 2011)

Thomas Hartigan held a Bachelor of Commerce degree and was a member of the Institute of Chartered Accountants in Australia. Mr Hartigan had more than 40 years experience as a Director of Australian public companies. He was also the non-executive Chairman of First Folio Limited, a former Non-Executive Chairman of Eiffel Technologies Ltd and former non-executive director of Charter Pacific Ltd.

Mr Hartigan had been a Director since 3 March 2010 and was appointed Chairman on 3 March 2010 until his passing in November 2011.

Ian Mitchell, Independent Non-Executive Director and Company Secretary

Ian Mitchell is a practising solicitor of over thirty five years standing. He has been a Director and Company Secretary of a number of publicly listed Mining and Industrial companies and his legal expertise is in commercial, contractual ASIC and ASX compliance work. His academic qualifications are BA, Dip Law (Sydney).

Mr Mitchell was appointed Company Secretary on 16 October 2008 and has been a Director since 6 November 2008.

Mark Donnison, Managing Director

Mark Donnison has over 20 years of experience in the UK and Australian pharmaceutical industries, and has a successful pedigree in the areas of sales, marketing, business development and business administration. He was previously the company's General Manager of Sales and Marketing. Prior to joining Medical Australia, Mr. Donnison held the position of Director, National Pharmacy Business for Alphapharm. Alphapharm is Australia's largest prescription medicine supplier to the Pharmaceutical Benefits Scheme and a subsidiary of the American based Mylan Pharmaceuticals.

Mr Donnison was appointed CEO on 12 October 2009 and has been a Director since 30 June 2011.

Dr Geoff Cumming, Independent Non-Executive Director

Dr Geoffrey Cumming has significant healthcare industry experience and holds a Bachelor of Science degree from Swinbourne and Monash University, an MBA from Macquarie University and a PhD from Monash University. He has worked in the biotechnology, medical and healthcare markets for over 30 years and has extensive M&A, government and healthcare regulatory experience. Dr Cumming worked as Managing Director, Oceania for Roche Diagnostic Systems and is currently Chairman of Sienna Cancer Diagnostics and a Director of Anteo Diagnostics Limited.

Dr Cumming has been a Director since 23 January 2009.

Directors' Interests

Directors' direct beneficial shareholdings as at year end were:

Specified directors	Held at 1 July 2011	Purchases	Sales	Held at 30 June 2012
Thomas Hartigan	-	-	-	-
Gary Lewis	2,099,700	3,336,309	-	5,436,009
Ian Mitchell	3,432,757	2,000,000	-	5,432,757
Mark Donnison	14,154,300	5,385,150	-	19,539,450
Dr Geoff Cumming	320,000	80,000	-	400,000

Directors' indirect beneficial shareholdings as at year end were:

Specified directors	Held at 1 July 2011	Purchases	Sales	Held at 30 June 2012
Thomas Hartigan	6,085,000	-	-	6,085,000
Gary Lewis	12,385,238	1,000,000	-	13,385,238
Ian Mitchell	-	-	-	-
Mark Donnison	-	-	-	-
Dr Geoff Cumming	-	-	-	-

Directors' Meetings

The directors' have attended the following meetings during the year:

- Audit and Risk Committee
- Nominations Committee
- Remuneration Committee

The number of directors' meetings held, including meetings held by telephone and by circulation of resolutions, and the number of those meetings attended by each of the directors of the Company, while a director, during the financial year were as follows:

	Directors Meetings		Audit and Risk Committee Meetings		Nominations Committee Meetings		Remuneration Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Thomas Hartigan	4	3	-	-	-	-	-	-
Gary Lewis	6	6	-	-	-	-	-	-
Ian Mitchell	11	11	1	1	1	1	1	1
Mark Donnison	11	11	-	-	-	-	-	-
Dr Geoff Cumming	11	10	1	1	1	1	1	1

Principal Activities
The principal activities of the Group during the course of the financial year were the development, manufacture and distribution of a range of medical devices.

Financial Results
The consolidated loss after income tax attributable to members of the Company for the year was $668,924 (2011 - $342,723).

Dividends
No dividends have been paid or declared during the financial year.

Significant Changes in State of Affairs
In the opinion of the directors, the significant changes in the state of affairs of the Group that occurred during the year ended 30 June 2012 were:

- Equity funds of $1,222,217 were raised through the exercise of 61,110,879 options.
- A UK subsidiary was incorporated in December 2011. A UK laboratory has been established for the purpose of processing and cryogenically freezing stem cells for the animal health market.

Review of Operations
The operating and financial review of the Group during the year is detailed on pages 2 and 3 of this Annual Report.

Non-audit Services
During the year ended 30 June 2012, Gould Ralph Pty Ltd, a company associated with the auditor, also performed registry and other services for the company.

The board of directors are 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 comprise the external auditor's independence for the following reasons:

- All non-audit services are reviewed and approved to ensure they do not adversely affect the integrity and objectivity of the auditor; and

- The nature of the services provided do not compromise the general principles relating to auditor independence as set out in APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

The following fees for non-audit services were paid to the external auditors during the year ended 30 June 2012.

	2012	2011
	$	$
Share registry services	12,939	29,316
Other	2,833	9,526
Total	15,772	38,842

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001
The lead auditor's independence declaration is set out on page 27 and forms part of the directors' report for the year ended 30 June 2012.

Events Subsequent to Balance Date
No matter or circumstance has arisen, since the end of the financial year, which significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in subsequent financial years.

Likely Developments
Further information as to the likely developments in the operations of the Group and the expected results of those operations in subsequent years has not been included in this report because disclosure of this information would be likely to result in unreasonable prejudice to the Group.

Environmental Regulations
The Company has complied with its environmental obligations. No environmental breaches have been notified by any Government agency to the date of the Directors' Report and it does not anticipate any obstacles in complying with the legislation.

Indemnification of Officer or Auditor
Indemnities have been given or insurance premiums paid amounting to $14,780 relating to directors and officers insurance. No indemnifications have been provided in relation to the external auditor.

Proceedings on Behalf of the 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.

Remuneration Report (Audited)
The policy of remuneration of directors and senior executives is to ensure the remuneration package properly reflects the person's duties and responsibilities, and that remuneration is competitive in attracting, retaining and motivating people of the highest quality. The Board is responsible for reviewing its own performance. The non-executive directors are responsible for evaluating the performance of the executive director who, in turn, evaluates the performance of all other senior executives. The evaluation process is intended to assess the Group's business performance, whether long term strategic objectives are being achieved and the achievement of individual performance objectives. The remuneration of the Key Management Personnel was linked to the Group's increase in revenue and individual key performance indicators during the year.

Remuneration comprises salary, bonus, statutory superannuation and options. The remuneration disclosed below represents the cost to the Company for the services provided under these arrangements.

Employees are eligible to participate in a bonus scheme, which pays bonuses based on a combination of discretionary bonuses and achievement of Key Performance Indicators.

Bonus percentages are variable and percentages shown in the remuneration table represent percentage for cash bonuses paid or payable for the year ended 30 June 2012.

The employment terms and conditions of other key management personnel and Group executives are formalised in contracts of employment. Terms of employment require that either party must give a minimum of one month and maximum of three months' notice prior to termination of the contract. The notice on termination and resignation for the Chief Executive Officer and Chief Financial Officer has been increased from 1 month to 3 months in August 2012.

The following table provides employment details of persons who were, during the financial year, members of the key management personnel of the consolidated group. This group includes the five executives receiving the highest remuneration.

