

LEADING CHANGE

Leading Change in Cardiovascular Medicine

AtCor Medical Technology and Services

AtCor Medical's SphygmoCor® systems are the global gold standard for noninvasive assessment of central blood pressure and arterial stiffness. Hundreds of published clinical studies have established the value of SphygmoCor technology in predicting cardiovascular risk and in detecting important drug effects that cannot be measured with traditional blood pressure measurement.

As the pioneer and leader in pulse wave analysis and pulse wave velocity assessment, AtCor has been responsible for innovations that are changing the way pharmaceutical clinical trials are conducted, how physicians evaluate cardiovascular risk, and how cardiovascular disease is managed.

LEADING CHANGE

AtCor Medical Holdings Limited
ABN 81 113 252 234

Annual General Meeting

The Annual General Meeting of Atcor Medical Holdings Limited will be held at:
DibbsBarker Lawyers, Level 8, Angel Place,
123 Pitt St, Sydney, NSW 2000
at 11.00am on 21 October 2009

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Highlights of the Year

“Your company took a substantial step towards its primary objective of earnings and cash sustainability”

Global sales **increase to \$11.2 million**
or 47% in constant currency

Gross margin **improved to 84.5%**
up from 80.1% in 2008

Cash balance \$0.1 million higher at 30 June 2009
than 30 June 2008

2nd generation SphygmoCor
device released to market

WISDOM clinical trial services
system launched

SphygmoCor



2nd Generation SphygmoCor device

*AtCor Board (L-R): Duncan Ross, Dr David Brookes,
Dr Michael O'Rourke, Peter Jenkins, Donal O'Dwyer.*



Chairman's letter to shareholders

"creating a company that has significant opportunities to grow"

Donal O'Dwyer
Chairman



I am happy to be able to report to you on another very positive year for AtCor – in terms of both operational performance and continued success in putting in place the building blocks to support future growth and sustainability.

As I mentioned in my last report to you, the ability of western and emerging economies' governments to provide appropriate and effective healthcare to their citizens in the future will need to be driven by earlier disease identification, thereby enabling earlier and less expensive intervention than is routinely the practice today. In the area of cardiovascular disease identification and treatment, which is one of the largest items in healthcare budgets, AtCor's SphygmoCor is well placed to play an important part in making this change a reality. By using SphygmoCor to measure central blood pressures non-invasively, physicians have the ability to assess and identify much earlier cardiovascular risk and disease and to adopt effective, less expensive treatment.

Now to AtCor's performance. Our goal is to create a business that is sustainable from an earnings and cash perspective and has significant opportunities to grow and create value. We believe that, with our excellent technology, capable organisation and strong business leadership, we have made major strides forward in the past year towards achieving this goal.

Our operational results were strong, with sales growth of 74% for the year. Growth was achieved across all regions, with the US the stand out.

Gross margin also exhibited a positive trend, both in dollar value and in percentage, with an increase to 84.5% from 80.1% a year earlier.

Net loss was reduced to \$1.7 million from \$3.8 million a year earlier, although operating expenses grew to support the revenue growth.

One of the most satisfying results was our cash position of \$3.4 million at year end which was the same as a year earlier. During the year, AtCor consumed approximately \$600 thousand of cash for operations, which was offset by repayment of outstanding loans. This positive performance

enabled us to confirm that we did not anticipate the need for any further cash infusion to support our operating activities in the foreseeable future.

I would now like to comment on some of the other significant achievements during the past year:

- A number of important clinical papers were published that support clinical adoption of SphygmoCor. Further papers are being produced that will also support its adoption in the clinic, and we eagerly await their publication.
- Our success in enabling leading pharmaceutical companies around the world to access important information on their products in clinical trials was reinforced during the year, with several major contracts awarded to AtCor.
- We launched some significant new product offerings, positioning us for continued success.
- We continued to strengthen our organisation so we can take full advantage of the opportunities ahead of us.

While our share price performed relatively well during a tumultuous time in the financial markets, your board believes that, given the size of the market we are targeting, our strong position to succeed and our history of delivering on our commitments, the value of AtCor is not reflected in the current share price. We will continue to work diligently to deliver against our plans and communicate our progress effectively.

You will soon receive notification of our AGM, and the board and I cordially invite you to attend. It will be a great opportunity to meet many of the AtCor team and obtain an even greater understanding of the company.

Finally, I want again to record my thanks, on behalf of the Board and all shareholders, to the management and employees of AtCor, to our medical advisers and, most importantly, to our customers, who are leading the way in the treatment of cardiovascular disease.

A handwritten signature in black ink that reads "Donal O'Dwyer". The signature is written in a cursive style.

Donal O'Dwyer

Sydney, 20 August 2009

CEO's report



Duncan Ross
Chief Executive Officer

"Focused and Talented People Delivering Results"

Dear Shareholder,

I am very pleased to report to you on AtCor Medical's FY2009 results and on the focused strategies and initiatives which will continue to guide our future progress.

This was a year when your company took a substantial step toward its primary objective of earnings and cash sustainability. Despite a difficult macro-economic environment, AtCor continued to advance its position as the worldwide gold standard in measuring non-invasive central blood pressure and arterial stiffness.

2009 HIGHLIGHTS

LEADING CHANGE – MANAGING GROWTH

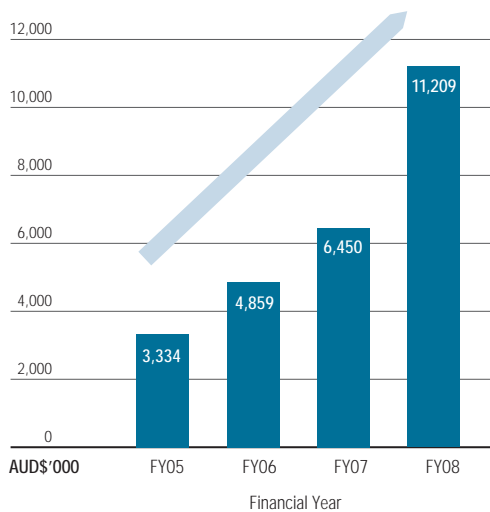
- Global sales increased 74% to \$11.2 million, and in constant currency rose 47% for the second consecutive year.
- Sales in the US increased 72%, with pharmaceutical sector sales rising 99% and clinical practice sales improving 46%.
- Sales in Europe rose a modest 5.4%, while Asia-Pacific sales rebounded to grow 57%.
- Gross margin improved by over 400 basis points from 80.1% in 2008 to 84.5%. The major contributors were increased volume, lower costs attributable to our new portable EM3 technology, and higher revenue from clinical study services to the pharmaceutical industry.
- Operating Expenses grew by 26% over the prior year. Currency (1.2) m, and variable compensation growth tied to our strong performance accounted for over one-half of this increase.
- Net loss was reduced to \$1.7 million from \$3.8 million.
- Cash at 30 June was \$3.4 million, up \$0.1 million from 30 June 2008, and operating cash burn declined to \$0.6 million, compared to \$3.8 million in FY2008. This was largely attributable to increased receipts from customers and to a number of pharmaceutical companies pre-paying the equipment portion of leases versus paying month-to-month.

- Many important clinical papers were published during the year. These papers were highly supportive of our current clinical adoption focus in patient risk stratification and hypertension management, while creating opportunities for expanded use of SphygmoCor in new applications such as early prediction of maternal pre-eclampsia. These applications are being investigated further and developed.
- In November, we launched our second generation platform, the SphygmoCor EM3. This lighter-weight, portable module allows SphygmoCor to be transported more easily to the patient for testing. This was a critical consideration in December when a Canadian population-based genomic study purchased the system, as it permits easy transport for home-based testing. In addition to design and functionality improvements, AtCor added the measurement of Heart Rate Variability to its platform. The EM3 is available in a number of model configurations
- To upgrade our support of our clinical customers and prepare for increased adoption, we launched an Electronic Medical Records software interface.
- We enhanced our best-in-class pharmaceutical clinical trials service by developing the WISDOM (Worldwide Instantaneous Study Data Operations Management) System. Through WISDOM, clinical trial data is securely and instantaneously transferred from trial sites to the AtCor Medical Clinical Trials Data Management Centre. This allows information to be reviewed in near-real time, so any necessary corrective action can be made promptly, and in turn enhances the quality of data generated in clinical trials.

SALES REVENUE

SUSTAINABILITY OF HEALTHCARE DELIVERY..... SPHYGMOCOR WILL PLAY AN IMPORTANT ROLE

The sustainability of healthcare delivery in the west and in the developing world must be based on early disease identification and intervention. Managing later stage disease as a core strategy continues to prove to be economically unsustainable.



The UK is currently expecting to cut real spending from its National Health Services budget by 2 per cent per year from 2011 to 2014. The United States is grappling with the multiple challenges of maintaining world class status in latter stage disease management, finding resources to cover more citizens and moving resources over time to prevention and early identification. In Australia, routine screenings such as colonoscopies are cost-effective over the long run if funds can be made available.

In addition to these trends, there is a growing body of evidence that shows different ethnic groups have varying disease propensities, and therefore different screening and management requirements. This was documented in a paper published in the US in November which utilised SphygmoCor. Heffernan, *et al.* compared a group of young, healthy Caucasian men with a similar group of African-American men. They found that the two groups had the same brachial blood pressures and biochemical risk factors, yet the African-American group had greater central pulse pressures, increased arterial stiffness and other measures of diffuse macro-vascular and micro-vascular damage. (Heffernan, *et al.*, American Journal of Physiology 2008; 295:H2380-7).

TRENDS IN SUPPORT OF INCREASED TECHNOLOGY ADOPTION

Changes in medical practice and adoption of new technology are not a rapid process, and require both clinical evidence and the enthusiastic support of key clinical opinion leaders. During the past year, there were several trends that support our expectation of continued market uptake and growth within the US\$2.0 billion global market for SphygmoCor products and services.

- Modeled after a robust and successful sister society in Europe, a North American Artery Group held its initial organizing meetings. We believe this group of clinical opinion leaders will play a crucial role in building awareness through education and communicating the advantages of using central pressures and measures of arterial stiffness in patient management and care.
- In the Indian market, where we see huge upside potential for AtCor based on the population's predisposition to early onset of arterial stiffness and diabetes, a six-centre population-based study involving over 4,000 people is underway. The data will be analyzed by the University of Cambridge in October 2009, and will provide specific screening and treatment values for this patient population.
- Opinion leaders are moving towards publication of broad reviews and meta-analyses of findings across the 400+ peer-reviewed SphygmoCor studies, further supporting clinical adoption.
 - The differential impact of drugs on central versus brachial pressure is discussed in two review articles by Protogerou, *et al.*, who state that "recent evidence suggests, beyond any doubt, that antihypertensive drugs affect peripheral and central blood pressure differentially." They conclude that "there are important differences between the classes of antihypertensive drugs regarding their effects on blood pressure amplification (the ratio of peripheral to central pulse pressure)." (Protogerou, *et al.*, Current Pharmaceutical Design, 2009; 15:267-71 and 245-53)
 - Another recent article by Safar and Jankowski reviews several studies that "indicate not only an independent predictive value of central pulse pressure, but also its advantage over brachial pressure." They review recent evidence that "some antihypertensive drugs can influence central blood pressure more consistently when compared to peripheral blood pressure." (Safar and Jankowski, Clinical Science 2009; 116:273-82)
 - A meta-analysis of multiple study data supporting the predictive value of pulse wave velocity, where SphygmoCor is also the leader, is currently being completed and will be presented in the next 45 days.

CEO's report

(continued)

The group that compiled this data is now working towards doing the same for pulse wave analysis and central pressures within the next 12 months.

- The pharmaceutical sector continues to lead the way toward clinical adoption through its adoption and increased advocacy. As so many drugs can have hidden or otherwise unforeseen blood pressure effects, we are now seeing interest outside the related hypertension classes of drugs.

OUR FOCUS FORWARD

SUSTAINING AND ENHANCING ATCOR'S MEDICAL'S LEADERSHIP POSITION

As AtCor looks to its future growth options, it is our strategic intent that we not only build a self-sustaining business in the near-term, but that we develop and grow the business with sufficient product/service breadth and scale to compete mid-long term in the expanded cardiovascular disease and physiological waveform analysis markets. To accomplish this, we are focused on and investing in the following initiatives.

Enhancing our technology leadership – investing in product development

AtCor currently has three product development projects underway, scheduled for market launch during the next 12-18 months. Our investment in both hardware and software will significantly enhance ease-of-use and interpretation of results for the operator and physician, improving overall delivery of care and the patient experience. To accomplish this, AtCor will nearly double its investment in R&D in 2010.

Enhancing our services – building greater competitive immunity and accelerating growth in the pharmaceutical sector

Currently, AtCor is capturing 5% of an annual US\$100 million+ pharmaceutical trials market and receives high marks for its service to these important customers. Patient compliance and data quality are well above benchmark levels. Based on the strength of the new WISDOM platform and our service track record, we are now being asked to take the leadership services role through incorporating data management and reviewing results from related device suppliers in clinical trials. This could open important revenue and partnering opportunities for AtCor.

Potential for new and expanded clinical indications for use

Important papers presented this year showed the strong possibility for SphygmoCor's future adoption in managing drug therapy in heart failure, cardiac resynchronisation therapy-pacemaker optimisation, predicting the onset of atrial fibrillation and identifying mothers in the first eight weeks of pregnancy who are at increased risk for pre-eclampsia. In

all these diseases, preliminary studies showed SphygmoCor was at least equivalent to current methods, and much more cost-effective. Follow-on studies are underway or will soon commence for each of these potential indications.

Clinical adoption

Physicians are currently receiving reimbursement for SphygmoCor tests from a number of local payers in the US, using a general cardiovascular code, and we have active programs to secure broad test reimbursement in the US, Australia and France. Well over 50% of our annual operating expense in the US market is invested in driving clinical adoption on the local, and eventually the national, level. The WISDOM system developed for the pharmaceutical sector has important implications too for an expanded strategy. The ability to review patient results securely in real time provides an opportunity for direct electronic interface enabling AtCor to provide review services and establishing the linkage for a per-test rental model.

Appropriate partnering and M&A opportunities

The strong response to our WISDOM System for potential use with other manufacturers' devices in pharmaceutical clinical trials has provided momentum to technology partnering. The new potential indications for clinical use are spurring business development discussions beyond AtCor. AtCor is open to strategic alliances and acquisitions that enhance shareholder value and better position AtCor for the future.

Entering new geographic markets

In 2008, we completed our entry into the eastern European market, and in 2009 we signed value-added distribution partners in the Middle East. We are now commencing a more formal approach to develop the South American market. We are finding the developing world very open to new, cost-effective modalities for patient diagnosis and management.

