



MEDICAL AUSTRALIA LIMITED

A.B.N. 30 096 048 912

**ANNUAL REPORT
FOR THE YEAR ENDED
30 JUNE 2010**

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

C o r p o r a t e D i r e c t o r y

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CHAIRMAN'S LETTER

In March 2010, I was delighted to be appointed Non-Executive Chairman of Medical Australia Limited (MLA) and to take on this role at such an exciting time in the company's growth and development.

Mr. Tom Mann was Non-Executive Chairman of MLA prior to my appointment. The Board is grateful for Mr. Mann's stewardship and guidance during his tenure, and we sincerely thank him for his hard work and contribution to MLA.

Gary Lewis stepped down as Managing Director to make way for the appointment of Mark Donnison as Chief Executive Officer in March. Gary continues to help drive the company forward in his capacity as a Non-Executive Director of the MLA board.

MLA has established a solid platform for growth, and as we enter Financial Year 2011, I am confident that the company is poised for profitable and sustainable growth. With a stronger Board and Management team now in place, MLA is in the best position in its history to deliver for its shareholders.

Signed at Sydney this 29th day of September 2010



Tom Hartigan
Non-Executive Chairman

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OPERATING AND FINANCIAL REVIEW

Chief Executive Officer's Review

Financial Year 2010 has been a year of significant progress and consolidation for Medical Australia Limited (MLA), and the management team is confident that the foundation is now in place to fast track growth, and transform MLA into a profitable medical device and product manufacturing and distribution company.

Revenue for the year was steady at \$7.3 million and the company reported gross profit of \$4.3 million, compared to \$2.9 million in the prior year. Following a number of one-off costs associated with MLA's restructuring, the company recorded a net loss of \$1.34 million.

Laying the foundation for future growth

While the financial performance for MLA for FY2010 is below acceptable levels, the year is best characterised as one of transition, where the necessary building blocks have been put into place to now fast track growth, generate acceptable levels of profit, and importantly, deliver returns for our shareholders.

Strengthening the company's supply chain has been a focus for MLA this year. The company took the decision to significantly rationalise its supplier base, consolidating the majority of its manufacturing and distribution activities at a state-of-the-art US owned facility in China, mainly in partnership with leading US medical products manufacturer Amsino Medical. While this process has taken longer than first anticipated, MLA now has a world class supply chain that underpins future growth opportunities, and importantly, it has delivered margin growth exceeding 50 percent on the products it now manufactures and distributes from China. Significant growth is now a reality without the need for further capital investment.

Rebuilding MLA's Quality System has also been a priority for the company in FY2010. MLA successfully completed two Therapeutic Goods Administration (TGA) audits and a CE Mark audit which allows the company to continue exporting and expanding the distribution of its products to the United Kingdom and Europe.

Expanding into international markets has been another initiative undertaken, and one which is expected to deliver significant growth for MLA over the longer term. Eleven new distributors were appointed including in New Zealand, Hong Kong, Indonesia, India, Sri Lanka, Kuwait, Iran, Bahrain and Qatar. The Middle East is a market that MLA is actively targeting. Australian medical brands are highly regarded in these markets and quality healthcare is sought after.

The company has also appointed a business manager for the United Kingdom based in London. The UK healthcare market offers real upside for MLA, and a number of the company's product samples, specifically the Tuta range of products, are being assessed by the National Health Service Authority (NHS). The UK market also presents MLA with an opportunity to expand distribution of its product into Europe once proven and accepted in the UK.

Strengthening MLA's domestic business and expanding its product portfolio was also a priority for FY2010. In New South Wales and Victoria, contracts to supply intravenous (IV) products to public hospitals in these markets were successfully renewed. The contracts are

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both 2 year contracts with options for extension, thus giving MLA medium term certainty in a large component of its revenue base.

The company also announced that it had further expanded its product portfolio through a new licensing and distribution agreement with Analytica Limited, a leading Australian medical technology company (ASX: ALT). MLA now exclusively distributes Analytica's products in Australia, New Zealand and the United Kingdom, and expects to expand distribution into Asia, the Middle East and Europe in the current year.

Developing relationships with blue chip original equipment manufacturers (OEM) and the company is excited by this opportunity. MLA is establishing itself as a product development partner for some of these businesses, and this presents further growth opportunities.

The success of this program is best reflected in the agreement signed in July of this year with global animal healthcare company MediVet, where MLA has been appointed as the preferred sourcing and OEM partner for MediVet's products. Additionally, MLA has appointed MediVet as its global distributor for all of its animal healthcare products. This agreement is projected to generate at least \$3 million of annual revenue for the company based on Medivet's estimations.

A stronger management team to foster growth

As previously reported, I was appointed to the newly created role of Chief Executive Officer in March 2010. I am excited by the prospects to grow the MLA business, and I bring significant industry experience to help achieve the growth that shareholders are surely demanding. With over 20 years experience in the healthcare and pharmaceutical industries in the United Kingdom and Australia, I am experienced in all facets of senior management. I have also held senior roles with Alphapharm, AstraZeneca, and LAGAP Pharmaceuticals, and I have been instrumental in the growth and development of every business with which I have been associated.

Mr. Greg Lewis was also appointed as the company's Chief Financial Officer and he is an experienced finance and business growth professional. Most recently he was Chief Financial Officer of ASX-listed ITL limited and has held senior finance roles with Tyco, UNISYS and Industrial Equity Group.

The management team is fortunate to be capitalising on the hard work that has been undertaken at MLA over the past two years, and we are very grateful to Mr. Gary Lewis for the growth platform he was instrumental in establishing during his time as Managing Director.

A more stable financial platform

In June 2010 MLA took the decision to strengthen its balance sheet so the company had greater flexibility to pursue its growth objectives and strengthen its current operations.

A Rights Issue was undertaken which successfully raised \$1.5 million. This has recapitalised the company and provided sufficient working capital to fund the existing business' operations. Support for the rights issue was pleasing, and reflects the fact that many

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shareholders see value in the company's long term strategy and potential. The Board would like to thank shareholders for their continued support.

MLA is also seeking to raise additional capital to fund its immediate growth objectives and this is a priority for the first quarter of FY2011.

Acquisitions remain a focus

Whilst organic growth is a key driver for MLA, pursuing acquisitions that contribute to revenue and earnings growth has also been a priority for the company.

In July, MLA announced the proposed acquisition of Care Essentials, a leading Australian medical products manufacturing and distribution business based in Victoria for \$3.9 million. The business would add \$4 million of revenue to MLA and be expected to deliver earnings before interest and tax of \$1 million. The transaction is consistent with MLA's strategy of acquiring trusted and proven brands in the healthcare sector, and importantly, it will result in MLA becoming a profitable organisation.

MLA remains committed to this transaction, and one of the company's key objectives for the first half of the year is on completing this acquisition.

A favourable outlook

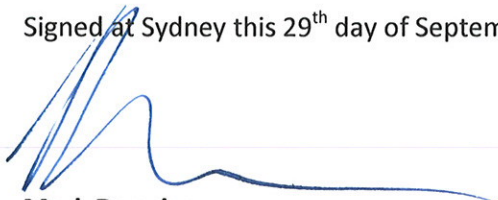
MLA now has the infrastructure in place to transform the company to profitability.

We have a world class supply chain that allows us to deliver our products into multiple markets throughout the world in a timely and cost effective manner, we have positioned ourselves as an innovative manufacturer and developer of medical products for leading OEMs, we have proven and trusted brands, an expanding international footprint, and our Board and Management team is stronger with a cohesive growth plan in place.

MLA has an objective of delivering annualised revenue of \$50 million by 2012 as well as acceptable profit margins on revenue. With the growth platform the company now has in place, this objective is now becoming a reality.

The Board is grateful for the hard work and dedication of MLA's team during the year, and for the continued support of our customers. We are confident that MLA is now poised for growth.

Signed at Sydney this 29th day of September 2010



Mark Donnison
Chief Executive Officer

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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 27 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 26 of the ASX best practice recommendations as 30 June 2010. The Company considers that its recommendations comply with the best practice recommendations, other than recommendation 4.2 an explanation for the departure is provided in this statement in section 3(a). A checklist summarising this is set out in section 8 of this Statement.

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 31 December 2009, 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 Hartigan, is a nonexecutive 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.