Employment details of Key Management Personnel

Name	Title	Commencement date	Termination Provisions (Months)	% fixed remuneration
Mark Donnison	Managing Director & CEO	12 Oct 09	3	85%
Suraj Sethuram	GM, Finance & Administration	6 Jun 11	3	95%
Michael Jones	GM, Corporate Innovations	1 Mar 08	1	98%
David Thomson	GM, QA/RA	22 Jul 08	1	97%
Ian McKenzie	GM, Sales & Marketing	1 May 08	1	97%
Atul Narayan	Supply Chain Manager	20 Jun 11	1	100%

Details of the nature and amount of each major element of the emoluments of each director and each of the named executive officers of the Company and Group are:

	Short term Salary, bonus, fees and leave	Non monetary	Other	Post-employment SGC benefits	Share based payment expense	Total	% of remuneration that is performance based
2012	**$**	**$**	**$**	**$**	**$**	**$**	**%**
Directors							
Thomas Hartigan	20,833	-	-	1,875	-	22,708	-
Gary Lewis	27,500	-	-	-	-	27,500	-
Dr Geoff Cumming	36,000	-	-	3,240	-	39,240	-
Mark Donnison	269,750	-	26,950	24,277	10,250	331,227	15%
Ian Mitchell	44,000	-	-	-	-	44,000	-
Total, all Directors	398,083	-	26,950	29,392	10,250	464,675	-

2011	Short term Salary, bonus, fees and leave $	Non monetary* $	Other $	Post-employment SGC benefits $	Share based payment expense $	Total $	% of remuneration that is performance based %
Directors							
Thomas Hartigan	50,000	-	-	4,500	-	54,500	-
Gary Lewis**	86,050	46,200	-	-	-	132,250	-
Dr Geoff Cumming	36,000	-	-	3,240	-	39,240	-
Ian Mitchell	44,000	-	-	-	-	44,000	-
Total, all Directors	216,050	46,200	-	7,740	-	269,990	-

* The non-monetary benefits paid to Gary Lewis in the form of shares were in lieu of invoices for directors fees.
**Resigned as Independent Director in March 2011

2012	Short term Salary, bonus, fees and leave $	Non monetary $	Other $	Post-employment SGC benefits $	Share based payment expense $	Total $	% of remuneration that is performance based %
Key Management Personnel							
Suraj Sethuram	150,576	-	18,000	13,552	-	182,128	5%
Michael Jones	187,815	-	-	16,903	6,000	210,718	2%
David Thomson	116,987	-	-	12,682	4,800	134,469	3%
Ian McKenzie	136,000	-	17,500	12,240	-	165,740	3%
Atul Narayan	125,654	-	-	11,309	-	136,963	-
Total Key Management	717,032	-	35,500	66,686	10,800	830,018	-

2011	Short term Salary, bonus, fees and leave $	Non monetary $	Other $	Post-employment SGC benefits $	Share based payment expense $	Total $	% of remuneration that is performance based %
Key Management Personnel							
Mark Donnison	284,749	-	28,189	25,627	47,500	386,065	11%
Suraj Sethuram	8,461	-	1,500	761	-	10,722	5%
Michael Jones	174,900	-	-	15,741	23,750	214,391	2%
David Thomson	138,600	-	-	12,474	23,750	174,824	5%
Greg Lewis	135,355	-	20,963	11,828	-	168,146	6%
Total Key Management Personnel	742,065	-	50,652	66,431	95,000	954,148	-

Options granted to directors and senior management as compensation
An employee share option plan has been established where the Company may issue shares and options under the Employee Share and Option Plan to selected employees (including directors – subject to ASX listing rules). The options are issued for nil consideration and are granted at the discretion of the Directors. The options cannot be transferred, are not quoted on the ASX and carry no dividend and voting rights.

Details of options that were granted as compensation to each director and key management person:

Director	Grant Date	Number of options granted	Fair value at grant date $	Fair value per option $	Option Terms (Exercise Price and Term)
Gary Lewis	17 September 2009	1,000,000	30,000	0.008	$0.08 30 June 2014
Thomas Mann	17 September 2009	1,000,000	30,000	0.008	$0.08 30 June 2014
Ian Mitchell	17 September 2009	500,000	15,000	0.008	$0.08 30 June 2014
Geoff Cumming	17 September 2009	500,000	15,000	0.008	$0.08 30 June 2014
Mark Donnison	1 February 2011	2,500,000	47,500	0.019	$0.05 14 July 2014
Mark Donnison	9 November 2011	2,500,000	10,250	0.004	$0.05 14 July 2014

Key Management Personnel	Grant Date	Number of options granted	Fair value at grant date $	Fair value per option $	Option Terms (Exercise Price and Term)
Greg Lewis	1 February 2011	1,250,000	23,750	0.019	$0.05 14 July 2014
Michael Jones	1 February 2011	1,250,000	23,750	0.019	$0.05 14 July 2014
David Thomson	1 February 2011	1,000,000	19,000	0.019	$0.05 14 July 2014
Michael Jones	14 September 2011	1,250,000	6,000	0.004	$0.05 3 September 2014
David Thomson	14 September 2011	1,000,000	4,800	0.004	$0.05 3 September 2014

The number of options that had vested as at 30 June 2012 is 13,750,000.

There are 4,750,000 options granted and vested during the year. The fair value of the options at grant date was determined based on the binomial option pricing model (lattice-based approach). The model inputs of the options issued were the Company's share price at the grant date, a risk free interest rate of 5% and an expected share price volatility factor of 70% over the life of the options based on the historical volatility of comparable listed Australian small-cap and micro-cap medical device companies.

Non-executive Directors

Total compensation for all non-executive directors is determined by the board based on market conditions. Director's fees were paid to all independent directors as per the table provided earlier in the Director's Report.

Options

Details of unissued shares under option as at the date of this report are:

Issuing entity	Number of shares under option	Class of shares	Exercise price of option	Expiry date of options
Medical Australia Limited	3,000,000	Ordinary	$0.08	30 June 2014
Medical Australia Limited	8,500,000	Ordinary	$0.05	14 July 2014
Medical Australia Limited	2,250,000	Ordinary	$0.05	3 September 2014

The options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

Signed at Sydney this 27th day of September 2012
In accordance with a resolution of the Board of Directors:

Gary Lewis
Chairman

GouldRalph
ASSURANCE

Chartered Accountants
ABN 74 632 161 298
Level 42, Suncorp Place
259 George Street
Sydney NSW 2000
Australia
T: +61 2 9032 3000
F: +61 2 9032 3088
E: mail@gouldralph.com.au
W: www.gouldralph.com.au

27 September 2012

The Board of Directors
Medical Australia Limited
Level 17, 275 Alfred Street
NORTH SYDNEY NSW 2060

Dear Members of the Board

AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

As lead audit partner for the audit of Medical Australia Limited for the year ended 30 June 2012, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Medical Australia Limited and any entities it controlled during the year.

Yours faithfully

GOULD RALPH ASSURANCE

GREGORY C RALPH, M.Com., F.C.A.
Partner

Russell Bedford
Member of Russell Bedford International - with affiliated offices worldwide
Liability limited by a scheme approved under Professional Standards Legislation

Consolidated Statement of Comprehensive Income

For the year ended 30 June 2012

	Notes	Consolidated 2012 $	2011 $
Sale of goods		9,211,228	8,781,299
Cost of goods sold		(4,086,706)	(3,836,911)
Gross profit		5,124,522	4,944,388
Expenses:			
Administration and consultants	2	(878,326)	(849,662)
Advertising and marketing		(73,512)	(30,808)
Depreciation and amortisation		(273,471)	(141,192)
Employee benefits expenses	2	(3,209,357)	(3,161,818)
Occupancy costs		(437,868)	(381,987)
Other		(464,857)	(430,049)
Travel and accommodation		(449,392)	(193,652)
Loss before interest and income tax		(662,261)	(244,780)
Financial income		27,146	13,796
Financial expense		(156,526)	(186,842)
Net financing loss		(129,380)	(173,046)
Loss before income tax		(791,641)	(417,826)
Income tax benefit	3	122,717	75,103
Loss for the year after income tax		(668,924)	(342,723)
Other comprehensive income after income tax			
Exchange differences on translating foreign controlled entity		2,561	-
Total comprehensive loss for the year		(666,363)	(342,723)
Basic loss per share attributable to ordinary shareholders (cents per share)	4	(0.15) cents	(0.09) cents
Diluted loss per share attributable to ordinary shareholders (cents per share)	4	(0.15) cents	(0.09) cents

The Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 30 June 2012

	Notes	Consolidated 2012 $	2011 $
CURRENT ASSETS			
Cash and cash equivalents	5	578,221	828,297
Trade and other receivables	6	920,925	966,924
Inventories	7	1,258,769	889,833
Current tax receivables		122,717	-
Other assets		42,222	14,672
TOTAL CURRENT ASSETS		2,922,854	2,699,726
NON-CURRENT ASSETS			
Property, plant and equipment	8	297,700	340,086
Intangible assets	9	4,333,694	4,378,714
TOTAL NON-CURRENT ASSETS		4,631,394	4,718,800
TOTAL ASSETS		7,554,248	7,418,526
CURRENT LIABILITIES			
Trade and other payables	10	1,280,074	1,427,112
Interest bearing liabilities	11	550,854	616,419
Provisions	12	317,772	239,333
TOTAL CURRENT LIABILITIES		2,148,700	2,282,864
NON-CURRENT LIABILITIES			
Interest bearing liabilities	11	434,826	751,283
Provisions	12	14,561	9,374
TOTAL NON-CURRENT LIABILITIES		449,387	760,657
TOTAL LIABILITIES		2,598,087	3,043,521
NET ASSETS		4,956,161	4,375,005
EQUITY			
Issued capital	13	18,476,311	17,249,844
Equity remuneration reserve	14	131,410	110,358
Foreign Currency translation reserve		2,561	-
Accumulated losses	15	(13,654,121)	(12,985,197)
TOTAL EQUITY		4,956,161	4,375,005

Consolidated Statement of Changes in Equity

For the year ended 30 June 2012

	Issued capital $	Equity Remuneration Reserve $	Foreign Currency Translation Reserve $	Accumulated Losses $	Total $
Balance at 1 July 2010	15,602,018	100,936	-	(12,642,474)	3,060,480
Loss for the year	-	-	-	(342,723)	(342,723)
Other comprehensive income	-	-	-	-	-
Total comprehensive loss	-	-	-	(342,723)	(342,723)
Cost of share based payments	-	9,422		-	9,422
Equity contributions	1,679,618	-	-	-	1,679,618
Share issue costs	(31,792)	-	-	-	(31,792)
Balance at 30 June 2011	17,249,844	110,358	-	(12,985,197)	4,375,005
Loss for the year	-	-	-	(668,924)	(668,924)
Other comprehensive income	-	-	2,561	-	2,561
Total comprehensive loss	-	-	2,561	(668,924)	(666,363)
Cost of share based payments	-	21,052	-	-	21,052
Equity contributions	1,226,467	-	-	-	1,226,467
Share issue costs	-	-	-	-	-
Balance at 30 June 2012	18,476,311	131,410	2,561	(13,654,121)	4,956,161

MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES

Consolidated Statement of Cash Flows

For the year ended 30 June 2012

	Notes	Consolidated 2012 $	Consolidated 2011 $
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		9,464,814	8,629,004
Paid to suppliers and employees		(10,077,939)	(9,084,323)
Cash (used by) operations		(613,125)	(455,319)
Interest paid		(138,845)	(464,762)
Interest received		27,756	8,295
Income tax refund		-	75,103
Net cash used in operating activities	19	(724,214)	(836,683)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(177,863)	(101,108)
Net cash used in investing activities		(177,863)	(101,108)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		958,734	1,650,298
Proceeds from borrowings		-	500,000
Repayment of borrowings		(306,733)	(207,588)
Net cash provided by financing activities		652,001	1,942,710
Net (decrease) / increase in cash and cash equivalents		(250,076)	1,004,919
Cash and cash equivalents at the beginning of the year		828,297	(176,622)
Cash and cash equivalents at the end of the year		578,221	828,297

The Statement of Cash Flows should be read in conjunction with the accompanying notes.

Note 1 – Basis of Presentation

Statement of compliance

The financial report is a general purpose financial report, which has been prepared in accordance with Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. The annual report was authorised for issue by the board of directors on 27 September 2012.

The financial report covers the economic entity of Medical Australia Limited and its controlled entities, together with Medical Australia Limited as an individual parent entity Medical Australia Limited is a listed public company, incorporated and domiciled in Australia.

The financial report of the economic entity complies with all International Financial Reporting Standards (IFRS) in their entirety.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

Basis of Accounting

There have been no material adjustments to the accounting policies of the Group since 30 June 2011.

The Group has not elected to early adopt any new standards or amendments

Going concern

The financial report has been prepared on a going concern basis which contemplates the realisation of assets and settlement of liabilities in the ordinary course of business.

The consolidated entity incurred a trading loss of $668,924 and had negative net cash flows from operations of $724,214 for the year ended 30 June 2012. Accumulated losses at that date were $13,654,121.

Additionally, the consolidated entity breached its bank covenants in relation to its long term bank loan facility as disclosed in Note 11(i) and the interest coverage and minimum EBITDA covenants were not met at 30 June 2012. However, the bank has advised it has no intention of calling in the facilities as at 16th July 2012. The next review date for this facility is 31 December 2012. The consolidated entity is also presently obliged to repay the balance of the unsecured Pacific Device loan on 1 August 2013, however Pacific Device has formally advised they would be prepared to extend that loan.

These conditions give rise to a material uncertainty that may cast doubt upon the ability of the consolidated entity to continue as a going concern and its ability to realise its assets and extinguish its liabilities in the ordinary course of business.

Management has prepared a cash flow forecast for the 12 months ending September 2013 that supports the ability of the entity to continue as a going concern. The cash flow forecast assumes a 4% increase in sales, the extension of the bank loan facility, the extension of Pacific Devices loan and a new $1 million debt facility. The Directors are presently satisfied that the cash flow forecast will be achieved.

In the event that the consolidated entity does not achieve the above, it may not be able to continue operations as a going concern and therefore may not be able to realise its assets and extinguish its liabilities in the ordinary course of operations and at the amounts stated in the financial statements.

No adjustments have been made to the recoverability and classification of recorded asset values and the amount and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

Basis of measurement
The consolidated financial statements have been prepared on the historical cost basis, except where stated at fair value.

Functional and presentation currency
These financial statements are presented in Australian dollars, which is the Company's functional currency and the functional currency of the Group.

Key estimates and judgements
The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised and in any future years affected.

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in the following notes:

- Note 1 – Going Concern
- Note 8 – Property, plant and equipment
- Note 9 – Intangible Assets

Significant Accounting policies
The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by entities in the Group.

Determination of fair values
A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods.

Where applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Inventories
The fair value of inventories is determined based on its estimated selling price in the ordinary course of business less the estimated costs of sale.

Trade and other receivables
The fair value of trade and other receivables is estimated as the book value less any identified specific impairments.

Non-derivative financial liabilities
The fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

Share-based payment transactions
The fair value of options issued to management is measured using the binomial model. Measurement inputs include the share price on measurement date, the exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends and the risk-free interest rate (based on governments bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

Intangible assets
Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business combination exceeds the fair value attributed to the interest in the net fair value of identifiable assets, liabilities and contingent liabilities at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

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

New Accounting Standards for application in future periods
The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Group. The Group has decided not to early adopt any of the new and amended pronouncements. The Group's assessment of the new and amended pronouncements that are relevant to the Group but applicable in future reporting is set out below:

AASB 9: Financial Instruments (December 2010) and AASB 2010-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB1, 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] (applicable for annual reporting periods commencing on or after 1 January 2013)

These Standards are applicable retrospectively and include revised requirements for the classification and measurement of financial instruments, as well as recognition and derecognition requirements for financial instruments.

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 recognized 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' business model for managing the financial assets; and (b) the characteristics of the contractual cash flows; and
- requiring and 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 other comprehensive income, expect when that would create an accounting mismatch. If such a mismatch would be created or enlarged, the entity is required to present all

  changes in fair value (including the effects of changes in the credit risk of the liability) in profit or loss.

The Group has not yet been able to reasonably estimate the impact of these pronouncements on its financial statements.

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 and incorporates Interpretation 121: Income Taxes – Recovery of Revalued Non-Depreciable Assets into 112.

Under the current AASB 112, the measurement of deferred tax liabilities and deferred tax assets depends on whether an entity expects to recover assets by using it or by selling it. The amendments introduce 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 are not expected to significantly impact the Group.

AASB 10: Consolidated Financial Statements, AASB 11: Joint Amendments, AASB 12: Disclosure of Interest in Other Entities, AASB 127: Separate Financial Statements (August 2011), AASB 128: Investments in Associates and Joint Ventures (August 2011) and AASB 2011-7: Amendments to Australian Accounting Standards arising from Consolidation and Joint Arrangements Standards [AASB 1, 2, 3, 5, 7, 9, 2009-11, 101, 107, 112, 118, 121, 124, 132, 133, 136, 138, 139, 1023 & 1038 and Interpretations 5, 9, 16 & 17] (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 10 replaces part of AASB 127: Consolidated and Separate Financial Statements (March 2008, as amended) and Interpretation 112: Consolidation – Special Purpose Entities. AASB 10 provides a revised definition of control and additional application guidance so that a single control model will apply to all investees. The Group has not yet been able to reasonably estimate the impact of this Standard on its financial statements.

