



SHAREHOLDER UPDATE – JULY 2011

Dear Shareholder

The past six months have been a busy period at Eastland with the company making important progress on a number of fronts. One of our aims has been to improve our shareholder and investor communication program and this update is a part of that process. We embarked on our Investor relations program earlier this year and have:

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

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

- Successful Placement and Rights Offer raised approximately \$4.2 million
- ArTiMist™ Clinical Trial progressed into 3 countries with approximately 50% of patients dosed
- Operational review carried out and recommendations given to the Board.
- Engaged European based consultant to identify new projects
- Corporate restructure to reduce corporate complexity and costs
- Announced Priority Option Placement for EMSO and EMSOB holders.
- CEO met with key international groups to advance ArTiMist™ understanding
- Ongoing negotiations with HC Berlin Pharma AG (in liquidation)

Our key focus over the past six months has been to actively review and identify the best possible paths to assist in maximising shareholder value in the future. In the coming months we will work ensure that some of these programs will begin to take effect.

Whilst there is a lot happening, below we have tried to provide you with a detailed review of the key actions that are being taken.

ArTiMist™

The Directors of Eastland have been frustrated at the delays in receiving updated clinical trial information from ProtoPharma since the death of Mr Calvin Ross in August 2010. We understand that EMS shareholders wish to receive regular updates and we have been working diligently to try and ensure that there is a proper flow of information between the two

companies. In May 2011 Eastland received notification from the Directors of ProtoPharma Limited that the ArTiMist™ trials were progressing well and that, further to the 50 patients that have been treated in Rwanda, recruitment has now commenced in Burkina Faso. A further 50 are now being recruited for treatment under the Burkina Faso component of the trial and we are advised approval has also been received from Ghana. EMS was also advised that it is planned to treat patients from both Tanzania and Uganda and approval is pending in both. The Directors of Eastland have not been informed by ProtoPharma of any deviation from the expected completion date of end third quarter 2011.

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

HC Berlin Pharma AG (in liquidation):

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

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

In June 2010 HC Berlin Pharma was placed in provisional Administration

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

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

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

New Projects

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

Operational Review:

The management of Eastland have carried out a thorough review of all its existing projects to ensure that only projects with real potential are to be developed. During this review a number of projects have been re-classified.

NiCoSorb™

Whilst the project had some potential it was determined that due to the rapid expansion of new products within the smoking cessation and nicotine replacement market place, the market was moving closer to saturation and that it would become increasingly difficult for any new product to gain market share. Moreover HC Berlin Pharma (in liquidation) was unable to meet its obligations in relation to clinical development. Based on this knowledge we believe that there is insufficient value in the NiCoSorb™ project to warrant any further expenditure on its development. The project has now been removed from our development schedule.

Safe Needle Technology

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

Intellectual Property (IP)

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

Corporate Restructuring

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

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

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

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

Financial Stability.

EMS has recently completed a \$4.2 million Share Purchase Plan and private placement. In May and June 2011 we saw the expiry of the listed options in the company. We have informed the market that we will be carrying out a Priority Option Placement (POP) to those option holders that held options in either EMSO or EMSOB at the record dates. This POP will be subject to shareholder approval at a General Meeting to be held on the 2nd August 2011 at 10am at The Boulevard Centre, 99 The Boulevard, in Floreat. If approved by the shareholders the POP will raise a further \$489,275 before costs if fully subscribed. These funds and the funds raised from the SPP will result in EMS being in a sound financial position going forward in the near term. It is anticipated that without any extraordinary situations that these monies will support the development of ArTiMist™ through the current clinical and regulatory programs.

Thompson Reuters:

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

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

International Visits

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

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



Further information:

Stephen Carter
Chief Executive Officer
Director
Eastland Medical Systems Ltd
Tel: +61 8 6142 5555
sjcarter@eastlandmedical.com.au