ANNUAL REPORT 2011

AtCor MEDICAL

ATCOR MEDICAL HOLDINGS LIMITED

AtCor Medical has established its SphygmoCor® technology as the global gold standard in non-invasive assessment of aortic central blood pressure and arterial stiffness in the research, pharmaceutical clinical trial and clinical practice markets.

As non-invasive assessment continues its steady progress from the world of science into the world of patient care, our goal is to maintain our leadership position as central pressures and arterial stiffness measurement become the standard of care in cardiovascular risk assessment and patient management.

Even in an extremely challenging economic and political environment for health care providers, research organisations and pharmaceutical companies, the adoption of our technology by clinical and business leaders continued to grow. The published scientific evidence supporting the need for aortic central pressure assessment has become even more compelling.

A sea change in cardiovascular patient care is underway, and AtCor is well positioned to take advantage of it.

Leading change in cardiovascular medicine

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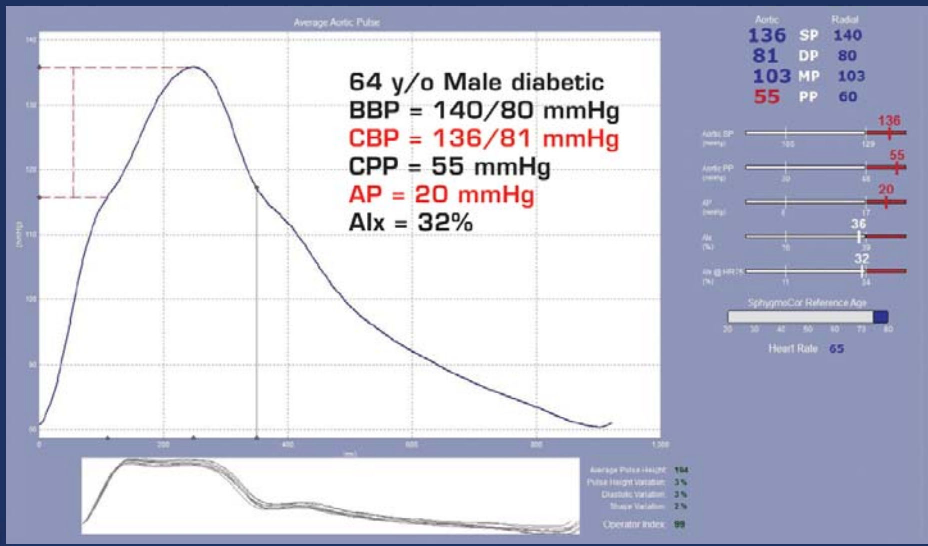
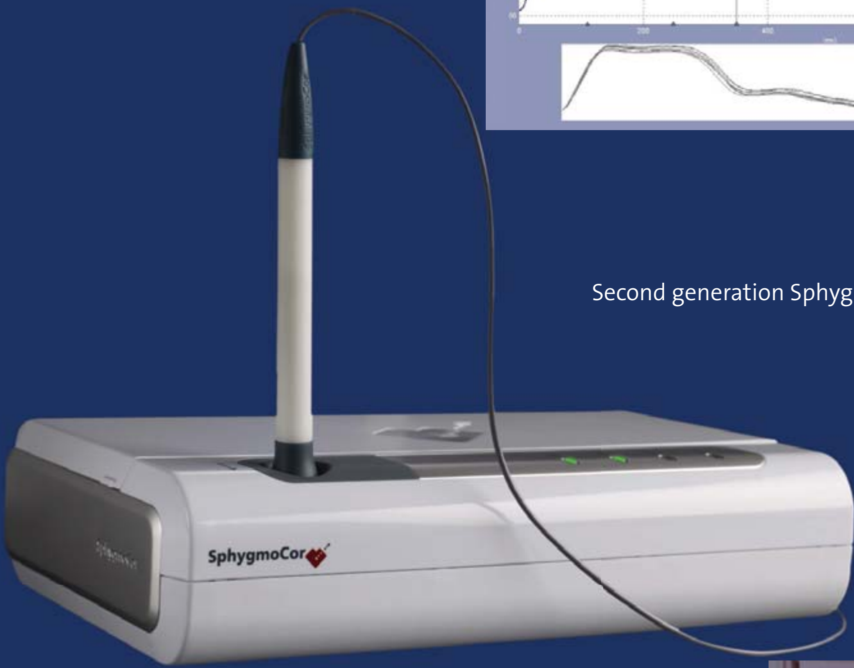
HIGHLIGHTS OF THE YEAR

- Pharmaceutical contracted value up 51.5% over FY2010
- US Renal Physicians Association confirms plans to file for a CPT code that covers SphygmoCor test.
- Multi-year exclusive agreement with SunTech Medical. AtCor to offer SunTech ambulatory blood pressure monitors to clinical trial sponsors.
- On track to release new platform technology in 2012.

ATCOR MEDICAL'S TECHNOLOGY

SphygmoCor provides the physician with new information to help manage a hypertensive patient.The central pressure waveform reveals that this patient has abnormally high arterial stiffness. This suggests a drug that relaxes muscles in the arterial wall would reduce this patient's hypertension.





Second generation SphygmoCor device

AtCor now offers the SunTech Oscar2 24-hour ambulatory blood pressure monitors along with related clinical trial support services to clinical trial sponsor in addition to SphygmoCor

DONAL O'DWYER

CHAIRMAN'S LETTER TO SHAREHOLDERS

Dear Shareholder,

It is with some degree of measured optimism that I report to you on AtCor's progress during the past financial year. It has been a challenging year for your company, impacted particularly by continued economic uncertainty in our two major markets of the United States and Europe, coupled with the unprecedented strength of the Australian dollar. Whilst the sales results for the year were disappointing, compared to our expectations, there have been several important achievements for AtCor that position the company well for future sales growth.

Let me preface my comments on the company by saying that I believe the case for the routine adoption of AtCor's technology, which helps identify and treat diseases such as cardiovascular disease at an early stage and in a relatively cost effective way, continues to be as strong as ever – arguably stronger. Healthcare providers need to find ways to manage disease states in a more efficient manner so that they can manage and control spiralling healthcare costs. AtCor's SphygmoCor technology can play an important role in ensuring this is achieved.

Now I will comment specifically on AtCor's performance. As I said earlier, the sales results were disappointing and less than we anticipated. A number of factors impacted the results. While sales grew in the first half, during the second half a greater proportion of pharmaceutical customers selected leasing or "pay over time" payment terms in preference to outright purchase, and some orders were deferred to FY2012. Despite this change, it is encouraging to note that the total value of pharmaceutical contracts rose significantly from the prior year. While AtCor did not benefit in terms of its reported revenue from this growth, it does position the company well going forward.

It is also pleasing that after a challenging first half, both our USA clinical business with medical specialists and our overall European business exhibited significant uplift in the second half of the year.

Additionally, you will be aware that currency movements have a significant impact on both our sales and profitability. More than 90% of AtCor's sales are denominated in the US dollar and Euro, while an important amount of our costs are Australia-based. It is not appropriate to try to predict exchange rates but, hopefully, there will be less volatility in this current year than the one we are reporting on.

Considering this environment, I believe the company performed well. AtCor's gross margins remained healthy at over 85%, whilst expenses were managed to produce an 8% reduction over prior year – flat on a constant currency basis.

At year-end AtCor had $1.7 million in cash. We are cognisant of our financial position and I can assure you that the careful management of our cash is a high priority for both the directors and management.

Now, a few comments on some of the important recent achievements for AtCor that I believe will help to position us for future success:

- In The US we are assisting the Renal Physicians Association (RPA) in their submission to obtain reimbursement covering the use of the SphygmoCor technology. The RPA are a non-profit national nephrology specialty medical association and a highly respected group. Their support is yet another endorsement for SphygmoCor.
- Assisting important local reimbursement initiatives in the USA, and positive engagement with influential medical groups such as the National Medical Association.
- Activity in the Australian life insurance coverage market through the medical evaluation service initiative with Sonic Healthcare's LifeScreen.
- The recently announced partnership with Sun Tech Medical which will broaden AtCor's offering to pharmaceutical companies.
- Continued high quality publications on the value of our technology in several disease states and conditions, including its role in the optimisation of cardio resynchronisation devices.
- Positive progress in our product development activities.

So, all in all, there is a great deal to feel positive about.

During the year we raised a further $2.2 million from you – our shareholders. These funds were raised to help us finance the transition to a changing pharmaceutical business model, progress product development initiatives and help fund consulting and legal services for our coding and reimbursement efforts. I want to thank you for your support of the company and its programmes.

Finally, I wish to thank all of our employees and associates for their untiring efforts during the year. The board really appreciate all of your commitments and hard work in ensuring that SphygmoCor is used in medical practice to the benefit of patients and healthcare providers alike.

Donal O'Dwyer
Sydney, Australia

26 August, 2011


DUNCAN ROSS

LETTER FROM THE CHIEF EXECUTIVE OFFICER

Dear Shareholder,

While the company faced currency exchange headwinds and economic recovery in the northern hemisphere did not progress at the pace expected, AtCor implemented a number of important initiatives which management believes are absolutely critical to our near and mid-term success. Initiatives included the US Renal Physicians Association's plan to file for a CPT code covering the SphygmoCor® procedure and AtCor's partnership with Sonic Healthcare's Lifescreen division, which provides aortic central blood pressure testing using SphygmoCor for life insurance assessment. We also signed an exclusive global agreement with Sun Tech Medical, a leader in non-invasive blood pressure products and technologies. These initiatives are all accretive to future sales and earnings with little to no change in AtCor's cost structure.

