AtCor MEDICAL

Essential for hypertension management

ANNUAL REPORT 2016

ATCOR MEDICAL HOLDINGS LIMITED

CONTENTS

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 on pages 4 to 6 and in the directors' report on pages 8 to 18, both of which are not part of this financial report. The financial report was authorised for issue by the directors on 30 August 2016. 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 Group. All press releases, financial reports and other information are available at our Investors section on our website – **atcormedical.com**.

CHAIRMAN'S LETTER TO SHAREHOLDERS

"Our growth strategy is focused on the US clinical practice market."

Dear Shareholder,

AtCor is the pioneer of a breakthrough technology, SphygmoCor, which measures central blood pressure. This system provides doctors with detailed information including actual blood pressure at the heart and measures of arterial stiffness.

In FY2016 we achieved a significant milestone when the value of this information was recognised by the US Centres of Medicare and Medicaid Services, which provided a CPT1 code enabling reimbursement, and determined the appropriate fee to pay doctors allowing for factors including time to perform the service and adjustments for practice costs across different geographic areas.

Our strategy to increase awareness of the code and the benefits for doctors and their patients has greatly expanded the geographical coverage of reimbursement, adding national, state and private health plans including seven of the twelve US Medicare regions. We are encouraged by the initiation of reimbursement through several private health plans. The majority of the US population is covered through private insurance and today over 30 per cent of this market reimburses the SphygmoCor test and the proportion is increasing.

It is widely recognised that the US spends more on healthcare than other developed nations. According to the Organisation for Economic Co-operation and Development (OECD), the US spends 16.4% of GDP on healthcare. Recently there has been a transition by insurers toward incentivising improved quality of delivery and health outcomes. These include industry consortia such as the Health Care Transformation Task Force which is moving an increasing proportion of its provider and payer members' business into value-based payment arrangements.

We believe that as hospitals, doctors and other healthcare providers prepare for change this will favour increasing use of AtCor's SphygmoCor which is the recognised gold standard in central blood pressure measurement.

Our core growth strategy is focused on the US clinical practice market and as a hypertension company we have positioned SphygmoCor as an essential device for effective hypertension management. This is resonating as it provides a new, innovative solution to doctors and payers as they work together to more effectively manage this high cost disease state. SphygmoCor enables doctors to identify costly disease earlier, manage hypertension and related disorders more effectively and achieve measurable results. Measurable health outcomes and reduced costs will assist clinical practices to meet insurers' changing incentives programs, providing a powerful economic rationale to integrate SphygmoCor into their patient care systems.

While our prospects in the clinical practice market have been transformed, sales to the pharmaceutical sector were disappointing due to two clinical trials with a major pharmaceutical company not proceeding and AtCor reported a loss for the year. However, we have focused resources on our significant growth opportunity, and with growing clinical sales have already seen momentum in this market.

Key opinion leaders are increasing positive advocacy for SphygmoCor and more than 4,000 SphygmoCor systems are now used in clinical practice, clinical research and pharmaceutical clinical trials worldwide. We continue to invest in research and development to improve our products, and received increased patent protection in the USA and Japan.

We were delighted to welcome King Nelson to the Board in November 2015. He brings a wealth of experience across multinational medical device organisations and innovative medical technology companies leading to three successful transactions, and makes a valuable contribution to our growth strategy. Peter Jenkins, who worked with Colonial First State as one of the original investors in AtCor, has retired from the Board, and we pay tribute to his significant contribution over 16 years.

With our strong opportunity we have expanded our US sales team attracting top talent. I would like to thank our staff for their hard work and dedication. I would also like to thank our shareholders for their support.

Looking ahead, we remain optimistic about the company's growth prospects, and are excited by the opportunities ahead as we continue to build our sales in the clinical practice market.

Donal O'Dwyer
Sydney, Australia

30 August 2016

SphygmoCor gold standard technology is delivered on three distinct product platforms

SphygmoCor XCEL series

Oscar 2 *with SphygmoCor inside*

SphygmoCor EM series

KEY EVENTS IN 2016

CMS COVERS SPHYGMOCOR TEST

The Centers for Medicare and Medicaid Services (CMS) published the code description and valuation for CPT category 1 code 93050 which covers the SphygmoCor test. A national average payment of US$17.91 was assigned for the test, in line with other similar reimbursed procedures.

BRACHIAL CUFF PATENTS AWARDED

Patent protection for a new patent ‘Brachial Cuff’ was awarded in both USA and Japan. This confers intellectual property rights to AtCor until May 2031 in USA and November 2032 in Japan.

US FDA CLEARANCE FOR OSCAR2

Oscar2 with SphygmoCor Inside was granted clearance by US FDA to be marketed in USA in March 2016. This allows AtCor and SunTech Medical, Inc. as joint developers to sell the product in USA as they can already in Europe, Canada, Australia, New Zealand and selected Asian countries. This innovation allows central aortic pressures to be measured over a 24 hour period.

NINE PRIVATE HEALTH PLANS REIMBURSING SPHYGMOCOR

There are now nine private health plans confirmed as reimbursing SphygmoCor, including five Blue Cross Blue Shield plans. Combined with Medicare and Medicaid regions this means 126 million people or 43% of the US insured population is now covered for the SphygmoCor test. Private health plans on average reimburse at a higher rate than Medicare.

LETTER FROM THE CHIEF EXECUTIVE OFFICER

The US CPT-1 code and the fast rate to date of insurance carriers' initiating reimbursement has substantially derisked AtCor's business.