AASB 11 replaces AASB 131: Interest in Joint Ventures (July 2004, as amended). AASB 11 requires joint arrangements to be classified as either “joint operations” (where the parties that have joint control of the arrangement have rights to the assets and obligations for the liabilities) or “joint ventures” (where the parties that have joint control of the arrangement have rights to the net assets of the arrangement). Joint ventures are required to adopt the entity method of accounting (proportionate consolidation is no longer allowed).

AASB 12 contains the disclosure requirements applicable to entities that hold an interest in a subsidiary, joint venture, joint operation or associate. AASB 12 also introduces the concept of a “structured entity”, replacing the “special purpose entity” concept currently used in Interpretation 112, and requires specific disclosure in respect of any investments in unconsolidated structured entities. This Standard will affect disclosure only and is not expected to significantly impact the Group.

To facilitate the application of AASBs 10, 11 and 12, revised versions of AASB 127 and AASB 128have also been issued. These Standards are not expected to significantly impact the Group.

AASB13: Fair Value Measurement and AASB 2011-8: Amendments to Australian Accounting Standards arising from AASB 13 [AASB 1, 2, 3,4, 5, 7, 9, 2009-11, 2010-7, 101,102,108, 110, 116,117,118, 119, 120, 121, 128, 131, 132, 133, 134, 136, 138, 139, 140, 141, 1004, 1023 & 1038 and Interpretations 2, 4, 12, 13, 14, 17, 19, 131 & 132] (applicable for annual reporting periods commencing on or after 1 January 2013).

AASB 13 defines fair value, sets out in a single Standard a framework for measuring fair value, and requires disclosure about fair value measurement.

AASB 13 requires:

- inputs to all fair value measurements to be categorised in accordance with a fair value hierarchy and
- enhanced disclosure regarding all assets and liabilities (including, but not limited to, financial assets and financial liabilities) to be measured at fair value.

These Standards are not expected to significantly impact the Group.

AASB2011-9: Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income [AASB 1, 5, 7, 101, 112, 120, 121, 132, 133, 134, 1039 & 1049] (applicable for annual reporting periods commencing on or after 1 July 2012).

The main change arising from this Standard is the requirement for entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently.

This Standard affects presentation only and is not expected to significantly impact the Group.

AASB 119: Employee Benefits (September 2011) and AASB 2011-10: Amendments to Australian Accounting Standards arising from AASB 119 (September 2011) [AASB 1, AASB 8, AASB 101, AASB 124, AASB 134, AASB 1049 & AASB 2011-8 and Interpretation of 14] (applicable for annual reporting periods commencing on or after 1 January 2013).

These Standards introduce a number of changes to accounting and presentation of defined benefit plans. The Group does not have any defined benefit plans and so is not impacted by the amendment.

(i) for an offer that may be withdrawn – when the employee accepts;

(ii) for an offer that cannot be withdrawn – when the offer is communicated to affected employees; and

(iii) where the termination is associated with a restructuring of activities under AASB 137: Provisions, Contingent Liabilities and Contingent Assets, and if earlier than the first two conditions – when the related restructuring costs are recognised.

The Group has not yet been able to reasonably estimate the impact of these changes to AASB 119.

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Investments in subsidiaries are carried at their cost of acquisition in the Company's financial statements.

Transactions eliminated on consolidation

Intergroup balances and any unrealised gains and losses or income and expenses arising from intergroup transactions, are eliminated in preparing the consolidated financial statements.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with the maturity of 3 months or less at the end of current financial year.

Trade and other receivables

Trade and other receivables are stated at their amortised cost less impairment losses.

Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the first-in first-out principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition, such as freight.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and selling expenses.

Property, plant equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs

directly attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located. Cost also may include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Borrowing costs related to the acquisition or constructions of qualifying assets are recognised in profit or loss as incurred.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of the item and are recognised net within "other income" in the Statement of Comprehensive Income. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to accumulated losses.

- Office Equipment is depreciated at rates between 10% and 33% per annum using the diminishing value method.
- Plant and Equipment is depreciated at rates between 10% and 33% per annum using the diminishing value method.
- Furniture and Fittings are depreciated at rates between 10% and 30% per annum using the diminishing value method.
- Warehouse Equipment is depreciated at 33% per annum using the diminishing value method.
- Lab Equipment is depreciated at 40% per annum using the diminishing value method.

Intangible assets
Goodwill and goodwill on consolidation are initially recorded at the amount by which the purchase price for a business combination exceeds the fair value attributed to the interest in the net fair value of identifiable assets, liabilities and contingent liabilities at date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

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

Subsequent measurement
Goodwill is measured at cost less accumulated impairment losses.

Impairment
Financial assets
A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if any

objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

All impairment losses are recognised in the Statement of Comprehensive Income. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the Statement of Comprehensive Income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the Statement of Comprehensive Income. For available-for-sale financial assets that are equity securities the reversal is recognised directly in equity.

Non-financial assets
The carrying amounts of the Company's non-financial assets other than inventories are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. Goodwill and indefinite life intangible assets are tested for impairment annually or earlier if an impairment indicator exists.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Statement of Comprehensive Income.

An impairment loss in respect of goodwill is not reversed. In respect of other assets impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment had been recognised.

Trade and other payables
Trade and other payables are stated at their amortised cost, are non-interest bearing and are normally settled within 60 days.

Provisions
A provision is recognised in the Statement of Financial Position when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

Warranties
A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

Taxation
Income tax
Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the Statement of Comprehensive Income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the Statement of Financial Position date, and any adjustment to tax payable in respect of previous years.

Deferred tax is calculated using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The initial recognition of assets or liabilities that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future are temporary differences are not provided for. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at balance date.

A deferred tax asset in relation to carry forward tax losses is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Tax consolidation
The Company and its wholly owned Australian resident entities have formed a tax consolidated group with effect from 1 July 2004 and are therefore taxed as a single entity from that date. The head entity within the tax consolidated group is Medical Australia Limited.

Current tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax consolidated group are recognised in the separate financial statements of the members of the tax consolidated group using the 'separate taxpayer within group' approach by reference to the carrying amounts of assets and liabilities in the separate financial statements of each entity and the tax values applying under tax consolidation.

The Company recognises deferred tax assets arising from unused tax losses of the tax consolidated group to the extent that it is probable that future taxable profits of the tax consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

Indirect taxes

Revenue, expenses and assets are recognised net of the amount of goods and services tax ('GST') and value added tax (VAT), except where the amount of GST and VAT incurred is not recoverable from the taxation authority. In these circumstances, the GST and VAT is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST and VAT included. The net amount of GST and VAT recoverable from, or payable to, the taxation authority is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST and VAT components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority are classified as operating cash flows.

Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Revenue recognition

Sale of goods

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery

of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the good, and the amount of revenue can be measured reliably. This generally occurs upon shipment.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale.

Financial income
Financial income comprises interest revenue which is recognised on an accrual basis, using the effective interest method.

Employee benefits
Wages, salaries, annual leave, long service leave, sick leave and non-monetary benefits
Liabilities for employee benefits for wages, salaries, annual leave, and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to the reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at the reporting date including related on-costs, such as workers compensation insurance, payroll tax and superannuation. Long service leave is provided for after 5 years of service, adjusted by a discount factor and a probability factor (including on-costs).

Earnings per share
The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the net profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

Foreign Currency
Transactions in foreign currencies are translated to the respective functional currencies of group entity at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the foreign exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year and, the amortised cost in foreign currency translated at the exchange rate at the end of the year. Non Monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation of available-for-sale equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges, which are recognised directly in equity.

On consolidation the assets and liabilities of foreign operations are translated into Australian Dollars at the rate of exchange prevailing at the reporting date and their statement of comprehensive income are translated at average exchange rates. The exchange differences arising on translation for consolidation are recognised in other comprehensive income. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of comprehensive income.

Issued Capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest, except for those that fail to vest due to market conditions not being met.

When the company grants options over its shares to employees of subsidiaries, the fair value at grant date is recognised as an increase in the investments in subsidiaries, with a corresponding increase in equity over the vesting period of the grant.