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2. The Board of Directors (Continued)

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;
- 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 Hartigan is a non-executive, and has 0.0 % of the Shares (Recommendations permit 5%). Troon Securities a company controlled by Mr Hartigan has 2,680,000 shares as at the date of this report.

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

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2. The Board of Directors (Continued)

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 Hartigan, Mr Mitchell and Dr Cumming meet the Recommendations' various test of independence. Therefore there is a majority of independent non-executive Directors and independent Directors on the Board.

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;

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2. The Board of Directors (Continued)

- 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 Hartigan and Dr. Cumming are members of the Board Nominations Committee during the financial year and Mr Hartigan 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 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.

ASX Recommendation 2.5, 2.6

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3. Board Committees

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.

a) Audit and Risk Committee

The Audit and Risk Committee is governed by its charter, as approved by the Board. The Charter is available within the Corporate Governance section on Medical Australia's website, at www.medaust.com. The Audit and Risk Committee comprises two Directors, who are non-executive Directors. The non-executive Directors are Mr Hartigan, Chairman of the Audit Committee and Mr Mitchell. 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);
- 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 does not comply with the requirement to have an independent chairperson, who is not the chairperson of the Board. The Board believes that Mr Hartigan is the most appropriate person to be elected 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 Hartigan 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;

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3. Board Committees (Continued)

- 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 Hartigan and Dr. Cumming were the members of the Board Nominations Committee during the financial year and Mr Hartigan 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:

- 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.

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 Hartigan and Dr. Cumming were the members of the Remuneration Committee during the financial year and Mr Hartigan 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

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3. Board Committees (Continued)

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 to identify, assess and control risks which are reviewed by the Audit and Risk Committee and also by the Board periodically.

a) Board oversight of the risk management system

The Board is responsible for approving and overseeing the risk management system. The Board reviews, at least annually, the effectiveness of the implementation of the risk management controls and procedures.

The Company recognises four main types of risk:

- Market risk, relates to the risk to earnings from changes in market conditions including economic activity, interest rates, 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.

ASX recommendations 7.1, 7.4

The Board, based on the recommendations of the Chief Executive 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.

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4. Recognising and managing risks

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

c) Managing Director and Chief Financial Officer Certification

The Managing Director 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.

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5. Remuneration

a) Overview

The Remuneration Committee is responsible for reviewing the compensation arrangements for the Chief Executive Officer and other key 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 17 to 20. 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 Long Term Incentive Plan ("Plan") and employees' participation in the Plan have been approved by the Board on 27 May 2010.

The purpose of the Plan is to attract, retain and motivate employees and officers of the Company to drive performance at both the individual and corporate level. Further participation by Directors in the Plan will require shareholders approval in accordance with the ASX Listing Rules.

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 information disclosure to the ASX.

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6. Timely and balanced disclosure (Continued)

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

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 Recommendations 3.2

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8. Checklist for summarising the best practice recommendations and compliance

ASX Principle	Reference	Compliance
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	Comply
1.2 Companies should disclose the process for evaluating the performance of senior executives.	5a, 5b	Comply
1.3 Companies should provide the information indicated in the Guide to reporting on Principle 1.	2a, 2b, 5a, 5b	Comply
Principle 2: Structure the board to add value		
2.1 A majority of the board should be independent directors.	2.1 2a, 2d, 2h	Comply
2.2 The chair should be an independent director.	2c	Comply
2.3 The roles of chair and managing director should not be exercised by the same individual.	2a, 2c	Comply
2.4 The board should establish a nomination committee.	2h, 2i, 3b	Comply
2.5 Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	2g, 3c	Comply
2.6 Provide the information in the Guide to reporting on this Principle 2.	2a, 2b, 2d, 2j, 3b	Comply
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:	7a	Comply
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.		
3.2 Companies should establish a policy concerning trading in company securities by directors, senior executives and employees and disclose the policy or summary of the policy.	7b	Comply
3.3 Provide the information indicated in the Guide to reporting on Principle 3.	7a	Comply
Principle 4: Safeguard integrity in financial reporting		
4.1 The board should establish an audit committee.	3a	Comply
4.2 The audit committee should be structured so that it:	3a	Comply
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		

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

STATEMENT OF CORPORATE GOVERNANCE

4.3 The audit committee should have a formal charter.	3a	Comply
4.4 Provide the information in the Guide to reporting on this Principle 4.	2a, 3a	Comply
Principle 5: Make timely and balanced disclosure		
5.1 Companies should establish written policies and procedures 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	Comply
5.2 Provide the information in the Guide to reporting on this Principle 5.	6a	Comply
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	Comply
6.2 Provide the information indicated in the Guide to reporting on Principle 6.	6a, 6b	Comply
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	Comply
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	Comply
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	Comply
7.4 Provide the information in the Guide to reporting on this Principle 7	4a	Comply
Principle 8: Remunerate fairly and responsibly		
8.1 The board should establish a remuneration committee	3c, 5a	Comply
8.2 Companies should clearly distinguish the structure of non-executive director's remuneration from that of executive directors and senior executives.	3c, 5a	Comply
8.3 Provide the information in the Guide to reporting on this Principle 8	5a	Comply

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

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 2010, 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:

Thomas J. Hartigan (Chairman)	Director since 3 March 2010
Thomas J. Mann	Director since 17 February 2006 to 3 March 2010
Gary L. Lewis	Director since 24 November 2006
Ian Mitchell	Director since 6 November 2008
Dr Geoff Cumming	Director since 23 January 2009

Thomas J. Hartigan, Chairman

Thomas Hartigan holds a Bachelor of Commerce and is a member of the Institute of Chartered Accountants, Australia. Mr Hartigan has more than 40 years experience as a Director of Australian public companies. He is currently also a 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.

He has been a Director since 3 March 2010 and was appointed Chairman on 3 March 2010.

Thomas J. Mann, Independent Non-Executive Chairman (Resigned – 3 March 2010)

Thomas Mann has over 30 years of experience in financial markets and global trade. He began his career in the financial services industry as a stockbroker working in both Sydney and London. He then began a global trading corporation with operations in the USA, Malaysia, Thailand, Indonesia and Australia.

More recently Mr Mann has been involved in capital raising initiatives and strategic development programs for small to mid-sized public and private companies.

He has been a Director since 17 February 2006 and was appointed Chairman on 26 June 2008. He resigned from his chairmanship on 3 March 2010.

Gary L. Lewis, Independent Non-Executive Director

Gary Lewis holds a Bachelor of Commerce and Masters of Business & Technology (MBT) 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 public 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.

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

DIRECTORS' REPORT

He has 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 is Chairman of the Merger and Acquisitions committee.

Dr Geoff Cumming, Independent Non-Executive Director

Dr Geoffrey Cumming has significant healthcare industry experience and holds a Bachelor of Science 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. He is currently also a director of Anteo Diagnostics Limited.

He has been a Director since 23 January 2009.

Ian Mitchell, Independent Non-Executive Director and Company Secretary

Ian is a practising solicitor of over thirty years standing. He has been a Director and Company Secretary of a number of public 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).

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

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

DIRECTORS' REPORT

Directors' Interests

Directors' beneficial shareholdings as at year end are:

Specified directors	Held at 1 July 2009	Purchases	Sales	Held at 30 June 2010
Thomas J. Hartigan *	-	-	-	-
Thomas J. Mann #	2,000,000	-	-	2,000,000
Gary L. Lewis	11,433,034	-	3,140,715	8,292,319
Dr Geoff Cumming	160,000	-	-	160,000
Ian Mitchell	53,103	500,000	-	553,103

* Number of shares held at date of appointment as a director.

Number of shares held at date of ceasing as director.

Directors' Meetings

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 are as follows:

	No. of Meetings Held Whilst Director	No. of Meetings Attended
Thomas J. Hartigan	3	3
Thomas J. Mann	4	4
Gary L. Lewis	8	8
Dr Geoff Cumming	8	8
Ian Mitchell	8	8

Principal Activities

The principal activities of the Group in 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 \$1,342,889 (2009 - \$2,190,381).

Dividends

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

Significant Changes in State of Affairs

In the opinion of the directors, significant changes in the state of affairs of the Group that occurred during the year ended 30 June 2010 were as follows:

- Supply chain transformation
- Capital Raising
- Board restructure
- Management Restructure

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

DIRECTORS' REPORT

Review of Operations

The operating and financial review of the Group during the year is detailed on pages 2 to 4 of this Annual Report.

Non-audit Services

During the year ended 30 June 2010 Gould Ralph Pty Ltd, a company related to the auditor, performed registry services and other services.