Our 32 dedicated professionals at AtCor Medical are focused on driving the business to achieve its full potential, and we look forward to keeping you abreast of our progress in what we anticipate will be another positive year for our business. Thank you for your continued support.



Duncan R. Ross

Chicago, Illinois USA
20 August 2009



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This financial report covers both AtCor Medical Holdings Limited as an individual entity and the consolidated entity consisting of AtCor Medical Holdings Limited and its subsidiaries. The financial report is presented in the Australian currency.

AtCor Medical Holdings Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Suite 11, 1059–1063 Victoria Road
West Ryde NSW 2114

A description of the nature of the consolidated entity's operations and its principal activities is included in the CEO's report and activities on pages 4 to 6 and in the directors' report on pages 8 to 20, both of which are not part of this financial report.

The financial report was authorised for issue by the directors on 20 August 2009. The company has the power to amend and reissue the financial report.

Through the use of the internet, we have ensured that our corporate reporting is timely, complete, and available globally at minimum cost to the company. All press releases, financial reports and other information are available at our Investors section on our website: www.atcormedical.com.

Directors' report

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of AtCor Medical Holdings Limited and the entities it controlled at the end of, or during, the year ended 30 June 2009.

DIRECTORS

The following persons were directors of AtCor Medical Holdings Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

D O'Dwyer
D.R Ross
M.F O'Rourke
P.R Jenkins
L.E McIntyre (retired 4 November 2008)
D.L Brookes (appointed 4 November 2008)

PRINCIPAL ACTIVITIES

During the year the principal continuing activities of the Group consisted of designing, manufacturing and marketing medical devices for use in cardiovascular management.

DIVIDENDS – ATCOR MEDICAL HOLDINGS LIMITED

No dividend was paid during the financial year and the directors do not recommend payment of a dividend.

REVIEW OF OPERATIONS

The Group recorded sales of devices and services to hospitals, research institutions, pharmaceutical companies and clinicians during the year of \$11,209,113 (2008: \$6,450,599). The loss for the year after income tax amounted to \$1,691,433 (2008: \$3,792,731). Further information on the operations and financial position of the Group and its business strategies and prospects is set out in the CEO's report on pages 4 to 6 of this annual report.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Group during the financial year.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

No other matter or circumstance has arisen since 30 June 2009 that has significantly affected, or may significantly affect:

- the Group's operations in future financial years, or
- the results of those operations in future financial years, or
- the Group's state of affairs in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this annual financial report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

ENVIRONMENTAL REGULATION

The Group is not subject to any specific environmental legislation or regulations.

INFORMATION ON DIRECTORS

Donal O'Dwyer BEng, MBA.

Chairman – Independent non-executive. Age 56.

Experience and expertise

Independent director of the Group since September 2004 and chairman since November 2004. Extensive experience in the cardiovascular sector. Prior to joining the AtCor Board he was worldwide President of Cordis Cardiology, the cardiology division of Johnson & Johnson.

Other current directorships

Non-executive director for 3 other listed public companies: Cochlear Ltd, Mesoblast Ltd and Sunshine Heart Inc.

Former directorships in last 3 years

None

Special responsibilities

Chairman of the Board
Member of audit and risk committee
Member of remuneration and nomination committee

Interests in shares and options

Direct: Nil
Indirect: 1,940,012 ordinary shares in AtCor Medical Holdings Limited

Duncan R. Ross BS.

Managing Director and CEO. Age 51.

Experience and expertise

Executive director of the Group since November 2006. 25 Years in life sciences and medical device industry. Most recently Group President Fisher Scientific Inc and Apogent Technologies Inc prior to joining AtCor Medical.

Other current directorships

None

Former directorships in last 3 years

None

Special responsibilities

CEO

Interests in shares and options

Direct: 992,000 ordinary shares in AtCor Medical Holdings Limited
4,500,000 options over ordinary shares in AtCor Medical Holdings Limited
Indirect: Nil

Dr Michael O'Rourke A.M. MD, DSc.

Non-executive director. Age 72.

Experience and expertise

Co-founder and inventor of the core technology for the SphygmoCor system. Co-author of the standard reference textbook McDonald's Blood Flow in Arteries. He also serves on the editorial Board for the American Heart Association journal Hypertension.

Other current directorships

Victor Chang Foundation

Former directorships in last 3 years

None

Special responsibilities

Medical consultant.

Interests in shares and options

Direct: Nil

Indirect: 9,565,788 ordinary shares in AtCor Medical Holdings Limited

Peter Jenkins DSc (honorary).

Independent non-executive director. Age 74.

Experience and expertise

Has served on the AtCor Group's Board since 2000, including 4 years as chairman. Consultant to Colonial First State Private Equity until his retirement in December 2005.

Other current directorships

Non-executive director of Queensland BioCapital Funds Ltd.

Former directorships in last 3 years

Non-executive director of Access Macquarie Ltd
Chair of Science and Technology Advisory Board Macquarie University.

Special responsibilities

Chair of remuneration and nomination committee

Member of audit and risk committee

Interests in shares and options

Direct: 893,766 ordinary shares in AtCor Medical Holdings Limited

Dr David Brookes MBBS, FACRRM

Independent non-executive director. Age 49.

Experience and expertise

Independent director for the Group since November 2008. A Fellow of the Australian College of Rural and Remote Medicine. He currently works as a general medical practitioner and has extensive experience in rural Australia, especially in paediatric and procedural practice.

Other current directorships

Non-executive director of Living Cell Technologies since August 2007, and Chairman of Innovance Ltd (listed on the National Stock Exchange).

Former directorships in last 3 years

None

Special responsibilities

Chair of audit and risk committee

Member of remuneration and nomination committee

Interests in shares and options

Direct: Nil

Indirect: 500,000 ordinary shares in AtCor Medical Holdings Limited

COMPANY SECRETARY

The company secretary is Peter Manley (BBus, CPA, ACIS). Peter was appointed to the position of company secretary in March 2005. He also holds the position of Chief Financial Officer. Before joining AtCor Medical Holdings Limited he was Company Secretary and CFO for Sirtex Medical Ltd, a publicly listed medical device company. Prior to this he has held financial positions in a variety of large Australian and foreign-owned corporations.

Directors' report

(continued)

MEETINGS OF DIRECTORS

The numbers of meetings of the company's Board of directors and of each Board committee held during the year ended 30 June 2009, and the numbers of meetings attended by each director were:

	Full meetings of directors		Meetings of non-executive directors		Meetings of committees			
					Audit and Risk		Remuneration and Nomination	
	A	B	A	B	A	B	A	B
D O'Dwyer (chairman)	9	9	9	9	2	2	2	2
D.R Ross (CEO)	9	9	*	*	**	**	**	**
M O'Rourke	9	9	8	9	**	**	**	**
P.R Jenkins	9	9	9	9	2	2	2	2
D.L Brookes (appointed 4 Nov 2008)	6	6	6	6	1	1	1	1
L.E McIntyre (retired 4 Nov 2008)	4	4	4	4	1	1	1	1

A Number of meetings attended

B Number of meetings held during the time the director held office or was a member of the committee during the year

* Not a non-executive director

** Not a member of the relevant committee

RETIREMENT, ELECTION AND CONTINUATION IN OFFICE OF DIRECTORS

L.E McIntyre retired by rotation as a director on 4 November 2008. She did not seek reappointment.

D.L Brookes was elected as a director on 4 November 2008.

REMUNERATION REPORT

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information.

The information provided under headings A–E includes remuneration disclosures that are required under Accounting Standard AASB 124 *Related Party Disclosures*. These disclosures have been transferred from the financial report and have been audited.

A. Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency
- capital management.

Alignment to shareholders' interests:

- has company growth as a core component of plan design
- focuses on sustained long-term growth in shareholder wealth
- attracts and retains high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in company value
- provides a clear structure for earning rewards
- provides recognition for contribution.

The framework provides a mix of fixed and variable pay, and a blend of short and long term incentives. As executives gain seniority with the group, the balance of this mix shifts to a higher proportion of "at risk" rewards.

Non-executive directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors.

Non-executive directors' fees and payments are reviewed annually by the Board. The Board also refers to external surveys to ensure non-executive directors' fees and payments are appropriate and in line with the market. The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration. Non-executive directors are entitled to receive share options, following approval by the shareholders of AtCor Medical Holdings Limited. No options have been offered to Non-executive directors during the reporting period.

Directors' fees

The current base remuneration was last reviewed with effect from 1 January 2009. Fees are inclusive of committee fees.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The pool currently stands at \$260,000.

Executive pay

The executive pay and reward framework has four components:

- base pay and benefits
- short-term performance incentives
- long-term incentives through participation in the AtCor Medical Holdings Employee Share Option Plan, and
- other remuneration such as superannuation.

The combination of these comprises the executive's total remuneration.

Base pay

Structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. External remuneration advisors provide ad hoc advice to ensure base pay is set to reflect the market for a comparable role. Base pay for senior executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

There are no guaranteed base pay increases included in any senior executives' contracts.

Benefits

Executives receive benefits that may include health insurance and car allowances.

Retirement benefits

Statutory superannuation payments are made quarterly to a fund selected by Australian based executives. Executives may also elect to salary sacrifice additional payments to their fund. No other retirement benefits are offered.

Short-term incentives

Each executive has a target short-term incentive (STI) opportunity depending on the accountabilities of the role and impact on the organisation or business unit performance.

Each year, the remuneration committee considers the appropriate targets and performance management objectives (PMOs) to link the STI plan and the level of payout if targets are met. This includes setting any maximum payout under the STI plan, and minimum levels of performance to trigger payment of STI.

For the year ended 30 June 2009, the PMOs linked to STI plans were based on group, individual business and personal objectives. The PMOs required performance in growing sales revenue, managing operating expenses and cash, and achieving specific targets in relation to project advancement, as well as other key,

strategic non-financial measures linked to drivers of performance in future reporting periods. These PMOs are specific to each of the senior executives.

The remuneration committee is responsible for assessing whether the PMOs are met. To help make this assessment, the committee receives detailed reports on performance from management.

The short-term bonus payments may be adjusted up or down in line with under or over achievement against the target performance levels. This is at the discretion of the remuneration committee.

The STI target annual payment is reviewed annually.

AtCor Medical Holdings Employee Share Option Plan

Information on the AtCor Medical Holdings Share Option Plan is set out on page 15.

B. Details of remuneration

Amounts of remuneration

Details of the remuneration of the directors and the key management personnel (as defined in AASB 124 Related Party Disclosures) of AtCor Medical Holdings Limited and the Group are set out in the following tables.

The key management personnel of AtCor Medical Holdings Limited includes the directors as per pages 8 to 9 above and the following executives officers.

- Peter Manley – *Chief Financial Officer*

The key management personnel of the Group are the directors of AtCor Medical Holdings Limited (see pages 8 to 9 above) and those executives that report directly to the CEO or who have authority to significantly influence the direction of the Group.

The executives are:

- Peter Manley – *Chief Financial Officer*
- Douglas Kurschinski – *Senior Vice President US Commercial Operations (AtCor Medical Inc)*
- Mark Harding – *International Sales & Marketing Director (AtCor Medical Pty Ltd)*

The cash bonuses are dependent on the satisfaction of performance conditions as set out in the section headed *Short-term incentives* above. Options are granted at the discretion of the Board, on recommendation from the remuneration committee. Other elements of remuneration are not directly related to performance.

D Ross and D Kurschinski are paid in USD as US-based executives. Increases in base pay and non-monetary benefits are largely attributable to the weaker AUD against the USD through FY09 (Ave rate FY09: 0.7398, FY08: 0.8924)

Directors' report

(continued)

Key management personnel of AtCor Medical Holdings Limited

2009	Short-term benefits			Post-employment benefits		Share-based payment	Total
	Cash salary and fees	Cash bonus	Non-monetary benefits	Super-annuation	Termination benefits	Options	
	\$	\$	\$	\$	\$	\$	\$
Non-executive directors							
D O'Dwyer (Chairman)	85,459	–	–	7,691	–	–	93,150
M O'Rourke	21,468	–	–	1,932	–	–	23,400
P.R Jenkins	52,523	–	–	4,727	–	–	57,250
D.L Brookes (appointed 4 Nov 08)	35,856	–	–	3,227	–	–	39,083
L.E McIntyre (retired 4 Nov 08)	16,667	–	–	1,500	–	–	18,167
Sub-total non-executive directors	211,973	–	–	19,077	–	–	231,050
Executive directors							
D.R Ross (CEO)	407,015	234,612	17,976	–	–	69,194	728,797
Other key management personnel							
P Manley	162,763	43,488	27,743	13,480	–	16,775	264,249
Totals	781,751	278,100	45,719	32,557	–	85,969	1,224,096

2008	Short-term benefits			Post-employment benefits		Share-based payment	Total
	Cash salary and fees	Cash bonus	Non-monetary benefits	Super-annuation	Termination benefits	Options	
	\$	\$	\$	\$	\$	\$	\$
Non-executive directors							
D O'Dwyer (Chairman)	70,000	–	–	6,300	–	–	76,300
M O'Rourke	20,000	–	–	1,800	–	–	21,800
P Jenkins	50,000	–	–	4,500	–	–	54,500
L McIntyre	50,000	–	–	4,500	–	–	54,500
A.R Harricks (retired 14 Nov 07)	–	–	–	–	–	–	–
Sub-total non-executive directors	190,000	–	–	17,100	–	–	207,100
Executive directors							
D.R Ross (CEO)	320,130	126,427	10,263	–	–	54,950	511,770
Other key management personnel							
P Manley	154,151	23,076	23,305	12,686	–	27,312	240,530
Totals	664,281	149,503	33,568	29,786	–	82,262	959,400

Key management personnel of the Group

2009	Short-term employee benefits			Post-employment benefits		Share-based payment	Total \$
	Cash salary and fees \$	Cash bonus \$	Non-monetary benefits \$	Super-annuation \$	Termination benefits \$	Options \$	
Non-executive directors							
D O'Dwyer (Chairman)	85,459	–	–	7,691	–	–	93,150
M O'Rourke	21,468	–	–	1,932	–	–	23,400
P.R Jenkins	52,523	–	–	4,727	–	–	57,250
D.L Brookes (appointed 4 Nov 08)	35,856	–	–	3,227	–	–	39,083
L.E McIntyre (retired 4 Nov 08)	16,667	–	–	1,500	–	–	18,167
Sub-total non-executive directors	211,973	–	–	19,077	–	–	231,050
Executive directors							
D.R Ross (CEO)	407,015	234,612	17,976	–	–	69,194	728,797
Other key management personnel							
P Manley	162,763	43,488	27,743	13,480	–	16,775	264,249
D Kurschinski	297,507	185,972	16,917	–	–	34,071	534,467
M Harding (appointed 8 Sep 08)	125,335	47,843	–	45,141	–	9,071	227,390
Totals	1,204,593	511,915	62,636	77,698	–	129,111	1,985,953