Dear Shareholder,

The 2016 financial year was a breakthrough year for AtCor Medical which validated work over a decade by AtCor and key opinion leader physicians to establish the SphygmoCor system and the measures it provides of central aortic blood pressures, central waveform analysis and arterial stiffness as clinically important medical tests. Within the US, AtCor's most important market, these efforts culminated in the US Centres for Medicare and Medicaid Services adding CPT-1 (Common Procedural Terminology) code 93050, which covers the SphygmoCor test, to its physicians' fee schedule in January 2016. This opened the way for equitable reimbursement for doctors who prescribe and perform the test on their patients.

A CPT-1 code is the highest-level procedural code available in the United States. It is reserved for medical procedures that have both proven clinical efficacy and received widespread support from medical societies for their use in clinical practice. The new code represents the basis for widespread clinical adoption of SphygmoCor in the US$900m clinical practice market.

Medicare, which covers over 55 million retirees, has commenced reimbursement in many of its geographic regions, and the remaining regions are expected to follow. In addition to Medicare, many State-based Medicaid plans, which help low-income individuals and families, and a number of regional and national private insurance plans have also commenced reimbursement. We are especially enthused by the strong support of the private insurance market, which encompasses over 200 million of the 290 million insured lives in the US. Private plan acceptance is well ahead of management expectations and at July 2016, two large national private plans and seven regional private plans had commenced reimbursement. This is a very positive indicator and our progress ensures that over 126 million patients, or 43% of the insured population, in the US now have reimbursed access to our test. Further private plans are expected to commence reimbursement throughout FY2017 and they are reimbursing the test on average at a higher rate than Medicare.

Plan type	Covered lives
Medicare	26,713,702
Medicaid (24 states)	35,983,459
National private health plans	51,470,039
Blue Cross plans (5)	8,815,510
Regional private health plans	3,360,064
Total	**126,342,774**

Insured lives as at July 2016.

FAVOURABLE ENVIRONMENT FOR UP-TAKE OF SPHYGMOCOR

Local hospital systems establish hypertension management centres of excellence

Both the US Government, and private health funds, are grappling with spiralling healthcare costs. Premiums for private, non- employer sponsored health plans in some States are now proposed by insurers to rise by up to 40% from 1 January, 2017. For the past four years private health funds have been subsidised by the US government against losses. This was to offset both the number of new patients they were asked to enrol with pre-existing conditions, and the broad spectrum of medical services mandated under the Affordable Care Act (Obamacare). These subsidies expire at the end of 2016 and there is no legislation being put before a Republican-led Congress to extend this portion of the law.

To address this challenge Medicare, private health funds and doctors are under significant economic and political pressure to become more efficient and to accelerate adoption of a preventative, individualised medical care model. This is driving the US healthcare delivery system's transition from a high cost model that addresses late stage disease toward a new, more sustainable model that identifies disease early, allowing clinical problems to be addressed at their most treatable stage at lower cost.

SphygmoCor fully aligns with this objective. Our device, relative to many other cardiovascular devices, is both non-invasive and relatively low cost. Blood pressure measured using brachial or cuff blood pressure varies from the blood pressure at the heart. These 'central' pressures cannot be approximated by simple cuff measurement. The actionable information we produce shows whether an individual is at risk or not; whether intervention is required; and if a patient is already under treatment, whether the right drug or drug combination has been selected.

It is estimated that the combined direct and indirect cost to the US economy of hypertension and its related disease states such as stroke and heart failure is US$700 billion per annum. As the disease category which consumes the highest level of spending it is the payers' top target for savings.

Most payers offer financial incentives and impose penalties which impact doctors managing patients with high-cost disease states. One example is the Centres for Medicare and Medicaid Services' Million Hearts Program, which is a national program to prevent 1 million heart attacks and strokes over the next five years. This provides doctors incentive payments for reaching specific blood pressure management goals.

Several flagship hospital systems have refocused to prioritise hypertension management, creating hypertension centres of excellence in their facilities. This represents an opportunity for AtCor, and Emory University Healthcare and the Minneapolis Heart Institute are already incorporating SphygmoCor into their diagnosis and treatment practices. The 2016 – 2017 US News and World Report top 20 Hospitals Honour Roll are all SphygmoCor users.

TARGETING THE US CLINICAL MARKET

Following confirmation of Medicare reimbursement in February and March 2016, AtCor commenced a targeted, geographic sales roll out focused in four metropolitan areas to prove out a best practices model to penetrate the US clinical market. During the year, AtCor expanded its sales team for the US clinical market from two to four sales representatives, securing high-quality, experienced personnel.

Appointments included a US Marketing Director and a Vice-President of Clinical Sales who joined us from St Jude Medical, a leading medical device innovator in February. We also appointed the aforementioned sales representatives in the fourth quarter who joined us from leading medical device manufactures St. Jude Medical and Zoll Medical. Our new staff undergo a comprehensive technical and product education program, enabling them to explain the competitive advantages of our technology and the benefits for doctors and patients. We also engaged consulting groups expert in securing private and government reimbursement.

This resulted in the sale of 25 SphygmoCor units to clinical practices in the April quarter, the first full quarter of sales after reimbursement was confirmed which was in line with expectations and more than double the pcp. Sales are expected to increase substantially in FY2017as our new representatives become fully productive and increase doctors' awareness of SphygmoCor, favourable reimbursement and the benefits for patients under their care.

At the current stage of market development, we have set a goal for each fully trained and effective representative to sell or lease on average four systems per month. In addition, we plan to expand our presence beyond the initial four metropolitan areas once the sales model is fully implemented. Locations for expansion will be determined by a targeted geography's total number of reimbursed lives for our test.