FY2011 RESULTS

In this challenging year, AtCor's FY2011 sales were $7.5 million, representing a decline of 19%, or 9 % on a constant currency basis compared to the prior period. While sales grew in the first half, during the second half a greater proportion of pharmaceutical customers selected leasing or "pay over time" payment systems in preference to outright purchase, and some orders were deferred to FY2012. Overall, sales were below forecast, due in part to deferred recognition of revenue which will now be included in the FY2012 accounts. This change has no impact on cash.

Pharmaceutical sector contracted value showed strong double digit growth year on year, with 55% more units being placed into trials than in FY2010. This trend is expected to continue and the changing contract terms will provide a predictable revenue stream in FY2012.

Gross margin was a healthy 85.6% and met the company target. Expenses were 8% below prior year and flat in constant currency terms, even while growing investment related to product and technology development by 18%. Net loss was $3.1 million compared to a reported loss of $1.2 million in FY2010. Of this, more than $0.9 million is attributed to foreign exchange losses and reduced grant income. Net operating cash outflows for the year were $1.9 million as compared to $2.6 million in for FY 2010.

Despite the challenging environment, AtCor has many reasons to be confident that a return to growth in the range of 15-20% in constant currency will be achieved for FY2012 assuming there is no significant change in global economic conditions. Our sales pipeline remains strong, and our pharmaceutical backorder is more than $1 million greater than this time last year.

HIGHLIGHTS

- While sales declined overall, the total value of pharmaceutical contracts grew 51.5% in FY2011 compared to the previous year.
- Clinical sales to medical specialists such as cardiologists, nephrologists and hypertension specialists rebounded after the US Government extended the current Medicare physician fee schedule, and second half sales exceeded first half by 22%.
- Sales in Europe declined 14% for the year though improved in the second half, up 40% compared to H1 2011 and up 4% over H2 2010. Asia Pacific sales grew 2% compared to the prior year.
- Cash at 30 June was $1.7 million, up $0.1 million from 30 June 2010. Net outflows were less than $(0.4) million in the second half, reflecting improved collections and tightened expense management.
- AtCor raised $2.2 million in October 2010 through a placement to sophisticated investors and a fully underwritten rights issue. Directors and management participated in the rights issue, and 71% of shares offered were taken up. Three AtCor directors were sub-underwriters to the rights issue. The funds are being used for: working capital in support of pharmaceutical contracting moving from a capital model to pay as you go; accelerating product development; and legal and consulting costs associated with obtaining a US reimbursement code.
- The US Renal Physicians Association confirmed plans to file for a CPT (Common Procedural Terminology) code with the American Medical Association which would cover the SphygmoCor test. Preparation is well underway. An increasing number of renal (kidney) specialists are not only using SphygmoCor to manage their patients, but are becoming community specialists in managing complex cases of hypertension.
- To support a national filing, AtCor continues to work on obtaining coverage at a local level from both private and public (Medicare) insurers. Currently, there are 5 million covered lives from the four-state Medicare Michigan region, and AtCor expects this to expand in FY2012. Many physician practices are receiving reimbursement for SphygmoCor from private payers utilizing the general cardiovascular procedure code.
- Additionally, AtCor for the past three years has worked closely with the National Medical Association (NMA) in the effort to help reduce health disparities in the African American population. Addressing and closing disparities is a key goal of US Healthcare reform. Numerous publications using SphygmoCor have shown that African Americans have stiffer arteries and, as a result, higher aortic central pressures than

other populations. Early onset of arterial stiffness and elevated aortic central pressure leads to a plethora of cardiovascular and related disease states. AtCor is now working directly with the Health Policy Committee of the NMA and an ad hoc advisory group chaired by a former NMA President to address this unsolved health care problem.

- The pharmaceutical business continued to play an important role in AtCor's near term and long term growth. The quality of our global service continues to meet and surpass our clients' requirements. This has translated into many contract extensions and new contracts with existing customers. Further, our pharmaceutical customers have encouraged AtCor to expand its breadth of cardiovascular services. AtCor is responding.

- Our focus on maintaining our market and technology leadership resulted in continued investment and progress in new product development. After extensive market and customer research we remain on track to release a new platform technology to the market in 2012. The technology has been primarily designed to meet emerging requirements in AtCor's largest opportunity, the US $1.84 billion global clinical market.

- Important clinical papers on non-invasive aortic central blood pressure assessment were published during the year. These papers continued to support our clinical adoption focus on patient risk stratification and therapeutic hypertension management. They added to the evidence that aortic central blood pressure is a better predictor than brachial pressure of the occurrence, consequences, and prognoses of heart failure, diabetes and kidney disease. In addition other studies added to our understanding that anti-hypertensive drugs can have different effects on brachial and aortic central blood pressure. The combined importance of these two clinical uses of aortic central blood pressure was shown in a study from a well-respected European group. In a result similar to the CAFE study, even though brachial pressures were the same in two groups treated with different drugs, the aortic central pressure in one was significantly lower. More importantly, the group with the lower aortic central pressure actually showed a reduction in left ventricular mass, an important risk factor for heart failure[1].

- But along with risk stratification and hypertension management, scientists and clinicians continued to develop a broad range of clinical applications for non-invasive aortic central blood pressure measurement. These include monitoring fluid infusion during shock therapy, assessing aortic aneurysms, assessing inflammatory diseases such as chronic lung disease, monitoring hypertension in pregnancy, and monitoring the aging of the arteries.

- Work continued on applications of SphygmoCor technology in areas such as cardiac resynchronisation therapy (CRT) optimisation (benefits patients with pacemakers) and applications in other areas of patient monitoring. We will report more about these important developments in the coming year.

- In July 2011, AtCor announced a multi-year exclusive global agreement with SunTech Medical, a leader in non-invasive blood pressure products and technologies. AtCor will now offer clinical trial sponsors an expanded offering to include the SunTech Oscar 2 ambulatory blood pressure monitor and related clinical trial support services. Clinical trials encompassing many classes of drugs utilize 24-hour ambulatory testing, opening new market opportunities for AtCor's clinical trials business.

These and other initiatives continue to build our position as the worldwide gold standard in non-invasive aortic central blood pressure measurement and measures of arterial stiffness. AtCor's SphygmoCor is registered for sale in all of the world's major markets. More than 2500 SphygmoCor systems are in use worldwide at major medical institutions, research institutions and in clinical trials sponsored by the pharmaceutical and medical device industries. SphygmoCor is in use in all 17 hospitals in US News & World Report's "Best Hospitals" Honour Roll for 2011-2012. The value of SphygmoCor is supported by over 500 peer reviewed publications and 1,100 citations.

HEALTHCARE ECONOMICS SUPPORT UPTAKE OF SPHYGMOCOR

Continued slow economic growth in developed markets combined with the unsustainable model of late stage disease management is placing pressure on governments and health plans to adapt a new focus – disease prevention and early identification and management of health care problems.

The current model of late stage disease management is simply unsustainable. AtCor is well positioned to take advantage of this change. Early changes in arterial stiffness and aortic central pressures outside of age related norms can lead to expensive morbidities and early mortality, and the human and economic cost of the lack of effective intervention programs is tremendous. In developing markets, such as India and Saudi Arabia, where prevalent cardiovascular disease (CVD) related risk is well established, we are seeing early clinical adoption of SphygmoCor.

In the US, costs of managing end-stage disease and, in particular, CVD continue to grow. Currently the US healthcare system is burdened with over US$500 billion per year in CVD related direct costs. A small fraction goes to prevention and wellness. The indirect CVD related cost to the US economy from lost productivity is nearly US$200 billion per year.

There are specific hurdles that new, non-replacement technology must overcome to establish equitable physician reimbursement by public and private payers in the US. SphygmoCor ticks the box on all key payer criteria. The SphygmoCor device provides the opportunity to transform the assessment and treatment of cardiovascular and related disease with a relatively low-cost, information-rich system, providing data that would otherwise only be available through invasive, in-hospital monitoring.

1 Kampus, et al., Differential effects of nebivolol and metoprolol on central aortic pressure and left ventricular wall thickness, Hypertension 2011 Jun; 57(6):1122-8

LEVERAGING OUR PLATFORM TECHNOLOGY FOR CLINICAL AND ECONOMIC OUTCOMES

Technology must not only assist in clinical utility (where information changes clinicians' decision making), but also have a favourable impact on the healthcare economics of the specific disease and case. By supporting early diagnosis and intervention and more effective management of hypertension therapy, our SphygmoCor technology will help clinicians reduce the occurrence of catastrophically expensive cardiovascular events and the cost of drug therapy.

AtCor's core competence in pulse wave signal processing does not limit us to hypertensive applications alone. The door is open to other cardiac related and non-cardiac disease applications. AtCor fully intends to exploit these opportunities through both prioritisation and corporate partnering. New patents are being put in place today to secure this potential, and six patent applications are going through the approval process. Our core technology and methodology is protected in the US through 2016.

AtCor's market is not limited to the business segments and distribution channels we currently target

To this end AtCor continues to fund studies to further support the use of SphygmoCor in early risk stratification and complex hypertension management, and also in other applications such as addressing high cost patient populations, areas where payers are looking for ways to reduce financial burden and improving patient outcomes.

Examples near completion include our multi-year heart failure study with the Mayo Clinic and the University of Arizona. The objective is to show that managing patients using non-invasive aortic central pressure measurement not only reduces hospital admissions, thereby reducing health care cost, but also improves the patient's endurance and energy level for everyday tasks.