The board of directors is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the Corporation 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: 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 2010.

	2010	2009
	\$	\$
Share registry services	15,433	9,390
Other	5,850	5,711
Total	<u>21,283</u>	<u>15,101</u>

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 26 and forms part of the directors' report for the year ended 30 June 2010.

Events Subsequent to Balance Date

On 24 August 2010, the company issued 67,159,410 ordinary shares at an issue price of \$0.015 cents per share, raising \$1,007,391 (before transaction costs). The funds raised will be used to fund acquisitions and to provide day to day working capital to the business.

On 1 September 2010, the company announced that it no longer had the exclusive right to acquire Care Essentials.

Likely Developments

Further information as to 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.

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

DIRECTORS' REPORT

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 \$14,343 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 directors who, in turn, evaluate 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

Remuneration comprises salary, bonus and statutory superannuation. The remuneration disclosed below represent 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 for the year ended 30 June 2010.

On 1 April 2008 the Company entered into a services contract with Act 2 Pty Ltd, a Company associated with the managing director Gary Lewis to provide consulting services to the Company. The agreement sets out that consulting fees of \$250,000 per annum plus GST will be paid to Act 2 Pty Ltd from commencement to 31 March 2009, with this amount increasing to \$262,500 per annum for the period 1 April 2009 to 31 March 2010.

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 months notice prior to termination of contract. Termination payments are not generally made.

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 four executives receiving the highest remuneration.

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

DIRECTORS' REPORT

Employment details of Key Management Personnel

Name	Title	Hire date	Termination Provisions	% fixed remuneration
Mark Donnison	CEO	October 12 2009	4 weeks	89%
Greg Lewis	CFO	January 1 2010	4 weeks	94%
Michael Jones	GM, Corporate Innovations (Previously GM, Operations)	March 1 2008	4 weeks	98%
David Thomson	GM, QA/RA	July 22 2008	4 weeks	95%
Michael Neville	CEO resigned October 2009		4 weeks	94%
Mark McEnallay	CFO resigned in January 2010		4 weeks	98%

Details of the nature and amount of each major element of the emoluments of each director of the Company 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 \$	Long term LSL \$	Equity Compensation value of options \$	Total \$	% of remuneration that is performance based
2010 Directors								
Thomas J. Hartigan	20,833	-	-	1,875	-	-	22,708	-
Gary L. Lewis	120,313	-	-	-	-	-	120,313	-
Thomas J. Mann	-	38,500	-	-	-	-	38,500	-
Dr Geoff Cumming	51,831	-	-	4,665	-	-	56,496	-
Ian Mitchell	44,000	-	-	-	-	-	44,000	-
Total, all Directors	236,977	38,500	-	6,540	-	-	282,017	-

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

DIRECTORS' REPORT

	Short term Salary, bonus, fees and leave \$	Non monetary \$	Other \$	Post- employment SGC benefits \$	Long term LSL \$	Equity Compensation value of options \$	Total \$	% of remuneration that is performance based
2010								
Key Management Personnel								
Mark Donnison	153,227	-	15,550	13,790	-	-	182,567	11%
Greg Lewis	85,976	-	14,481	7,738	-	-	108,195	6%
Michael Neville	86,823	-	10,488	6,559	-	-	103,870	6%
Mark McEnallay	96,728	-	-	7,309	-	-	104,037	2%
Michael Jones	165,000	-	-	14,625	-	-	179,625	2%
David Thomson	134,999	-	-	11,925	-	-	146,924	5%
Total Key Management Personnel	722,753	-	40,519	61,946	-	-	825,218	-
2009								
Directors								
Thomas J. Hartigan	-	-	-	-	-	-	-	-
Gary L. Lewis	253,125	1,968	-	-	-	-	255,093	-
Thomas J. Mann	50,000	-	-	-	-	-	50,000	-
Dr Geoff Cumming	15,831	-	-	-	-	-	15,831	-
Ian Mitchell	30,000	-	-	-	-	-	30,000	-
Total, all Directors	348,956	1,968	-	-	-	-	350,924	-

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

DIRECTORS' REPORT

	Short term Salary, bonus, fees and leave \$	Non monetary \$	Other \$	Post- employment SGC benefits \$	Long term LSL \$	Equity Compensation value of options \$	Total \$	% of remuneration that is performance based
2009								
Key Management Personnel								
Mark Donnison	-	-	-	-	-	-	-	-
Greg Lewis	-	-	-	-	-	-	-	-
Michael Neville	178,220	1,968	5,525	28,890	2,713	-	217,316	6%
Mark McEnallay	164,202	1,968	-	13,762	2,817	-	182,749	2%
Michael Jones	159,545	1,968	-	13,500	8,372	-	183,385	2%
David Thomson	147,110	9,189	-	12,790	2,370	-	171,459	5%
Total Key Management Personnel	649,077	15,093	5,525	68,942	16,272	-	754,909	-

Options granted as compensation

Details of options that were granted as compensation to each 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	0.03	\$0.08 at anytime up to 30 June 2014
Thomas Mann	17 September 2009	1,000,000	30,000	0.03	\$0.08 at anytime up to 30 June 2014
Ian Mitchell	17 September 2009	500,000	15,000	0.03	\$0.08 at anytime up to 30 June 2014
Geoff Cumming	17 September 2009	500,000	15,000	0.03	\$0.08 at anytime up to 30 June 2014

The number of options that had vested as at 30 June 2010 is 3,000,000 (2009 – 1,500,000).

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

DIRECTORS' REPORT

The fair value of the options at grant date was determined based on the Black-Scholes formula. The model inputs of the options issued, were the Company's share price of \$0.03 at the grant date, a volatility factor of 227% based on historic share price performance and a risk free interest rate of 3.50% based on the 10 year government bond rate.

Non-executive Directors

Total compensation for all non-executive directors is determined by the board based on market conditions. Due to the cash flow constraints of the Group during the 2010 financial year non-executive directors agreed to forego any directors' fees during that year.

Options

At the date of this report, unissued ordinary shares of the Company under option are:

Number of Options	Exercise Price	Expiry Date
3,000,000	\$0.08	30 June 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 29th day of September 2010
In accordance with a resolution of the Board of Directors:



T. J. Hartigan
Chairman

Chartered Accountants

ABN 74 632 161 298

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259 George Street

Sydney NSW 2000

Australia

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E: mail@gouldralph.com.auW: www.gouldralph.com.au

29 September 2010

The Directors
Medical Australia Limited
Level 17, 275 Alfred Street
NORTH SYDNEY NSW 2000

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Medical Australia Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been:

- (a) No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to this audit;
- (b) No contraventions of the Code of Professional Conduct in relation to this audit.

GOULD RALPH ASSURANCE
Chartered Accountants



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

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 30 June 2010

		Consolidated	
	Notes	2010 \$	2009 \$
Sale of goods	2	7,298,003	7,612,308
Cost of goods sold		(2,995,078)	(4,624,374)
Gross profit		4,302,925	2,987,934
Other Income	2	71,869	7,616
Expenses:			
Administration and consultants	2	(712,610)	(1,109,455)
Depreciation		(137,563)	(98,046)
Research expenses	2	-	4,386
Impairment write down	2	-	(520,000)
Write down of inventory	2	(303,934)	-
Employee expenses	2	(3,051,202)	(2,372,553)
Travel and accommodation	2	(220,062)	(245,605)
Occupancy costs		(331,989)	(88,413)
Other expenses		(735,581)	(581,064)
Loss before interest and tax		(1,118,147)	(2,015,200)
Financial income	2	5,143	9,111
Financial expense	2	(229,885)	(225,418)
Net financing (Loss) / income		(224,742)	(216,307)
Loss before income tax expense		(1,342,889)	(2,231,507)
Income tax credit / (expense)	3	-	41,126
Loss for the year		(1,342,889)	(2,190,381)
Other comprehensive income after tax		-	-
Total comprehensive Loss for the year		(1,342,889)	(2,190,381)
Basic loss per share attributable to ordinary shareholders (cents per share)	4	(0.51) cents	(1.14) cents
Diluted loss per share attributable to ordinary shareholders (cents per share)	4	(0.51) cents	(1.14) cents