NOTE 2 – LOSS FROM OPERATING ACTIVITIES

	Consolidated	
	2012	**2011**
	$	**$**
The following expense items are relevant in explaining the financial performance for the year:		
Administration and consultants expenses:		
- General and administrative	378,225	329,299
- Legal fees	204,452	361,086
- Consultancy fees	295,649	159,277
	878,326	849,662
Employee benefits expenses:		
- Wages and Salaries	3,125,731	3,079,599
- Increase in leave liability	83,626	82,219
	3,209,357	3,161,818
Investment deposit write off	-	50,000
Equity-settled share based payment	21,052	9,479
Audit and review of financial reports	68,012	95,399
Foreign exchange gain	(62,237)	(155,532)
Rental expenses	352,405	320,439

At 30 June 2012, the Group had 33 employees (2011 - 29).

NOTE 3 – INCOME TAX BENEFIT

	Consolidated 2012 $	2011 $
Numerical reconciliation between income tax benefit and pre-tax net loss		
Loss before tax – continuing operations	(791,641)	(417,826)
Income tax using the domestic corporation tax rate of 30%	(237,492)	(125,348)
Increase / (decrease) in income tax expense due to:		
- Non-deductible expenses	88,155	125,824
- Difference in international tax rates	9,632	-
- Effect of tax losses brought to account	-	(476)
- Effect of tax losses not brought to account	139,705	-
- Research & Development tax offset	(122,717)	(75,103)
Income tax benefit	(122,717)	(75,103)

Deferred Tax Assets not brought to account

The Directors estimate that at 30 June 2012 the amount of deferred tax assets not brought to account in respect of unused revenue tax losses was $3,100,306 (2011 $2,960,601) , in respect of unused capital tax losses was $21,780 (2011 $21,780) and in respect of temporary differences was $77,257 (2011 $86,453). The income tax return for FY12 has not been lodged as at the date of this report.

The benefit of these temporary differences and tax losses will only be obtained if:

I. The consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;
II. The consolidated entity continues to comply with the conditions for deductibility imposed by the tax legislation; and
III. No changes in tax legislation adversely affect the consolidated entity in realising the benefit from the deductions for the losses.

NOTE 4 – LOSS PER SHARE

	Consolidated 2012 $	2011 $
Loss after income tax used to calculate basic and dilutive EPS	(668,924)	(342,723)
	Number	**Number**
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic and dilutive EPS	450,033,049	363,548,140

	Consolidated	
NOTE 5 – CASH AND CASH EQUIVALENTS	**2012**	**2011**
	$	**$**
Cash at bank and on hand	469,221	719,297
Term deposits	109,000	109,000
	578,221	828,297

The interest rate on Term Deposits was 5.5% maturing in August 2012 (2011 – 6.00%)

Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to items in the Statement of Financial Position as follows:

Cash and cash equivalents	578,221	828,297
	578,221	828,297

NOTE 6 – TRADE AND OTHER RECEIVABLES

Current		
Trade debtors	920,925	966,924
	920,925	966,924

Trade debtors are based on normal terms of trade, typically 30 days from end of month. Retention of title terms exist on sales.

NOTE 7 – INVENTORIES

Current		
Finished goods	1,258,769	889,833

	Consolidated	
	2012	2011
NOTE 8 – PROPERTY, PLANT AND EQUIPMENT	$	$
Plant and equipment	492,258	328,649
Accumulated depreciation	(285,778)	(164,715)
	206,480	163,934
Furniture and fixtures	39,327	38,284
Accumulated depreciation	(14,630)	(8,719)
	24,697	29,565
Office equipment	326,168	305,222
Accumulated depreciation	(280,637)	(194,151)
	45,531	111,071
Leasehold Improvements	61,155	61,155
Accumulated depreciation	(40,163)	(25,639)
	20,992	35,516
Total plant and equipment	297,700	340,086

Movement in carrying amounts are as follows:

	2012	2011
Plant and equipment		
Carrying amount at beginning of year	163,934	127,578
Additions	164,077	79,045
Depreciation	(121,531)	(42,689)
Carrying amount at year end	206,480	163,934
Furniture and fittings		
Carrying amount at beginning of year	29,565	32,850
Additions	1,043	-
Depreciation	(5,911)	(3,285)
Carrying amount at year end	24,697	29,565

NOTE 8 – PROPERTY, PLANT AND EQUIPMENT (Cont'd)

	Consolidated 2012 $	Consolidated 2011 $
Office equipment		
Carrying amount at beginning of year	111,071	131,352
Additions	20,945	21,995
Depreciation	(86,485)	(42,276)
Carrying amount at year end	45,531	111,071
Leasehold Improvements		
Carrying amount at beginning of year	35,516	44,395
Additions	-	-
Depreciation	(14,524)	(8,879)
Carrying amount at year end	20,992	35,516
Total		
Carrying amount at beginning of year	340,086	336,175
Additions	186,065	101,040
Depreciation	(228,451)	(97,129)
Carrying amount at year end	297,700	340,086

During the year ended 30 June 2012, no impairment write down was considered necessary.

NOTE 9 – INTANGIBLE ASSETS	**Consolidated**	
	2012	**2011**
	$	**$**
Goodwill – Tuta	3,409,564	3,409,564
Goodwill on acquisition – Clements	701,151	701,151
	4,110,715	4,110,715
Product Development Costs – Gross	359,179	359,179
Less: Accumulated amortisation	(136,200)	(91,180)
Product Development Costs	222,979	267,999
	4,333,694	4,378,714

An impairment test for goodwill has been separately performed for the Tuta and Clements businesses. Based on the results, the Directors believe that there is no impairment loss to be recognised.

The recoverable amount of Cash Generating Units of Tuta and Clements are determined on a value in use calculation using cash flow projections as at 30 June 2012 based on financial budgets approved by management covering a five year period with a terminal value. The growth rates assumed for each cash generating unit in the impairment model is as follows:

	Tuta	**Clements**
Revenue growth rate	2014-2016: 6.5% 2017-2018: 5%	2014-2018: 3%
Cost of Goods Sold (% of Revenue) in base year	2013: 39.4%	2013: 51.6%
Cost of Goods Sold growth rate	2014-2018: 9%	2014-2018: 3%

The cash flows were discounted using a yield of 15%. The discount rate reflects management's estimate of the time value of money and the risks specific to the cash generating unit.

Goodwill represents intangible assets which could not be readily identified or separated.

The Group has adopted a policy of capitalising product development costs related to specific projects, in accordance with AASB 138 Intangible Assets. These are amortised on a straight line basis over the useful life of the product. As at 30 June 2012, specific product development costs capitalised as intangible assets have a carrying value of $222,979 (2011: $267,999).

	Consolidated	
	2012	**2011**
NOTE 10 – TRADE AND OTHER PAYABLES	**$**	**$**
Current		
Trade creditors	1,145,471	750,389
Payroll liabilities	21,051	71,031
Accruals	113,552	605,692
	1,280,074	1,427,112

	Consolidated 2012 $	2011 $
NOTE 11 – INTEREST BEARING LIABILITIES		
Current		
Bank loan - secured (i)	276,000	416,000
Loans (ii)	274,854	200,419
Total	550,854	616,419
Non-current		
Loans (ii)	434,826	751,283

(i) On 12 November 2010, the Group entered into a loan facility with the NAB for $500,000, maturing on 31 December 2013. The Group currently repays $14,000 in principal on a monthly basis over the term of the loan. The minimum EBITDA and interest coverage covenants stipulated within the bank loan agreement were not met by the Group at 30 June 2012. However, the bank has advised it has no intention of calling in the facilities at the date of their letter dated 16 July 2012. The next review date for this facility is 31 December 2012.

(ii) On 3 August 2010, the Group entered into a loan agreement of $1,000,000 with Pacific Device Pty Ltd, maturing on 1 August 2013. The Group currently repays $30,000 in principal and interest on a monthly basis with the balance of the loan to be repaid at the maturity.