Work also continues to progress in cardiac pacemaker optimisation management. The aim here is to show that SphygmoCor can guide optimisation of implanted pacemakers more quickly with the same or greater precision and at less cost than current methods. An initial study was recently completed, and AtCor is now in discussion with an implantable device manufacturer to jointly complete a larger, definitive trial.

In an earlier stage study, AtCor is working with a prestigious University to apply our expertise in pulse wave analysis to cerebral vascular applications that could potentially eliminate, among other applications, the need to insert pressure catheters into the brain to measure both blood pressure in the brain and inter-cranial pressure.

THE MAJOR OPPORTUNITIES LIE AHEAD

While AtCor has made significant inroads in the research market, the pharmaceutical and clinical practice market segments are very much in the early days of technology adoption. The total global available market for these two segments alone is valued at US $2.0 billion or approximately US$400 million per year (based on a five year replacement cycle). Relatively small market conversion rates would translate into substantial increases in sales.

AtCor is focused on the right initiatives to achieve this. These initiatives are driving coding and reimbursement efforts to support clinical adoption, strategic partnering to expand our reach in the pharmaceutical sector and aggressive product development. We believe that our greatest opportunities for growth lie ahead.

OUR OUTLOOK FOR FY2012

- Sales growth-forecast to return to constant currency double digit levels in the range 15-20%
- Cash and Operating Earnings – substantial improvement from fiscal 2011. AtCor anticipates turning profitable in fiscal 2013.
- Filing for a CPT code covering the SphygmoCor test – by the Renal Physicians Association
- Local coverage decisions – increased covered lives
- Completion of initiatives supporting clinical adoption – to eliminate health disparities
- New clinical papers – supporting clinical up-take
- Launch of a new platform technology
- New strategic alliance

IN CLOSING

The global healthcare market is evolving from a costly model of late stage disease treatment to one of prevention, early diagnosis and intervention. AtCor is well positioned to take advantage of this fundamental change. SphygmoCor provides the opportunity to transform the assessment and treatment of cardiovascular disease with a relatively low-cost, information-rich system, providing data that would otherwise only be available through invasive, in-hospital monitoring.

Additionally, because of SphygmoCor flexibility and utility in a wide range of clinical applications, AtCor's market is not limited to the business segments and distribution channels we currently target. This provides added investment potential and, through market diversification, less risk.

The 30 dedicated professionals of AtCor Medical are focused, energised and driving the business to achieve its full potential. We will look forward to keeping you informed of our progress in what we fully expect will be a very good year for our business. Thank you for your continued support.

Sincerely,

Duncan R. Ross
Chicago, Illinois USA

26 August, 2011

ANNUAL FINANCIAL REPORT 2011

This financial report is the consolidated financial report 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 26 August 2011. 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.

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DIRECTOR'S 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 2011.

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
D.L Brookes

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 $7,458,450 (2010: $9,198,496). The loss for the year after income tax amounted to $3,081,084 (2010: $1,220,057). 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 4-6 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 2011 that has significantly affected, or may significantly affect:

(a) the Group's operations in future financial years, or

(b) the results of those operations in future financial years, or

(c) 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 58.

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: 400,000 options over ordinary shares in AtCor Medical Holdings Limited

Indirect: 2,450,648 ordinary shares in AtCor Medical Holdings Limited

Duncan R. Ross BS
Managing Director and CEO. Age 53

Experience and expertise

Executive director of the Group since November 2006.
27 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: 1,269,719 ordinary shares in AtCor Medical Holdings Limited

2,500,000 options over ordinary shares in AtCor Medical Holdings Limited

Indirect: Nil

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

Non-executive director. Age 74.

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 Boards for the American Heart Association journal *Hypertension*, and on the editorial Boards of *Journal of Hypertension*, *American Journal of Hypertension* and *Journal of American Society of Hypertension*.

Other current directorships

Victor Chang Foundation

Former directorships in last 3 years

None

Special responsibilities

Medical consultant.

Interests in shares and options

Direct: 3,398,701 ordinary shares in AtCor Medical Holdings Limited

200,000 options over ordinary shares in AtCor Medical Holdings Limited

Indirect: 6,979,362 ordinary shares in AtCor Medical Holdings Limited

Peter Jenkins DSc (honorary)

Independent non-executive director. Age 76.

Experience and expertise

Has served on the AtCor Group's Board since 1999, including 4 years as chairman. Consultant to Colonial First State Private Equity until his retirement in December 2005. Previously had over 30 years experience in the pharmaceutical and medical diagnostics industry.

Other current directorships

Chairman and non-executive director of Queensland BioCapital Funds Ltd.

Former directorships in last 3 years

Non-executive director of Access Macquarie Ltd

Special responsibilities

Chair of remuneration and nomination committee

Member of audit and risk committee

Interests in shares and options

Direct: 1,042,727 ordinary shares in AtCor Medical Holdings Limited

200,000 options over ordinary shares in AtCor Medical Holdings Limited

Dr David Brookes MBBS FACRRM

Independent non-executive director. Age 51.

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

None

Former directorships in last 3 years

Non-executive director of Living Cell Technologies Ltd

Non-executive director of Innovance Ltd

Special responsibilities

Chair of audit and risk committee

Member of remuneration and nomination committee

Interests in shares and options

Direct: 74,923 ordinary shares in AtCor Medical Holdings Limited

200,000 options over ordinary shares in AtCor Medical Holdings Limited

Indirect: 583,334 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.

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 2011, 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		Meetings of Committees: Remuneration and Nomination	
	A	B	A	B	A	B	A	B
D O'Dwyer (chairman)	10	10	10	10	2	2	2	2
D.R Ross (CEO)	9	10	*	*	**	**	**	**
M O'Rourke	10	10	10	10	**	**	**	**
P.R Jenkins	10	10	10	10	2	2	2	2
D.L Brookes	10	10	10	10	2	2	2	2

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

M O'Rourke retired by rotation as a director and was re-elected on 23 November 2010.

D Brookes retired by rotation as a director and was re-elected on 23 November 2010.

REMUNERATION REPORT

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

A Principles used to determine the nature and amount of remuneration
B Details of remuneration
C Service agreements
D Share-based compensation
E 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.

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, excluding share-based payments that are subject to separate shareholder approval.

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 financial 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 2011, 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 and are also varied depending on company performance.

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 14.

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 the Group are the directors of AtCor Medical Holdings Limited (see pages 8-9 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 and bonuses 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. Decreases in base pay and non-monetary benefits are largely attributable to the stronger AUD against the USD through FY11 (Ave rate FY11: 0.9819, FY10: 0.8748).

KEY MANAGEMENT PERSONNEL OF THE GROUP

	Short-term employee benefits			Post-employment benefits		Share-based payment	
	Cash salary and fees $	Cash bonus $	Non-monetary benefits $	Super-annuation $	Termination benefits $	Options $	Total $
2011							
Non-executive directors							
D O'Dwyer (Chairman)	100,917	–	–	9,083	–	7,372	117,372
M O'Rourke	22,936	–	–	2,064	–	3,686	28,686
P.R Jenkins	60,000	–	–	–	–	3,686	63,686
D.L Brookes	55,046	–	–	4,954	–	3,686	63,686
Sub-total non-executive directors	**238,899**	**–**	**–**	**16,101**	**–**	**18,430**	**273,430**
Executive directors							
D.R Ross (CEO)	317,441	70,492	15,397	–	–	18,397	421,727
Other key management personnel							
P Manley	188,532	11,272	10,053	15,770	–	12,863	238,490
D Kurschinski	234,292	43,964	15,435	–	–	21,170	314,861
M Harding	207,925	12,952	–	25,000	–	7,628	253,505
Totals	**1,187,089**	**138,680**	**40,885**	**56,871**	**–**	**78,488**	**1,502,013**
2010							
Non-executive directors							
D O'Dwyer (Chairman)	100,917	–	–	9,083	–	16,441	126,441
M O'Rourke	22,936	–	–	2,064	–	8,220	33,220
P.R Jenkins	55,459	–	–	4,541	–	8,220	68,220
D.L Brookes	55,046	–	–	4,954	–	8,220	68,220
Sub-total non-executive directors	**234,358**	**–**	**–**	**20,642**	**–**	**41,101**	**296,101**
Executive directors							
D.R Ross (CEO)	342,571	88,026	15,880		–	44,633	491,110
Other key management personnel							
P Manley	162,066	16,924	21,599	13,969	–	12,436	226,994
D Kurschinski	250,384	85,979	15,938	–	–	26,582	378,883
M Harding	193,000	14,208	–	25,000	–	10,991	243,199
Totals	**1,182,379**	**205,137**	**53,417**	**59,611**	**–**	**135,743**	**1,636,287**