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2010

		Consolidated	
	Notes	2010 \$	2009 \$
CURRENT ASSETS			
Cash and cash equivalents	5	190,677	699,849
Trade and other receivables	6	856,493	1,441,933
Inventories	7	776,636	1,304,162
TOTAL CURRENT ASSETS		1,823,806	3,445,944
NON-CURRENT ASSETS			
Plant and equipment	8	336,175	371,528
Intangibles	9	4,422,709	4,368,632
TOTAL NON-CURRENT ASSETS		4,758,884	4,740,160
TOTAL ASSETS		6,582,690	8,186,104
CURRENT LIABILITIES			
Trade and other payables	10	1,880,423	2,671,003
Interest bearing liabilities	11	447,299	519,795
Provisions	12	159,486	69,020
TOTAL CURRENT LIABILITIES		2,487,208	3,259,818
NON-CURRENT LIABILITIES			
Interest bearing liabilities	11	1,028,000	1,108,000
Provisions	12	7,002	2,650
TOTAL NON-CURRENT LIABILITIES		1,035,002	1,110,650
TOTAL LIABILITIES		3,522,210	4,370,468
NET ASSETS		3,060,480	3,815,636
EQUITY			
Issued capital	13	15,602,018	15,029,018
Equity remuneration reserve	14	100,936	86,203
Accumulated losses	15	(12,642,474)	(11,299,585)
TOTAL EQUITY		3,060,480	3,815,636

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2010

	Issued capital \$	Reserves \$	Accumulated Losses \$	Total \$
Balance at 1 July 2008	12,849,508	86,203	(9,109,204)	3,826,507
Loss for the year	-	-	(2,190,381)	(2,190,381)
Equity contributions	2,263,884	-	-	2,263,884
Share issue costs	(84,374)	-	-	(84,374)
Balance at 30 June 2009	15,029,018	86,203	(11,299,585)	3,815,636
Loss for the year	-	-	(1,342,889)	(1,342,889)
Cost of share based payments	-	14,733	-	14,733
Equity contributions	641,000	-	-	641,000
Share issue costs	(68,000)	-	-	(68,000)
Balance at 30 June 2010	15,602,018	100,936	(12,642,474)	3,060,480

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 June 2010

		Consolidated	
		2010	2009
	Notes	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers		7,895,475	7,888,275
Cash receipts from government grants		-	7,616
Cash paid to suppliers and employees		(8,528,800)	(9,162,174)
Cash generated from operations		(633,325)	(1,266,283)
Interest paid		(79,885)	(57,255)
Interest received		5,143	9,111
Net cash used in operating activities	19	(708,067)	(1,314,427)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for plant and equipment		(102,211)	(231,108)
Payments for acquisition of business		-	(251,496)
Payments/receipts for other assets		(54,131)	-
Net cash used in investing activities		(156,342)	(482,604)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		575,733	1,543,517
Payment of share issue costs		(68,000)	(84,374)
Proceeds/(repayment) from/(of) Borrowings		(60,000)	168,000
Debt to equity conversion		-	189,743
Net cash provided by financing activities		447,733	1,816,886
Net decrease in cash held		(416,676)	19,855
Cash and cash equivalents – beginning of year		240,054	292,742
Effect of exchange rate adjustments on cash held		-	(72,543)
Cash and cash equivalents at the end of the financial year	5	(176,622)	240,054

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

NOTES TO THE FINANCIAL STATEMENTS **For the year ended 30 June 2010**

1. REPORTING ENTITY

Medical Australia Limited (the 'Company') is a company domiciled in Australia. The consolidated financial report of the Company for the year ended 30 June 2010 comprises the Company and its subsidiaries (together referred to as the 'Group' and or 'consolidated entity').

Going concern

The consolidated entity incurred significant trading losses of \$1,342,889 for the year ended 30 June 2010 and had accumulated losses of \$12,642,474 and had a net current asset deficiency of \$663,402 as at that date.

These conditions give rise to a material uncertainty that may cast significant doubt upon the consolidated entity's ability to continue as a going concern. The ongoing operation of the consolidated entity is dependent upon:

- the consolidated entity achieving cash flow positive trading operations in the coming twelve months; and/or
- the Company raising additional funding from shareholders and/or external parties.

As disclosed in Note 12 – 'Subsequent Events' the company issued 67,159,410 ordinary shares at an issue price of \$0.015 cents per share, raising \$1,007,391 (before transaction costs) subsequent to the reporting date. The funds raised will be used to fund acquisitions and to provide day to day working capital to the business.

The directors have prepared cash flow projections that support the ability of the consolidated entity to continue as a going concern. These cash flow projections assume significant increases in revenues compared to historical achievements and improved overall business.

In the event that the consolidated entity does not achieve positive cash flows from trading operations, it may not be able to continue operations as a going concern and therefore the consolidated entity 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 and company not continue as going concerns.

Basis of preparation

Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs') adopted by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. The consolidated financial report of the Group and the financial report of the Company comply with the IFRSs and interpretations adopted by the International Accounting Standards Board ('IASB').

The financial report was authorised for issue by the directors on 29th September 2010.

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

Notes to the Financial Statements For the year ended 30 June 2010

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis.

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.

Use of 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 period in which the estimate is revised and in any future periods 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 – Intangibles

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 acquired in a business combination is determined based on its estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Trade and other receivables

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

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For the year ended 30 June 2010**

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. For finance leases the market rate of interest is determined by reference to similar lease agreement.

Share-based payment transactions

The fair value of the options is measured using the Black-Scholes model. Measurement inputs include share price on measurement date, 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.

Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between the buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeable, prudently and without compulsion. The market value of items of plant, equipment, fixtures and fittings is based on the quoted market prices for similar items.

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 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.

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Adoption of New and Revised Accounting Standards

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

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

AASB 3 Business Combinations: In March 2008 the Australian Accounting Standards Board revised AASB 3, and as a result some aspects of business combination accounting have changed. The changes apply only to business combinations which occur from 1 July 2009. Below is an overview of the key changes and the impact on the Group's financial statements in relation to the acquisition of an additional ownership interest in Medical Australia Limited.

Recognition of Acquisition Costs

The revised version of AASB 3 requires that all costs associated with a business combination be expensed in the period in which they were incurred. Previously such costs were capitalised as part of the cost of the business combination.

Measurement of Contingent Considerations

The revised AASB 3 requires that contingent considerations associated with a business combination be included as part of the cost of the business combination. They are recognised at the fair value of the payment calculated having regard to probability of settlement. Any subsequent changes in the fair value or probability of payment are recognised in the statement of comprehensive income except to the extent that they relate to conditions or events existing at acquisition date in which case the consideration paid is adjusted. The previous version of AASB 3 allowed such changes to be recognised as a cost of the combination impacting goodwill.

Measurement of Non-Controlling Interest

For each business combination, the acquirer must measure any non-controlling interest in the acquiree either at the fair value of the non-controlling interest (the 'full goodwill' method) or as the non-controlling interest's proportionate share of the acquiree's net identifiable assets. Under the previous version of AASB 3 only the latter option was permitted.

Recognition of contingencies

The revised AASB 3 prohibits entities from recognising contingencies associated with a business combination, unless they meet the definition of a liability.

There were no contingencies associated with the acquisition of an additional ownership interest by Medical Australia Limited.

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Business Combinations Achieved in Stages

The revised AASB 3 requires that where a business combination is achieved in stages, any previously held equity interest be remeasured to fair value and the resulting gain or loss being the difference between fair value and historical cost, be recognised in the statement of comprehensive income. The previous version of AASB 3 accounted for each exchange transaction separately, using cost and fair value information at the date of each exchange, to determine the amount of any goodwill associated with the acquisition. It was therefore possible to compare the cost of each individual investment with the fair value of identifiable net assets acquired at each step.

Disclosure impact

The revised AASB 3 contains a number of additional disclosure requirements, not required by the previous version of AASB 3. The revised disclosures are designed to ensure that users of the Group's financial statements are able to understand the nature and financial impact of any business combinations on the financial statements.

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

Measurement impact

Identification and measurement of segments

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

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

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

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Impairment Testing of the Segments Goodwill

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

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

Disclosure impact

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

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

Disclosure impact

Terminology changes

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

Reporting changes in equity

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

Statement of comprehensive income

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

The group's financial statements now contain a statement of comprehensive income.

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Notes to the Financial Statements For the year ended 30 June 2010

Other comprehensive income

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

New Accounting Standards for application in future periods

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

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

These standards are applicable retrospectively and amend the classification and measurement of financial assets.

The Group has not yet determined any potential impact on the financial statements.