2008	Short-term employee benefits			Post-employment benefits		Share-based payment	Total \$
	Cash salary and fees \$	Cash bonus \$	Non-monetary benefits \$	Super-annuation \$	Termination benefits \$	Options \$	
Non-executive directors							
D O'Dwyer (Chairman)	70,000	–	–	6,300	–	–	76,300
M O'Rourke	20,000	–	–	1,800	–	–	21,800
P Jenkins	50,000	–	–	4,500	–	–	54,500
L McIntyre	50,000	–	–	4,500	–	–	54,500
A.R Harricks (retired 14 Nov 07)	–	–	–	–	–	–	–
Sub-total non-executive directors	190,000	–	–	17,100	–	–	207,100
Executive directors							
D.R Ross (CEO)	320,130	126,427	10,263	–	–	54,950	511,770
Other key management personnel							
P Manley	154,151	23,076	23,305	12,686	–	27,312	240,530
D Kurschinski	223,975	77,990	12,845	–	–	24,599	339,409
Totals	888,256	227,493	46,413	29,786	–	106,861	1,298,809

Directors' report

(continued)

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

Name	Fixed Remuneration		At risk – STI		At risk – LTI	
	2009	2008	2009	2008	2009	2008
Non-executive directors						
D O'Dwyer (Chairman)	100%	100%	–	–	–	–
M O'Rourke	100%	100%	–	–	–	–
P Jenkins	100%	100%	–	–	–	–
L McIntyre (retired 4 Nov 08)	100%	100%	–	–	–	–
D Brookes (appointed 4 Nov 08)	100%	100%	–	–	–	–
Executive directors						
D.R Ross (CEO)	58%	64%	33%	25%	9%	11%
Other key management personnel						
P Manley	77%	79%	17%	10%	6%	11%
D Kurschinski	59%	70%	35%	23%	6%	7%
M Harding	75%	–	21%	–	4%	–

C. Service agreements

Remuneration and other terms of employment for the CEO and the other key management personnel are formalised in employment agreements. Each of these agreements provide for the provision of performance related cash bonuses, other benefits including health insurance and car allowances, and participation, when eligible, in the AtCor Medical Holdings Employee Share Option Plan. Other major provisions of the agreements relating to remuneration are set out below.

All contracts with executives may be terminated early by either party with variable notice periods, subject to termination payments as detailed below.

D R Ross, CEO

- Term of agreement – permanent. Commenced 8 May 2006.
- Base salary, inclusive of health benefits, for the year ended 30 June 2009 of US\$314,290, to be reviewed annually by the remuneration committee.
- Relocation costs of US\$60,000 are payable upon Mr Ross' relocation from Dubuque, IA to Chicago, IL. Additionally a special allowance of US\$100,000 is payable over 4 quarters in 2010 if a move is effected before 31 December 2009.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to the 1 year's base salary for the remaining term of the agreement if termination occurs within 12 months of the start date, or 6 months if more than 12 months of the start date.

In the event of a significant change in duties, material diminution in status or responsibilities, or Mr Ross is required to relocate more than 40 miles from his employment location, a 90-day option to exercise termination is available with payment equal to 1 year's base salary.

P Manley, Chief Financial Officer

- Term of agreement – permanent. Commenced 28 February 2005.
- Base salary, inclusive of superannuation, for the year ended 30 June 2009 of \$200,262, to be reviewed annually by the remuneration committee.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to the 1 month base salary for the remaining term of the agreement.

D Kurschinski, Senior Vice President US Commercial Operations, AtCor Medical Inc.

- Term of agreement – permanent. Commenced 12 April 2004.
- Base salary, inclusive of health benefits, for the year ended 30 June 2009 of US\$232,480, to be reviewed annually by the remuneration committee.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to 1 month's base salary for the remaining term of the agreement. In the event of a change in control and if termination occurs within 90 days of the change of control payment of a termination benefit of equal to 6 month's base salary is payable.

M Harding, International Sales & Marketing Director, AtCor Medical Pty Ltd.

- Term of agreement – permanent. Commenced 8 September 2008.
- Base salary, inclusive of superannuation, for the year ended 30 June 2009 of \$218,000, to be reviewed annually by the remuneration committee.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to the 2 months base salary for the remaining term of the agreement.

D. Share-based compensation

Options

Options are granted under the AtCor Medical Holdings Employee Share Option Plan, which was approved by shareholders at the 1 November 2005 annual general meeting and amended at the 9 November 2006 AGM and 4 November 2008 AGM. All staff are eligible to participate in the plan (including executive directors). Options are granted at the discretion of the Board based on recommendations from the remuneration committee.

Options are granted under the plan for no consideration. Options are granted for a 5 year period, and one third of each new tranche vests and is exercisable after each of the first three anniversaries of the date of grant.

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods are as follows:

Grant date	Expiry date	Exercise price	Value per option at grant date	Date exercisable
9 November 2005	9 November 2010	\$0.50	\$0.22	9 November 2006
9 November 2005	9 November 2010	\$0.50	\$0.24	9 November 2007
9 November 2005	9 November 2010	\$0.50	\$0.26	9 November 2008
8 May 2006	8 May 2011	\$0.50	\$0.06	8 May 2007
8 May 2006	8 May 2011	\$0.50	\$0.07	8 May 2008
8 May 2006	8 May 2011	\$0.50	\$0.08	8 May 2009
22 September 2006	22 September 2011	\$0.50	\$0.03	22 September 2007
22 September 2006	22 September 2011	\$0.50	\$0.03	22 September 2008
22 September 2006	22 September 2011	\$0.50	\$0.04	22 September 2009
14 December 2006	14 December 2011	\$0.50	\$0.03	14 December 2007
14 December 2006	14 December 2011	\$0.50	\$0.04	14 December 2008
14 December 2006	14 December 2011	\$0.50	\$0.05	14 December 2009
22 August 2007	22 August 2012	\$0.15	\$0.05	22 August 2008
22 August 2007	22 August 2012	\$0.15	\$0.06	22 August 2009
22 August 2007	22 August 2012	\$0.15	\$0.06	22 August 2010
14 November 2007	14 November 2012	\$0.15	\$0.04	14 November 2008
14 November 2007	14 November 2012	\$0.15	\$0.04	14 November 2009
14 November 2007	14 November 2012	\$0.15	\$0.05	14 November 2010
22 August 2008	22 August 2013	\$0.12	\$0.06	22 August 2009
22 August 2008	22 August 2013	\$0.12	\$0.06	22 August 2010
22 August 2008	22 August 2013	\$0.12	\$0.06	22 August 2011
4 November 2008	4 November 2013	\$0.13	\$0.06	4 November 2009
4 November 2008	4 November 2013	\$0.13	\$0.06	4 November 2010
4 November 2008	4 November 2013	\$0.13	\$0.07	4 November 2011

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share within ten days following the receipt of exercise notice, payment and the original option certificate.

The exercise price of options is to be no less than the weighted average price at which the company's shares are traded on the Australian Stock Exchange during the five trading days immediately before the options are granted.

Details of options over ordinary shares in the company provided as remuneration to each director of AtCor Medical Holdings Limited and each of the key management personnel of the Group are set out below. When exercisable, each option is convertible into one ordinary share of AtCor Medical Holdings Limited. Further information on the options is set out in Note 33 to the financial statements.

Directors' report

(continued)

Options Granted to Directors and other key management personnel under the Employee Share Option Plan since 30 June 2009
No options have been granted in the period from 30 June 2009 to the date of this report.

Details of Option Values

The numbers of options to purchase ordinary shares held as at the date of this report by each Director of AtCor Medical Holdings and each of the other key management personnel are listed below. When exercisable, each option is convertible into one ordinary share of AtCor Medical Holdings.

Name	Financial year granted	# of securities	Exercise price	Expiration date	Vested and exercisable at end of financial year
Directors					
D O'Dwyer (Chairman)	–	–	–	–	–
D.R Ross (CEO)	2006	2,000,000	\$0.50	8 May 11	2,000,000
	2008	1,000,000	\$0.15	14 Nov 12	333,334
	2009	1,500,000	\$0.13	4 Nov 13	–
M O'Rourke	–	–	–	–	–
P Jenkins	–	–	–	–	–
D Brookes (appointed 4 Nov 08)	–	–	–	–	–
Other executives					
P Manley	2006	500,000	\$0.50	9 Nov 10	500,000
	2008	200,000	\$0.15	22 Aug 12	66,667
	2009	325,000	\$0.13	4 Nov 13	–
D Kurschinski	2007	575,000	\$0.50	22 Sep 11	383,334
	2008	600,000	\$0.15	22 Aug 12	200,000
	2009	300,000	\$0.12	22 Aug 13	–
	2009	425,000	\$0.13	4 Nov 13	–
M Harding	2009	300,000	\$0.12	22 Aug 13	–

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2009 included:

- options are granted for no consideration, one third of each tranche vests and is exercisable after each of the first 3 anniversaries of the date of grant
- exercise price: \$0.13 (2008–\$0.15)
- expiry date: 5 years from grant date (2008–5 years from grant date)
- Weighted average share price at grant date: \$0.13 (2008–\$0.13)
- expected price volatility of the company's shares: 60% (2008–60%)
- expected dividend yield: nil% (2008–nil%)
- risk-free interest rate: 5.76% (2008–6.50%).

Shares provided on exercise of remuneration options

No ordinary shares in the company were provided as a result of the exercise of remuneration options for any director of AtCor Medical Holdings Limited or other key management personnel of the Group in current or previous financial years.

No amounts are unpaid on any shares issued on the exercise of options.

E. Additional information

Principles used to determine the nature and amount of remuneration: relationship between remuneration and company performance

A bonus structure is used to reward executives for performance against short term (current year) Group and personal goals. Longer term company performance is ensured through participation by executives in the company share option plan.

Details of remuneration: cash bonuses and options

For each cash bonus and grant of options included in the tables on pages 14 and 15, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonus is payable in future years. The options vest in three equal tranches over 3 years, provided the beneficiary is still employed by the Group at the time of vesting. No options will vest if this condition is not satisfied, hence the minimum value of the option yet to vest is nil.

Name	Cash bonus		Options					
	Paid %	Forfeited %	Financial year granted	Vested %	Forfeited %	Financial years in which options may vest	Minimum total value of grant yet to vest \$	Maximum total value of grant yet to vest \$
D.R Ross (CEO)	97	3	2006	100%	–	2007	–	–
				100%	–	2008	–	–
				100%	–	2009	–	–
	2008	–	–	100%	–	2009	–	–
				–	–	2010	–	2,763
				–	–	2011	–	7,358
				–	–	2012	–	25,817
	2009	–	–	–	–	2010	–	1,025
				–	–	2011	–	20,893
				–	–	2012	–	25,817
–				–	2010	–	–	
–				–	2011	–	–	
–				–	2012	–	–	
P Manley	109	–	2006	100%	–	2007	–	–
				100%	–	2008	–	–
				–	–	2009	–	–
	2008	–	–	100%	–	2009	–	–
				–	–	2010	–	281
				–	–	2011	–	1,591
				–	–	2012	–	5,594
	2009	–	–	–	–	2010	–	2,172
				–	–	2011	–	4,527
				–	–	2012	–	5,594
–				–	2010	–	–	
–				–	2011	–	–	
–				–	2012	–	–	
D Kurschinski	138	–	2007	100%	–	2008	–	–
				100%	–	2009	–	–
				–	–	2010	–	581
	2008	–	–	100%	–	2009	–	–
				–	–	2010	–	844
				–	–	2011	–	4,773
				–	–	2012	–	7,315
	2009	–	–	–	–	2010	–	802
				–	–	2011	–	3,407
				–	–	2012	–	4,530
–				–	2010	–	2,840	
–				–	2011	–	5,920	
–				–	2012	–	7,315	
M Harding	82	18	2009	–	–	2010	–	802
				–	–	2011	–	3,407
				–	–	2012	–	4,530

Directors' report

(continued)

Share-based compensation: Options

Further details relating to options are set out below.

Name	A Remuneration consisting of options	B Value at grant date \$	C Value at exercise date \$	D Value at lapse date \$	E Total of columns B-D \$
D O'Dwyer (Chairman)	–	–	–	–	–
D.R Ross (CEO)	9.4%	69,194	–	–	69,194
M O'Rourke	–	–	–	–	–
P Jenkins	–	–	–	–	–
L McIntyre (retired 4 Nov 08)	–	–	–	–	–
D Brookes (appointed 4 Nov 08)	–	–	–	–	–
P Manley	6.3%	16,775	–	–	16,775
D Kurschinski	6.4%	34,071	–	–	34,071
M Harding	4.1%	9,071	–	–	9,071

A The percentage of the value of remuneration consisting of options, based on the value at grant date set out in column B.

B The value at grant date calculated in accordance with AASB 2 *Share-based Payment* of options granted as part of remuneration.

C The value at exercise date of options that were granted as part of remuneration and were exercised during the year.

D The value at lapse date of options that were granted as part of remuneration and that lapsed during the year.

SHARES UNDER OPTION

Unissued ordinary shares of AtCor Medical Holdings Limited under option at the date of this report are as follows:

Date options granted	Expiry date	Issue price of shares	Number under option
9 November 2005	9 Nov 2010	\$0.50	500,000
8 May 2006	8 May 2011	\$0.50	2,000,000
22 September 2006	22 Sep 2011	\$0.50	1,790,000
14 December 2006	14 Dec 2011	\$0.50	500,000
22 August 2007	22 Aug 2012	\$0.15	2,675,000
14 November 2007	14 Nov 2012	\$0.15	1,000,000
22 August 2008	22 Aug 2013	\$0.12	1,500,000
4 November 2008	4 Nov 2013	\$0.13	3,535,000
			13,500,000

No option holder has any right under the options to participate in any other share issue of the company or any other entity.

Shares issued on the exercise of options

No ordinary shares of AtCor Medical Holdings Limited were issued during the year ended 30 June 2009 on the exercise of options granted under the AtCor Medical Holdings Employee Share Option Plan. No further shares have been issued since that date. No amounts are unpaid on any of the shares.

Loans to directors and executives

Information on loan to directors and executives, including amounts, interest rates and repayment terms are set out in Note 23 to the accounts.

Transaction with directors

A director, M O'Rourke, provides consulting services to the Group as a medical advisor, for which he receives a monthly retainer.

This agreement is based on normal commercial terms and conditions. The amount paid for the year ended 30 June 2009 is \$159,712.