FY2016 REVIEW

AtCor's FY2016 sales were $5.02 million. While this was 8.3% lower than the previous corresponding period (pcp), we were encouraged by a stronger second half, and second half sales were up 29% compared to the pcp, at $3.34 million. Clinical unit sales and leases increased in the second half, with 2H2016 sales more than 120% greater than 1H2016. Asia Pacific sales increased 11.8% compared to the pcp.

Despite some expected pharmaceutical contracts not being realised, pharmaceutical-sector sales increased 8.2% compared to the pcp. While we are now focused on generating strong growth in the US clinical segment, this is still an important sector and we continue to pursue opportunities across a range of disease states.

Sales to US research organisations decreased as government-funded studies were lower, and the European business which is largely publicly funded, experienced order delays in June, which is usually our strongest sales month. However, these operations have had a solid start to the year in FY2017.

Gross margin was 78.4%, down from 83.4% in the pcp. Margins are expected to increase to above 80% in FY2017. Expenses grew 25% compared to the pcp, reflecting the addition of new US sales and marketing staff and consulting expenses associated with the reimbursement-related roll-out in the US. The loss after income tax was $4.8 million, compared to a loss of $1.4 million in FY2015. Realised and unrealised foreign exchange gains of $0.1 million were recorded compared to $1.0m gain in FY2015.

Cash at 30 June was $1.78 million, compared to $3.45 million at 30 June 2015.

BUILDING THE BUSINESS – INCREASING AWARENESS, ADOPTION AND FUTURE APPLICATIONS

The US CPT-1 code and the fast rate to date of insurance carrier's initiating reimbursement has substantially derisked AtCor's business. As our technology transitions from the innovation phase to the growth phase, the vast majority of AtCor's strategic and financial opportunity is ahead. Availability of the code ensures that over $1 billion of the global US$2 billion potential market for our products and services is now open to AtCor.

Our SphygmoCor technology has widespread potential beyond its current applications in the clinical hypertension management, research and pharmaceutical markets. With the CPT1 code in place and increased awareness of the importance of central blood pressures, AtCor is accelerating business development opportunities with several international medical technology companies. We have considerable opportunity to expand the role of our technology in areas such as heart failure and cognitive function.

One example is shown by the results of a randomized controlled trial conducted by the Mayo Clinic and the University of Arizona. This showed substantial improvement in heart failure patients who had their medications managed using SphygmoCor compared to traditional cuff blood pressure. Management by SphygmoCor resulted in a 20% improvement in patients' peak oxygen capacity.

Further trial work has been completed to determine the heart failure patients that will best respond to more aggressive drug treatment. The metrics provided by our central aortic waveform have helped Mayo Clinic to identify targets for treatment, and a new paper has been submitted to an international journal for publication. Heart failure is a significant market, with total direct and indirect annual economic costs in the US alone estimated at US$32 billion. Increasing the effectiveness of treatment at lower cost is a major target for both health insurers and providers.

Another potential market for SphygmoCor is renal denervation, which is a new treatment for severe, uncontrolled hypertension. This requires an invasive procedure and early trial work by large medical device companies has received mixed reviews. The US FDA is keen to understand whether patients will respond to treatment before the procedure is cleared for clinical use. . The latest research suggests that measures of arterial stiffness provided by SphygmoCor will be able to guide which patients should be selected for treatment. We anticipate announcement of our first confirmatory trial with a large medical device company in the near future.

Turning to a further application, there is now strong evidence that the central waveform at the heart is very similar to the waveform impacting the brain. SphygmoCor is the recognized gold standard in carotid-femoral pulse wave velocity (PWV), and this measurement has shown in early published trial work that once a patient is diagnosed with Alzheimer's disease, the rate at which a patient will progress is directly related to their rate of PWV. Further cognitive applications are under investigation, and AtCor recently signed its second ARC Linkage grant with researchers at Macquarie University to jointly collaborate on this endeavour.

We have also begun trial work with a partner to use SphygmoCor technology in medical-grade home applications, such as heart failure patient monitoring.

INTELLECTUAL PROPERTY

AtCor's application for the patent covering its process for capturing and deriving central pressure waveforms using a blood pressure cuff at the arm was accepted in both Japan and USA, and gives AtCor protection until 2031. An application is in progress for selected European countries. AtCor currently has eight patents and two pending protecting various aspects and applications of its technology.

OSCAR 2 WITH SPHYGMOCOR INSIDE

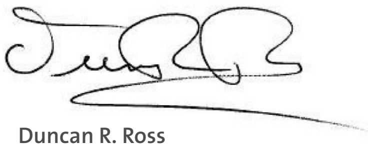
The jointly developed Oscar 2 with SphygmoCor inside ambulatory blood pressure monitoring device was reviewed by the US Food and Drug Administration (FDA) and cleared for sale in USA. This product is available for sale in USA, Canada, European Union, Australia and various Asian countries. In FY 2016 AtCor alone sold over 60 systems, a very good start.

IN CLOSING

We are very encouraged by our initial growth in clinical sales, take up by leading regional health systems and the strong interest by many more currently in the sales process. Key opinion leader support is strong and growing, and publications concerning the benefits of managing patients using central aortic pressure measurements continue to be published. Our clinical sales opportunities under management are on a solid growth trajectory.

The AtCor team is highly motivated to succeed and squarely focused on delivering on our large US clinical market opportunity. AtCor's gold standard technology is on its way to becoming the essential tool in hypertension management. We would like to thank you, our investors, for making this opportunity possible as we continue to seek ways to maximise shareholder value. These are exciting times for AtCor Medical. We look forward to keeping you apprised of our progress and sincerely thank you for your continued support.