The changes made to accounting requirements include:

- simplifying the classifications of financial assets into those carried at amortised cost and those carried at fair value
- simplifying the requirements for embedded derivatives
- removing the tainting rules associated with held-to-maturity assets
- removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost
- allowing an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument
- financial assets will need to be reclassified where there is a change in an entity's business model as they are initially classified based on
 - (a) the objective of the entity's business model for managing the financial assets; and
 - (b) the characteristics of the contractual cash flows

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

This standard removes the requirement for government related entities to disclose details of all transaction with the government and other government related entities and clarifies

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the definition of a related party to remove inconsistencies and simplify the structure of the standard. No changes are expected to materially affect the Group.

- AASB 2009-4 “Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 2 and AASB 138 and AASB Interpretations 9 & 16]” (applicable for annual reporting periods commencing from 1 July 2009) and AASB 2009-5 “Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139] (applicable for annual reporting periods commencing from 1 January 2010).

These standard details numerous non-urgent but necessary changes to accounting standards arising from the IASB’s annual improvements project. No changes are expected to materially affect the Group.

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

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

- AASB 2009-9 “Amendments to Australian Accounting Standards – Additional Exemptions for First-time Adopters [AASB 1]” (applicable for annual reporting periods commencing on or after 1 January 2010)

These amendments specify requirements for entities using the full cost method in place of the retrospective application of Australian Accounting Standards for oil and gas assets and exempt entities with existing leasing contracts from reassessing the classification of those contracts in accordance with Interpretation 4 when the application of their previous accounting policies would have given the same outcome. These amendments are not expected to impact the Group.

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

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

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

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

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

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

- AASB 2009-14: *Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement [AASB Interpretation 14] (applicable for annual reporting periods commencing on or after 1 January 2011)*

This standard amends Interpretation 14 to address unintended consequences that can arise from the previous accounting requirements when an entity prepays future contributions into a defined benefit pension plan.

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

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

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

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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.

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. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. The cost of inventory may also include transfers from equity of any gain or loss on qualifying cash flow hedges of foreign currency purchases of inventory.

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

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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 profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings.

- Office Equipment is depreciated at rates between 10% and 67% 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 7.5% and 30% per annum using the diminishing value method.
- Warehouse Equipment is depreciated at 20% 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 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.

Acquisitions of minority interests

Goodwill arising on the acquisition of a minority interest in a subsidiary represents the excess of the cost of the additional investment over the carrying amount of the net assets acquired at the date of exchange.

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Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment.

Intercompany loans

Loans made to controlled entities which are interest free, unsecured, of no fixed term, and repayable only out of potential future profits are classified as investments.

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 profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the profit and loss.

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 profit or loss. 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 and deferred tax assets 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 profit or loss.

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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 balance sheet 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 income statement 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 balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet 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 the balance sheet date.

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A deferred tax asset 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.

Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax ('GST'), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST 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 included. The net amount of GST recoverable from, or payable to, the ATO 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 components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the ATO 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.

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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.

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

Financial income

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

Government grants

Government grants are recognised initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions associated with the grant. Grants that compensate the Group for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses are recognised. Grants that compensate the Group for the cost of an asset are recognised in profit or loss as other income on a systematic basis over the useful life of the asset.

Miscellaneous income

Miscellaneous income arises from re-charges of costs associated with employee costs, office rent and repairs to pumps.

Employee benefits

Wages, salaries, annual 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 reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

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.

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Foreign Currency

Transactions in foreign currencies are translated to the respective functional currencies of group entities 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 period, adjusted for effective interest and payments during the period and, the amortised cost in foreign currency translated at the exchange rate at the end of the period. 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.

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.

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NOTE 2 – LOSS FROM OPERATING ACTIVITIES AND FINANCIAL INCOME	Consolidated	
	2010	2009
	\$	\$
Loss from ordinary activities includes the following items of revenue and expense:		
Revenue and other income		
Sales of goods	7,298,003	7,612,308
Government grants	-	7,616
Foreign exchange gain	71,869	-
	<u>7,369,872</u>	<u>7,619,924</u>
Expenses		
Administration and consultants expenses:		
- general and administrative	454,370	864,020
- consultancy fees	258,240	245,435
	<u>712,610</u>	<u>1,109,455</u>
Research expenses	-	(4,386)
Impairment loss on receivables	-	58,201
Write-down of inventory	303,934	-
Impairment loss on other assets	-	520,000
Wages and Salaries	2,966,382	2,353,599
Increase in liability for annual leave	84,820	18,954
Equity settled share based payment	14,733	-
Travel and entertainment	220,062	245,605
Audit of financial reports	40,000	59,000
Foreign exchange (gain)/ loss on cash	-	72,534
Financial income and expense		
Interest revenue	5,143	9,111
Interest expense	(229,885)	(225,418)
	<u>(224,742)</u>	<u>(216,307)</u>

At 30 June 2010, the Group had 24 employees (2009 - 22).

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Notes to the Financial Statements
For the year ended 30 June 2010

NOTE 3 - INCOME TAX EXPENSE	Consolidated	
	2010 \$	2009 \$
Numerical reconciliation between tax expense and pre-tax net profit		
Loss before tax – continuing operations	(1,342,889)	(2,231,507)
Income tax using the domestic corporation tax rate of 30%	(402,867)	(669,452)
Increase/ (decrease) in income tax expense due to:		
- Non-deductible expenses	63,568	32,996
- Impairment write-down	-	156,000
- Deferred tax assets not brought to account	339,299	480,456
- Research and development tax offset	-	(41,126)
Income tax expense	-	(41,126)

The income tax credit for the year ended 30 June 2009 reflects amounts receivable or received from an R&D offset claim.

NOTE 4 - LOSS PER SHARE

Net loss for the year	1,342,889	2,190,381
	Number	Number
Weighted average number of ordinary shares		
Weighted average issued ordinary shares at year end	261,266,802	191,691,826

As at 30 June 2010 there are 3,000,000 (2009 – 1,500,000) options, being ‘potential’ ordinary shares on issue. These options are not included in the calculation of diluted per share as they are not considered dilutive.

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Notes to the Financial Statements
For the year ended 30 June 2010

NOTE 5 – CASH AND CASH EQUIVALENTS	Consolidated	
	2010	2009
	\$	\$
Cash at bank and on hand	81,677	590,849
Term deposits	109,000	109,000
	<u>190,677</u>	<u>699,849</u>

The heightened average interest rate on Term Deposits was 4.00% (2009 – 5.40%)

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

Cash and cash equivalents	190,677	699,849
Bank overdrafts	(367,299)	(459,795)
	<u>(176,622)</u>	<u>240,054</u>

NOTE 6 – TRADE AND OTHER RECEIVABLES

Current

Trade debtors	802,314	1,441,933
Advances	50,362	-
Prepayments	3,817	-
	<u>856,493</u>	<u>1,441,933</u>

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

During the year ended 30 June 2010 the directors performed an impairment test on the carrying value of trade debtors which had a carrying value at 30 June 2010 of \$802,314 (2009- \$1,441,933) after impairment loss. The recoverable amount of trade debtors was estimated based on analysis of overdue debtors and historical debt recovery rates. The recoverable amount was estimated to be nil (2009 - \$58,201) lower than the carrying amount of trade debtors and an impairment against trade debtors for that amount was applied.