Insurance of officers

During the financial year, AtCor Medical Holdings Limited paid a premium of \$14,967 to insure the director and secretaries of the company and its Australian-based controlled entities, and the general managers of each of the divisions of the Group.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for them or someone else or to cause detriment to the company. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the company, or to 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 part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the *Corporations Act 2001*.

Non-audit services

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the company and/or the Group are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out below.

The Board of directors has considered the position and, in accordance with the advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor;
- none of the services undermine the general principles relating to auditor independence as set out in the relevant professional requirements, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated	
	2009	2008
	\$	\$
Assurance services		
1. Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	93,000	97,425
Total remuneration for audit services	93,000	97,425
2. Other assurance services		
PricewaterhouseCoopers Australian firm:		
Audit of Commercial Ready grant program		–
Total remuneration for other assurance services	10,067	8,450
Total remuneration for assurance services	10,067	8,450

Directors' report

(continued)

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 21.

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of directors.



Donal O'Dwyer
Chairman

Sydney
20 August 2009

Auditor's Independence Declaration



PricewaterhouseCoopers
ABN 52 780 433 757

Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999

Auditor's Independence Declaration

As lead auditor for the audit of AtCor Medical Holdings Limited for the year ended 30 June 2009, 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 the audit; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of AtCor Medical Holdings Limited and the entities it controlled during the period.

A handwritten signature in black ink, appearing to read 'Mark Dow'.

Mark Dow
Partner
PricewaterhouseCoopers

Sydney
20 August 2009

Liability limited by a scheme approved under Professional Standards Legislation

Corporate governance statement

AtCor Medical Holdings Limited (the company) and the Board are committed to achieving and demonstrating the highest standards of corporate governance. The company and its controlled entities together are referred to as the Group in this statement.

The relationship between the Board and senior management is critical to the Group's long-term success. The directors are responsible to the shareholders for the performance of the company in both the short and the longer term and seek to balance sometimes competing objectives in the best interests of the Group as a whole. Their focus is to enhance the interests of shareholders and other key stakeholders and to ensure the Group is properly managed.

Day to day management of the Group's affairs and the implementation of the corporate strategy and policy initiatives are formally delegated by the Board to the CEO and senior executives as set out in the Group's authorisations policy.

A description of the company's main corporate governance practices is set out below. The Board charter is available upon request to shareholders and other interested parties. All these practices, unless otherwise stated, were in place for the entire year.

THE BOARD OF DIRECTORS

The Board operates in accordance with the broad principles set out in its charter. The charter details the Board's composition and responsibilities.

Board composition

The composition of the Board is determined with regard to the following criteria:

- the number of directors is limited by Article 6.1(a) of the company's constitution to not less than 3 and not more than 12. The Board considers the present complement of 5 directors (including the Chief Executive Officer) is appropriate and therefore casual vacancies shall be filled as and when they arise to maintain this complement.
- the Chairman of the Board will be an independent director.
- the Board will comprise a majority of non-executive directors.
- the Board requires directors to have a broad range of commercial expertise and experience and/or appropriate professional qualifications that will contribute to Board deliberations and decision-making.
- Board members must have a proven ability and capacity to monitor company performance and participate in strategy development.
- the Remuneration & Nomination committee will make recommendations to the Board regarding the remuneration and composition of the Board on proposed performance review criteria.

Responsibilities

The responsibilities of the Board include:

- ensuring that appropriate controls, systems and procedures are in place within AtCor to manage business risks and to ensure compliance with all regulatory and prudential requirements;
- reviewing matters of general corporate governance;
- appointing, assessing the performance assessment of and, if necessary, removal of the Chief Executive Officer;
- ratifying the appointment and/or removal and contributing to the performance assessment for the members of the senior management team including the CFO and the Company Secretary;
- overseeing the performance and activities of AtCor through agreed goals and strategies, including approving the budget, the business plan and compliance policies, and monitoring the strategic and financial objectives and performance of the group.
- monitoring the management of AtCor's business;
- ensuring appropriate succession planning for the CEO and senior executives;
- approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- approving and monitoring financial and other reporting;
- recommending the appointment, and reviewing the performance, of directors; and
- effectively communicating the Group's financial position, trading performance and prospects to all stakeholders, in particular, shareholders, clients and employees.

Board members

Details of the members of the Board, their experience, expertise, qualifications, term of office and independent status are set out in the directors' report under the heading "Information on directors". There are four non-executive directors, three of whom are deemed independent under the principles set out below and one executive director at the date of signing the directors' report.

Directors' independence

The Board will regularly assess the independence of each director with regard to interests disclosed by them.

In assessing independence, a director will be regarded as independent if that person is a non-executive director and is free from any interest and other business relationship that could materially interfere with that person's ability to act in the best interests of AtCor. Particularly, they must not be or have been:

- a substantial shareholder of AtCor or associated with a substantial shareholder of AtCor;
- an executive of AtCor for the last three years;
- a principal of a material professional advisor or an employee of a material service provider for the last three years;
- a material supplier to or a customer of AtCor or its subsidiaries.

If one of these relationships exist, either directly or through a related party interest, the Board may still consider a director to be independent however it must clearly state the reasons for this decision in the Annual Report. If the independent status of a director is lost this will be disclosed to the market immediately.

A substantial shareholding is considered to be more than 5%.

Materiality for these purposes is determined on both quantitative and qualitative bases. An amount of over 5% of annual turnover of the company or Group or 5% of the individual directors' net worth is considered material for these purposes. In addition, a transaction of any amount or a relationship is deemed material if knowledge of it may impact the shareholders' understanding of the director's performance.

Non-executive directors

The non-executive directors met eight times during the year, in scheduled sessions without the presence of management, to discuss the operation of the Board and a range of other matters. Relevant matters arising from these meetings were shared with the full Board.

Term of office

The company's Constitution specifies that all non-executive directors must retire from office no later than the third annual general meeting (AGM) following their last election. Any director who retires by rotation may seek re-election by shareholders in accordance with the Constitution. In this case, while the Board may indicate to shareholders it supports the re-election of a director; it will not provide any direct or indirect financial encouragement to achieve this end.

Chairman and Chief Executive Officer (CEO)

The Chairman is responsible for leading the Board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions, monitoring Board performance annually, managing the Board's relationship with the company's senior executives, and chairing shareholder meetings.

The chairman shall be a non-executive director and is elected by the directors.

The CEO is responsible for developing and implementing Group strategies and policies. The Board charter specifies that these are separate roles to be undertaken by separate people.

Commitment

The Board held 9 Board meetings during the year. It is the Board's practice to hold those meetings at the company premises in West Ryde unless circumstances prevent this occurring.

The number of meetings of the company's Board of directors and of each Board committee held during the year ended 30 June 2009, and the number of meetings attended by each director is disclosed on page 10.

It is the company's practice to allow its executive directors to accept appointments outside the company with prior written approval of the Board. No appointments of this nature were accepted during the year ended 30 June 2009.

The commitments of non-executive directors are considered by the Board prior to the directors' appointment to the Board of the company.

Prior to appointment or being submitted for re-election, each non-executive director is required to acknowledge that they have and will continue to have the time available to discharge their responsibilities to the company.

Conflict of interests

Entities connected with Dr O'Rourke had business dealings with the consolidated entity during the year, as described in Note 23 to the financial statements. In accordance with the Board charter, the director concerned declared his interests in those dealings to the company and took no part in decisions relating to them or the preceding discussions.

Independent professional advice

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the company's expense. Prior written approval of the Chairman is required, or if the director is the Chairman then prior written approval of a majority of the non-executive directors is required, but this will not be unreasonably withheld.

Performance assessment

The Board will meet regularly to review its performance and that of its committees and senior executives. At this time, it will also review the relationship between the Board and management and matters of general corporate governance.

The Chairman of the Board will review the performance and contribution of each non-executive director. The Chairman may, at any time or on the recommendation of the Remuneration Committee, request the Board as a whole (other than the director concerned) vote on the question of whether a particular director should remain on the Board. If the majority of directors vote that this director should not remain on the Board, they are expected to resign or refrain from standing for re-election, whichever is more appropriate.

Corporate governance statement

(continued)

Corporate reporting

The CEO and CFO have made the following certifications to the Board:

- that the company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the company and Group and are in accordance with relevant accounting standards.
- that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the company's risk management and internal compliance and control is operating efficiently and effectively in all material respects.

Board committees

The Board has established two committees to assist in the execution of its duties and to allow detailed consideration of complex issues. Current committees of the Board are the remuneration & nomination and audit committees. Each is comprised entirely of non-executive directors.

Each committee has its own written charter setting out its role and responsibilities, composition, structure, membership requirements and the manner in which the committee is to operate. All matters determined by committees are submitted to the full Board as recommendations for Board decisions.

REMUNERATION AND NOMINATION COMMITTEE

The Remuneration and Nomination committee consists of the following non-executive directors:

P Jenkins (Chairman)

D O'Dwyer

D Brookes

The charter requires the committee to consist of at least three directors, a majority of whom must be independent directors.

Details of these directors' attendance at remuneration committee meetings are set out in the directors' report on page 10.

The remuneration committee operates in accordance with its charter, which is available upon request. The role of AtCor's remuneration committee is to ensure the Board fulfils its corporate governance and oversight responsibilities relating to nominating and remunerating directors and senior executives, ensuring the directors and senior management are remunerated fairly and responsibly and overseeing the remuneration and human resources policies of the Group.

The committee will provide advice and make recommendations to the Board in relation to:

- The remuneration and benefits of directors, CEO and members of the senior executive team, consisting of those executives reporting to the CEO, including their share plans, options or other similar benefit or bonus plans;

- Targets and budgets for AtCor's financial performance as they relate to incentive plans, and the performance-based (at risk) components of remuneration;
- Remuneration policy and any changes to the remuneration policy and practices for all employees whose remuneration is not determined through Awards or Enterprise Bargaining Agreements; and
- Allocations and terms of offer under all equity-based incentive for remuneration plans.

Further information on directors' and executives' remuneration is set out in the directors' report under the heading "Remuneration report".

The committee also assumes responsibility for making recommendations regarding Board composition and size, criteria for Board membership and evaluating Board performance.

AUDIT AND RISK COMMITTEE

The audit committee consists of the following non-executive directors:

D Brookes (chairman)

D O'Dwyer

P Jenkins

Details of these directors' qualifications and attendance at audit committee meetings are set out in the directors' report on pages 8 to 10.

The audit committee has appropriate financial expertise and all members have an appropriate understanding of the industry in which the Group operates.

The audit committee operates in accordance with a charter, which is available upon request. The main responsibilities of the committee are to:

- review and approve all significant accounting policy changes and to evaluate the adequacy and effectiveness of the Group's administrative, operating and accounting policies; management information and control systems; and policies to reduce exposure to fraud;
- ensure that management pays due attention to ethical considerations in implementing the company's policies and practices;
- oversee the effective operation of the risk management framework;
- review the accuracy and integrity of financial and regulatory reports and annual and half yearly financial statements before that are released publicly;
- assist the Board in reviewing the effectiveness of the organisation's internal control environment covering:
 - effectiveness and efficiency of operations
 - reliability of financial reporting
 - compliance with applicable laws and regulations;

- recommend to the Board the appointment, removal and remuneration of the external auditors, and review the terms of their engagement, the scope and quality of the audit and assess performance;
- consider the independence and competence of the external auditor on an ongoing basis;
- review and approve the level of non-audit services provided by the external auditors and ensure it does not adversely impact on auditor independence;
- review and monitor related party transactions and assess their propriety;
- report to the Board on matters relevant to the committee's role and responsibilities.

Note the company has not implemented an internal audit function to date due to the size of the organization.

In fulfilling its responsibilities, the audit committee:

- receives regular reports from management and external auditors;
- meets with the external auditors at least twice a year, or more frequently if necessary;
- reviews the processes the CEO and CFO have in place to support their certifications to the Board;
- reviews any significant disagreements between the auditors and management, irrespective of whether they have been resolved;
- meets separately with the external auditors at least twice a year without the presence of management;
- provides the external auditors with a clear line of direct communication at any time to either the Chairman of the audit committee or the Chairman of the Board.

The audit committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

EXTERNAL AUDITORS

The company and audit committee policy is to appoint external auditors who clearly demonstrate quality and independence. The performance of the external auditor is reviewed annually and applications for tender of external audit services are requested as deemed appropriate, taking into consideration assessment of performance, existing value and tender costs. PricewaterhouseCoopers was appointed as the external auditor in 2005.

An analysis of fees paid to the external auditors, including a break-down of fees for non-audit services, is provided in the directors' report and in Note 24 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the audit committee.

The external auditor is requested to attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the audit report.

RISK ASSESSMENT AND MANAGEMENT

The Board, through the Audit & Risk committee, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. In summary, the company policies are designed to ensure strategic, operational, legal, reputation and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Group's business objectives.

A comprehensive quality system is in place that is reviewed regularly by various regulatory bodies from around the world. This quality system places considerable importance on maintaining a strong control environment.

Due to the company's size no separate internal audit function has been established. Substantive testing is undertaken by external auditors who Directors may contact independently.

CODE OF CONDUCT

The company requires the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group's integrity.

At all times all company personnel act with the utmost integrity, objectivity and in compliance with the letter and the spirit of the law and company policies.

The purchase and sale of company securities by directors and employees is only permitted during the thirty-day period following the release of the half-yearly and annual financial results to the market and following the Annual General Meeting.

The company's trading policy is discussed with each new employee as part of their induction training.

The directors are satisfied that the Group has complied with its policies on ethical standards, including trading in securities.

CONTINUOUS DISCLOSURE AND SHAREHOLDER COMMUNICATION

The Company Secretary has been nominated as the person responsible for communications with the Australian Stock Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules and overseeing and co-ordinating information disclosure to the ASX, analysts, brokers, shareholders, the media and the public.

Any information to be disclosed to the ASX is subjected to review and authorisation by at least 2 directors before its release. This ensures that the information released is accurate.

All information disclosed to the ASX is posted on the company's website as soon as it is disclosed to the ASX. When analysts are briefed on aspects of the Group's operations, the material used in the presentation is released to the ASX and posted

Corporate governance statement

(continued)

on the company's web site. Procedures have also been established for reviewing whether any price sensitive information has been inadvertently disclosed and, if so, this information is also immediately released to the market.

AtCor has adopted the Corporations Legislation Amendment (Simpler Regulatory System) Bill 2007 that makes the annual report available on the company's website and only provides a printed copy to those members who elect to receive it in this form.

The website also includes a feedback mechanism and an option for shareholders to register their email address for direct email updates on company matters.

COMPLIANCE WITH CORPORATE GOVERNANCE PRINCIPLES AND RECOMMENDATIONS

Principle 1: Lay solid foundation for management and oversight

Board and management roles are defined via a Board charter, shown in the Corporate Governance statement preceding.