Sincerely,



Duncan R. Ross
Chicago, Illinois USA

30 August 2016

EXPERIENCES FROM NEW SPHYGMOCOR CLINICAL USERS

I recently incorporated SphygmoCor into my hypertension practice and I have been very pleased with the results. I have found the SphygmoCor system to be clinically valuable for total hypertension management. It provides important additional information that has already helped me make better treatment decisions for my patients. As the first in our region to offer this new technology, I will soon begin educating our referring physicians on SphygmoCor for advanced hypertension management.

Ricardo Cordido, MD
Founder
HeartCare Associates of Connecticut

I have been using SphygmoCor in my Preventive Cardiology practice for over a year, and it is an integral component of my cardiovascular risk assessment. The information derived contributes directly to the management of my patients with hypertension, as well as pre-hypertension, allowing me to quickly assess the effects of treatment and lifestyle changes. Showing these easy to understand reports to my patients is both educational and extremely valuable in promoting patient compliance and retention. Knowing that the outcomes data associated with the derived values obtained from the measurements are based on robust and validated clinical science is beyond reassuring. As one of the first clinical practices to offer SphygmoCor testing in New York City, I have been able to promote our practice as a leader in hypertension and preventive cardiovascular management. I feel that SphygmoCor is a key component that differentiates my practice from other competitors.

Lee Marcus, MD, MS, FACC
Founder
Preventive Cardiology of New York

SphygmoCor continues to be a valuable tool in all 20 top hospitals in USA

BEST HOSPITALS U.S.News & WORLD REPORT HONOR ROLL 2016-17

1. Mayo Clinic, Rochester, MN | 2. Cleveland Clinic, Cleveland, OH | 3. Massachusetts General Hospital, Boston, MA | 4. Johns Hopkins Hospital, Baltimore, MD | 5. UCLA Medical Center, Los Angeles, CA | 6. New York-Presbyterian University Hospital of Columbia and Cornell, New York, NY 7. UCSF Medical Center, San Francisco, CA | 8. Northwestern Memorial Hospital, Chicago, IL | 9. Hospitals of the University of Pennsylvania-Penn Presbyterian, Philadelphia, PA | 10. NYU Langone Medical Center, New York, NY | 11. Barnes-Jewish Hospital/Washington University, St. Louis, MO | 12. UPMC Presbyterian Shadyside, Pittsburgh, PA | 13. Brigham and Women's Hospital, Boston, MA | 14. Stanford Health Care-Stanford Hospital Palo Alto, CA | 15. Mount Sinai Hospital, New York, NY | 16. Duke University Hospital, Durham, NC | 17. Cedars-Sinai Medical Center, Los Angeles, CA | 18. University of Michigan Hospitals and Health Centers, Ann Arbor, MI | 19. Houston Methodist Hospital, Houston, TX | 20. University of Colorado Hospital, Aurora, CO.

DIRECTORS' REPORT

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of AtCor Medical Holdings Limited and the entities it controlled at the end of, or during, the year ended 30 June 2016.

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 (retired 13 November 2015)
- D. L. Brookes
- R. K. Nelson (appointed 13 November 2015)

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 $5,019,387 (2015: $5,467,457). The loss for the year after income tax amounted to $4,805,892 (2015: loss of $1,440,177). Further information on the operations and financial position of the Group and its business strategies and prospects is set out in the CEO's report on pages 4 to 6 of this annual report.

Management and the Board continue to monitor the liquidity of the group including assessing alternative revenue sources or other financing options. Further detail on the preparation of the financial report on a going concern basis is set out in Note 1(b) of the financial report.

The Independent Auditor's Report is an unqualified opinion with an emphasis of matter paragraph in respect of material uncertainty associated with going concern.

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

None.

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

All company products comply with the RoHS standard that is a requirement in the European Union. Otherwise 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 63.

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 four other listed public companies: Cochlear Ltd, Mesoblast Ltd, Fisher & Paykel Healthcare Corporation Ltd, and NIB Holdings Ltd.

Former directorships in last three 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: 650,000 options over ordinary shares in AtCor Medical Holdings Limited.
Indirect: 4,529,055 ordinary shares in AtCor Medical Holdings Limited.

Duncan R. Ross BS

Managing Director and CEO. Age 58.

Experience and expertise

Executive director of the Group since November 2006. Over 30 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 three years

None.

Special responsibilities

CEO.

Interests in shares and options

Direct: 3,103,052 ordinary shares in AtCor Medical Holdings Limited.
6,000,000 options over ordinary shares in AtCor Medical Holdings Limited.
Indirect: Nil.

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

Non-executive director. Age 79.

Experience and expertise

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

None.

Special responsibilities

None.

Interests in shares and options

Direct: 450,000 options over ordinary shares in AtCor Medical Holdings Limited.
Indirect: 10,641,396 ordinary shares in AtCor Medical Holdings Limited.

Dr David Brookes MBBS, FACRRM, FAICD

Independent non-executive director. Age 56.

Experience and expertise

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

Other current directorships

Non-executive director and chairman of Reproductive Health Technologies Ltd.

Former directorships in last three years

None.

Special responsibilities

- Chair of audit and risk committee.
- Member of remuneration and nomination committee.

Interests in shares and options

Direct: 174,082 ordinary shares in AtCor Medical Holdings Limited.

450,000 options over ordinary shares in AtCor Medical Holdings Limited.

Indirect: 987,490 ordinary shares in AtCor Medical Holdings Limited.

Mr King Nelson BA, MBA

Independent non-executive director. Age 59.