NOTE 7 – INVENTORIES

Current

Finished goods	<u>776,636</u>	<u>1,304,162</u>
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**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Notes to the Financial Statements
For the year ended 30 June 2010

	Consolidated	
	2010	2009
NOTE 8 – PROPERTY, PLANT AND EQUIPMENT	\$	\$
Plant and equipment	249,604	249,604
Accumulated depreciation	(122,026)	(92,475)
	127,578	157,129
 Furniture and fixtures	 38,284	 25,016
Accumulated depreciation	(5,434)	(1,093)
	32,850	23,923
 Office equipment	 283,227	 238,261
Accumulated depreciation	(151,875)	(101,534)
	131,352	136,727
 Leasehold Improvements	 61,156	 59,562
Accumulated depreciation	(16,760)	(5,813)
	44,396	53,749
 Total plant and equipment	336,176	371,528

Movement in carrying amounts are as follows:

Plant and equipment		
Carrying amount at beginning of year	157,129	98,979
Additions	-	96,069
Impairment loss	-	-
Depreciation	(29,551)	(37,919)
	127,578	157,129
 Furniture and fittings		
Carrying amount at beginning of year	23,923	-
Additions	13,268	25,016
Impairment loss	-	-
Depreciation	(4,341)	(1,093)
	32,850	23,923

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Notes to the Financial Statements
For the year ended 30 June 2010

	Consolidated	
	2010	2009
	\$	\$
Office equipment		
Carrying amount at beginning of year	136,727	139,412
Additions	44,966	50,461
Disposal	-	(4,658)
Impairment loss	-	-
Depreciation	(50,341)	(48,488)
	131,352	136,727
Leasehold Improvements		
Carrying amount at beginning of year	53,749	-
Additions	1,593	59,562
Impairment loss	-	-
Depreciation	(10,947)	(5,813)
	44,395	53,749
Total		
Carrying amount at beginning of year	371,528	238,391
Additions	59,827	231,108
Disposal	-	(4,658)
Impairment loss	-	-
Depreciation	(95,180)	(93,313)
Carrying amount at year end	336,175	371,528

During the year ended 30 June 2010, no impairment write down was considered necessary.

**MEDICAL AUSTRALIA LIMITED
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Notes to the Financial Statements
For the year ended 30 June 2010

NOTE 9 - INTANGIBLES	Consolidated	
	2010	2009
	\$	\$
Goodwill – TUTA Healthcare	3,929,564	3,929,564
Less: Impairment	(520,000)	(520,000)
Goodwill – TUTA Healthcare	3,409,564	3,409,564
Product Development Costs – Gross	359,109	262,650
Less: Accumulated amortisation	(47,115)	(4,733)
Product Development Costs - net	311,994	257,917
Goodwill on acquisition – Clements	701,151	701,151
	4,422,709	4,368,632

The Goodwill relating to the Cash Generating Unit TUTA Healthcare of \$3,409,564 and the Cash Generating unit Clements of \$701,151 was tested for impairment at 30 June 2010 and the directors believed that no impairment write-down existed in the period to 30 June 2010 (2009: \$520,000).

The recoverable amount of the Cash Generating Units of TUTA Healthcare and Clements are determined on a value in use calculation using cash flow projections as at 30 June 2010 based on financial budgets approved by management covering a five year period. The pre-tax risk adjusted discount rate applied to these cash flow projections is 15%. The discount rate reflects management's estimate of the time value of money and the risks specific to the cash generating unit.

Growth rate assumptions are based on management's estimates of market share and how the unit's relative position to its competitors might change over the budget period. Management expects a conservative growth of the unit's market share over the budget period and has applied a 10% growth factor to revenues. Likely supplier cost increases are estimated on past actual material price movements as an indicator of future price movements. Management has applied a 10% cost increase on purchased materials for resale, and a 5% increase across other operating expenses.

With regard to the assessment of the value, management believe that no reasonably possible change in any of the key assumptions would cause the carrying value of the unit to materially exceed its recoverable amount.

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

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Notes to the Financial Statements
For the year ended 30 June 2010

	Consolidated	
	2010	2009
	\$	\$
NOTE 10 – TRADE AND OTHER PAYABLES		
Current		
Trade creditors	1,446,629	1,833,236
Payroll liabilities	75,260	288,793
Customer deposits	42,250	68,750
Accruals	316,284	480,224
	<u>1,880,423</u>	<u>2,671,003</u>
NOTE 11 – INTEREST BEARING LIABILITIES		
Current		
Bank overdraft	367,299	459,795
Loans – related parties	80,000	60,000
Total	<u>447,299</u>	<u>519,795</u>
Non-current		
Loans	<u>1,028,000</u>	<u>1,108,000</u>
NOTE 12 – PROVISIONS		
Current		
Provision for employee annual leave and long service leave entitlements	<u>159,486</u>	<u>69,020</u>
Non-current		
Provision for employee long service leave entitlements	<u>7,002</u>	<u>2,650</u>
(a) Movements in provisions		
Movements in provisions for the financial year are as follows:		
Annual Leave		
Carrying amount at beginning of year	17,490	
Increases to provision	153,902	
Amount utilised	(69,082)	
As at 30 June 2010	<u>102,310</u>	
Long Service Leave		
Carrying amount at beginning of year	54,182	
Increases to provision	9,996	
Amount utilised	-	
As at 30 June 2010	<u>64,178</u>	
Current	57,176	
Non-current	<u>7,002</u>	
	<u>64,178</u>	

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Notes to the Financial Statements
For the year ended 30 June 2010

	Consolidated	
	2010	2009
	\$	\$
NOTE 13 – ISSUED CAPITAL		
Issued and paid up capital		
277,844,152 (2009 – 252,977,488)		
ordinary shares, fully paid	15,602,018	15,029,018

	2010 No.	2010 \$	2009 No.	2009 \$
Fully paid ordinary shares				
Balance at beginning of year	252,977,488	15,029,018	181,764,366	12,849,508
Issue of shares (Net of issue costs)	24,866,664	573,000	71,213,122	2,179,510
Balance at end of year	277,844,152	15,602,018	252,977,488	15,029,018
During the year:				

- The Company issued 500,000 shares fully paid ordinary shares on 17 September 2009 at 4 cents per share pursuant to an employment contract.
- The Company issued 1,500,000 fully paid shares on 17 November 2009 at 4 cents per share in consideration of fund raising services.
- The Company issued 5,033,333 fully paid ordinary shares at 3 cents per share on 30 November 2009.
- The Company issued 5,333,331 ordinary shares at an issue price of 3 cents per share on 11 March 2010.
- The Company issued 12,500,000 ordinary shares at an issue price of 2 cents per share on 28 April 2010.

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.

	Consolidated	
	2010	2009
	\$	\$
NOTE 14 – EQUITY REMUNERATION RESERVE		
Opening balance	86,203	86,203
Issue of options	14,733	-
Closing balance	100,936	86,203

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

**Notes to the Financial Statements
For the year ended 30 June 2010**

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:

- 1,500,000 options were issued on 30 October 2007, exercisable at 6 cents each to acquire one fully paid ordinary share at any time up to 31 August 2008. The fair value at grant date was \$39,869 and the share price was \$0.06.
- 1,500,000 options were issued on 30 October 2007, exercisable at 10 cents each to acquire one fully paid ordinary share at any time up to 31 August 2009. The fair value at grant date was \$46,334 and the share price was \$0.06.

The above options were issued to the Managing Director, Gary Lewis following a special resolution at the Annual General Meeting.

The fair value of the options at grant date was determined based on the Black-Scholes formula. The model inputs were the Company's share price of \$0.06 at the grant date, a volatility factor of 124% based on historic share price performance and a risk free interest rate of 6.33% based on the 10 year government bond rate.

- 3,000,000 options were issued on 17 September 2009, exercisable at 8 cents each to acquire one fully paid ordinary share at any time up to 30 June 2014. The fair value at grant date was \$14,733 and the share price was \$0.03.

The above options were issued to the Directors.

The fair value of the options at grant date was determined based on the Black-Scholes formula. The model inputs were the Company's share price of \$0.03 at the grant date, a volatility factor of 227.5% based on historic share price performance and a risk free interest rate of 3.5% based on the 10 year government bond rate.

NOTE 15 - ACCUMULATED LOSSES	Consolidated	
	2010	2009
	\$	\$
Accumulated losses at beginning of year	(11,299,585)	(9,109,204)
Net loss attributable to members of the parent entity	(1,342,889)	(2,190,381)
Accumulated losses at year end	(12,642,474)	(11,299,585)

Dividends

No dividends were paid or declared during the period.

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

Notes to the Financial Statements For the year ended 30 June 2010

NOTE 16 - PARTICULARS IN RELATION TO CONTROLLED ENTITIES

Parent Entity

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

Controlled Entities	Country of Incorporation	Ownership Interest	
		2010	2009 %
BMDI Pty Ltd	Australia	100	100
BMDI TUTA Healthcare Pty Ltd	Australia	100	100
Bio Medical Developments International Pty Ltd	Australia	70	70

During the year, no subsidiaries were acquired or disposed of.

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.