	2012	2011
NOTE 12 – PROVISIONS		
Current		
Provision for employee annual leave and long service leave entitlements	317,772	239,333
Non-current		
Provision for employee long service leave entitlements	14,561	9,374

(a) Movements in provisions

Movements in provisions for the financial year are as follows:

Annual Leave	
Carrying amount at beginning of year	182,129
Increases to provision	206,835
Amount utilised	(134,858)
As at 30 June 2012	254,106
Long Service Leave	
Carrying amount at beginning of year	66,578
Increases to provision	11,649
As at 30 June 2012	78,227
Current	63,666
Non-current	14,561
	78,227

NOTE 13 – ISSUED CAPITAL

	2012 No.	2012 $	2011 No.	2011 $
Fully paid ordinary shares				
Balance at the beginning of the year	392,564,953	17,249,844	277,844,152	15,602,018
Shares issued on 24 August 2010 at $0.015 per share	-	-	52,144,138	782,162
Shares issued on 24 August 2010 at $0.015 per share	-	-	3,333,333	50,000
Shares issued on 24 August 2010 at $0.00 per share (i)	-	-	6,933,335	-
Shares issued on 26 August 2010 at $0.015 per share	-	-	15,015,272	225,229
Shares issued on 30 September 2010 at $0.015 per share	-	-	15,001,300	225,020
Shares issued on 30 September 2010 at $0.03 per share	-	-	607,292	18,219
Shares issued on 16 November 2010 at $0.015 per share	-	-	12,233,333	183,500
Shares issued on 24 December 2010 at $0.012 per share	-	-	1,533,334	18,400
Shares issued on 31 March 2011 at $0.037 per share	-	-	1,100,000	40,700
Options exercised in June 2011 at $0.02 per share	-	-	6,819,464	136,388
Options exercised in July 2011 at $0.02 per share	47,239,181	944,784	-	-
Options exercised in August 2011 at $0.02 per share	3,000,000	60,000	-	-
Options underwritten in August 2011 at $0.02 per share	10,871,698	217,433	-	-
Shares issued to employees on 30 April 2012 at $0.017 per share	250,000	4,250		
Less: Share issue costs	-	-	-	(31,792)
Balance at the end of the year	453,925,832	18,476,311	392,564,953	17,249,844

(i) 2011 Shares issued for $nil consideration as they relate to rights issue adjustment.

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the shareholders meetings. In the event of winding up of the Company, ordinary shareholders rank after creditors and are fully entitled to any proceeds of liquidation.

NOTE 14 – EQUITY REMUNERATION RESERVE	Consolidated 2012 $	2011 $
Opening balance	110,358	100,936
Share based payment expenses	21,052	9,422
Closing balance	131,410	110,358

The issue of Company options results in a credit to the equity remuneration reserve for the fair value of the options issued. Details of the options issued are:

- 2,500,000 options were issued on 9 November 2011, exercisable at 5 cents each to acquire one fully paid ordinary share at any time up to 14 July 2014. The fair value at grant date was $10,250 and the share price was $0.02.

- 2,250,000 options were issued on 14 September 2011, exercisable at 5 cents each to acquire one fully paid ordinary share at any time up to 3 September 2014. The fair value at grant date was $10,800 and the share price was $0.02.

The fair value of the options at grant date was determined based on the binomial option pricing model (lattice-based approach). The model inputs of the options issued were the Company's share price of $0.02 at the grant date, a risk free interest rate of 5% and an expected share price volatility factor of 70% over the life of the options based on the historical volatility of comparable listed Australian small-cap and micro-cap medical device companies.

NOTE 15 - ACCUMULATED LOSSES	Consolidated 2012 $	2011 $
Accumulated losses at the beginning of the year	(12,985,197)	(12,642,474)
Net loss attributable to members of the parent entity	(668,924)	(342,723)
Accumulated losses at the end of the year	(13,654,121)	(12,985,197)

Dividends

No dividends were paid or declared during the year.

NOTE 16 - PARTICULARS IN RELATION TO CONTROLLED ENTITIES

Parent Entity

Medical Australia Limited is an Australian incorporated company listed on the Australian Securities Exchange.

Controlled Entities	Country of Incorporation	Ownership Interest 2012	Ownership Interest 2011
		%	%
BMDi Pty Ltd	Australia	100	100
BMDi TUTA Healthcare Pty Ltd	Australia	100	100
Bio Medical Developments International Pty Ltd	Australia	70	70
BMDi TUTA Healthcare UK Ltd	United Kingdom	100	-

A UK subsidiary, BMDI Tuta Healthcare UK Ltd, was incorporated on 20 December 2011 with the issue of 100 fully paid ordinary shares at £1 per share (AUD equivalent of $152). The Company is 100% owned by Medical Australia Limited. At acquisition, the entity had $152 net assets, being incorporation subscription.

Minority interests

Minority interests have a value of $nil, as the controlled entity has incurred operating losses in excess of its capital and the parent entity has brought to account 100% of the losses beyond the capital of the controlled entity. The controlled entity remained dormant during the year and accordingly did not trade.

NOTE 17 – PARENT ENTITY DISCLOSURE

Financial Position	**Company 2012**	**Company 2011**
	$	**$**
Assets		
Current Assets	213,710	528,255
Non-Current Assets	6,875,739	5,779,071
Total Assets	7,089,449	6,307,326
Liabilities		
Current Liabilities	28,697	229,035
Total Liabilities	28,697	229,035
Equity		
Issued Capital	18,476,311	17,249,844
Equity Remuneration Reserve	131,463	110,413
Accumulated Losses	(11,547,022)	(11,281,966)
Total Equity	7,060,752	6,078,291

Financial Performance	2012	2011
Loss for the year	(265,056)	(213,282)
Other comprehensive income	-	-
Total loss for the year	(265,056)	(213,282)

NOTE 18 – FINANCIAL INSTRUMENTS DISCLOSURE

The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework. Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. These policies are reviewed regularly to reflect changes in market conditions and the Group's activities.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and currency risk. The details below present information about the Group's exposure to each of these risks, their objectives, policies and processes for measuring and managing risk, the management of capital and financial instruments.

Credit risk

Credit risk arises mainly from the risk of counterparties defaulting on the terms of their agreements. The carrying amounts of the following assets represent the Group's maximum exposure to credit risk in relation to financial assets:

	Consolidated	
	Carrying amount 2012 $	**Carrying amount 2011 $**
Cash and cash equivalents	469,221	719,297
Term deposits	109,000	109,000
Trade and other receivables	920,925	966,924
Current tax receivable	122,717	-
	1,621,863	1,795,221

Cash and term deposit

The Group mitigates credit risk on cash and cash equivalents by dealing with regulated banks in Australia.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the healthcare industry and country, in which customers operate, has less of an influence on credit risk. Approximately 18 percent of the Group's revenue is attributable to sales transactions with one major customer.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the Group has a secured claim. The Group does not require collateral in respect of trade and other receivables.

The Group has established an allowance for impairment that represents their best estimate of incurred losses in respect of trade and other receivables for which specific impairment events exist.

The Group's maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region was:

	Consolidated	
	2012	2011
	$	$
Australia	839,952	884,915
Asia	43,063	21,813
Europe	-	41,982
USA	1,236	-
Other	36,674	18,214
	920,925	966,924

The ageing of the Group's trade receivables at the reporting date was:

	Gross 2012	Impairment 2012	Gross 2011	Impairment 2011
Not past due	542,774	-	667,889	-
Past due 30 – 60	274,726	-	286,368	-
Past due 61 – 90	108,055	-	12,667	-
Due 90 +	(4,630)	-	-	-
	920,925	-	966,924	-

An impairment loss of $nil was taken up at 30 June 2012 (2011 – $nil) against overseas customers who are either past due on payments or who are on extended payment terms. These extended terms were negotiated at the time of the sale.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The covenants stipulated in the bank loan agreement were breached at the end of the year. However, the bank has agreed not to demand payment as at 16 July 2012.

The following are the contractual maturities of financial liabilities:

Consolidated	Carrying amount	Contractual cash flows	Less than one year	Between one and five years	More than five years
30 June 2012					
Trade and other payables	1,280,074	(1,280,074)	(1,280,074)	-	-
Interest bearing liabilities	985,680	(985,680)	(550,854)	(434,826)	-
	2,265,754	(2,265,754)	(1,830,928)	(434,826)	-
30 June 2011					
Trade and other payables	1,427,112	(1,427,112)	(1,427,112)	-	-
Interest bearing liabilities	1,367,702	(1,367,702)	(616,419)	(751,283)	-
	2,794,814	(2,794,814)	(2,043,531)	(751,283)	-

Ultimate responsibility for liquidity management rests with the Board of Directors. The Group manages liquidity risk by maintaining adequate funding and monitoring of future rolling cash flow forecasts of its operations, which reflect management's expectations for the settlement of financial assets and liabilities.