Experience and expertise

Joined the Board as an Independent Director on 13 November 2015. Has more than 30 years' experience in the medical devices industry. Previously served as President and CEO of Kerberos Proximal Solutions and VenPro. Both businesses were acquired. Prior to this 19 years with Baxter International and American Hospital Supply Corporation, including as a division president.

Other current directorships

President and CEO of Uptake Medical Corporation.

Former directorships in last three years

None.

Special responsibilities

- Chair of remuneration and nomination committee.
- Member of audit and risk committee.

Interests in shares and options

Direct: 450,000 options over 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 2016, and the numbers of meetings attended by each director were:

	Full meetings of directors		Meetings of non-executive directors		Meetings of committees			
					Audit		Remuneration	
	A	B	A	B	A	B	A	B
D. O'Dwyer (Chairman)	9	9	4	4	2	2	2	2
D. R. Ross (CEO)	9	9	*	*	**	**	**	**
M. F. O'Rourke	9	9	4	4	**	**	**	**
P. R. Jenkins (retired 13 November 2015)	4	4	3	3	1	1	1	1
D. L. Brookes	9	9	4	4	2	2	2	2
R. K. Nelson (appointed 13 November 2015)	5	5	1	1	1	1	1	1

A Number of meetings attended
B Number of meetings held during the time the director held office or was a member of the committee during the year
* Not a non-executive director
** Not a member of the relevant committee

RETIREMENT, ELECTION AND CONTINUATION IN OFFICE OF DIRECTORS

- D. O'Dwyer retired by rotation as a director and was re-elected on 13 November 2015.
- P. R. Jenkins retired as a director on 13 November 2015.
- R. K. Nelson sought election and was appointed a director on 13 November 2015.

REMUNERATION REPORT (AUDITED)

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

1. Remuneration principles and key management personnel
2. Non-executive Director remuneration
3. Executive remuneration
4. Equity disclosures
5. Employment agreements.

The information provided 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.

1. REMUNERATION PRINCIPLES AND KEY MANAGEMENT PERSONNEL

1.1 Principles used to determine the nature and amount of remuneration

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.

Non-executive directors' fees are determined within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The pool was increased to $360,000 at the last shareholder meeting (November 2015), excluding share-based payments that are subject to separate shareholder approval.

Executives
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.

1.2 Key management personnel

Non-executive directors

- Donal O'Dwyer – Chairman
- Michael O'Rourke
- David Brookes
- Peter Jenkins (retired 13 November 2015)
- King Nelson (appointed 13 November 2015)

Executives

- Duncan Ross – CEO and Executive Director
- Peter Manley – Chief Financial Officer and Company Secretary
- Doug Kurschinski – Senior Vice President and General Manager, AtCor Medical Inc
- Mark Harding – Vice President, Global Marketing & International Sales, AtCor Medical Pty Ltd

2. NON-EXECUTIVE DIRECTORS

2.1 Directors' fees

The current base remuneration was last reviewed with effect from 1 January 2016. Fees are inclusive of committee fees.

Board fees per annum

- Board chairman $110,000
- Board NED $50,000
- Committee chair $10,000

Superannuation
Superannuation contributions for Australian based NED's are included in the Board fees and are made at a rate of 9.5% of the base fee, as required under the statutory superannuation guarantee.

Share based payments
NED's are not entitled to any performance related remuneration but may receive option or equity grants if approved by shareholders.

2.2 Non-executive director remuneration

	Year	Cash salary and fees $	Super-annuation $	Options $	Total $
Non-executive directors					
D. O'Dwyer (Chairman)	2016	97,858	9,296	28,069	135,223
	2015	92,661	8,571	–	101,232
M. F. O'Rourke	2016	44,324	4,211	19,432	67,967
	2015	42,932	2,568	–	45,500
P. R. Jenkins (retired 13 November 2015)	2016	20,881	1,984	–	22,865
	2015	51,660	3,090	–	54,750
D. L. Brookes	2016	53,234	5,057	19,432	77,723
	2015	50,153	4,639	–	54,792
R. K. Nelson* (appointed 13 November 2015)	2016	37,895	–	19,432	57,327
Total non-executive directors	2016	**254,192**	**20,548**	**86,365**	**361,105**
	2015	**237,406**	**18,868**	–	**256,274**

* R. K. Nelson is paid in US$ as he is based in USA. A rate is agreed at the beginning of each 6 month period. For FY2016 this rate was US$0.7250.

3. EXECUTIVE REMUNERATION

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. No external remuneration advisors were engaged during the financial year. 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 2016, 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 executive and payout (funding) is linked to sales 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.

There is a strong correlation between sales performance and STI payouts, with non-financial targets also being increased or decreased in line and linked with sales outcomes. For FY2016 sales were lower than the previous year and well short of budget in most regions. This resulted in a significantly reduced average STI payout of approximately 5% of target.

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.

Long-term incentives – AtCor Medical Holdings Employee Share Option Plan
Options are issued to executives (including the CEO) with the aim of aligning executive interests with those of shareholders. The proportion of long-term incentives increases with the level of seniority of the executive.

Options are granted under the AtCor Medical Holdings Employee Share Option Plan. 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. Options issued in 2016 were issued with an exercise price set at 10% greater than the 5 day volume weighted average share price at the date of issue.

Voting and comments made at the AtCor Medical Holdings Limited 2015 AGM
AtCor Medical Holdings Limited received a unanimous 'yes' vote on a show of hands and 98% 'yes' votes from proxies for its remuneration report for the 2015 financial year. No comments or specific feedback regarding the Group's remuneration practices were received at the AGM or through the year.