NOTE 17 – PARENT ENTITY DISCLOSURE

Financial Position

	Company	
	2010	2009
	\$	\$
Assets		
Current Assets	871,693	717,565
Non-Current Assets	3,815,637	3,815,636
Total Assets	4,687,330	4,533,201
Liabilities		
Current Liabilities	221,470	219,152
Non-current Liabilities	50,000	-
Total Liabilities	271,470	219,152
Equity		
Issued Capital	15,602,018	15,029,018
Equity Remuneration Reserve	100,936	86,203
Accumulated Losses	(11,287,094)	(10,801,172)
Total Equity	4,415,860	4,314,049

Financial Performance

Loss for the year	(485,922)	(1,765,932)
Other comprehensive income	-	-
Total loss for the year	(485,922)	(1,765,932)

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Notes to the Financial Statements
For the year ended 30 June 2010

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 summaries 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 2010 \$	Carrying amount 2009 \$
Cash and cash equivalents	81,677	590,849
Term deposits	109,000	109,000
Trade and other receivables	856,493	1,441,933
	1,047,170	2,141,782

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 21 percent of the Group's revenue is attributable to sales transactions with two customers.

Goods are sold subject to retention of title clauses, so that in the event of non-payment the Group may have 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 estimate of incurred losses in respect of trade and other receivables and investments. The main components of this allowance are a specific loss component that relates to individually significant exposures.

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

**Notes to the Financial Statements
For the year ended 30 June 2010**

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

	Consolidated	
	2010	2009
	\$	\$
Australia	763,001	994,848
Asia	64,408	180,058
Europe	21,091	195,272
USA	898	45,243
Other	22,742	26,512
	<u>872,140</u>	<u>1,441,933</u>

The Groups most significant customer, an Australian based organisation, accounts for \$19,713 of the trade receivables amount at 30 June 2010. In 2009, an Australian based organisation accounts for \$162,885 of the balance.

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

	Gross	Impairmen	Gross	Impairment
	2010	t	2009	2009
		2010		
Not past due	778,988	-	1,224,656	-
Past due 30 – 60	75,610	-	63,201	-
Past due 61 – 90	17,542	-	222,228	68,152
			<u>1,510,085</u>	
	<u>872,140</u>	<u>-</u>	<u>5</u>	<u>68,152</u>

An impairment loss of \$NIL was taken up at 30 June 2010 (2009 – \$68,152) 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 Group operates an overdraft which is subject to interest coverage ratios and net tangible worth covenants. During the course of the year, these targets were breached. However, the bank has agreed not to demand payment in light of the group's positive future outlook and one-off historical income statement adjustments that affected the 30 June 2010 loss for the year.

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

**Notes to the Financial Statements
For the year ended 30 June 2010**

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 2010					
Trade and other payables	1,880,423	(1,880,423)	(1,880,423)	-	-
Interest bearing liabilities	1,475,299	(1,475,299)	(447,299)	(1,028,000)	-
	<u>3,355,722</u>	<u>(3,355,722)</u>	<u>(2,327,722)</u>	<u>(1,028,000)</u>	<u>-</u>
30 June 2009					
Trade and other payables	2,671,003	(2,671,003)	(2,671,003)	-	-
Interest bearing liabilities	1,627,795	(2,309,263)	(663,763)	(1,645,500)	-
	<u>4,298,798</u>	<u>(4,980,266)</u>	<u>(3,334,766)</u>	<u>(1,645,500)</u>	<u>-</u>

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 income statement 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 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	
	2010	2009
	\$	\$
Cash and cash equivalents	81,677	590,849
Term deposits	109,000	109,000
Financial Assets	<u>190,677</u>	<u>699,849</u>
Overdraft	367,299	459,795
Borrowings	1,028,000	1,168,000
Financial Liabilities	<u>1,395,299</u>	<u>1,627,795</u>
Net Financial exposure	<u>(1,204,622)</u>	<u>(927,946)</u>

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

**Notes to the Financial Statements
For the year ended 30 June 2010**

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. The Group's equity consists of fully paid ordinary shares. There is no effect on fully paid ordinary shares by an increase or decrease in interest rates during the period.

	Consolidated Loss for the year \$
30 June 2010	<u>3,958</u>
30 June 2009	<u>14,420</u>

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 2010 approximately 90% percent of the Group's sales were denominated in AUD with the remaining balance in USD. Approximately 78% percent of the Group's purchases were in USD, approximately 20% percent in AUD with the remainder in JPY and GBP. Each one cent increase in the average USD exchange rate would have decreased the Groups loss by \$38,215.

The Group does not hedge any of its foreign currency exposure.

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 and will seek to raise additional funding through issues of shares for the continuation of the Group's operation. 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 and or variable interest rates.

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Notes to the Financial Statements
For the year ended 30 June 2010

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. 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	
	2010	2009
	\$	\$
a) Reconciliation of net loss from operating activities to net cash used in operating activities		
Loss from operating activities after tax	(1,342,889)	(2,190,381)
Items classified as investing/financing activities		
Non-cash items		
Depreciation of property, plant and equipment	137,563	98,111
Foreign exchange (gain)/loss	-	72,543
Movements in Provisions	94,816	(207,098)
Share based payment	20,000	-
Impairment loss on property, plant and equipment	-	-
Write down of inventory	-	-
Capitalisation of product development costs	-	(257,917)
Goodwill impairment	-	520,000
Changes in assets and liabilities		
Receivables	623,972	275,967
Inventories	527,526	(57,327)
Customer deposits	(26,500)	(9,164)
Other assets	(54,179)	-
Payables	(688,376)	440,839
Net cash used in operating activities	(708,067)	(1,314,427)

b) Non-cash financing and investing activities

- i) On 17 September 2009, 1,500,000 ordinary shares were issued to brokers in consideration of financial funding raising and broking services provided to the company at issue of \$0.04, being \$60,000.

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

Notes to the Financial Statements For the year ended 30 June 2010

NOTE 20 – KEY MANAGEMENT PERSONNEL DISCLOSURES

Key management personnel

The following were key management personnel of the Company at any time during the reporting period

Directors

Thomas J. Hartigan (Chairman)
Thomas J. Mann (retired 3 March 2010)
Gary Lewis
Dr Geoff Cumming
Ian Mitchell

Executives

Mark Donnison
Greg Lewis
Michael Jones
David Thomson

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 reporting period in the number of ordinary shares and terminating preference shares in the Company held directly, indirectly or beneficially, by each specified director or specified executive, including their personally-related entities, is as follows:

	Held at 1 July 2009	Purchases	Sales	Held at 30 June 2010
Directors				
Thomas J. Hartigan^	-	-	-	-
Thomas J. Mann*	2,000,000	-	-	2,000,000
Gary L. Lewis	11,433,034	-	3,140,715	8,292,319
Dr Geoff Cumming	160,000	-	-	160,000
Ian Mitchell	53,103	500,000	-	553,103

* Number of shares held at date of ceasing as a director.

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Notes to the Financial Statements
For the year ended 30 June 2010

Executives	Held at 1 July 2009	Purchases	Sales	Held at 30 June 2010
Mark Donnison	800,00	220,000	-	1,020,000
Greg Lewis	-	-	-	-
Michael Jones	-	-	-	-
David Thomson	-	-	-	-
Michael Neville*	-	-	-	-
Mark McEnallay* (ceased January 2010)	200,000	673,333	-	873,333

* Number of shares held at date of ceasing as an executive

Directors	Held at 1 July 2008	Purchases	Sales	Held at 30 June 2009
Keith Cadell	642,800	-	-	642,800
Gary Lewis ^	6,055,800	-	-	10,556,600
Peter E. Roberts	1,671,400	1,100,000	-	2,771,400
Thomas J. Mann	1,500,000	-	-	1,500,000

^ Number of shares held at date of appointment as a director.

On 1 April 2008 the Company entered into a services contract with Act 2 Pty Ltd, a Company associated with the director Gary Lewis to provide consulting services to the Company. The agreement sets out that consulting fees of \$250,000 per annum plus GST will be paid to Act 2 Pty Ltd from commencement to 31 March 2009, with this amount increasing to \$262,500 per annum for the period 1 April 2009 to 31 March 2010.

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.

NOTE 21 - CONTROLLED ENTITIES

At balance date, the Company had amounts receivable from BMDI Pty Limited of \$4,261,047 (2009 - \$4,151,437), BMDI TUTA Healthcare Pty Ltd of \$1,503,162 (2009 - \$719,449) and Bio Medical Developments International Pty Limited of \$1,674,574 (2009 - \$1,674,574). These amounts are interest free, unsecured, have no fixed term of repayment and are repayable out of future profits.