Interest rate risk

The Group's Statement of Comprehensive Income is affected by changes in interest rates due to the impact of such changes on interest income from cash and cash equivalents, interest bearing security deposits and interest expense on the interest bearing liabilities.

At balance date, the Group had the following mix of financial assets exposed to variable interest rate risk that are not designated as cash flow hedges:

	Consolidated	
	2012	**2011**
	$	**$**
Cash and cash equivalents	469,221	719,297
Term deposits	109,000	109,000
Financial Assets	578,221	828,297
Bank Loan – Current	276,000	416,000
Financial Liabilities	276,000	416,000
Net Financial exposure	302,221	412,297

Sensitivity analysis

An increase of 100 basis points in interest rates throughout the reporting period would have increased the loss for the period by the amounts shown below, whilst a decrease of 100 basis points would have decreased the loss by the same amount.

	Consolidated Loss for the year $
30 June 2012	615
30 June 2011	3,945

Currency risk

The Group is exposed to currency risk on sales and purchases that are denominated in a currency other than Australian dollars, the respective functional currency of the Group's entities. During the year ended 30 June 2012 approximately 84% (2011 - 81%) of the Group's sales were denominated in AUD with the remaining balance in USD. Approximately 74 percent of the Group's purchases were in USD, approximately 24 percent in AUD with the remainder in JPY and CHF.

A sensitivity analysis based on the trade payables as at 30 June 2012 with currency other than Australian dollars is provided:

	Amount	Exchange Rate at 30 June	AUD Equivalent	10% Movement
CAD	968	1.0454	926	955
GBP	7,901	0.6529	12,101	12,475
JPY	169,995	80.8900	2,102	2,167
USD	610,360	1.0191	598,921	617,443
			614,050	633,040
		Reduction in earnings		(18,991)

The Group does not hedge any of its foreign currency exposure at 30 June 2012.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Board ensures costs are not incurred in excess of available funds. There were no changes in the Group's approach to capital management during the year.

The Group is not subject to externally imposed capital requirements.

Net fair values of financial assets and liabilities

The carrying amounts of financial assets and liabilities approximate their net fair values, given the short time frames to maturity.

NOTE 19 - STATEMENTS OF CASH FLOWS

Reconciliation of cash

For the purposes of the Statements of Cash Flows, cash includes cash on hand and at bank and cash on deposit, net of bank overdrafts and excluding security deposits maturity greater than 90 days from year end. Cash as at the end of the financial year as shown in the Statements of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	Consolidated	
	2012	**2011**
	$	**$**
Loss for the year	(668,924)	(342,723)
Non-cash items		
Depreciation and amortisation of non-current assets	273,471	141,192
Reversal of THI / Multigate provision	(101,745)	-
Movements in other provisions	83,626	52,985
Expense recognised in respect of equity-settled share-based payments	21,052	27,379
Deposit written off	-	50,000
Movements in working capital		
Increase in trade and other receivables	(76,718)	(112,050)
Increase in inventories	(368,936)	(113,197)
Increase in other assets	(27,550)	(10,855)
Increase / (decrease) in trade and other payables	141,510	(529,414)
Net cash used in operating activities	(724,214)	(836,683)

b) Non-cash financing and investing activities

Shareholder loan payable, principal and interest, of $83,091 was settled via issue of share of 4,154,556 at 2 cents per share.

NOTE 20 – DIRECTORS AND KEY MANAGEMENT PERSONNEL DISCLOSURES

Directors and Key Management Personnel
The following were key management personnel of the Company at any time during the reporting period.

Directors
Thomas Hartigan (Chairman till 30 November 2011)
Gary Lewis (Chairman, Appointed 10 January 2012)
Ian Mitchell
Mark Donnison (Managing Director)
Dr Geoff Cumming

Executives
Mark Donnison (CEO)
Suraj Sethuram
Michael Jones
David Thomson
Ian McKenzie
Atul Narayan

Summary of remuneration of Directors & Key Management Personnel:

	Short term salary, bonus, fees and leave	Non monetary	Other	Post-employment SGC benefits	Share based payment expense	Total
2012	$1,115,115	-	$62,450	$96,078	$21,050	$1,294,693
2011	$958,115	$46,200	$50,652	$74,171	$95,000	$1,224,138

Individual directors and executives compensation disclosures
Information regarding individual directors and executive's compensation and some equity instruments disclosures as permitted by Corporations Regulations 2M.3.03 and 2M.6.04 are provided in the Remuneration Report Section of the Directors' report.

Apart from the details disclosed in this note, no director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving director's interests existing at year-end.

Equity holdings and transactions
The movement during the year in the number of ordinary shares in the Company held by each specified director or specified executive, including their personally-related entities, is as follows:

Directors' direct beneficial shareholdings as at year end were:

Directors	Held at 1 July 2011	Purchases	Sales	Held at 30 June 2012
Thomas Hartigan	6,085,000	-	-	6,085,000
Gary Lewis	14,484,938	4,336,309	-	18,821,247
Ian Mitchell	3,432,757	2,000,000	-	5,432,757
Mark Donnison	14,154,300	5,385,150	-	19,539,450
Dr Geoff Cumming	320,000	80,000	-	400,000

Directors	Held at 1 July 2010	Purchases	Sales	Held at 30 June 2011
Thomas Hartigan	5,000,000	9,085,000	8,000,000	6,085,000
Gary Lewis	8,292,319	6,192,619	-	14,484,938
Ian Mitchell	553,103	3,956,205	1,076,551	3,432,757
Mark Donnison	1,020,000	13,134,300	-	14,154,300
Dr Geoff Cumming	160,000	160,000	-	320,000

Apart from the details disclosed in this note, no director or specified executive has entered into a material contract with the Company or the Group since the end of the previous financial year.

Related Parties

The directors disclose any conflict of interests in directors' meeting as per the requirements under the Corporations Act (2001). Any disclosures that are considered to fall under the definition of related parties as per AASB 124 'Related Party Disclosures' are made in the directors' meetings and minuted.

NOTE 21 - CONTROLLED ENTITIES

At balance date, the Company had amounts receivable from its subsidiaries:

Subsidiary	2012	2011
BMDI Pty Limited	$4,151,437	$4,151,437
BMDI TUTA Healthcare Pty Ltd	$3,561,092	$2,464,424
Bio Medical Developments International Pty Limited	$1,674,574	$1,674,574
BMDi Tuta Healthcare UK Limited	$374,910	-

These amounts are interest free, unsecured, have no fixed term of repayment and are repayable out of future profits.

NOTE 22 - SEGMENT REPORTING

The Group operates wholly within the health care industry in Australia, New Zealand, Asia and United Kingdom.

Geographical segments 30 June 2012	Australia $	New Zealand $	Asia $	United Kingdom $	Unallocated / Eliminations $	Consolidated $
Revenue						
External segment income	7,719,073	427,907	655,912	119,640	288,696	9,211,228
Interest income	-	-	-	-	-	27,146
						9,238,374
Result						
Segment result	(560,563)	(31,075)	(47,633)	(8,688)	(20,965)	(668,924)
Net loss	(560,563)	(31,075)	(47,633)	(8,688)	(20,965)	(668,924)
Assets						
Segment assets	10,099,908	-	-	219,363	(2,765,023)	7,554,248
Including non-current assets acquired during the year:						
Office equipment	2,993	-	-	-	-	2,993
Software	17,953	-	-	-	-	17,953
Furniture & Fittings	1,043	-	-	-	-	1,043
Leasehold Improvements	31,432	-	-	104,805	-	136,237
	53,421	-	-	104,805	-	158,226
Segment liabilities	11,607,862	-	-	377,172	(9,386,947)	2,598,087

NOTE 22 –SEGMENT REPORTING (Cont'd)

Geographical segments 30 June 2011	Australia $	New Zealand $	Asia $	United Kingdom $	Unallocated / Eliminations $	Consolidated $
Revenue						
External segment income	7,388,367	355,119	569,966	63,197	404,650	8,781,299
Interest income	-	-	-	-	-	13,796
						8,795,095
Result						
Segment result	(330,819)	(5,005)	(3,118)	(511)	(3,270)	(342,723)
Net loss	(330,819)	(5,005)	(3,118)	(511)	(3,270)	(342,723)
Assets						
Segment assets	9,086,881	-	-	-	(1,668,355)	7,418,526
Including non-current assets acquired during the year:						
Office equipment	16,105	-	-	-	-	16,105
Software	5,890	-	-	-	-	5,890
Leasehold Improvements	79,045	-	-	-	-	79,045
	101,040	-	-	-	-	101,040
Segment liabilities	11,333,956	-	-	-	(8,290,435)	3,043,521

Division of the Group's results and assets into geographical segments has been ascertained by direct identification of revenue cost centres. Asia includes China, India, Malaysia, Singapore and Thailand and primarily represents sales of components to our suppliers. There are no intersegment revenue transactions. The major products are IV systems, safety, blood banking, surgical and anaesthesia products.