3.1 Executive remuneration

		Fixed remuneration				Variable remuneration			Remuneration proportions		
	Year	Salary and fees $	Short term (Non-monetary benefits) $	Post employ-ment benefits (Super-annuation) $	Sub-total $	Short term (Cash bonus)[2] $	Long term (Share-based payment options)[3] $	Total $	Fixed %	At risk STI %	At risk LTI %
D. R. Ross[1] (CEO)	2016	514,292	29,206	–	543,498	–	59,933	603,431	58	35	7
	2015	425,734	23,839	–	449,573	65,671	68,217	583,461	57	34	9
P. L. Manley	2016	214,720	–	34,687	249,407	–	24,100	273,507	76	17	7
	2015	198,701	739	29,991	229,431	12,605	13,452	257,760	79	16	5
D. T. Kurschinski[1]	2016	373,703	29,206	–	402,909	4,303	33,804	441,016	63	31	6
	2015	315,121	23,724	–	338,845	63,768	21,358	423,971	64	32	4
M. R. Harding	2016	230,630	–	28,846	259,476	18,647	25,822	303,945	65	29	6
	2015	222,165	–	29,808	251,973	15,585	15,411	291,623	66	30	4
Total executive remuneration	2016	**1,333,345**	**58,412**	**63,533**	**1,455,290**	**22,950**	**143,659**	**1,621,899**	**63**	**30**	**7**
	2015	1,161,721	48,302	59,799	1,269,822	157,629	118,438	1,545,889	64	30	6

1 D. R. Ross and D. T. Kurschinski are paid in US$ as they are US-based. Changes in base pay and non-monetary benefits are partly attributable to the weaker AU$ against the US$ through FY16 (Ave rate FY16: 0.7298, FY15: 0.8417).

2 Cash bonus is the amount paid or payable for the respective financial year.

3 This represents the proportional fair value of options on issue not yet vested. Options are valued using a Black-Scholes model as described in Note 30 to the accounts.

3.2 Executives short term incentives

For each cash bonus included in the table on page 14 the percentage of the available bonus that was paid or is due to be paid in the financial year, and the percentage that was forfeited because the person or Group did not meet the service and performance criteria is set out below. No part of the bonus is payable in future years.

	STI potential $	Percentage of base %	Paid %	Forfeited %
D. R. Ross (CEO)	US$225,000	60	0	100
P. L. Manley	$56,117	22.5	0	100
D. T. Kurschinski	US$136,246	50	2	98
M. R. Harding	$116,764	45	16	84

4. EQUITY DISCLOSURES

4.1 Analysis of share based payments granted as remuneration

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.

	Options									Vesting in future years		
	Grant date	Expiry date	Exercise price $	No. intially granted	No. vested during the year	No. vested to date	No. lapsed/ forfeited during the year	Balance at end of year	Intrinisc value at year end[1] $	2017	2018	2019
Non-executive directors												
D. O'Dwyer (Chairman)	Nov15	Nov19	$0.261	650,000	–	–	–	650,000	–	650,000	–	–
M. F. O'Rourke	Nov15	Nov19	$0.261	450,000	–	–	–	450,000	–	450,000	–	–
D. L. Brookes	Nov15	Nov19	$0.261	450,000	–	–	–	450,000	–	450,000	–	–
R. K. Nelson	Oct11	Oct16	$0.261	450,000	–	–	–	450,000	–	450,000	–	–
Executive directors												
D. R. Ross (CEO)	Oct11	Oct16	$0.084	2,500,000	–	2,500,000	–	1,500,000	$61,500	–	–	–
	Oct12	Oct17	$0.084	1,400,000	466,667	1,400,000	–	1,400,000	$57,400	–	–	–
	Oct13	Oct18	$0.181	2,100,000	700,000	1,400,000	–	2,100,000	–	700,000	–	–
	Nov15	Nov20	$0.250	1,000,000	–	–	–	1,000,000	–	333,334	333,333	333,333
Other key management personnel												
P. L. Manley	Aug12	Aug17	$0.075	450,000	150,000	450,000	–	150,000	$7,500	–	–	–
	Aug13	Aug18	$0.139	500,000	166,666	333,333	–	500,000	–	166,667	–	–
	Aug14	Aug19	$0.112	200,000	66,667	66,667	–	200,000	$2,600	66,666	66,667	–
	Aug15	Aug20	$0.256	360,000	–	–	–	360,000	–	120,000	120,000	120,000
D. T. Kurschinski	Feb12	Feb17	$0.098	500,000	–	500,000	–	500,000	$13,500	–	–	–
	Aug12	Aug17	$0.075	1,000,000	333,333	1,000,000	–	850,000	$42,500	–	–	–
	Aug13	Aug18	$0.139	725,000	241,666	483,333	–	725,000	–	241,667	–	–
	Aug14	Aug19	$0.112	275,000	91,667	91,667	–	275,000	$3,575	91,666	91,667	–
	Aug15	Aug20	$0.256	500,000	–	–	–	500,000	–	166,667	166,666	166,667
M. R. Harding	Aug12	Aug17	$0.075	400,000	133,333	400,000	–	133,333	$6,667	–	–	–
	Aug13	Aug18	$0.139	300,000	100,000	200,000	–	300,000	–	100,000	–	–
	Aug14	Aug19	$0.112	450,000	150,000	150,000	–	450,000	$5,850	150,000	150,000	–
	Aug15	Aug20	$0.256	360,000	–	–	–	360,000	–	120,000	120,000	120,000

1 Intrinsic value is the closing share price at 30 June 2016 ($0.125) less the exercise price multiplied by the option balance at year end.