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Notes to the Financial Statements
For the year ended 30 June 2010

NOTE 22 - FINANCIAL REPORTING BY SEGMENTS

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

Geographical segments	Australia	Asia	New Zealand	Consolidated
	\$	\$	\$	\$
30 June 2010				
Revenue				
External segment income	6,292,244	850,159	56,790	7,199,193
Unallocated	-	-	-	98,810
				<u>7,298,003</u>
Result				
Segment result	(1,158,003)	(156,341)	(10,443)	(1,324,787)
Unallocated corporate expenses				(18,102)
Net loss				<u>(1,342,889)</u>
Assets				
Segment assets	6,598,338	-	-	<u>6,598,338</u>
Including non-current assets acquired during the year:				
Plant and	-	-	-	-
Furniture and fittings	13,268	-	-	13,268
Office	12,058	-	-	12,058
Software	32,908	-	-	32,908
Leasehold Improvements	1,594	-	-	1,594
	<u>59,828</u>	-	-	<u>59,828</u>
Segment liabilities	<u>3,537,858</u>	-	-	<u>3,537,858</u>

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Notes to the Financial Statements
For the year ended 30 June 2010

NOTE 22 – FINANCIAL REPORTING BY SEGMENTS (Cont'd)

Geographical segments	Australia	Asia	New Zealand	United States	Consolidated
	\$	\$	\$	\$	\$
30 June 2009					
Revenue					
External segment income	6,656,280	484,947	371,795	32,612	7,545,634
Unallocated	-	-	-	-	66,674
					<u>7,612,308</u>
Result					
Segment result	(748,254)	(147,143)	210,909	16,432	(668,056)
Unallocated corporate expenses	-	-	-	-	(1,522,325)
Net loss					<u>(2,190,381)</u>
Assets					
Segment assets	8,186,104	-	-	-	<u>8,186,104</u>
Including non-current assets acquired during the year:					
Plant and equipment	96,069	-	-	-	96,069
Furniture and fittings	25,016	-	-	-	25,016
Office	48,421	-	-	-	48,421
Software	2,040	-	-	-	2,040
Leasehold Improvements	59,562	-	-	-	59,562
	<u>231,108</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>231,108</u>
Segment	<u>4,370,468</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,370,468</u>

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

**MEDICAL AUSTRALIA LIMITED
AND ITS CONTROLLED ENTITIES**

Notes to the Financial Statements
For the year ended 30 June 2010

NOTE 23 - COMMITMENTS

Items	Consolidated	
	2010	2009
	\$	\$
Payable:		
Within 1 year	183,250	574,251
Between 1 and 5 years	1,099,500	1,043,034
More than 5 year	-	170,532
	<u>1,282,750</u>	<u>1,787,817</u>

Significant commitments are:

Property leases for the head office and warehouse. These are of 5 years duration and provide for annual increases based on current market rents and the CPI index.

NOTE 24 – CONTINGENT ASSET

The group is in dispute with a former supplier in Thailand regarding a claim of \$390,000 for goods manufactured and supplied. This amount has been recognised in the financial statements as a trade payable. Whilst the liability has been recognised in full, the directors believe the amount owing to the supplier should be offset by product charges, travel and freight costs incurred by the group in connection with the supply. The directors believe they will be successful in claiming these offsets, however as the amount cannot be measured reliably at the date of this report and is subject to litigation, no amount has been recognised in the financial statements for this contingent asset. The Company is defending proceedings which are due to be heard in the Supreme Court of NSW in early 2011.

Separately, the group is also claiming damages against two parties, the former supplier referred above and a competitor, with respect to breaches of confidentiality, breaches of non-compete and passing off Medical Australia Limited products. The claim relates to products with the Medical Australia Limited trade mark being imported and sold in Australia. The claim covers loss of market share, loss of profits and other matters. The quantum of these claims have not been recognised in the financial statements as the amount of the claim cannot be measured reliably as at the date of this financial report. The court case is not expected to be heard until 2011.

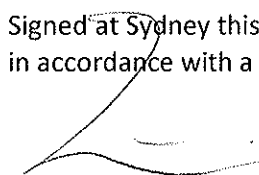
MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

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 31 to 66 and the remuneration disclosures that are contained in the Remuneration Report in the Directors' Report, set out on pages 21 to 25, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the Company's and the Group's financial position as at 30 June 2010 and of their 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 Company will be able to pay its debts as and when they become due and payable.
2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the chief executive officer and chief financial officer for the financial year ended 30 June 2010.
 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 29th day of September 2010
in accordance with a resolution of the Board of Directors:



T.J. Hartigan
Chairman

**INDEPENDENT AUDIT REPORT TO THE
MEMBERS OF MEDICAL AUSTRALIA LIMITED**

Report on the Financial Report

We have audited the accompanying financial statements of Medical Australia Ltd which comprises the consolidated statement of financial position as at 30 June 2010, 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 consolidated entity comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditors' responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial 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 report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal 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 report. 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.

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 report of Medical Australia Limited is in accordance with:

the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001.

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

Emphasis of Matter

Without qualification to the opinion expressed above, we draw attention to Note 1 'Going Concern' in the financial statements which identifies that the consolidated entity has incurred a loss of \$1,342,889 for the year ended 30 June 2010, and had accumulated losses of \$12,642,474 and a net current asset deficiency of \$663,402 as at that date. These conditions, along with other matters as set forth in Note 1 'Going Concern', indicate the existence of a significant uncertainty which may cast 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 in pages 21 to 25 of the directors' report for the year ended 30 June 2010. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion of the Remuneration Report

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

GOULD RALPH ASSURANCE

Chartered Accountants



GREGORY C RALPH, M.COM, FCA

Partner

Dated this 29th day of September 2010
Sydney

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

Additional Stock Exchange Information

Additional information as at 31st August 2010 required by the Australian Stock Exchange Listing Rules and not disclosed elsewhere in this report.

Home Exchange

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

Audit Committee

As at the date of the Directors' Report, there was no audit committee of the Board of Directors, because the small number of Directors comprising the Board considers all matters that otherwise would be considered by an audit committee.

Substantial Shareholdings

At 31 August 2010 the Register of Substantial Shareholders showed the following:

Mr Andrew Fay	39,537,370
Mrs Narelle Fay	22,213,447

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 2010, the distribution of fully paid ordinary shares was as follows:

Range	Total Holder	Fully Paid Ordinary Shares	% Issued Capital
1 - 1,000	43	1,172	-
1,001 - 5,000	9	36,160	0.01%
5,001 – 10,000	50	469,847	0.13%
10,001 – 100,000	195	8,113,461	2.28%
100,001 and over	201	346,649,592	97.58%
		<hr/> 355,270,232	<hr/> 100.00%

At 31 August 2010, 205 shareholders held less than a marketable parcel of 33,333 shares.

MEDICAL AUSTRALIA LIMITED AND ITS CONTROLLED ENTITIES

Additional Stock Exchange Information

Use of Cash and Assets

Since the Company's listing on the Australian Stock 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.

Twenty One Largest Shareholders

At 31 August 2010 the twenty largest quoted shareholders held 56.62% of the fully paid ordinary shares as follows:

	Name	Number	%
1	Mr Andrew Fay	22,644,218	6.37
2	Mr Andrew Fay	16,893,152	4.76
3	Mrs Narelle Fay	14,213,447	4.00
4	Victor Hoog Antink	13,700,000	3.86
5	Act 2 Pty Limited	12,385,238	3.49
6	Nutsville Pty Ltd	11,666,666	3.28
7	Amnicole Investments Pty Ltd	10,888,889	3.06
8	Treplo Pty Limited	10,888,889	3.06
9	Clements Medical Equipment Pty Ltd	10,625,000	2.99
10	Cordato Partners (Services) Pty Ltd	10,488,889	2.95
11	Three Pagodas Pty Ltd	10,488,889	2.95
12	Gki Resort Pty Limited	8,333,333	2.35
13	Mrs Narelle Fay	8,000,000	2.25
14	Script to Screen Pty Ltd	6,747,804	1.90
15	CCG Pty Ltd	6,666,668	1.88
16	Kinetic Investment Co Pty Ltd	6,666,666	1.88
17	Mr Louis Petrin & Ms Lorraine Reddel	5,900,000	1.66
18	Auhill Investments Services Pty Ltd	5,244,444	1.48
19	Praf Investments Pty Limited	4,416,667	1.24
20	1147 Pty Ltd	4,301,187	1.21