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

	Fixed Remuneration		At risk – STI		At risk – LTI	
	2011	2010	2011	2010	2011	2010
Non-executive directors						
D O'Dwyer (Chairman)	94%	87%	–	–	6%	13%
M O'Rourke	87%	75%	–	–	13%	25%
P Jenkins	94%	88%	–	–	6%	12%
D Brookes	94%	88%	–	–	6%	12%
Executive directors						
D R Ross (CEO)	60%	58%	36%	35%	4%	7%
Other key management personnel						
P Manley	79%	79%	16%	16%	5%	5%
D Kurschinski	65%	64%	29%	29%	6%	7%
M Harding	74%	73%	24%	23%	2%	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 2011 of US$325,031, 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 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 2011 of $206,270, 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 2011 of US$243,886, 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 2011 of $224,540, 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
22 Sep 2006	22 Sep 2011	$0.50	$0.03	22 Sep 2007
22 Sep 2006	22 Sep 2011	$0.50	$0.03	22 Sep 2008
22 Sep 2006	22 Sep 2011	$0.50	$0.04	22 Sep 2009
14 Dec 2006	14 Dec 2011	$0.50	$0.03	14 Dec 2007
14 Dec 2006	14 Dec 2011	$0.50	$0.04	14 Dec 2008
14 Dec 2006	14 Dec 2011	$0.50	$0.05	14 Dec 2009
22 Aug 2007	22 Aug 2012	$0.15	$0.05	22 Aug 2008
22 Aug 2007	22 Aug 2012	$0.15	$0.06	22 Aug 2009
22 Aug 2007	22 Aug 2012	$0.15	$0.06	22 Aug 2010
14 Nov 2007	14 Nov 2012	$0.15	$0.04	14 Nov 2008
14 Nov 2007	14 Nov 2012	$0.15	$0.04	14 Nov 2009
14 Nov 2007	14 Nov 2012	$0.15	$0.05	14 Nov 2010
22 Aug 2008	22 Aug 2013	$0.12	$0.06	22 Aug 2009
22 Aug 2008	22 Aug 2013	$0.12	$0.06	22 Aug 2010
22 Aug 2008	22 Aug 2013	$0.12	$0.06	22 Aug 2011
4 Nov 2008	4 Nov 2013	$0.13	$0.06	4 Nov 2009
4 Nov 2008	4 Nov 2013	$0.13	$0.06	4 Nov 2010
4 Nov 2008	4 Nov 2013	$0.13	$0.07	4 Nov 2011
20 Aug 2009	20 Aug 2014	$0.165	$0.07	20 Aug 2010
20 Aug 2009	20 Aug 2014	$0.165	$0.07	20 Aug 2011
20 Aug 2009	20 Aug 2014	$0.165	$0.08	20 Aug 2012
21 Oct 2009	21 Oct 2013	$0.215	$0.06	21 Oct 2010
18 Feb 2010	18 Feb 2015	$0.164	$0.07	18 Feb 2011
18 Feb 2010	18 Feb 2015	$0.164	$0.08	18 Feb 2012
18 Feb 2010	18 Feb 2015	$0.164	$0.08	18 Feb 2013
1 Mar 2010	1 Mar 2015	$0.164	$0.06	1 Mar 2011
1 Mar 2010	1 Mar 2015	$0.164	$0.07	1 Mar 2012
1 Mar 2010	1 Mar 2015	$0.164	$0.07	1 Mar 2013
17 Feb 2011	17 Feb 2016	$0.12	$0.04	17 Feb 2012
17 Feb 2011	17 Feb 2016	$0.12	$0.04	17 Feb 2013
17 Feb 2011	17 Feb 2016	$0.12	$0.05	17 Feb 2014

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 31 to the financial statements.

Options Granted to Directors and other key management personnel under the Employee Share Option Plan since 30 June 2011

No options have been granted in the period from 30 June 2011 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)	2010	400,000	$0.215	21 Oct 13	400,000
D R Ross (CEO)	2008	1,000,000	$0.15	14 Nov 12	1,000,000
	2009	1,500,000	$0.13	4 Nov 13	1,000,000
M O'Rourke	2010	200,000	$0.215	21 Oct 13	200,000
P Jenkins	2010	200,000	$0.215	21 Oct 13	200,000
D Brookes	2010	200,000	$0.215	21 Oct 13	200,000
Other executives					
P. Manley	2008	200,000	$0.15	22 Aug 12	200,000
	2009	325,000	$0.13	4 Nov 13	216,667
	2010	150,000	$0.164	18 Feb 15	50,000
	2011	300,000	$0.12	17 Feb 16	–
D Kurschinski	2007	575,000	$0.50	22 Sep 11	575,000
	2008	600,000	$0.15	22 Aug 12	600,000
	2009	300,000	$0.12	22 Aug 13	200,000
	2009	425,000	$0.13	4 Nov 13	283,333
	2010	250,000	$0.164	18 Feb 15	83,334
	2011	300,000	$0.12	17 Feb 16	–
M Harding	2009	300,000	$0.12	22 Aug 13	200,000
	2010	400,000	$0.165	20 Aug 14	133,334
	2011	200,000	$0.12	17 Feb 16	–

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 2011 included:

(a) 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

(b) ave exercise price: $0.12 (2010 – $0.19)

(c) expiry date: 5 years from grant date (2010 – 4 & 5 years from grant date)

(d) Weighted average share price at grant date: $0.10 (2010 – $0.17)

(e) expected price volatility of the company's shares: 60% (2010 – 60%)

(f) expected dividend yield: nil% (2010 – nil%)

(g) risk-free interest rate: 4.76% (2010 – 5.00%).

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 12 and 13, 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. Part of the bonus may be payable in future periods. 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.

	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 O'Dwyer	–	–	2010	100%	–	2011	–	–
P Jenkins	–	–	2010	100%	–	2011	–	–
M O'Rourke	–	–	2010	100%	–	2011	–	–
D Brookes	–	–	2010	100%	–	2011	–	–
D R Ross (CEO)	39%	61%	2008	100%	–	2009	–	–
				100%	–	2010	–	–
				100%	–	2011	–	–
			2009	100%	–	2010	–	–
				100%	–	2011	–	–
				–	–	2012	–	3,826
P Manley	27%	73%	2008	100%	–	2009	–	–
				100%	–	2010	–	–
				100%	–	2011	–	–
			2009	100%	–	2010	–	–
				100%	–	2011	–	–
				–	–	2012	–	829
			2010	100%	–	2011	–	–
				–	–	2012	–	1,411
				–	–	2013	–	2,569
			2011	–	–	2012	–	2,439
				–	–	2013	–	3,433
				–	–	2014	–	3,975

	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 Kurschinski	44%	56%	2007	100%	–	2008	–	–
				100%	–	2009	–	–
				100%	–	2010	–	–
			2008	100%	–	2009	–	–
				100%	–	2010	–	–
				100%	–	2011	–	–
			2009	100%	–	2010	–	–
				100%	–	2011	–	–
				–	–	2012	–	307
			2009	100%	–	2010	–	–
				100%	–	2011	–	–
				–	–	2012	–	1,084
			2010	100%	–	2011	–	–
				–	–	2012	–	2,351
				–	–	2013	–	4,281
			2011	–	–	2012	–	2,439
				–	–	2013	–	3,433
				–	–	2014	–	3,975
M Harding	18%	82%	2009	100%	–	2010	–	–
				100%	–	2011	–	–
				–	–	2012	–	307
			2010	100%	–	2011	–	–
				–	–	2012	–	233
				–	–	2013	–	1,350
			2011	–	–	2012	–	1,626
				–	–	2013	–	2,289
				–	–	2014	–	2,650

Share-based compensation: Options

Further details relating to options are set out below.

	A	B	C	D	E
	Remuneration consisting of options	Value at grant date $	Value at exercise date $	Value at lapse date $	Total of columns B-D $
D O'Dwyer (Chairman)	6%	7,372	–	–	7,372
D R Ross (CEO)	4%	18,397	–	–	18,397
M O'Rourke	13%	3,686	–	–	3,686
P Jenkins	6%	3,686	–	–	3,686
D Brookes	6%	3,686	–	–	3,686
P Manley	5%	12,863	–	–	12,863
D Kurschinski	6%	21,170	–	–	21,170
M Harding	2%	7,628	–	–	7,628

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
22 September 2006	22 Sep 2011	$0.50	1,345,000
14 December 2006	14 Dec 2011	$0.50	500,000
22 August 2007	22 Aug 2012	$0.15	2,175,000
14 November 2007	14 Nov 2012	$0.15	1,000,000
22 August 2008	22 Aug 2013	$0.12	1,300,000
4 November 2008	4 Nov 2013	$0.13	3,220,000
20 August 2009	20 Aug 2014	$0.165	400,000
21 October 2009	21 Oct 2013	$0.215	1,000,000
18 February 2010	18 Feb 2015	$0.164	625,000
1 March 2010	1 Mar 2015	$0.164	150,000
17 February 2011	17 Feb 2016	$0.12	1,895,000
			13,610,000

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 2011 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.

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 2011 is $172,772 (2010: $167,740).

Insurance of officers

During the financial year, AtCor Medical Holdings Limited paid a premium of $17,979 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	
	2011 $	2010 $
Assurance services		
1. Audit services		
PricewaterhouseCoopers Australian firm:		
Audit and review of financial reports and other audit work under the Corporations Act 2001	100,000	101,697
Total remuneration for audit services	100,000	101,697
2. Other assurance services		
PricewaterhouseCoopers Australian firm:		
Audit of Commercial Ready grant program		
Total remuneration for other assurance services	–	6,695
	–	6,695

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.

Director

Sydney
26 August 2011

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Auditor's Independence Declaration

As lead auditor for the audit of Atcor Medical Holdings Limited for the year ended 30 June 2011, 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.

Mark Dow
Partner
PricewaterhouseCoopers

Sydney
26 August 2011

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CORPORATE GOVERNANCE STATEMENT

PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The Board of Directors has adopted a formal charter that defines the roles and responsibilities of Directors and management. This charter is available on the company website. During the reporting period all senior executives were subject to a formal performance review against defined company and personal objectives.

PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

AtCor currently has five directors, four of whom are hold non-executive positions and one (Chief Executive Officer) who holds an executive position. Directors' name, position, independence status and additional committee duties are outlined in the table below.

The Board considers the present complement of five directors to be appropriate for the size of the Company and therefore casual vacancies will be filled as and when they arise. The combined skill set of the Directors is also appropriate for the stage of company evolution, with expertise in industry, medical and business management. Individual Directors' experience is outlined in the Directors' Report.