4.2 Exercise of options granted as remuneration

During the year fully paid ordinary shares were issued upon the exercise of options by key management personnel.

	No. of shares	Exercise price $	Total paid $	Intrinsic value[1] $
D. R. Ross	1,000,000	0.084	84,000	51,000
D. T. Kurschinski	150,000	0.075	11,250	27,750
	300,000	0.120	36,000	21,000
M. R. Harding	200,000	0.120	24,000	10,000
Total	**1,650,000**		**155,250**	**109,750**

1 Intrinsic value is the closing share price per ASX on the date of exercise less the exercise price multiplied by the number of options exercised.

4.3 Option movements – FY2016

	Balance at start of the year		Granted during the year		Exercised during the year		Forfeited in year		Balance at end of year	
	No.	Value[1] $	No.	Value[1] $	No.	Value[2] $	No.	Value[2] $	No.	Value[1] $
D. O'Dwyer	–	–	650,000	44,666	–	–	–	–	650,000	44,666
M. F. O'Rourke	–	–	450,000	30,923	–	–	–	–	450,000	30,923
D. L. Brookes	–	–	450,000	30,923	–	–	–	–	450,000	30,923
R. K. Nelson	–	–	450,000	30,923	–	–	–	–	450,000	30,923
D. R. Ross	6,000,000	265,903	1,000,000	86,226	1,000,000	51,000	–	–	6,000,000	324,850
P. L. Manley	850,000	34,200	360,000	35,207	–	–	–	–	1,210,000	69,407
D. T. Kurschinski	2,800,000	101,657	500,000	48,899	450,000	48,750	–	–	2,850,000	134,752
M. R. Harding	1,083,333	45,725	360,000	35,207	200,000	10,000	–	–	1,243,333	68,990

1 This represents the total value of the options over the life of the options from grant date using a Black-scholes valuation method. The amount is allocated against remuneration over the vesting period. (Total allocation vests in 3 equal tranches from the first anniversary of the issue date).

2 Value equals the difference between the exercise price and the closing share price per the ASX on the date of exercise/forfeiture multiplied by the number of options (see table 4.2).

4.4 Key management personnel share movements

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

	Balance at the start of the year	Received during the year on the exercise of options	Other changes during the year	Balance at the end of the year
D. O'Dwyer	4,117,322	–	411,733	4,529,055
M. F. O'Rourke	10,311,396	–	330,000	10,641,396
D. L. Brookes	908,257	–	253,315	1,161,572
R. K. Nelson	–	–	–	–
D. R. Ross	2,103,052	1,000,000	–	3,103,052
P. L. Manley	1,358,334	–	–	1,358,334
D. T. Kurschinski	158,522	450,000	(450,000)	158,522
M. R. Harding	1,091,474	200,000	(474,807)	816,667

5. EMPLOYMENT 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 for the year ended 30 June 2016 of US$380,000 which is reviewed annually by the remuneration committee. Additionally the company contributes to a health plan on the employee's behalf. Value in FY16 – US$21,304.
- Bonus potential – 60% of base salary.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to the six months base salary for the remaining term of the agreement.

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 one year's base salary.

P. L. Manley, Chief Financial Officer

- Term of agreement – permanent. Commenced 28 February 2005
- Base salary, inclusive of superannuation, for the year ended 30 June 2016 of $255,015 which is reviewed annually by the remuneration committee.
- Bonus potential – 25% of base salary.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to the one month base salary for the remaining term of the agreement.

D. T. Kurschinski, Senior Vice President & General Manager, AtCor Medical Inc.

- Term of agreement – permanent. Commenced 12 April 2004
- Base salary for the year ended 30 June 2016 of US$277,179 which is reviewed annually by the remuneration committee. Additionally the company contributes to a health plan on the employee's behalf. Value in FY16 – US$21,304.
- Bonus potential – 50% of base salary.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to one 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 six month's base salary is payable.

M. R. Harding, Vice President, Global Marketing & International Sales, AtCor Medical Pty Ltd.

- Term of agreement – permanent. Commenced 8 September 2008
- Base salary, inclusive of superannuation, for the year ended 30 June 2016 of $263,458 which is reviewed annually by the remuneration committee.
- Bonus potential – 45% of base salary.
- Payment of a termination benefit on early termination by the Company, other than for gross misconduct, equal to the two months base salary for the remaining term of the agreement.

INSURANCE OF OFFICERS

During the financial year, AtCor Medical Holdings Limited paid a premium of $14,950 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 Group. 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 in Note 21 of the audited accounts.

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 C*orporations 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; and
- 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 Group, acting as advocate for the Group or jointly sharing economic risk and rewards..

During the year the fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms. Details are shown in Note 21 of the audited accounts.

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 19.

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

30 August 2016

AUDITOR'S INDEPENDENCE DECLARATION

pwc

Auditor's Independence Declaration

As lead auditor for the audit of AtCor Medical Holdings Limited for the year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. 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.