Principle 2: Structure the board to add value

AtCor is in compliance with principle 2, as follows:

- The majority of the Board are independent directors;
- The chairman is an independent director;
- The chairman and CEO are different people; and
- A nomination committee exists, and its membership comprises independent directors.

There is no formal induction process for Directors due to the small size of the company, though directors have access to all key personnel as and when required.

Principle 3: Promote ethical and responsible decision making

The Board works within an ethical framework including a clearly enunciated share trading policy.

Principle 4: Safeguard integrity in financial reporting

The company has an audit committee whose membership and charter are disclosed on page 24.

Principle 5: Make timely and balanced disclosure

AtCor complies with this principle as disclosed on page 25.

Principle 6: Respect the rights of shareholders

AtCor is active in communicating with its shareholders, including posting all announcements to a separate section on its website. Additionally, shareholders and interested parties may receive an email notification when announcements have been posted if desired. The company complies with this principle.

Principle 7: Recognise and manage risk

Board members receive full reports from all functions within the company each Board meeting which alert directors to specific risks and actions taken to mitigate these risks. A company-wide review of risk is being conducted at the time of signing this report and will be presented to the Audit & Risk Committee.

Regular external financial and regulatory audits are undertaken and findings provided to Directors.

Principle 8: Remunerate fairly and responsibly

Remuneration principles are disclosed on pages 10 to 11.

An assessment of senior management's performance against set targets is made by the Remuneration committee at least annually.

Income statements

for the year ended 30 June 2009

	Notes	Consolidated		Parent entity	
		2009 \$	2008 \$	2009 \$	2008 \$
Revenue from continuing operations					
Revenue from sale of goods	5	11,209,113	6,450,599	–	–
Other revenue	5	241,789	418,417	235,026	454,146
Total revenue		11,450,902	6,869,016	235,026	454,146
Other income	6	948,833	494,352	906,811	–
Other expenses from ordinary activities					
Cost of sale of goods		(1,739,813)	(1,286,070)	–	–
Depreciation and amortisation		(176,410)	(147,988)	–	–
Marketing and sales expense		(6,550,181)	(4,923,022)	–	–
Product development and regulatory expense		(2,265,600)	(2,154,111)	–	–
Occupancy expense		(142,496)	(160,356)	–	–
Administration expense		(3,209,680)	(2,261,339)	(2,293,995)	(1,361,139)
Foreign exchange losses		–	(157,506)	–	(463,123)
Loss before income tax	7	(1,684,445)	(3,727,024)	(1,152,158)	(1,370,116)
Income tax expense	8	(6,988)	(65,707)	–	(63,686)
Loss for the year		(1,691,433)	(3,792,731)	(1,152,158)	(1,433,802)
Loss attributable to members of AtCor Medical Holdings Limited	21	(1,691,433)	(3,792,731)	(1,152,158)	(1,433,802)

		Cents	Cents
Earnings per share for loss attributable to the ordinary equity holders of the company:			
Basic earnings per share	32	(1.7)	(3.8)
Diluted earnings per share	32	(1.7)	(3.8)

The above income statements should be read in conjunction with the accompanying notes.

Balance sheets

30 June 2009

	Notes	Consolidated		Parent entity	
		2009 \$	2008 \$	2009 \$	2008 \$
ASSETS					
Current assets					
Cash and cash equivalents	9	3,416,293	3,316,165	2,193,948	2,173,924
Trade and other receivables	10	3,382,307	1,877,475	1,279,596	435,366
Inventories	11	434,117	401,157	–	–
Other	12	138,995	99,774	4,395	3,848
Total current assets		7,371,712	5,694,571	3,477,939	2,613,138
Non-current assets					
Receivables	13	–	1,683,833	13,521,334	13,228,102
Other financial assets	14	–	–	20,132,000	20,132,000
Property, plant and equipment	15	351,775	350,166	–	–
Intangible assets	16	176,674	222,348	–	–
Total non-current assets		528,449	2,256,347	33,653,334	33,360,102
Total assets		7,900,161	7,950,918	37,131,273	35,973,240
LIABILITIES					
Current liabilities					
Trade and other payables	17	3,223,065	1,952,813	4,024,235	1,955,801
Provisions	18	4,054	19,237	–	–
Total current liabilities		3,227,119	1,972,050	4,024,235	1,955,801
Non-current liabilities					
Provisions	19	28,020	17,371	–	–
Total non-current liabilities		28,020	17,371	–	–
Total liabilities		3,255,139	1,989,421	4,024,235	1,955,801
Net assets		4,645,022	5,961,497	33,107,038	34,017,439
EQUITY					
Contributed equity	20	28,981,611	28,981,611	35,438,901	35,438,901
Reserves	21(a)	963,161	588,203	655,397	413,640
Accumulated losses	21(b)	(25,299,750)	(23,608,317)	(2,987,260)	(1,835,102)
Total equity		4,645,022	5,961,497	33,107,038	34,017,439

The above balance sheets should be read in conjunction with the accompanying notes.

Statements of changes in equity

for the year ended 30 June 2009

	Notes	Consolidated		Parent entity	
		2009 \$	2008 \$	2009 \$	2008 \$
Total equity at the beginning of the financial year		5,961,497	9,382,472	34,017,439	35,254,048
Exchange difference on translation of foreign operations	21(a)	133,202	174,563	–	–
Income recognised directly in equity		133,202	174,563	–	–
Loss for the year		(1,691,433)	(3,792,731)	(1,152,158)	(1,433,802)
Total recognised income and expense for the year		(1,558,231)	(3,618,168)	(1,152,158)	(1,433,802)
Transactions with equity holders in their capacity as equity holders:					
Employee share options	33	241,756	197,193	241,756	197,193
Total equity at the end of the financial year		4,645,022	5,961,497	33,107,038	34,017,439
Total recognised income and expense for the year is attributable to:					
Members of AtCor Medical Holdings Limited		(1,691,433)	(3,792,731)	(1,152,158)	(1,433,802)

The above statements in changes in equity should be read in conjunction with the accompanying notes.

Cash flow statements

for the year ended 30 June 2009

	Notes	Consolidated		Parent entity	
		2009 \$	2008 \$	2009 \$	2008 \$
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax)		11,259,797	6,123,820	–	–
Payments to suppliers and employees (inclusive of goods and services tax)		(12,920,682)	(10,629,444)	(454,860)	(1,059,976)
		(1,660,885)	(4,505,624)	(454,860)	(1,059,976)
Other revenue		853,251	464,171	–	–
Interest received		170,078	262,980	127,916	298,709
Net cash outflow from operating activities	31	(637,556)	(3,778,473)	(326,944)	(761,267)
Cash flows from investing activities					
Payments for property, plant and equipment		(132,345)	(168,199)	–	–
Repayment of loan from key management personnel and ex director		708,979	300,000	708,979	300,000
Loan advanced to related parties (net)		–	–	(362,170)	(3,550,930)
Net cash inflow (outflow) from investing activities		576,634	131,801	346,809	(3,250,930)
Net increase (decrease) in cash and cash equivalents		(60,922)	(3,646,672)	19,865	(4,012,197)
Cash and cash equivalents at the beginning of the financial year		3,316,165	6,999,422	2,173,924	6,200,410
Effects of exchange rate changes on cash and cash equivalents		161,050	(36,585)	159	(14,289)
Cash and cash equivalents at end of year	9	3,416,293	3,316,165	2,193,948	2,173,924

The above cash flow statements should be read in conjunction with the accompanying notes.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report includes separate financial statements for AtCor Medical Holdings Limited as an individual entity and the consolidated entity consisting of AtCor Medical Holdings Limited and its subsidiaries.

a. Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRS

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRSs ensures that the financial report of AtCor Medical Holdings Limited complies with International Financial Reporting Standards (IFRSs).

Historical cost convention

These financial statements have been prepared under the historical cost convention.

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

b. Going concern

The consolidated entity has continued to experience operating losses and negative cash flows from operating activities during the year ended 30 June 2009, though at a reduced rate due primarily to the company and consolidated entity making significant progress in expanding their operations with a substantial increase in sales over the previous year. The Board approves an annual budget regularly receives forecasts from management to monitor performance against budget and to consider longer term prospects. In addition the Board has approved plans to manage cash inflows and outflows to ensure that the company and consolidated entity will have sufficient funds to meet their debts as and when they fall due for a period of at least 12 months from the date of this report.

In these circumstances the directors have considered the suitability of adopting the going concern basis for the preparation of this financial report and have concluded that it is the appropriate basis of preparation.

c. Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statement, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

d. Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of AtCor Medical Holdings Limited ("company" or "parent entity") as at 30 June 2009 and the results of all subsidiaries for the year then ended. AtCor Medical Holdings Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Notes to the financial statements

30 June 2009 (continued)

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group (refer to Note 1(c)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

e. Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

f. Foreign currency translation

i. Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is AtCor Medical Holdings Limited's functional and presentation currency.

ii. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

iii. Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

g. Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised as follows:

i. Medical devices

A sale is recorded when goods have been dispatched to a customer pursuant to a sales order and the associated risk has passed to the carrier or customer.

ii. Services

Revenue from services is recognised over the period that the service is provided.

iii. Interest

Interest income is recognised when the group becomes entitled to receive interest. Interest income is recognised at the prevailing interest rates.

h. Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

i. Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation legislation

AtCor Medical Holdings Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation as of July 1 2005.

The head entity, AtCor Medical Holdings Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand alone taxpayer in its own right.

j. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

k. Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

l. Cash and equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

m. Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for doubtful debts. Trade receivables are due for settlement on terms between 30 and 90 days from the date of recognition.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

n. Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials only. Costs are assigned to individual items of stock on the basis of weighted average costs.

o. Investments and other financial assets

The Group classifies its other financial assets in the following categories: loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re evaluates this designation at each reporting date.

i. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of selling the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date that are classified as non current assets. Loans and receivables are included in receivables in the balance sheet.

p. Plant and equipment

Plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Notes to the financial statements

30 June 2009 (continued)

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated using the diminishing value method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

- Manufacturing plant and equipment 3–10 years
- Furniture, fixtures and equipment 3–5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1(k)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

q. Intangible assets

i. Trademarks and licences

Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation and impaired losses. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives, currently 13 years.

ii. Research and development

Expenditure on research activities, undertaken with the prospect of obtaining new scientific or technical knowledge and understanding, is recognised in the income statement as an expense when it is incurred.

Expenditure on development activities, being the application of research findings or other knowledge to a plan or design for the production of new or substantially improved products or services before the start of commercial production or use, is capitalised if the product or service is technically and commercially feasible and adequate resources are available to complete development. The expenditure capitalised comprises all directly attributable costs, including costs of materials, services, direct labour and an appropriate proportion of overheads. Other development expenditure is recognised in the income statement as an expense as incurred.

Capitalised development expenditure is stated at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost over the period of the expected benefit, which varies between 5–10 years.

r. Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition.

s. Provisions

Provisions for legal claims and service warranties are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

t. Employee benefits

i. Wages and salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits, and annual leave expected to be settled within 12 months of the reporting date are recognised in other creditors in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

ii. Long service leave

The liability for long service leave expected to be settled within 12 months of the reporting date is recognised in the provision for employee benefits and is measured in accordance with (i) above. The liability for long service leave expected to be settled more than 12 months from the reporting date is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

iii. Bonus plans

A liability for employee benefits in the form of bonus plans is recognised in other creditors when there is no realistic alternative but to settle the liability and at least one of the following conditions is met:

- there are formal terms in the plan for determining the amount of the benefit
- the amounts to be paid are determined before the time of completion of the financial report, or
- past practice gives clear evidence of the amount of the obligation.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

iv. Share based payments

Share based compensation benefits are provided to employees via the AtCor Medical Holdings Employee Share Option Plan (ESOP). Information relating to this scheme is set out in Note 33.

The fair value of options granted under the AtCor Medical Holdings Employee Share Option Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options.

The fair value at grant date is determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non tradable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The fair value of the options granted excludes the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options, the balance of the share based payments reserve relating to those options is transferred to share capital and the proceeds received, net of directly attributable transaction costs are credited to share capital.

v. Termination benefits

Termination benefits may become payable to some employees in the event of termination prior to expiry of their contract or upon change of control of AtCor Medical Holdings Limited or a subsidiary. The Group recognises termination benefits when it is demonstrably committed to terminating the employment of the employees entitled to termination benefits, or when a change of control of a member of the Group is virtually certain. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

u. Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, or for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

v. Dividends

Provision is made for the amount of any dividend declared on or before the end of the year but not distributed at balance date.

w. Earnings per share

i. Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the year, adjusted for bonus elements in ordinary shares issued during the year.

ii. Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

x. Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included with other receivables or payables on the balance sheet.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, a tax authority are presented as operating cash flow.

y. New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2009 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

i. AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 requires adoption of a 'management approach' to reporting on financial performance. The information being reported will be based on what the key decision makers' use internally for evaluating segment performance and deciding how to allocate resources to operating segments. Adoption of this change will not result in any material change to the way in which the Group reports.

Notes to the financial statements

30 June 2009 (continued)

ii. Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101

A revised AASB 101 was issued in September 2007 and is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Group intends to apply the revised standard from 1 July 2009.

iii. AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (effective 1 July 2009) In July 2008, the AASB approved amendments to AASB 1 First-time Adoption of International Financial Reporting Standards and AASB 127

Consolidated and Separate Financial Statements. The Group will apply the revised rules prospectively from 1 July 2009. After that date, all dividends received from investments in subsidiaries, jointly controlled entities or associates will be recognised as revenue, even if they are paid out of pre-acquisition profits, but the investments may need to be tested for impairment as a result of the dividend payment. No subsidiary has paid a dividend to its parent entity to date so no change is applicable in future from current practice.

NOTE 2. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks; market risk (primarily currency risk), credit risk, and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange risk and aging analysis for credit risk.

Financial risk management is carried out by the Chief Financial Officer (CFO) and overseen by the Audit & Risk Committee, a subcommittee of the Board of Directors.

a. Market risk

Foreign exchange risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures to the US Dollar and the Euro Dollar.

The Group's exposure to foreign currency exchange risk at the reporting date was as follows:

	30 June 2009		30 June 2008	
	USD	EUR	USD	EUR
Trade Receivables	632,400	447,092	1,034,959	348,272
Financial Assets	803,088	127,538	769,511	124,021
Trade Payables	(447,931)	(86,511)	(318,722)	(76,845)

The carrying amounts of the parent entity's financial assets and liabilities are denominated in AUD except as set out below:

	30 June 2009		30 June 2008	
	USD	EUR	USD	EUR
Trade Receivables	4,020,192	–	4,199,079	–
Financial Assets	110,048	–	824	–
Trade Payables	(2,343,848)	–	(480,891)	–

Sensitivity

Based on the financial instruments held at 30 June 2009, had the Australian dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, the Group's pre-tax loss for the year would have varied by \$136,014/(\$122,413) (2008: \$172,611/(\$155,350)). Had the Australian dollar weakened/strengthened by 10% against the Euro with all other variables held constant, the Group's pre-tax loss for the year would have varied by \$94,461/(\$77,287) (2008: \$72,348/(\$65,113)). The increased exposure is due to increased cash and receivables held in foreign currencies as the business grows offshore.