NOTE 23 - COMMITMENTS

a) Operating Lease Commitments

	Consolidated 2012 $	Consolidated 2011 $
Payable:		
Within 1 year	463,816	439,435
Between 1 and 5 years	288,940	725,964
	752,756	1,165,399

b) Capital commitments

	Consolidated 2012 $	Consolidated 2011 $
Payable:		
Within 1 year	550,854	616,419
Between 1 and 5 years	434,826	751,283
	985,680	1,367,702

DIRECTORS' DECLARATION

In the opinion of the Directors of Medical Australia Limited ('the Company'):

1. (a) the financial statements and notes set out on pages 28 to 62 and the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report, set out on pages 18 to 26, are in accordance with the Corporations Act 2001, including:

   (i) giving a true and fair view of the Group's financial position as at 30 June 2012 and of its performance for the financial year ended on that date; and

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

   (b) the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report comply with Australian Accounting Standards AASB 124 *Related Party Disclosures*, the Corporations Act 2001 and the Corporations Regulations 2001; and

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

2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2012.

3. The Directors' draw attention to Note 1 of the consolidated financial statements, which includes a statement of compliance with International Financial Reporting standards.

Signed at Sydney this 27th day of September 2012
in accordance with a resolution of the Board of Directors:

Gary Lewis
Chairman

GouldRalph
ASSURANCE

Chartered Accountants
ABN 74 632 161 298
Level 42, Suncorp Place
259 George Street
Sydney NSW 2000
Australia
T: +61 2 9032 3000
F: +61 2 9032 3088
E: mail@gouldralph.com.au
W: www.gouldralph.com.au

INDEPENDENT AUDIT REPORT TO THE MEMBERS OF MEDICAL AUSTRALIA LIMITED

Report on the financial statements

We have audited the accompanying financial statements of Medical Australia Limited which comprises the consolidated statement of financial position as at 30 June 2012, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes to the financial statements and the directors' declaration of the Company 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 statements

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the financial statements comply with International Financial Reporting Standards.

Auditors' responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. 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 statements. Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Matters Relating to Electronic Publication of the Audited Financial Report

This audit report relates to the financial report of Medical Australia Limited for the year ended 30 June 2012 included on the website of Medical Australia Limited. The directors of the company are responsible for the integrity of the website and we have not been engaged to report on this integrity. This audit report refers only to the subject matter described above. It does not provide an opinion on any other information which may have been hyperlinked to or from the financial report. If users of the financial report are concerned with the inherent risk arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in the website version of the financial report.

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Independence
In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial statements we were engaged to undertake services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditors' opinion
In our opinion:

1. the financial statements of Medical Australia Limited is in accordance with:

(a) the *Corporations Act* 2001, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

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

2. the financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Emphasis of Matter
Without qualifying our opinion expressed above, we draw attention to Note 1 'Going Concern' in the financial statements, which identifies various matters that indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial statements.

Report on The Remuneration Report
We have audited the Remuneration Report included on pages 22 to 26 of the directors' report for the year ended 30 June 2012. 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 Medical Australia Limited for the year ended 30 June 2012, complies with section 300A of the Corporations Act 2001.

GOULD RALPH ASSURANCE

GREGORY C RALPH, M.Com, FCA
Partner

Dated this 27th day of September 2012
Sydney

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Additional Securities Exchange Information

Additional information as at 31 August 2012 required by the Australian Stock Exchange Listing Rules and not disclosed elsewhere in this report.

Home Exchange
The Company is listed on the Australian Securities Exchange. The Home Exchange is Sydney.

Committees
The committees that were present at the date of this report and the memberships thereof include:
Audit and Risk Committee – Mr G Lewis & Mr I Mitchell (Chairman)
Board Nominations Committee – Mr G Lewis & Mr G Cumming (Chairman)
Remunerations Committee – Mr G Lewis & Mr G Cumming (Chairman)

Substantial Shareholdings
At 31 August 2012 the Register of Substantial Shareholders showed the following:

Mr Andrew Fay & Mrs Narelle Fay	87,884,046
Mr Mark Donnison & Mrs Suzanne Donnison	19,539,450

Class of Shares and Voting Rights
The voting rights attached to ordinary shares, as set out in the Company's Constitution, are that every member in person or by proxy, attorney or representative, shall have one vote on a show of hands and one vote for each share held on a poll.

A member holding partly paid shares is entitled to a fraction of a vote equivalent to the proportion which the amount paid up bears to the issue price for the share.

Distribution of Shareholders
At 31 August 2012, the distribution of fully paid ordinary shares was as follows:

Range	Total Holder	Fully Paid Ordinary Shares	% Issued Capital
1 - 1,000	47	1,091	-
1,001 - 5,000	9	37,160	0.01%
5,001 – 10,000	49	467,347	0.10%
10,001 – 100,000	262	12,506,068	2.76%
100,001 and over	257	440,914,166	97.13%
		453,925,832	100.00%

At 31 August 2012, 218 shareholders held less than a marketable parcel of 33,333 shares.

Use of Cash and Assets
Since the Company's listing on the Australian Securities Exchange, the Company has used its cash and assets that it had at the time of listing in a way consistent with its stated business objectives.

On Market Buy Back
There is no on market buy-back.

Consolidated Twenty Five Largest Shareholders
At 31 August 2012 the consolidated twenty five largest quoted shareholders held 68.4% of the fully paid ordinary shares as follows:

Rank	Shareholder Group	No. of Ordinary Shares	%
1	MR ANDREW FAY & MRS NARELLE FAY	87,884,046	19.4%
2	MR MARK DONNISON & MRS SUZANNE DONNISON	19,539,450	4.3%
3	GARY LEWIS & AVIVA SCHUMER	18,971,247	4.2%
4	VICTOR HOOG ANTINK	18,875,000	4.2%
5	UBS NOMINEES PTY LTD	12,933,000	2.8%
6	STEVEN J MILLER & CO	11,800,000	2.6%
7	NUTSVILLE PTY LTD	11,529,999	2.5%
8	TREPLO PTY LIMITED	10,888,889	2.4%
9	AMNICOLE INVESTMENTS PTY LTD	10,888,889	2.4%
10	AUCKLAND TRUST COMPANY	10,871,698	2.4%
11	CLEMENTS MEDICAL EQUIPMENT	10,625,000	2.3%
12	THREE PAGODAS PTY LTD	10,488,889	2.3%
13	CORDATO PARTNERS	10,488,889	2.3%
14	KINETIC INVESTMENT CO PTY LTD	8,155,162	1.8%
15	AUSTROM PTY LIMITED	6,775,000	1.5%
16	SCRIPT TO SCREEN PTY LTD	6,747,804	1.5%
17	JOHN WARDMAN & ASSOCIATES PTY LTD	6,516,668	1.4%
18	TROON SECURITIES PTY LTD	6,085,000	1.3%
19	MR IAN BURNHAM MITCHELL	5,432,757	1.2%
20	AUHILL INVESTMENT SERVICES PTY LTD	5,244,444	1.2%
21	MRS SUSAN HOLT	4,625,000	1.0%
22	1147 PTY LTD	4,201,187	0.9%
23	CCG PTY LTD	4,115,692	0.9%
24	JADERSON PTY LIMITED	3,600,000	0.8%
25	Mr PETER FALK & MRS SUZANNE FALK	3,500,000	0.8%
	Top 25	**310,783,710**	**68.4%**
	Other	143,142,122	31.6%
	Total	**453,925,832**	**100.0%**