				Sub-Committees	
	Director since	Non-Executive	Independent	Audit & Risk	Remuneration & Nomination
Donal O'Dwyer (Chairman)	Jul 2004	Yes	Yes	Yes	Yes
Duncan Ross (CEO)	Nov 2006	No	No	No	No
Peter Jenkins	Jan 1999	Yes	Yes	Yes	Chairman
Michael O'Rourke	Nov 1993	Yes	No	No	No
David Brookes	Sep 2008	Yes	Yes	Chairman	Yes

Independence Criteria

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 exists, 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.

PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

An "AtCor Code of Business Conduct" has been adopted by the Board, a copy of which may be found on the AtCor website. Directors and staff are also subject to a clearly enunciated share trading policy, also available on the Company website.

Diversity Policy and progress towards gender diversity

The Board has developed and adopted a diversity policy that ensures all personnel within the organisation will be treated with respect and no person will be discriminated against either during their employment or through recruitment action, no matter their gender, age, race, religion, cultural background, marital status, sexual orientation or disability. AtCor recognises there is difficulty achieving diversity across all areas of the company due to the relatively small size of the workforce, but considers increased representation by women to be a desirable outcome. The Board believes a target of 25% representation by women in non-executive directorships and 25% representation in senior and other management roles within 5 years to be achievable.

AtCor currently has four non-executive directors and 28 employees based across two jurisdictions. During the year 3 employees resigned of which 2 engineers were replaced. No applications were received by women for these roles. Gender diversity statistics are as follows:

	No. of Employees	
	Male	Female
Non-executive directors	4	0
Senior executive officers	4	0
Other managers	5	1
Other employees	14	4
Total Employee	23	5

PRINCIPLE 4: SAFEGUARD INTEGRITY ON FINANCIAL REPORTING

An Audit & Risk Committee has been in place for the full reporting period and comprises 3 independent directors as members, being:

- David Brookes – Chairman
- Donal O'Dwyer
- Peter Jenkins

Details of their qualifications and attendance at committee meetings are detailed on pages 8 to 10 of the Directors' Report. The Committee is subject to an Audit and Risk Committee charter that is published on the AtCor website.

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 22 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.

PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

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 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.

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 also undertaken periodically and actions taken to mitigate risk where appropriate.

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.

PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

A Remuneration and Nomination Committee has been in place for the full reporting period and comprises 3 independent directors as members, being:

- Peter Jenkins – Chairman
- David Brookes
- Donal O'Dwyer

Details of their qualifications and attendance at committee meetings are detailed on pages 8 to 10 of the Directors' Report. The Committee is subject to a Remuneration and Nomination Committee charter that is published on the AtCor website.

Remuneration principles are disclosed on page 10. An assessment of senior management's performance against set targets is made by the Remuneration Committee at least annually.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2011

	Notes	Consolidated 2011 $	Consolidated 2010 $
Revenue from continuing operations			
Revenue from sale of goods	5	7,458,450	9,198,496
Other revenue	5	19,748	53,783
Total revenue		**7,478,198**	**9,252,279**
Other income	6	199,183	781,562
Other expenses from ordinary activities			
Cost of sale of goods		(1,070,759)	(909,782)
Depreciation and amortisation		(152,789)	(165,834)
Marketing and sales expense		(4,911,111)	(5,808,475)
Product development and regulatory expense		(2,255,351)	(1,963,756)
Occupancy expense		(114,884)	(138,054)
Administration expense		(1,626,813)	(2,044,419)
Foreign exchange losses		(626,758)	(223,578)
Loss before income tax	**7**	**(3,081,084)**	**(1,220,057)**
Income tax expense	8	–	–
Loss for the year		**(3,081,084)**	**(1,220,057)**
Exchange differences on translation of foreign balances		74,083	83,525
Total comprehensive loss for the year		**(3,007,001)**	**(1,136,532)**
Total comprehensive loss attributable to members of AtCor Medical		**(3,007,001)**	**(1,136,532)**

		Cents	Cents
Earnings per share for loss attributable to the ordinary equity holders of the company:			
Basic earnings per share	30	(2.6)	(1.2)
Diluted earnings per share	30	(2.6)	(1.2)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

BALANCE SHEET

As at 30 June 2011

	Notes	Consolidated 2011 $	Consolidated 2010 $
ASSETS			
Current assets			
Cash and cash equivalents	9	1,714,291	1,608,504
Trade and other receivables	10	2,694,538	3,432,698
Inventories	11	291,720	295,060
Other	12	235,452	178,759
Total current assets		**4,936,001**	**5,515,021**
Non-current assets			
Property, plant and equipment	13	242,619	255,282
Intangible assets	14	72,716	131,000
Total non-current assets		**315,335**	**386,282**
Total assets		**5,251,336**	**5,901,303**
LIABILITIES			
Current liabilities			
Trade and other payables	15	2,164,795	2,127,130
Provisions	16	19,566	–
Total current liabilities		**2,184,361**	**2,127,130**
Non-current liabilities			
Provisions	17	34,853	37,408
Total non-current liabilities		**34,853**	**37,408**
Total liabilities		**2,219,214**	**2,164,538**
Net assets		**3,032,122**	**3,736,765**
EQUITY			
Contributed equity	18	31,192,352	29,039,194
Reserves	19(a)	1,440,661	1,217,378
Accumulated losses	19(b)	(29,600,891)	(26,519,807)
Total equity		**3,032,122**	**3,736,765**

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2011

	Notes	Contributed Equity	Reserves	Retained Earnings	Total
Balance at 1 July 2009		28,981,611	963,161	(25,299,750)	4,645,022
Loss for the year		–	–	(1,220,057)	(1,220,057)
Other comprehensive income		–	83,525	–	83,525
Total comprehensive income for the year		–	83,525	(1,220,057)	(1,136,532)
Transactions with equity holders in their capacity as equity holders:					
Employee share options expensed	19	–	170,692	–	170,692
Options exercised	19	57,583	–	–	57,583
		57,583	**170,692**	**–**	**228,275**
Balance at 30 June 2010		**29,039,194**	**1,217,378**	**(26,519,807)**	**3,736,765**
Loss for the year		–	–	(3,081,084)	(3,081,084)
Other comprehensive income		–	74,083	–	74,083
Total comprehensive income for the year		–	74,083	(3,081,084)	(3,007,001)
Transactions with equity holders in their capacity as equity holders:					
Capital placement & rights issue (net)	18	2,153,158	–	–	2,153,158
Employee share options expensed	19	–	149,200	–	149,200
		2,153,158	**149,200**	**–**	**2,302,358**
Balance at 30 June 2011		**31,192,352**	**1,440,661**	**(29,600,891)**	**3,032,122**

The above consolidated statement of changes of equity should be read in conjunction with the accompanying notes.

CASH FLOW STATEMENT

For the year ended 30 June 2011

	Notes	Consolidated 2011 $	Consolidated 2010 $
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		7,733,172	7,298,027
Payments to suppliers and employees (inclusive of goods and services tax)		(9,838,304)	(10,661,737)
		(2,105,132)	**(3,363,710)**
Other revenue		190,380	731,894
Interest received		19,748	53,265
Net cash outflow from operating activities	**29**	**(1,895,004)**	**(2,578,551)**
Cash flows from investing activities			
Payments for property, plant and equipment		(81,842)	(61,042)
Repayment of loan from key management personnel and ex director		–	853,697
Net cash inflow (outflow) from investing activities		**(81,842)**	**792,655**
Cash flows from financing activities			
Net proceeds from issue of shares		2,153,158	–
Issue of shares from option exercise		–	57,583
Net cash inflow from financing activities		**2,153,158**	**57,583**
Net increase (decrease) in cash and cash equivalents		176,312	(1,728,313)
Cash and cash equivalents at the beginning of the financial year		1,608,504	3,416,293
Effects of exchange rate changes on cash and cash equivalents		(70,525)	(79,476)
Cash and cash equivalents at end of year	**9**	**1,714,291**	**1,608,504**

The above cash flow statement 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 these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for 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 2011, though at a manageable rate due primarily to the consolidated entity continuing progress in expanding their operations. The Board approves an annual budget and regularly receives forecasts from management to monitor performance against budget and to consider longer terms 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 2011 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.

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 standalone 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.

Collectability 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.

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.

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.

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 31.

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) Parent entity financial information

The financial information for the parent entity, AtCor Medical Holdings Limited, disclosed in note 32, has been prepared on the same basis as the consolidated financial statements.

z) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

i) AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010)

AASB 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2013 but is available for early adoption. There will be no impact on the group's accounting for financial assets or liabilities, as the new requirements only affect the accounting for financial assets and liabilities that are designated at fair value through profit or loss and the group does not have any such items in the current reporting period. The group has not yet decided when to adopt AASB 9.

ii) AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements

On 30 June 2010 the AASB officially introduced a revised differential reporting framework in Australia. Under this framework, a two-tier differential reporting regime applies to all entities that prepare general purpose financial statements. AtCor Medical Holdings Limited is listed on the ASX and is therefore not eligible to adopt the new Australian Accounting Standards – Reduced Disclosure Requirements. As a consequence, the two standards will have no impact on the financial statements of the entity.

iii) Revised AASB 124 Related Party Disclosures and AASB 2009-12 Amendments to Australian Accounting Standards

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party. The group will apply the amended standard from 1 July 2011. When the amendments are applied, the group will need to disclose any transactions between its subsidiaries and its associates. However, there will be no impact on any of the amounts recognised in the financial statements.

