PORTLAND ORTHOPAEDICS

28 April 2006

Australian Stock Exchange
Companies Announcements Office
20 Bridge Street
Sydney NSW 2000

Dear Sirs

## Appendix 4C – Quarter to 31 March 2006

The Board of Portland Orthopaedics Limited is pleased to present its quarterly cash flow report for the quarter ended 31 March 2006. The company's operating cash outflow for the quarter ended 31 March 2006 was $993,286 and the total decrease in cash held was $1,056,794.

During the quarter, and as announced to ASX on16 March 2006, the Company secured a binding agreement with Plus Orthopaedics USA Inc as exclusive distributor of Portland's suite of orthopaedic joint products across the US. Plus operates in 22 countries and has a fully established distribution infrastructure in 29 states across the US. The Company incurred not insignificant expenses in securing and executing this agreement. In addition, cash costs of $201,000 were invested in materials and other production costs to support this agreement. These amounts are included as "other working capital" in the Appendix 4C.

During the quarter, the Company also settled the remainder of the costs associated with its IPO in December 2005, totalling approximately $263,000. These amounts are also included as "other working capital" in the Appendix 4C.

Finally, Operating cash outflow for the quarter included $246,984 in research and development costs as the company continues to invest in product development both for the core DTC range together with the M-COR primary stem and the Equator Plus Hip Cup, both scheduled for first implant in the coming months and all of which are subject of the Plus distribution agreement.

Yours faithfully

**David Edwards**
**Company Secretary**

*Rule 4.7B*

# Appendix 4C

## Quarterly report for entities admitted on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001, 24/10/2005.

Name of entity

Portland Orthopaedics Limited

ABN

92 086 839 992

Quarter ended ("current quarter")

31 March 2006

## Consolidated statement of cash flows

| Cash flows related to operating activities | | | Current quarter $A'000 | Period to date (6 months) $A'000 |
|---|---|---|---|---|
| 1.1 | Receipts from customers | | 461 | 974 |
| 1.2 | Payments for | (a) staff costs | (404) | (754) |
| | | (b) advertising and marketing | (35) | (35) |
| | | (c) research and development | (247) | (461) |
| | | (d) leased assets | (23) | (45) |
| | | (e) other working capital | (1,034) | (2,226) |
| 1.3 | Dividends received | | - | - |
| 1.4 | Interest and other items of a similar nature received | | 4 | 15 |
| 1.5 | Interest and other costs of finance paid | | (9) | (18) |
| 1.6 | Income taxes paid | | - | - |
| 1.7 | Other (provide details if material) | | 294 | 294 |
| | **Net operating cash flows** | | **(993)** | **(2,256)** |

+ See chapter 19 for defined terms.

| | | Current quarter $A'000 | Period to date (6 months) $A'000 |
|---|---|---|---|
| 1.8 | Net operating cash flows (carried forward) | **(993)** | **(2,256)** |
| | **Cash flows related to investing activities** | | |
| 1.9 | Payment for acquisition of: | | |
| | (a) businesses (item 5) | - | - |
| | (b) equity investments | - | - |
| | (c) intellectual property | - | - |
| | (d) physical non-current assets | (34) | (34) |
| | (e) other non-current assets | (21) | (30) |
| 1.10 | Proceeds from disposal of: | | |
| | (a) businesses (item 5) | - | - |
| | (b) equity investments | - | - |
| | (c) intellectual property | - | - |
| | (d) physical non-current assets | - | - |
| | (e) other non-current assets | - | - |
| 1.11 | Loans to other entities | - | - |
| 1.12 | Loans repaid by other entities | - | - |
| 1.13 | Other (provide details if material) | - | - |
| | **Net investing cash flows** | **(55)** | **(64)** |
| **1.14** | **Total operating and investing cash flows** | **(1,048)** | **(2,320)** |
| | **Cash flows related to financing activities** | | |
| 1.15 | Proceeds from issues of shares, options, etc. | 33 | 4,157 |
| 1.16 | Proceeds from sale of forfeited shares | - | - |
| 1.17 | Proceeds from borrowings | - | - |
| 1.18 | Repayment of borrowings | (42) | (85) |
| 1.19 | Dividends paid | - | - |
| 1.20 | Other (provide details if material) | - | - |
| | **Net financing cash flows** | **(9)** | **4,072** |
| | **Net increase (decrease) in cash held** | **(1,057)** | **1,752** |
| 1.21 | Cash at beginning of quarter/year to date | 3,652 | 843 |
| 1.22 | Exchange rate adjustments to item 1.20 | - | - |
| 1.23 | **Cash at end of quarter** | **2,595** | **2,595** |

+ See chapter 19 for defined terms.

## Payments to directors of the entity and associates of the directors
## Payments to related entities of the entity and associates of the related entities

| | | Current quarter $A'000 |
|---|---|---|
| 1.24 | Aggregate amount of payments to the parties included in item 1.2 | 142 |
| 1.25 | Aggregate amount of loans to the parties included in item 1.11 | - |

1.26 Explanation necessary for an understanding of the transactions

None

## Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

None

2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

None

## Financing facilities available

*Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).*

| | | Amount available $A'000 | Amount used $A'000 |
|---|---|---|---|
| 3.1 | Loan facilities | - | - |
| 3.2 | Credit standby arrangements | - | - |

+ See chapter 19 for defined terms.

## Reconciliation of cash

| Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows. | | Current quarter $A'000 | Previous quarter $A'000 |
|---|---|---|---|
| 4.1 | Cash on hand and at bank | 245 | 852 |
| 4.2 | Deposits at call | 2,350 | 2,800 |
| 4.3 | Bank overdraft | - | - |
| 4.4 | Other (provide details) | - | - |
| | **Total: cash at end of quarter** (item 1.23) | **2,595** | **3,652** |

## Acquisitions and disposals of business entities

| | | Acquisitions *(Item 1.9(a))* | Disposals *(Item 1.10(a))* |
|---|---|---|---|
| 5.1 | Name of entity | - | - |
| 5.2 | Place of incorporation or registration | - | - |
| 5.3 | Consideration for acquisition or disposal | - | - |
| 5.4 | Total net assets | - | - |
| 5.5 | Nature of business | - | - |

## Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.

2 This statement does give a true and fair view of the matters disclosed.

Sign here: Dan Edl ............................ Date: 28 April 2006
(Director/Company secretary)

Print name: ....**David Edwards**.................................................

## Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to

+ See chapter 19 for defined terms.

disclose additional information is encouraged to do so, in a note or notes attached to this report.

2. The definitions in, and provisions of, *AASB 1026: Statement of Cash Flows* apply to this report except for the paragraphs of the Standard set out below.

- 6.2 - reconciliation of cash flows arising from operating activities to operating profit or loss
- 9.2 - itemised disclosure relating to acquisitions
- 9.4 - itemised disclosure relating to disposals
- 12.1(a) - policy for classification of cash items
- 12.3 - disclosure of restrictions on use of cash
- 13.1 - comparative information

3. **Accounting Standards.** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

+ See chapter 19 for defined terms.