The parent entity's pre-tax loss for the year ended 30 June 2009 would have varied by \$246,036/(\$221,432) (2008: \$432,064/(\$388,857)) has the AUD weakened/strengthened by 10% against the USD.

b. Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions. The Group has no significant concentrations of credit risk. For banks and financial institutions, only independently rated and reputable parties are accepted. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history. Terms of trade provided to creditworthy customers are between 30 and 90 days, whilst customers deemed higher risk arrange a letter of credit or prepay for goods. The parent entity carries no receivables except for transactions with companies in the Group.

The maximum exposure to credit risk at the reporting date is the carrying amount of the financial assets.

c. Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

d. Fair value estimation

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities approximates their carrying values.

NOTE 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

The financial report is prepared on the basis that the Company will continue as a going concern. The cash flow projection and other consideration made by the directors in these circumstances involve estimates and judgements of future cash flow that are believed to be reasonable.

The investment in subsidiaries recorded in the parent entity is based on discounted cash flow calculations that incorporate judgements and estimates of future earnings that are believed to be reasonable.

NOTE 4. SEGMENT INFORMATION

a. Description of segments

Business segments

The consolidated entity operates in one business segment being cardiovascular medical equipment sales.

Geographical segments

Although the consolidated entity's divisions are managed on a global basis they operate in three main geographical areas:

- Americas
- Europe (includes Middle East and North Africa)
- Asia Pacific (includes Asia & Australia/NZ)

Notes to the financial statements

30 June 2009 (continued)

NOTE 4. SEGMENT INFORMATION (CONTINUED)

b. Primary reporting format – geographical segments

	Americas \$	Europe \$	Asia Pacific \$	Inter-segment eliminations/ unallocated \$	Consolidated \$
2009					
Sales to external customers	7,594,173	2,604,606	1,010,334	–	11,209,113
Intersegment sales	–	–	3,839,356	(3,839,356)	–
Total sales revenue	7,594,173	2,604,606	4,849,690	(3,839,356)	11,209,113
Other revenue/income	–	–	948,833	–	948,833
Total segment revenue/income	7,594,173	2,604,606	5,798,523	(3,839,356)	12,157,946
Segment result	1,942,440	321,547	(4,194,622)	–	(1,926,234)
Unallocated revenue less unallocated expenses					241,789
Loss before income tax					(1,684,445)
Income tax expense					(6,988)
Loss for the year					(1,691,433)
Segment assets	3,521,655	778,696	24,937,839	(21,338,029)	7,900,161
Unallocated assets					–
Total assets					7,900,161
Segment liabilities	(2,138,999)	(150,676)	(23,318,112)	22,352,648	(3,255,139)
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	56,520	–	75,825	–	132,345
Depreciation and amortisation expense	44,519	–	131,891	–	176,410
Other non-cash expenses	–	–	241,757	–	241,757
2008					
Sales to external customers	3,653,805	2,155,051	641,743	–	6,450,599
Intersegment sales	–	–	1,867,412	(1,867,412)	–
Total sales revenue	3,653,805	2,155,051	2,509,155	(1,867,412)	6,450,599
Other revenue	–	–	494,352	–	494,352
Total segment revenue/income	3,653,805	2,155,051	3,003,507	(1,867,412)	6,944,951
Segment result	(462,766)	107,246	(3,789,621)	–	(4,145,441)
Unallocated revenue less unallocated expenses					418,417
Loss before income tax					(3,727,024)
Income tax benefit					(65,707)
Loss for the year					(3,792,731)
Segment assets	4,825,474	573,450	20,869,087	(18,522,469)	7,745,542
Unallocated assets					205,376
Total assets					7,950,918
Segment liabilities	(4,913,980)	(126,530)	(15,139,062)	18,190,151	(1,989,421)
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	64,579	–	103,620	–	168,199
Depreciation and amortisation expense	8,866	–	139,122	–	147,988
Other non-cash expenses	–	–	197,193	–	197,193

c. Notes to and forming part of the segment information

Inter-segment transfers

Segment revenues, expenses and results include transfers between segments. Such transfers are priced on an “arm’s-length” basis and are eliminated on consolidation.

NOTE 5. REVENUE

	Consolidated		Parent entity	
	2009 \$	2008 \$	2009 \$	2008 \$
From continuing operations				
Sales revenue				
Sale of goods	8,614,089	5,707,544	–	–
Sale of services	2,595,024	743,055	–	–
	11,209,113	6,450,599	–	–
Other revenue				
Interest	241,789	418,417	235,026	454,146
	11,450,902	6,869,016	235,026	454,146

NOTE 6. OTHER INCOME

	Consolidated		Parent entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Government grants (Note (a))	651,897	466,192	–	–
Foreign exchange gain (net)	255,141	–	906,811	–
Others	41,795	28,160	–	–
	948,833	494,352	906,811	–

a. Government grants

Commercial Ready grants of \$651,897 (2008: \$466,192) were recognised as other income by the Group during the financial year. There are no unfulfilled conditions or other contingencies attaching to these grants. The Group did not benefit directly from any other forms of government assistance.

NOTE 7. EXPENSES

	Consolidated		Parent entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Profit/(loss) before income tax includes the following specific expenses:				
Depreciation on plant and equipment	130,736	102,313	–	–
Amortisation of patents and trademarks	45,674	45,675	–	–
	176,410	147,988	–	–
Employee benefit expense	7,242,247	5,468,746	1,667,915	1,061,469
Rental expense relating to operating leases	142,496	160,356	–	–

Notes to the financial statements

30 June 2009 (continued)

NOTE 8. INCOME TAX EXPENSE

a. Income tax expense

The income tax expense for the financial year differs from the amount calculated on the loss. The differences are reconciled as follows:

	Consolidated		Parent entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Loss from continuing operations before income tax expense	(1,684,445)	(3,727,024)	(1,152,157)	(1,370,116)
Tax at the Australian tax rate of 30% (2008–30%)	(505,334)	(1,118,107)	(345,647)	(411,035)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:				
– Share based payment	72,527	59,158	72,537	59,158
– Amortisation of intangibles	13,702	12,345	–	–
– Sundry items	425	650	–	–
	(418,680)	(1,045,954)	(273,110)	(351,877)
Differences in overseas tax rates	30,254	(1,844)	–	–
Adjustments to prior period tax	–	63,686	–	63,686
Tax losses utilised	–	2,021	–	–
Transfer tax losses/expenses on consolidation	–	–	98,333	(668,159)
Benefit of tax losses not recognised	395,414	1,047,798	174,777	1,020,036
Income tax expense	6,988	65,707	–	63,686

b. Tax losses

	Consolidated		Parent entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Unused tax losses for which no deferred tax asset has been recognised:	20,551,650	19,233,607	19,260,000	18,677,410
Potential tax benefit @ 30%	6,165,495	5,770,082	5,778,000	5,603,223

This benefit for tax losses will only be obtained if:

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

c. Tax consolidation legislation

AtCor Medical Holdings Limited and its wholly-owned Australian controlled entities are consolidated for income tax purposes.

The accounting policy in relation to this legislation is set out in Note 1(i).

As at the date of this report the entities in the tax consolidation group had not entered into a tax sharing agreement. No compensation has been received or paid for any current tax payable or deferred tax assets relating to tax losses assumed by the parent entity since implementation of the tax consolidation regime.

NOTE 9. CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	Consolidated		Parent entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Cash at bank and in hand	1,410,643	1,271,030	188,298	128,789
Deposits at call	2,005,650	2,045,135	2,005,650	2,045,135
	3,416,293	3,316,165	2,193,948	2,173,924

a. Cash at bank and on hand

These are a combination of non-interest bearing and interest bearing at floating interest rates between 0.00% and 1.00%.

b. Deposits at call

The deposits are bearing a floating interest rate of 3.30% (2008 – 7.45%). These deposits have an average maturity of 30 days.

NOTE 10. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated		Parent entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Trade receivables	2,367,686	1,698,412	233,031	229,990
Less: Provision for doubtful debts	(38,636)	(33,127)	–	–
	2,329,050	1,665,285	233,031	229,990
Loan to key management personnel	84,960	–	84,960	–
Loan to ex director	961,605	–	961,605	–
Other receivables	6,692	212,190	–	205,376
Less: Provision for doubtful debts	–	–	–	–
	3,382,307	1,877,475	1,279,596	435,366

a. Impaired trade receivables

As at 30 June 2009, current trade receivables of the Group with a nominal value of \$38,636 (2008: \$33,127) were impaired. The amount of the provision was \$38,636 (2007: \$33,127). There were no impaired trade receivables for the parent in 2009 or 2008.

	Consolidated	
	2009 \$	2008 \$
At 1 July	33,127	15,875
Provision for impairment recognised during the year	23,053	17,252
Receivables written off during the year as uncollectible	(17,544)	–
Unused amount reversed	–	–
	38,636	33,127

The creation and release of the provision for impaired receivables has been included in 'other expenses' in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

Notes to the financial statements

30 June 2009 (continued)

NOTE 10. CURRENT ASSETS – TRADE AND OTHER RECEIVABLES (CONTINUED)

b. Past due but not impaired

As of 30 June 2009, trade receivables of \$656,621 (2008: \$455,398) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	Consolidated	
	2009 \$	2008 \$
0 – 30 days	394,752	257,884
30 – 60 days	66,996	74,119
> 60 days	194,873	123,395
	656,621	455,398

The other classes within trade and other receivables do not contain impaired assets and are not past due. Based on the credit history of these other classes, it is expected that these amounts will be received when due.

c. Other receivables

These amounts generally arise from transactions outside the usual operating activities of the Group.

d. Fair value, foreign exchange and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above. Refer to Note 2 for more information on the risk management policy of the Group, the credit quality and foreign currency risk of the Group's trade receivables.

NOTE 11. CURRENT ASSETS – INVENTORIES

	Consolidated		Parent entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Raw materials and stores - at cost	340,819	320,940	–	–
Finished goods at cost	93,298	80,217	–	–
	434,117	401,157	–	–

Inventories recognised as expense during the year ended 30 June 2009 amounted to \$824,666 (2008 – \$678,837). There were no write-downs of inventories to net realisable values during the year ended 30 June 2009 and 2008.

NOTE 12. CURRENT ASSETS – OTHER

	Consolidated		Parent entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Prepayments	106,341	59,842	4,395	3,848
Other	32,654	39,932	–	–
	138,995	99,774	4,395	3,848

NOTE 13. NON-CURRENT ASSETS – RECEIVABLES

	Consolidated		Parent entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Loan to ex-director	–	891,990	–	891,990
Loans due from related parties	–	–	13,521,334	11,544,269
Loans to key management personnel	–	791,843	–	791,843
	–	1,683,833	13,521,334	13,228,102

Further information relating to loans to related parties and key management personnel is set out in Note 23 and 27 respectively.

a. Impaired receivables and receivables past due

None of the non-current receivables are impaired or past due but not impaired.

b. Fair values

The carrying amount of non-current receivables is assumed to approximate their fair value. The receivables bear interest at 3.5% (2008 – 9.00%).

c. Risk exposures

Information about the Group's and the parent entity's exposure to credit risk, foreign exchange and interest rate risk is provided in Note 2.

NOTE 14. NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS

	Consolidated		Parent entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Shares in subsidiaries (Note 28)	–	–	20,132,000	20,132,000

The above represents the investment in AtCor Medical Pty Ltd, which has been accounted for as a reverse acquisition in the consolidated financial statements.

Notes to the financial statements

30 June 2009 (continued)

NOTE 15. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

Consolidated	Manufacturing plant and equipment \$	Furniture, fittings and equipment \$	Total \$
At 1 July 2007			
Cost	151,335	479,451	630,786
Accumulated depreciation	(47,591)	(298,915)	(346,506)
Net book amount	103,744	180,536	284,280
Year ended 30 June 2008			
Opening net book amount	103,744	180,536	284,280
Additions	7,759	160,440	168,199
Depreciation charge	(39,875)	(62,438)	(102,313)
Closing net book amount	71,628	278,538	350,166
At 30 June 2008			
Cost	159,094	639,891	798,985
Accumulated depreciation	(87,466)	(361,353)	(448,819)
Net book amount	71,628	278,538	350,166
Year ended 30 June 2009			
Opening net book amount	71,628	278,538	350,166
Additions	88,443	43,902	132,345
Depreciation charge	(33,651)	(97,085)	(130,736)
Closing net book amount	126,420	225,355	351,775
At 30 June 2009			
Cost	241,323	599,526	840,849
Accumulated depreciation	(114,903)	(374,171)	(489,074)
Net book amount	126,420	225,355	351,775

NOTE 16. NON-CURRENT ASSETS – INTANGIBLE ASSETS

Consolidated	Development costs* \$	Patents, trademarks and other rights \$	Total \$
At 1 July 2007			
Cost	135,713	240,910	376,623
Accumulated amortisation and impairment	(22,619)	(85,981)	(108,600)
Net book amount	113,094	154,929	268,023
Year ended 30 June 2008			
Opening net book amount	113,094	154,929	268,023
Additions	–	–	–
Amortisation charge**	(27,143)	(18,532)	(45,675)
Closing net book amount	85,951	136,397	222,348
At 30 June 2008			
Cost	135,713	240,910	376,623
Accumulated amortisation and impairment	(49,762)	(104,513)	(154,275)
Net book amount	85,951	136,397	222,348
Year ended 30 June 2009			
Opening net book amount	85,951	136,397	222,348
Amortisation charge**	(27,142)	(18,532)	(45,674)
Closing net book amount	58,809	117,865	176,674
At 30 June 2009			
Cost	135,713	240,910	376,623
Accumulated amortisation and impairment	(76,904)	(123,045)	(199,949)
Net book amount	58,809	117,865	176,674

* Capitalised development costs represent costs paid to an external party for intellectual property associated with the development of new sensor technologies. These development costs are expected to have a useful life of up to 10 years.