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 2011		30 June 2010	
	USD	EUR	USD	EUR
Trade Receivables	2,345,718	278,444	2,368,405	346,538
Financial Assets	1,529,231	167,967	255,682	56,841
Trade Payables	(583,378)	(57,787)	(353,128)	(106,752)

Sensitivity

Based on the financial instruments held at 30 June 2011, 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 $342,015/($307,814) (2010: $299,580/($269,622)). 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 $58,458/($52,611) (2010: $$47,848/($43,063))The increased exposure is due to increased cash and receivables held in foreign currencies as the business grows offshore.

(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 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 Group 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 Africa)
- Asia Pacific (includes Asia & Australia/NZ)

(b) Primary reporting format – geographical segments

	Americas $	Europe $	Asia Pacific $	Inter-segment eliminations/ unallocated $	Consolid-ated $
2011					
Sales to external customers	5,546,984	1,139,467	772,000	–	7,458,450
Intersegment sales	–	–	2,405,559	(2,409,559)	–
Total sales revenue	5,546,984	1,139,467	3,177,559	(2,409,559)	7,458,450
Other revenue/income	111,615	–	83,660	–	195,275
Total segment revenue/income	**5,658,599**	**1,139,467**	**3,261,219**	**(2,409,559)**	**7,653,725**
Segment result	762,271	(239,924)	(3,150,329)	–	(2,627,982)
Unallocated revenue less unallocated expenses					(453,102)
Loss before income tax					**(3,081,084)**
Income tax expense					–
Loss for the year					**(3,081,084)**
Segment assets	6,355,282	376,952	24,609,255	(26,090,153)	5,251,336
Segment liabilities	(6,215,295)	(147,133)	(21,946,939)	26,090,153	(2,219,214)
Acquisitions of property, plant and equipment,	21,404	–	60,438	–	81,842
Depreciation and amortisation expense	29,541	–	123,248	–	152,789
Other non-cash expenses	–	–	–	775,959	775,959
2010					
Sales to external customers	6,871,462	1,533,306	793,728	–	9,198,496
Intersegment sales	–	–	1,422,582	(1,422,582)	–
Total sales revenue	6,871,462	1,533,306	2,216,310	(1,422,582)	9,198,496
Other revenue/income	–	–	754,721	–	754,721
Total segment revenue/income	**6,871,462**	**1,533,306**	**2,971,031**	**(1,422,582)**	**9,953,217**
Segment result	2,069,680	(478,663)	(2,668,120)	–	(996,480)
Unallocated revenue less unallocated expenses					(223,577)
Loss before income tax					**(1,220,057)**
Income tax expense					–
Loss for the year					**(1,220,057)**
Segment assets	8,611,428	484,517	25,564,979	(28,759,621)	5,901,303
Segment liabilities	(8,662,738)	(154,974)	(21,873,394)	28,526,568	(2,164,538)
Acquisitions of property, plant and equipment,	22,822	–	38,220	–	61,042
Depreciation and amortisation expense	28,101	–	137,733	–	165,834
Other non-cash expenses	–	–	223,578	–	223,578

(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 2011 $	Consolidated 2010 $
From continuing operations		
Sales revenue		
Sale of goods	6,546,429	8,000,629
Sale of services	912,021	1,197,867
	7,458,450	**9,198,496**
Other revenue		
Interest	19,748	53,783
	7,478,198	**9,252,279**

NOTE 6 – OTHER INCOME

	Consolidated 2011 $	Consolidated 2010 $
Government grants (note (a))	190,380	731,893
Others	8,803	49,669
	199,183	**781,562**

(a) Government grants

Commercial Ready grants of $83,660 (2010: $570,986) were recognised as other income by the Group during the financial year. There are no unfulfilled conditions or other contingencies attaching to these grants. Additionally, the US subsidiary received US$109,240 (A$106,720) under the US Government Therapeutic Discovery grant program in 2011 (2010: $nil). The group received $160,907 in satisfaction of an Export Market Development Grant application in 2010.

NOTE 7 – EXPENSES

	Consolidated 2011 $	Consolidated 2010 $
Loss before income tax includes the following specific expenses:		
Depreciation on plant and equipment	94,505	120,160
Amortisation of patents and trademarks	58,284	45,674
	152,789	**165,834**
Employee benefit expense	5,205,261	5,883,441
Rental expense relating to operating leases	114,884	138,054
Foreign exchange losses (net)	626,758	223,578

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 2011 $	Consolidated 2010 $
Loss from continuing operations before income tax expense	(3,081,084)	(1,220,057)
Tax at the Australian tax rate of 30% (2010- 30%)	(924,325)	(366,017)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share based payment	44,760	51,208
Amortisation of intangibles	17,485	13,702
Sundry items	243	660
	(861,837)	**(300,447)**
Differences in overseas tax rates	81,988	24,226
Benefit of tax losses not recognised	779,849	276,221
Income tax expense	–	–

(b) Tax losses

	Consolidated 2011 $	Consolidated 2010 $
Unused tax losses for which no deferred tax asset has been recognised:	24,679,510	22,080,012
Potential tax benefit @ 30%	7,403,853	6,624,004

This benefit for tax losses will only be obtained if:

(i) the consolidated entity derives future assessable income of a nature and of an amount sufficient to enable the benefit from the deductions for the losses to be realised;

(ii) the consolidated entity continues to comply with the conditions for deductibility imposed by tax legislation; and

(iii) 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	
	2011 $	2010 $
Cash at bank and in hand	1,714,291	851,947
Deposits at call	–	756,557
	1,714,291	**1,608,504**

(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 0.25% (2010: 0.00% – 1.75%).

(b) Deposits at call

The deposits are bearing a floating interest rate of n/a% (2010: 4.75%). These deposits have an average maturity of 30 days.

NOTE 10 – CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated	
	2011 $	2010 $
Trade receivables	2,883,783	3,447,232
Less: Provision for doubtful debts	(248,022)	(21,226)
	2,635,761	**3,426,006**
Other receivables	58,777	6,692
	2,694,538	**3,432,698**

(a) Impaired trade receivables

As at 30 June 2011 current trade receivables of the Group with a nominal value of $248,022 (2010: $21,226) were impaired. The amount of the provision was $248,022 (2010: $21,226).

	Consolidated	
	2011 $	2010 $
At 1 July	21,226	38,636
Provision for impairment recognised during the year	229,674	55,064
Receivables written off during the year as uncollectible	(2,878)	(72,474)
	248,022	**21,226**

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

(b) Past due but not impaired

As of 30 June 2011, trade receivables of $505,362 (2010: $301,063) 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	
	2011 $	2010 $
0 – 30 days	103,434	199,446
30 – 60 days	72,288	87,382
> 60 days	329,640	14,235
	505,362	**301,063**

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	
	2011 $	2010 $
Raw materials and stores – at cost	215,958	253,112
Finished goods at cost	75,762	41,948
	291,720	**295,060**

Inventories recognised as expense during the year ended 30 June 2011 amounted to $478,445 (2010: $354,277). There were no write-downs of inventories to net realisable values during the years ended 30 June 2011 and 2010.

NOTE 12 – CURRENT ASSETS – OTHER

	Consolidated	
	2011 $	2010 $
Prepayments	203,034	148,475
Other	32,418	30,284
	235,452	**178,759**

NOTE 13 – NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

Consolidated	Manufacturing plant and equipment $	Furniture, fittings and equipment $	Total $
At 1 July 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**
Year ended 30 June 2010			
Opening net book amount	126,420	225,355	351,775
Additions	–	61,042	61,042
Asset write-off	–	(37,375)	(37,375)
Depreciation charge	(32,424)	(87,736)	(120,160)
Closing net book amount	**93,996**	**161,286**	**255,282**
At 30 June 2010			
Cost	241,323	623,193	864,516
Accumulated depreciation	(147,327)	(461,907)	(609,234)
Net book amount	**93,996**	**161,286**	**255,282**
Year ended 30 June 2011			
Opening net book amount	93,996	161,286	255,282
Additions	–	81,842	81,842
Depreciation charge	(21,186)	(73,319)	(94,505)
Closing net book amount	**72,810**	**169,809**	**242,619**
At 30 June 2011			
Cost	241,323	705,035	946,358
Accumulated depreciation	(168,513)	(535,226)	(703,739)
Net book amount	**72,810**	**169,809**	**242,619**

NOTE 14 – NON-CURRENT ASSETS – INTANGIBLE ASSETS

Consolidated	Development costs* $	Patents, trademarks and other rights $	Total $
At 1 July 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**
Year ended 30 June 2010			
Opening net book amount	58,809	117,865	176,674
Amortisation charge **	(27,142)	(18,532)	(45,674)
Closing net book amount	**31,667**	**99,333**	**131,000**
At 30 June 2010			
Cost	135,713	240,910	376,623
Accumulated amortisation and impairment	(104,046)	(141,577)	(245,623)
Net book amount	**31,667**	**99,333**	**131,000**
Year ended 30 June 2011			
Opening net book amount	31,667	99,333	131,000
Write-off expired patent	–	(150,000)	(150,000)
Write back amortisation from expired patent	–	150,000	150,000
Amortisation charge **	(31,667)	(26,617)	(58,284)
Closing net book amount	**–**	**72,716**	**72,716**
At 30 June 2011			
Cost	135,713	90,910	226,623
Accumulated amortisation and impairment	(135,713)	(18,194)	(153,907)
Net book amount	**–**	**72,716**	**72,716**

* 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 $58,284 (2010: $45,674) is included in depreciation and amortisation expense in the income statement.