** Amortisation of \$45,674 (2008: 45,675) is included in depreciation and amortisation expense in the income statement.

NOTE 17. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated		Parent entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Trade payables	621,183	817,113	596,841	1,361,988
Other payables	2,601,882	1,135,700	3,427,394	593,813
	3,223,065	1,952,813	4,024,235	1,955,801

Notes to the financial statements

30 June 2009 (continued)

NOTE 18. CURRENT LIABILITIES – PROVISIONS

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Current employee benefits	4,054	19,237	–	–

NOTE 19. NON-CURRENT LIABILITIES – PROVISIONS

	Consolidated		Parent entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Employee benefits	28,020	17,371	–	–

NOTE 20. CONTRIBUTED EQUITY

	Consolidated		Parent entity	
	2009	2008	2009	2008
	Shares	Shares	\$	\$
a. Share capital	28,020	17,371	–	–
Fully paid ordinary shares	100,000,000	100,000,000	35,438,901	35,438,901

b. Movements in ordinary share capital:

There are no movements in share capital during the year ending 30 June 2009 or 2008.

c. Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

d. Employee Share Option Plan

Information relating to the AtCor Medical Holdings Limited Employee Share Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in Note 33.

e. Reconciliation of parent entity and consolidated contributed equity

The consolidated equity for the group at 30 June 2009 includes the following items:

	\$
Equity of AtCor Medical Pty Ltd at the date acquisition	13,674,710
Share placement	15,000,000
Exercise of options	2,060,092
Transaction costs arising from share issue	(1,753,191)
Total	28,981,611

The difference between the contributed equity of the parent entity and that of the consolidated equity is a result of accounting for the reverse acquisition. The consolidated entity includes the cost of AtCor Medical Holdings Limited and AtCor Medical Pty Limited at original cost. AtCor Medical Holdings Limited is deemed to acquire AtCor Medical Pty Ltd and the \$20,132,000 is shown at fair value in the consolidated balance sheet.

From the perspective of the parent entity, AtCor Medical Holdings Limited has acquired all the shares in AtCor Medical Pty Limited as the legal parent. This transaction was accounted for at the cost of the transaction per the share sale agreement of A\$13,674,710.

NOTE 21. RESERVES AND RETAINED PROFITS

	Consolidated		Parent entity	
	2009 \$	2008 \$	2009 \$	2008 \$
a. Reserves				
Share-based payments reserve	655,397	413,640	655,397	413,640
Foreign currency translation reserve	307,764	174,563	–	–
	963,161	588,203	655,397	413,640
Movements:				
Share-based payments reserve				
Balance 1 July	413,640	216,447	413,640	216,447
Option expense	241,757	197,193	241,757	197,193
Balance 30 June	655,397	413,640	655,397	413,640
Foreign currency translation reserve				
Balance 1 July	174,563	–	–	–
Currency translation differences arising through the year	133,201	174,563	–	–
Balance 30 June	307,764	174,563	–	–
b. Accumulated losses				
Movements in accumulated losses were as follows:				
Balance 1 July	(23,608,317)	(19,815,586)	(1,835,102)	(401,300)
Net loss for the year	(1,691,433)	(3,792,731)	(1,152,158)	(1,433,802)
Balance 30 June	(25,299,750)	(23,608,317)	(2,987,260)	(1,835,102)

c. Nature and purpose of reserves

Share-based payments reserve

The share-based payments reserve is used to recognise the fair value of options issued but not exercised.

NOTE 22. DIVIDENDS

No dividends were paid or declared since 30 June 2009 and the directors do not recommend the payment of a dividend.

NOTE 23. KEY MANAGEMENT PERSONNEL DISCLOSURES

a. Key management personnel compensation

	Consolidated		Parent entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Short-term employee benefits	1,781,139	1,191,948	1,112,853	847,352
Post-employment benefits	77,698	29,786	32,557	29,786
Share-based payments	129,111	106,861	85,969	82,262
	1,987,948	1,298,809	1,231,379	959,400

The company has taken advantage of the relief provided by Corporations Regulations and has transferred the detailed remuneration disclosures to the Directors' report. The relevant information can be found in the remuneration report section of the Directors' Report.

Notes to the financial statements

30 June 2009 (continued)

NOTE 23. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

b. Equity instrument disclosures relating to key management personnel

i. Options provided as remuneration and shares issued on exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of the options, can be found in the remuneration report section of the Directors' Report.

ii. Option holdings

The number of options over ordinary shares in the company held during the financial year by each director of AtCor Medical Holdings Ltd and other key management personnel of the Group, including their personally related parties, are set out below.

	Balance at the start of the year	Granted during the year as compensation	Exercised during the year	Other changes during the year	Balance at the end of the year	Vested and exercisable at the end of the year
2009						
Directors of AtCor Medical Holdings Ltd						
D O'Dwyer	–	–	–	–	–	–
D.R Ross (CEO)	3,000,000	1,500,000	–	–	4,500,000	2,333,334
M O'Rourke	–	–	–	–	–	–
P Jenkins	–	–	–	–	–	–
D.L Brookes (appointed 4 Nov 08)	–	–	–	–	–	–
L McIntyre (retired 4 Nov 08)	–	–	–	–	–	–
Other key management personnel of the Group						
P Manley	700,000	325,000	–	–	1,025,000	566,667
D Kurschinski	1,175,000	725,000	–	–	1,900,000	583,333
M Harding	–	300,000	–	–	300,000	–
2008						
Directors of AtCor Medical Holdings Ltd						
D O'Dwyer	–	–	–	–	–	–
D.R Ross (CEO)	2,000,000	1,000,000	–	–	3,000,000	1,333,334
M O'Rourke	–	–	–	–	–	–
P Jenkins	–	–	–	–	–	–
L McIntyre	–	–	–	–	–	–
A.R Harricks (retired 14 Nov 07)	–	–	–	–	–	–
Other key management personnel of the Group						
P Manley	500,000	200,000	–	–	700,000	333,334
D Kurschinski	575,000	600,000	–	–	1,175,000	191,667

NOTE 23. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

iii. Share holdings

The numbers of shares in the company held during the financial year by each director of AtCor Medical Holdings Ltd and other key management personnel of the Group, including their close family members, are set out below. (Close members of the family of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity).

	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
2009				
Directors of AtCor Medical Holdings Ltd				
Ordinary shares				
D O'Dwyer	1,940,012	–	–	1,940,012
D.R Ross (CEO)	992,000	–	–	992,000
M O'Rourke	8,631,946	–	933,842	9,565,788
P.R Jenkins	893,766	–	–	893,766
D.L Brookes (appointed 4 Nov 08)	–	–	500,000	500,000
L.E McIntyre (retired 4 Nov 08)	250,000	–	–	250,000
Other key management personnel of the Group				
Ordinary shares				
P Manley	100,000	–	–	100,000
D Kurschinski	350,254	–	–	350,254
M Harding	–	–	210,000	210,000
2008				
Directors of AtCor Medical Holdings Ltd				
Ordinary shares				
D O'Dwyer	965,012	–	975,000	1,940,012
D.R Ross	292,000	–	700,000	992,000
M O'Rourke	8,506,946	–	125,000	8,631,946
P Jenkins	893,766	–	–	893,766
L McIntyre	–	–	250,000	250,000
A.R Harricks (retired 14 Nov 2007)	2,168,775	–	–	2,168,775
Other key management personnel of the Group				
Ordinary shares				
P Manley	–	–	100,000	100,000
D Kurschinski	250,254	–	100,000	350,254

Notes to the financial statements

30 June 2009 (continued)

NOTE 23. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

Details of loans made to directors of AtCor Medical Holdings Limited and other key management personnel of the Group, including their personally related parties, are set out below.

i. Aggregates for key management personnel

Group	Balance at the start of the year \$	Repayments during the year \$	Interest paid and payable for the year \$	Other \$	Balance at the end of the year \$	Number in Group at the end of the year
2009	791,843	(708,979)	37,494	(35,398)	84,960	1
2008	1,828,396	(300,000)	155,437	(891,990)	791,843	4

ii. Individuals with loans above \$100,000 during the financial year

2009	Balance at the start of the year \$	Repayment during the year \$	Interest paid and payable for the year \$	Other \$	Balance at the end of the year \$	Highest indebtedness during the year \$
P Jenkins	205,364	(201,865)	9,443	(12,942)	–	214,807
M O'Rourke	412,948	(350,000)	22,012	–	84,960	418,978
D Kurschinski	108,672	(109,968)	3,306	(2,010)	–	111,978

All loans to key management personnel have been given to assist the personnel to exercise options immediately prior to the Initial Public Offering. The loans are for periods of 4 years repayable at the conclusion of the loan period, at interest rates determined with reference to Australian Tax Office (Tax Determination 2009/10 and 2008/7). For the current year these rates were 9.00% per annum decreasing to 5.75% on 1 January 2009. These are full recourse loans secured by the purchased shares.

Key management personnel were offered an incentive for early repayment of their loans of between 2% and 6%. The incentive considered factors such as forgone interest income and alternative funding costs. Three of four key management personnel took up the offer.

Since the close of the financial year, M O'Rourke has paid out the balance of his loan.

c. Other transactions with key management personnel

- The Group is currently party to an exclusive license agreement with Eastern Medical Testing Service Inc (EMTS Inc) over a US patent (US Patent number 5,265,011). EMTS Inc is a company controlled by an associate of a director, M O'Rourke. The license agreement contains a royalty scheme under which payments are calculated by reference to the amount of net sales revenue made by the Group from the sale of products incorporating the US Patent.
- A director, M O'Rourke, provides consulting services to the Group as a medical advisor, for which he receives a monthly retainer. This agreement is based on normal commercial terms and conditions. The amount paid for the year ended 30 June 2009 is \$159,712 (2008: \$152,145)

Aggregate amounts of each of the above types of other transactions with key management personnel of AtCor Medical Holdings Limited:

	2009 \$	2008 \$
Amounts recognised as expense		
Royalty	296,315	112,390
Consulting fees	159,712	152,145
	456,027	264,535

Aggregate amounts payable to key management personnel of the Group at balance date relating to the above types of other transactions:

	2009 \$	2008 \$
Current liabilities	237,622	28,790

NOTE 24. REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	Consolidated		Parent entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Audit services				
PricewaterhouseCoopers Australian firm				
Audit and review of financial reports and other audit work under the Corporations Act 2001	93,000	97,425	93,000	97,425
Other assurance services				
PricewaterhouseCoopers Australian firm				
Audit of Commercial Ready grant	10,067	8,450	–	–
Total remuneration for assurance services	103,067	105,875	93,000	97,425

NOTE 25. CONTINGENCIES

a. Contingent liabilities

No contingent liabilities exist at this time.

b. Contingent assets

No contingent assets exist at this time.

NOTE 26. COMMITMENTS

a. Lease commitments: Group as lessee

	Consolidated		Parent entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	136,764	72,462	–	–
Later than one year but not later than five years	118,622	121,796	–	–
	255,386	194,258	–	–

NOTE 27. RELATED PARTY TRANSACTIONS

a. Parent entity

The parent entity within the Group is AtCor Medical Holdings Limited. The ultimate Australian parent entity is AtCor Medical Holdings Limited.

b. Subsidiaries

Interests in subsidiaries are set out in Note 28.

c. Key management personnel

Disclosures relating to key management personnel are set out in Note 23 and in the remuneration report within the Directors' Report.

Notes to the financial statements

30 June 2009 (continued)

NOTE 27. RELATED PARTY TRANSACTIONS (CONTINUED)

d. Transactions with related parties

The following transactions occurred with related parties:

	Consolidated		Parent entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Purchases of goods and services				
Purchases of services from subsidiaries	–	–	549,362	544,156

e. Outstanding balances arising from sales/purchases of goods and services

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated		Parent entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Current Receivables (sales of services)				
Subsidiaries	–	–	233,030	233,030
Current payables (purchases of services)				
Subsidiaries	–	–	544,705	1,326,317

f. Loans to/from related parties

	Consolidated		Parent entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Loans to subsidiaries				
Beginning of the year	–	–	11,544,269	7,993,340
Loans advanced	–	–	4,458,740	3,793,708
Loan repayments received	–	–	(2,485,495)	(292,636)
Interest charged	–	–	3,820	49,857
Interest received	–	–	–	–
End of year	–	–	13,521,334	11,544,269

No provisions for doubtful debts have been raised in relation to any outstanding balances, and no expense has been recognised in respect of bad or doubtful debts due from related parties.

g. Terms and conditions

Loans were made with no fixed terms for repayment. Interest is payable on the loans to foreign subsidiaries applying the Australian official cash rate plus 0.5%.

Outstanding balances are unsecured and are repayable in cash.

NOTE 28. SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in Note 1(c):

Name of entity	Country of incorporation	Class of shares	Equity holding**	
			2009 %	2008 %
AtCor Medical Pty Limited*	Australia	Ordinary	100%	100%
AtCor Medical Inc.	USA	Ordinary	100%	100%
AtCor Medical UK Limited	United Kingdom	Ordinary	100%	100%

* This subsidiary has been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission.

** The proportion of ownership interest is equal to the proportion of voting power held.

NOTE 29. ECONOMIC DEPENDENCY

The Group depends upon a single supplier who is a specialist manufacturer for supply of its tonometer (high-fidelity sensor), a key component in its SphygmoCor device.

NOTE 30. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

No matter or circumstance has arisen since 30 June 2009 that has significantly affected or may affect the consolidated entity's operations, the result of those operations, or the consolidated entity's state of affairs in future financial years.

NOTE 31. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Consolidated		Parent entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Loss for the year	(1,691,433)	(3,792,731)	(1,152,158)	(1,433,802)
Depreciation and amortisation	176,410	147,988	–	–
Non-cash employee benefits expense – share-based payments	241,757	197,193	241,756	197,193
Exchange difference	133,201	174,563	–	–
Change in operating assets and liabilities:				
Decrease/(Increase) in trade and other receivables	(691,028)	(431,763)	(844,230)	134,930
Decrease/(Increase) in inventories	(32,960)	(18,125)	–	–
Decrease/(Increase) decrease in other operating assets	(39,221)	(12,731)	13,142	(139,958)
(Decrease)/Increase in trade and other payables	1,270,252	(42,063)	2,068,434	480,370
(Decrease)/Increase in other provisions	(4,534)	(804)	–	–
Net cash outflow from operating activities	(637,556)	(3,778,473)	(326,944)	(761,267)

Notes to the financial statements

30 June 2009 (continued)

NOTE 32. EARNINGS PER SHARE

	Consolidated	
	2009 Cents	2008 Cents
a. Earnings per share		
Basic earnings per share	(1.7)	(3.8)
Diluted earnings per share	(1.7)	(3.8)
b. Reconciliations of earnings used in calculating earnings per share		
Basic earnings per share		
(Loss) from continuing operations	(1,691,433)	(3,792,731)
Diluted earnings per share		
(Loss) from continuing operations attributable to the ordinary equity holders of the company used in calculating basic earnings per share	(1,691,433)	(3,792,731)

	Consolidated	
	2009 Number	2008 Number
c. Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	100,000,000	100,000,000
Adjustments for calculation of diluted earnings per share:		
Options	10,183,507	–
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	110,183,507	100,000,000

d. Information concerning the classification of securities

i. Options

Options granted to employees under the AtCor Medical Holdings Employee Share Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in Note 33.