NOTE 15 – CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated 2011 $	Consolidated 2010 $
Trade payables	1,047,760	960,046
Other payables	1,117,035	1,167,084
	2,164,795	**2,127,130**

NOTE 16 – CURRENT LIABILITIES – PROVISIONS

	Consolidated	
	2011 $	2010 $
Current employee benefits	19,566	–

NOTE 17 – NON-CURRENT LIABILITIES – PROVISIONS

	Consolidated	
	2011 $	2010 $
Employee benefits	34,853	37,408

NOTE 18 – CONTRIBUTED EQUITY

	Parent entity		Parent entity	
	2011 Shares	2010 Shares	2011 $	2010 $
(a) Share capital				
Fully paid ordinary shares	134,098,611	100,391,667	37,649,642	35,496,484

(b) Movements in ordinary share capital:

Date	Details	Number of shares	Issue price	$
1 July 2009	Opening balance	100,000,000		35,438,901
30 October 2009	Exercise of options	200,000	$0.15	30,000
29 December 2009	Exercise of options	133,333	$0.15	20,000
29 December 2009	Exercise of options	58,334	$0.13	7,583
30 June 2010	Balance	100,391,667		35,496,484
29 October 2010	Share placement	14,550,000	$0.07	1,018,500
2 December 2010	Rights issue	13,617,995	$0.07	953,260
10 December 2010	Rights issue – underwriting	5,538,949	$0.07	387,726
	Less: transaction fees on share placement and rights issue			(206,328)
30 June 2011	Closing balance	134,098,611		37,649,642

During the year ended 30 June 2011, 33,706,944 shares were issued via a private placement to sophisticated investors and a 1:7 rights issue was successfully completed. 391,667 shares were issued during the year ending 30 June 2010 following the exercise of options issued to executives under the AtCor ESOP.

(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 31.

(e) Reconciliation of parent entity and consolidated contributed equity

The consolidated equity for the group at 30 June 2011 includes the following items:

	$
Equity of AtCor Medical Pty Ltd at the date acquisition	13,674,710
Share placement	17,359,486
Exercise of options	2,117,675
Transaction costs arising from share issue	(1,959,519)
Total	**31,192,352**

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 19 – RESERVES AND RETAINED PROFITS

	Consolidated	
	2011 $	2010 $
(a) Reserves		
Share-based payments reserve	975,289	826,089
Foreign currency translation reserve	465,372	391,289
	1,440,661	**1,217,378**
Movements:		
Share-based payments reserve		
Balance 1 July	826,089	655,397
Option expense	149,200	170,692
Balance 30 June	**975,289**	**826,089**
Foreign currency translation reserve		
Balance 1 July	391,289	307,764
Currency translation differences arising through the year	74,083	83,525
Balance 30 June	**465,372**	**391,289**

	Consolidated 2011 $	Consolidated 2010 $
(b) Accumulated losses		
Movements in accumulated losses were as follows:		
Balance 1 July	(26,519,807)	(25,299,750)
Net loss for the year	(3,081,084)	(1,220,057)
Balance 30 June	**(29,600,891)**	**(26,519,807)**

(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 20 – DIVIDENDS

No dividends were paid or declared since 30 June 2011 and the directors do not recommend the payment of a dividend.

NOTE 21 – KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation

	Consolidated 2011 $	Consolidated 2010 $
Short-term employee benefits	1,357,833	1,440,934
Post-employment benefits	56,871	59,611
Share-based payments	78,488	135,743
	1,493,192	**1,636,288**

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.

(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.

2011	Balance at the start of the year	Granted during the year as compens-ation	Exercised during the year	Expired during the year	Balance at the end of the year	Vested and exercisable at the end of the year
Directors of AtCor Medical Holdings Ltd						
D O'Dwyer (Chairman)	400,000	–	–	–	400,000	400,000
D R Ross (CEO)	4,500,000	–	–	(2,000,000)	2,500,000	2,000,000
M O'Rourke	200,000	–	–	–	200,000	200,000
P Jenkins	200,000	–	–	–	200,000	200,000
D.L Brookes	200,000	–	–	–	200,000	200,000
Other key management personnel of the Group						
P Manley	1,175,000	300,000	–	(500,000)	975,000	466,667
D Kurschinski	2,150,000	300,000	–	–	2,450,000	1,741,667
M Harding	700,000	200,000	–	–	900,000	333,334

2010						
Directors of AtCor Medical Holdings Ltd						
D O'Dwyer (Chairman)	–	400,000	–	–	400,000	–
D R Ross (CEO)	4,500,000	–	–	–	4,500,000	3,166,667
M O'Rourke	–	200,000	–	–	200,000	–
P Jenkins	–	200,000	–	–	200,000	–
D.L Brookes (appointed 4 Nov 08)	–	200,000	–	–	200,000	–
Other key management personnel of the Group						
P Manley	1,025,000	150,000	–	–	1,175,000	741,667
D Kurschinski	1,900,000	250,000	–	–	2,150,000	1,216,667
M Harding	300,000	400,000	–	–	700,000	100,000

(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 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
2011				
Directors of AtCor Medical Holdings Ltd				
Ordinary shares				
D O'Dwyer (Chairman)	1,940,012	–	510,636	2,450,648
D.R Ross (CEO)	992,000	–	277,719	1,269,719
M O'Rourke	9,565,788	–	812,275	10,378,063
P.R Jenkins	893,766	–	148,961	1,042,727
D.L Brookes	500,000	–	158,257	658,257
Other key management personnel of the Group				
Ordinary shares				
P Manley	100,000	–	116,667	216,667
D Kurschinski	350,254	–	58,268	408,522
M Harding	240,000	–	40,000	280,000
2010				
Directors of AtCor Medical Holdings Ltd				
Ordinary shares				
D O'Dwyer (Chairman)	1,940,012	–	–	1,940,012
D.R Ross (CEO)	992,000	–	–	992,000
M O'Rourke	9,565,788	–	–	9,565,788
P.R Jenkins	893,766	–	–	893,766
D.L Brookes	500,000	–	–	500,000
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	–	30,000	240,000

(c) Other transactions with key management personnel

(i) The Group was party to an exclusive license agreement with Eastern Medical Testing Service Inc (EMTS Inc) over a US patent (US Patent number 5,265,011) until November 2010 when the patent expired. EMTS Inc is a company controlled by an associate of a director, M O'Rourke. The license agreement contained a royalty scheme under which payments were calculated by reference to the amount of net sales revenue made by the Group from the sale of products incorporating the US Patent.

(ii) 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 2011 is $172,772 (2010: $167,740)

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

	2011 $	2010 $
Amounts recognised as expense		
Royalty	64,055	113,870
Consulting fees	172,772	167,740
	236,827	**281,610**

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

	2011 $	2010 $
Current liabilities	**14,398**	**224,739**

NOTE 22 – 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	
	2011 $	2010 $
Audit services		
PricewaterhouseCoopers Australian firm		
Audit and review of financial reports and other audit work under the Corporations Act 2001	100,000	101,697
Other assurance services		
PricewaterhouseCoopers Australian firm		
Audit of Commercial Ready grant	–	6,695
Total remuneration for assurance services	**100,000**	**108,392**

NOTE 23 – CONTINGENCIES

(a) Contingent liabilities

No contingent liabilities exist at this time.

(b) Contingent assets

No contingent assets exist at this time.

NOTE 24 – COMMITMENTS

(a) Lease commitments : Group as lessee

	Consolidated 2011 $	Consolidated 2010 $
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	105,189	146,446
Later than one year but not later than five years	330,858	32,445
More than five years	43,154	–
	479,201	**178,891**

NOTE 25 – 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 26.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 21 and in the remuneration report within the Directors' Report.

NOTE 26 – 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 ** 2011 %	Equity holding ** 2010 %
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 27 – 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 28 – EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

No matter or circumstance has arisen since 30 June 2011 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 29 – RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASHFLOW FROM OPERATING ACTIVITIES

	Consolidated	
	2011 $	2010 $
Loss for the year	**(3,081,084)**	**(1,220,057)**
Depreciation and amortisation	152,789	165,834
Assets written off	–	37,375
Non-cash employee benefits expense – share-based payments	149,200	170,692
Exchange difference	74,083	83,525
Change in operating assets and liabilities:		
Decrease/(Increase) in trade and other receivables	738,160	(50,391)
Decrease/(Increase) in inventories	3,340	139,057
Decrease/(Increase) decrease in other operating assets	13,832	(813,986)
(Decrease)/Increase in trade and other payables	37,665	(1,077,211)
(Decrease)/Increase in other provisions	17,011	(13,389)
Net cash outflow from operating activities	**(1,895,004)**	**(2,578,551)**

NOTE 30 – EARNINGS PER SHARE

	Consolidated 2011 cents	Consolidated 2010 cents
(a) Earnings per share		
Basic earnings per share	(2.6)	(1.2)
Diluted earnings per share	(2.6)	(1.2)
(b) Reconciliations of earnings used in calculating earnings per share		
Basic earnings per share		
Loss from continuing operations	(3,081,084)	(1,220,057)
Diluted earnings per share		
Loss from continuing operations attributable to the ordinary equity holders of the company used in calculating basic earnings per share	(3,081,084)	(1,220,057)

	Consolidated 2011 Number	Consolidated 2010 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	120,973,119	100,233,493
Adjustments for calculation of diluted earnings per share:		
Options	–	–
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	120,973,119	100,233,493

(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 31.

No options granted are included in the calculation of diluted earnings per share because they are not dilutive for the year ended 30 June 2011.

NOTE 31 – 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.

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

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired/ Forfeited during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
Consolidated and parent entity – 2011								
9 Nov 2005	9 Nov 2010	$0.50	500,000	–	–	(500,000)	–	–
8 May 2006	8 May 2011	$0.50	2,000,000	–	–	(2,000,000)	–	–
22 Sep 2006	22 Sep 2011	$0.50	1,345,000	–	–	–	1,345,000	1,345,000
14 Dec 2006	14 Dec 2011	$0.50	500,000	–	–	–	500,000	500,000
22 Aug 2007	22 Aug 2012	$0.15	2,175,000	–	–	–	2,175,000	2,175,000
14 Nov 2007	14 Nov 2012	$0.15	1,000,000	–	–	–	1,000,000	1,000,000
22 Aug 2008	22 Aug 2013	$0.12	1,500,000	–	–	(200,000)	1,300,000	866,667
4 Nov 2008	4 Nov 2013	$0.13	3,220,000	–	–	–	3,220,000	2,146,666
20 Aug 2009	20 Aug 2014	$0.165	400,000	–	–	–	400,000	133,334
21 Oct 2009	21 Oct 2013	$0.215	1,000,000	–	–	–	1,000,000	1,000,000
18 Feb 2010	18 Feb 2015	$0.164	625,000	–	–	–	625,000	208,334
1 Mar 2010	1 Mar 2015	$0.164	150,000	–	–	–	150,000	50,000
17 Feb 2011	17 Feb 2016	$0.12	–	1,895,000	–	–	1,895,000	–
Total			**14,415,000**	**1,895,000**	**–**	**(2,700,000)**	**13,610,000**	**9,425,001**
Weighted average exercise price			$0.25	$0.12		$0.47	$0.19	

Grant Date	Expiry date	Exercise price	Balance at start of the year Number	Granted during the year Number	Exercised during the year Number	Expired/ Forfeited during the year Number	Balance at end of the year Number	Exercisable at end of the year Number
Consolidated and parent entity – 2010								
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	–	–	(445,000)	1,345,000	1,345,000
14 Dec 2006	14 Dec 2011	$0.50	500,000	–	–	–	500,000	500,000
22 Aug 2007	22 Aug 2012	$0.15	2,675,000	–	(333,333)	(166,667)	2,175,000	1,450,000
14 Nov 2007	14 Nov 2012	$0.15	1,000,000	–	–	–	1,000,000	666,667
22 Aug 2008	22 Aug 2013	$0.12	1,500,000	–	–	–	1,500,000	500,001
4 Nov 2008	4 Nov 2013	$0.13	3,535,000	–	(58,334)	(256,666)	3,220,000	1,073,338
20 Aug 2009	20 Aug 2014	$0.165	–	400,000	–	–	400,000	–
21 Oct 2009	21 Oct 2013	$0.215	–	1,000,000	–	–	1,000,000	–
18 Feb 2010	18 Feb 2015	$0.164	–	625,000	–	–	625,000	–
1 Mar 2010	1 Mar 2015	$0.164	–	150,000	–	–	150,000	–
Total			**13,500,000**	**2,175,000**	**(391,667)**	**(868,333)**	**14,415,000**	**8,035,006**
Weighted average exercise price			$0.27	$0.19			$0.25	

200,000 options were forfeited during 2011 (2010: 863,333) and 2,500,000 options expired (2010: nil) in the same period whilst no options were exercised (2010: 391,667).

The weighted average remaining contractual life of share options outstanding at the end of the period was 3.3 years (2010 – 3.3 years).

In addition to options granted to employees and directors, 2,000,000 options were granted to Taycol Nominees Pty Limited as part remuneration for successfully managing and underwriting a capital placement and rights issue during the financial year. The options were issued with an exercise price of $0.091, a 30% premium to the share issue price. The options vest in 12 months and expire on 2 December 2013.

Fair value of options granted

The weighted average assessed fair value at grant date of options granted during the year ended 2011 was 4.2 cents per option (2010 – 6.8 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 2011 included:

(a) 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

(b) ave exercise price: $0.12 (2010 – $0.19)

(c) expiry date: 5 years from grant date (2010 – 4&5 years from grant date)

(d) Ave share price at grant date: $0.10 (2010 – $0.17)

(e) expected price volatility of the company's shares: 60% (2010 – 60%)

(f) expected dividend yield: nil% (2010 – nil%)

(g) risk-free interest rate: 4.76% (2010 – 5.00%).

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	
	2011 $	2010 $
Options issued under employee option plan	149,200	170,692

NOTE 32 – PARENT ENTITY FINANCIAL INFORMATION

(a) Summary financial information

The individual financial statements for the parent entity show the following aggregate amounts:

	2011 $	2010 $
Balance sheet		
Current assets	1,056,880	1,181,903
Total assets	37,879,706	37,491,688
Current liabilities	4,283,768	5,362,837
Total liabilities	4,283,768	5,362,837
Shareholders equity		
Issued capital	37,649,642	35,496,484
Reserves – Share based payments	975,290	826,089
Retained earnings	(5,028,994)	(4,193,722)
	33,595,938	32,128,851
Loss for the year	(835,271)	(1,206,463)
Total comprehensive income	(835,271)	(1,206,463)

(b) Guarantees entered into by the parent entity

No guarantees have been entered into by the parent entity during 2011 or 2010

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2011 or 30 June 2010.

(d) Contractual commitments

The parent entity has no contractual commitments as at the date of this report.

DIRECTOR'S DECLARATION For the year ended 30 June 2011

In the directors' opinion:

(a) the financial statements and notes set out on pages 25 to 53 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 consolidated entity's financial position as at 30 June 2011 and of its 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

Note 1(a) confirms that the financial statements also comply with the International Financial Reporting Standards as issued by the International Accounting Standards Board.

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
26 August 2011

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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 2011, and the statement of comprehensive income, statement of changes in equity and the cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Atcor Medical Holdings Limited Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

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.

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

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

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Independent auditor's report to the members of Atcor Medical Holdings Limited (continued)

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 consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

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

(b) the financial report and notes also complies 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 12 to 20 of the directors' report for the year ended 30 June 2011. 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 2011, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Mark Dow
Partner

Sydney
August 2011

The shareholder information set out below was applicable as at 8 September 2011.

A. DISTRIBUTION OF EQUITY SECURITIES

Analysis of numbers of equity holders by size of holding:

	HOLDINGS DISTRIBUTION	
	No. of holders	Securities
1 to 1,000	31	6,560
1,001 to 5,000	103	397,053
5,001 to 10,000	46	395,583
10,001 to 100,000	192	8,664,041
100,001 and Over	147	124,635,374
Total	**519**	**134,098,611**

There were 141 holders of less than a marketable parcel of ordinary shares.

B. EQUITY SECURITY HOLDERS

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

	No. of shares	%
Capital Investment Pty Ltd	21,499,014	16.03%
UBS Nominees Pty Ltd	10,441,938	7.79%
National Nominees Limited	7,075,526	5.28%
Pehila Pty Ltd <O'Rourke Superannuation Fund>	6,767,611	5.05%
J P Morgan Nominees Australia Limited	6,665,862	4.97%
Michael O'Rourke	3,398,701	2.53%
Dinwoodie Investments Pty Ltd <Dinwoodie Investments A/C>	2,633,334	1.96%
Dr Russell Kay Hancock	2,000,001	1.49%
Barrijag Pty Ltd <The Hadley S/F A/C>	2,000,000	1.49%
Towns Corporation Pty Ltd <Pae Family A/C>	1,950,000	1.45%
Calama Holdings Pty Ltd <Mambat Super Fund A/C>	1,750,000	1.31%
Octifil Pty Ltd	1,731,431	1.29%
Barrijag Pty Ltd <The Hadley Super Fund A/C>	1,381,250	1.03%
Mrs Susan Hadley	1,300,000	0.97%
Asset Selection Advisors Pty Ltd	1,300,000	0.97%
Grinch Nominees Pty Ltd <Grinch A/C>	1,290,000	0.96%
Carnethy Evergreen Pty Ltd <Carnethy Evergreen Fund A/C>	1,225,000	0.91%
Jens-ole Dines Larsen & Janthine Elizabeth Larsen <Larseb Superannuation Fund>	1,157,758	0.86%
Dundrum Investments <O'Dwyer Family A/C>	1,137,500	0.85%
Drumnadrochit Futures Pty Ltd	1,133,334	0.85%
Taycol Nominees Pty Ltd	1,113,884	0.83%
Total	**78,952,144**	**58.88%**

Unquoted equity securities

	No. on issue	No. of holders
Options issued under the AtCor Medical Holdings Employee Share Option Plan to take up ordinary shares	15,610,000	25

C. SUBSTANTIAL HOLDERS

Substantial holders in the company are set out below:

	No. of shares held	Percentage of issued shares
Capital Investment Pty Ltd	21,499,014	16.03%
UBS Nominees Pty Ltd	10,441,938	7.79%
National Nominees Limited	7,075,526	5.28%
Pehila Pty Ltd <O'Rourke Superannuation Fund>	6,767,611	5.05%

D. VOTING RIGHTS

The voting rights attaching to each clas 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	Non-Executive Chairman BEng, MBA
Mr Duncan Ross	CEO and Managing Director, BS
Dr Michael O'Rourke	Non-Executive Director MD, DSc
Mr Peter Jenkins	Non-Executive Director DSc (honorary)
Dr David Brookes	Non-Executive Director MBBS FACRRM

SECRETARY

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

PRINCIPAL REGISTERED OFFICE IN AUSTRALIA

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West Ryde NSW 2114

SHARE AND DEBENTURE REGISTER

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AUDITOR

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Darling Park Tower 2
201 Sussex Street
GPO Box 2650
Sydney NSW 1171

SOLICITORS

Dibbs Barker
Lvl 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