No options granted are included in the calculation of diluted earnings per share because they are not dilutive for the year ended 30 June 2009.

NOTE 33. SHARE-BASED PAYMENTS

a. Employee Share Option Plan (ESOP)

The AtCor Medical Holdings Employee Option Plan was approved by shareholders at the 2005 annual general meeting and amendments were approved at the 2006 & 2008 annual general meetings. All staff are eligible to participate in the plan at the discretion of the directors (including executive directors) following recommendations from the remuneration committee, a sub-committee of the AtCor Medical Holdings Limited Board of Directors.

Options are granted under the plan for no consideration. Options are granted for a 5 year period, and 33.3% of each new tranche vests and is exercisable after each of the first 3 anniversaries of the date of grant.

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into 1 ordinary share.

The exercise price of options is no less than the weighted average price at which the company's shares are traded on the Australian Stock Exchange during the 5 trading days immediately before the options are granted.

NOTE 33. SHARE-BASED PAYMENTS (CONTINUED)

Set out below are summaries of options granted under the plan:

Grant Date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Expired during the year	Balance at end of the year	Exercisable at end of the year
			Number	Number	Number	Number	Number	Number
Consolidated and parent entity – 2009								
9 Nov 2005	9 Nov 2010	\$0.50	500,000	–	–	–	500,000	500,000
8 May 2006	8 May 2011	\$0.50	2,000,000	–	–	–	2,000,000	2,000,000
22 Sep 2006	22 Sep 2011	\$0.50	1,790,000	–	–	–	1,790,000	1,193,333
14 Dec 2006	14 Dec 2011	\$0.50	500,000	–	–	–	500,000	333,333
22 Aug 2007	22 Aug 2012	\$0.15	2,675,000	–	–	–	2,675,000	891,669
14 Nov 2007	14 Nov 2012	\$0.15	1,000,000	–	–	–	1,000,000	333,334
22 Aug 2008	22 Aug 2013	\$0.12	–	1,500,000	–	–	1,500,000	–
4 Nov 2008	4 Nov 2013	\$0.13	–	3,535,000	–	–	3,535,000	–
Total			8,465,000	5,035,000	–	–	13,500,000	5,251,669
Weighted average exercise price			\$0.31	\$0.13	–	–	\$0.27	
Consolidated and parent entity – 2008								
9 Nov 2005	9 Nov 2010	\$0.50	500,000	–	–	–	500,000	333,334
8 May 2006	8 May 2011	\$0.50	2,000,000	–	–	–	2,000,000	1,333,334
22 Sep 2006	22 Sep 2011	\$0.50	1,790,000	–	–	–	1,790,000	596,670
14 Dec 2006	14 Dec 2011	\$0.50	500,000	–	–	–	500,000	166,667
22 Aug 2007	22 Aug 2012	\$0.15	–	3,025,000	–	(350,000)	2,675,000	–
14 Nov 2007	14 Nov 2012	\$0.15	–	1,000,000	–	–	1,000,000	–
Total			4,790,000	4,025,000	–	(350,000)	8,465,000	2,430,005
Weighted average exercise price			\$0.50	\$0.15	–	\$0.15	\$0.31	

No options were forfeited during the periods covered by the above tables and no options were exercised.

The weighted average remaining contractual life of share options outstanding at the end of the period was 3.3 years (2008 – 3.3 years).

Fair value of options granted

The weighted average assessed fair value at grant date of options granted during the year ended 2009 was 6.3 cents per option (2008 – 6.4 cents). The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

The model inputs for options granted during the year ended 30 June 2009 included:

- options are granted for no consideration, have a five year life, and 33.3% of each tranche vests and is exercisable after each of the first three anniversaries of the date of grant
- exercise price: \$0.13 (2008 – \$0.15)
- expiry date: 5 years from grant date (2008 – 5 years from grant date)
- share price at grant date: \$0.13 (2008 – \$0.13)
- expected price volatility of the company's shares: 60% (2008 – 60%)
- expected dividend yield: nil% (2008 – nil%)
- risk-free interest rate: 5.76% (2008 – 6.50%).

Notes to the financial statements

30 June 2009 (continued)

NOTE 33. SHARE-BASED PAYMENTS (CONTINUED)

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information.

b. Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated		Parent entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Options issued under employee option plan	241,756	197,193	241,756	197,193

Directors' declaration

In the directors' opinion:

- a. the financial statements and notes set out on pages 27 to 56 are in accordance with the *Corporations Act 2001*, including:
 - i. complying with Accounting Standards, *the Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - ii. giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the financial year ended on that date; and
- b. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and
- c. the audited remuneration disclosures set out on pages 10 to 16 of the directors' report comply with Accounting Standards AASB 124 *Related Party Disclosures and the Corporations Regulations 2001*.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.



D O'Dwyer
Director

Sydney
20 August 2009

Independent auditor's report

to the members of Atcor Medical Holdings Limited



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Independent auditor's report to the members of AtCor Medical Holdings Limited

Report on the financial report

We have audited the accompanying financial report of AtCor Medical Holdings Limited (the company), which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both AtCor Medical Holdings Limited and the AtCor Medical Holdings Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year 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 report 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 report that is 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(a), 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.

Auditor's 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 report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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 control. 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.

Liability limited by a scheme approved under Professional Standards Legislation



Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with 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 opinions.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of AtCor Medical Holdings Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company and consolidated entity's financial position as at 30 June 2009 and of their 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*; and
- (b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 1(a).

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 10 to 16 of the directors' report for the year ended 30 June 2009. 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

In our opinion, the Remuneration Report of AtCor Medical Holdings Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.

Independent auditor's report

to the members of Atcor Medical Holdings Limited (continued)



Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of AtCor Medical Holdings Limited (the company) for the year ended 30 June 2009 included on the company's web site. The company's directors are responsible for the integrity of the company's web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

A large, stylized handwritten signature of the PricewaterhouseCoopers firm.

PricewaterhouseCoopers

A handwritten signature of Mark Dow.

Mark Dow
Partner

Sydney
20 August 2009

Shareholder information

The shareholder information set out below was applicable as at 2 September 2009.

a) Distribution of equity securities

Analysis of numbers of equity security holders by size of holding:

	Class of equity security	
	# of holders	Shares
1 – 1,000	8	3,836
1,001 – 5,000	110	407,953
5,001 – 10,000	70	617,868
10,001 – 100,000	218	9,200,314
100,001 and over	123	89,770,029
Total	529	100,000,000

There were 35 holders of less than a marketable parcel of ordinary shares.

b) Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

Name	Ordinary shares	
	Number held	Percentage of issued shares
Capital Investment Pty Ltd	17,827,726	17.83%
Pehila Pty Ltd <O'Rourke Superannuation Fund>	9,384,288	9.38%
Perpetual Nominees Ltd <Bef>	5,278,829	5.28%
J P Morgan Nominees Australia Limited	4,739,311	4.74%
Christine Harricks	2,895,800	2.90%
Ernest Keith Stewart	2,422,712	2.42%
Harricks Investments Pty Ltd	2,168,775	2.17%
Barrijag Pty Ltd <The Hadley S/F A/C>	2,000,000	2.00%
Calama Holdings Pty Ltd <Mambat Super Fund A/C>	1,500,000	1.50%
Barrijag Pty Ltd <The Hadley Super Fund A/C>	1,381,250	1.38%
F H Nominees Pty Ltd	1,316,000	1.32%
Mrs Susan Hadley	1,300,000	1.30%
Grinch Nominees Pty Ltd	1,290,000	1.29%
Jens-Ole Dines Larsen & Janthine Elizabeth Larsen <Larsen Superannuation Fund>	1,157,758	1.16%
Dinwoodie Investments Pty Ltd <Dinwoodie Investments A/C>	1,100,000	1.10%
Mr Uwe Rudolf Kohlmuenzer	1,000,000	1.00%
Mr James Clement Whiting	1,000,000	1.00%
Dundrum Investments <O'Dwyer Family A/C>	975,000	0.98%
Sysuper Pty Ltd <M Symonds Super Fund A/C>	930,000	0.93%
Peter Raymond Jenkins	893,766	0.89%
GRQ Strategies Pty Ltd <Sheller Admin S/F A/C>	890,000	0.89%
Total	61,451,215	61.45%

Shareholder information

(continued)

Unquoted equity securities

Name	Number on issue	Number of holders
Options issued under the AtCor Medical Holdings Employee Share Option Plan to take up ordinary shares	13,500,000	19

c) Substantial holders

Substantial holders in the company are set out below:

	Number of shares held	Percentage of issued shares
Ordinary shares		
Capital Investment Pty Ltd	17,827,726	17.83%
Pehila Pty Ltd <O'Rourke Superannuation Fund>	9,384,288	9.38%
Perpetual Nominees Ltd <Bef>	5,278,829	5.28%

d) Voting rights

The voting rights attaching to each class of equity securities are set out below:

- a. Ordinary shares
On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.
- b. Options
No voting rights.

Corporate directory

DIRECTORS

Mr Donal O'Dwyer	BEng, MBA	Non-Executive Chairman
Mr Duncan Ross	BS	CEO and Managing Director
Dr Michael O'Rourke	MD, DSc	Non-Executive Director
Mr Peter Jenkins	DSc (honorary)	Non-Executive Director
Dr David Brookes	MBBS FACRRM	Non-Executive Director

SECRETARY

Mr Peter Manley BBus, CPA, ACIS CFO and Company Secretary

NOTICE OF ANNUAL GENERAL MEETING

The annual general meeting of
AtCor Medical Holdings Limited will be held at:

DibbsBarker offices
Level 8, 123 Pitt Street
Sydney NSW 2000

Time: 11.00 am
Date: 21 October 2009

PRINCIPAL REGISTERED OFFICE IN AUSTRALIA

Suite 11, 1059 – 1063 Victoria Road
West Ryde NSW 2114

Phone: +61 2 9874 8761

SHARE AND DEBENTURE REGISTER

Link Market Services Ltd
Level 12, 680 George Street

PO Box 20013
World Square NSW 2000

Auditor

PricewaterhouseCoopers
Darling Park Tower 2
201 Sussex Street

GPO Box 2650
Sydney NSW 1171

Solicitors

Dibbs Barker
Level 8, 123 Pitt Street

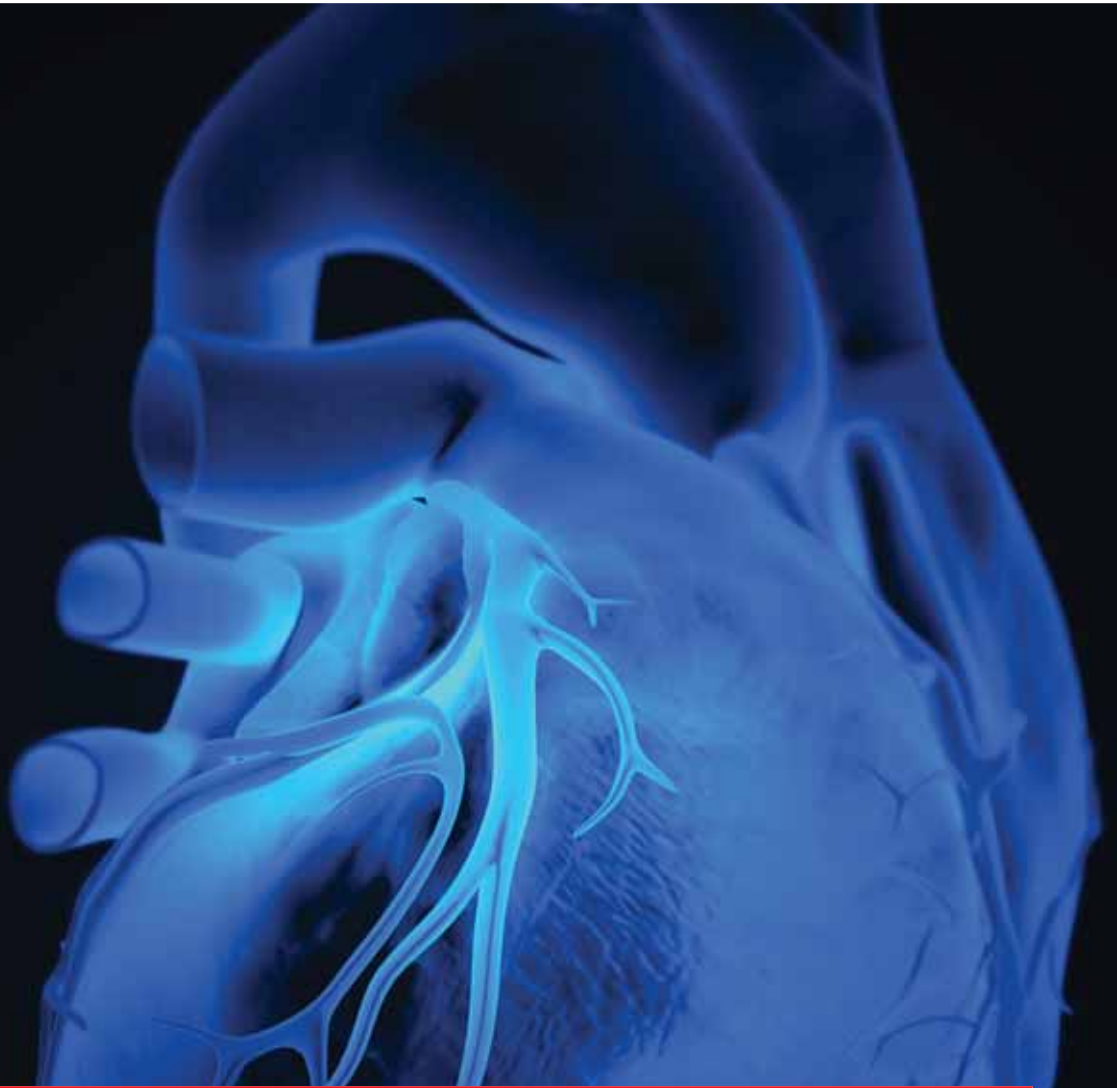
GPO Box 983
Sydney NSW 2001

STOCK EXCHANGE LISTINGS

AtCor Medical Holdings Limited shares are listed
on the Australian Stock Exchange under ASX code ACG.

Website address

www.atcormedical.com



www.atcormedical.com

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