S Prakash
Partner
PricewaterhouseCoopers

Sydney
30 August 2016

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ANNUAL FINANCIAL REPORT 2016

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STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2016

	Notes	Consolidated 2016 $	Consolidated 2015 $
Revenue from continuing operations			
Revenue from sale of goods and services	5	5,019,387	5,467,457
Other revenue	5	4,221	1,496
Total revenue		**5,023,608**	**5,468,953**
Other income	6	573,222	1,455,765
Expenses from ordinary activities			
Cost of sale of goods		(1,074,301)	(907,180)
Marketing and sales expense		(5,015,102)	(3,680,121)
Product development and regulatory expense		(1,593,312)	(1,623,980)
Occupancy expense		(192,610)	(171,640)
Administration expense		(2,527,397)	(1,981,974)
(Loss) before income tax		**(4,805,892)**	**(1,440,177)**
Income tax expense	8	–	–
(Loss) for the year		**(4,805,892)**	**(1,440,177)**
Other comprehensive (loss)			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		(39,647)	(668,299)
Total comprehensive (loss) for the year		**(4,845,539)**	**(2,108,476)**
Total comprehensive (loss) attributable to members of AtCor Medical Holdings Limited		**(4,845,539)**	**(2,108,476)**

		Cents	Cents
Earnings per share for (loss) attributable to the ordinary equity holders of the company:			
Basic earnings per share	29	(2.4)	(0.9)
Diluted earnings per share	29	(2.4)	(0.9)

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

BALANCE SHEET

As at 30 June 2016

		Consolidated	
	Notes	2016 $	2015 $
ASSETS			
Current assets			
Cash and cash equivalents	9	1,773,950	3,449,943
Trade and other receivables	10	2,109,211	1,548,908
Inventories	11	418,206	539,398
Other	12	81,981	163,862
Total current assets		**4,383,348**	**5,702,111**
Noncurrent assets			
Plant and equipment	13	220,188	251,485
Total noncurrent assets		**220,188**	**251,485**
Total assets		**4,603,536**	**5,953,596**
LIABILITIES			
Current liabilities			
Trade and other payables	14	1,257,834	1,454,345
Provisions	15	125,825	128,976
Total current liabilities		**1,383,659**	**1,583,321**
Noncurrent liabilities			
Provisions	16	79,102	36,282
Total noncurrent liabilities		**79,102**	**36,282**
Total liabilities		**1,462,761**	**1,619,603**
Net assets		**3,140,775**	**4,333,993**
EQUITY			
Contributed equity	17	39,126,899	35,830,567
Reserves	18(a)	1,775,840	1,459,498
Accumulated losses	18(b)	(37,761,964)	(32,956,072)
Total equity		**3,140,775**	**4,333,993**

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

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2016

	Notes	Contributed equity $	Reserves $	Accumulated losses $	Total equity $
Balance at 1 July 2014		32,850,570	1,949,272	(31,515,895)	3,283,947
Loss for the year		–	–	(1,440,177)	(1,440,177)
Other comprehensive income		–	(668,299)	–	(668,299)
Total comprehensive (loss)/income for the year		**–**	**(668,299)**	**(1,440,177)**	**(2,108,476)**
Transactions with equity holders in their capacity as equity holders:					
Capital placement and rights issue (net)	17	2,812,430	–	–	2,812,430
Share options exercised	17	167,567	–	–	167,567
Share options expensed	18	–	178,525	–	178,525
		2,979,997	178,525	–	3,158,522
Balance at 30 June 2015		**35,830,567**	**1,459,498**	**(32,956,072)**	**4,333,993**
Loss for the year		–	–	(4,805,892)	(4,805,892)
Other comprehensive (loss)		–	(39,647)	–	(39,647)
Total comprehensive (loss) for the year		**–**	**(39,647)**	**(4,805,892)**	**(4,845,539)**
Transactions with equity holders in their capacity as equity holders:					
Capital placement and rights issue (net)	17	2,998,068	–	–	2,998,068
Share options exercised	17	298,264	–	–	298,264
Share options expensed	18	–	355,989	–	355,989
		3,296,332	355,989	–	3,652,321
Balance at 30 June 2016		**39,126,899**	**1,775,840**	**(37,761,964)**	**3,140,775**

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 2016

	Notes	Consolidated 2016 $	Consolidated 2015 $
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		4,456,241	5,772,602
Payments to suppliers and employees (inclusive of goods and services tax)		(9,842,529)	(8,200,927)
		(5,386,288)	(2,428,325)
Other revenue		461,916	461,182
Interest received		4,221	1,496
Net cash outflow from operating activities	**28**	**(4,920,151)**	**(1,965,647)**
Cash flows from investing activities			
Payments for plant and equipment		(75,397)	(47,111)
Net cash outflow from investing activities		**(75,397)**	**(47,111)**
Cash flows from financing activities			
Net proceeds from issue of shares		3,296,332	2,979,997
Net cash inflow from financing activities		**3,296,332**	**2,979,997**
Net increase/(decrease) in cash and cash equivalents		**(1,699,216)**	**967,239**
Cash and cash equivalents at the beginning of the financial year		3,449,943	2,168,156
Effects of exchange rate changes on cash and cash equivalents		23,223	314,548
Cash and cash equivalents at end of financial year	**9**	**1,773,950**	**3,449,943**

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 30 June 2016

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. AtCor Medical Holdings Limited is a for-profit entity for the purpose of preparing the financial statements.

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 (IFRS).

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) Basis of going concern

During the year ended 30 June 2016, the Group incurred an operating loss after tax of $4,805,892 (2015: $1,440,177) and net cash outflows from operating activities of $4,920,151 (2015: $1,965,647). As at 30 June 2016, the Group has cash and cash equivalents of $1,773,950 (2015: $3,449,943) and no debt.

In November 2015, the Group successfully achieved CPT1 approval in respect of the SphygmoCor product in the USA and now approximately 43% of insured lives in the US have access to the SphygmoCor test. As a result, the Group has been investing in the sales and business development team and outside consulting to pursue opportunities related to SphygmoCor in the USA. At the date of this report, the Group is in the process of assessing financing opportunities including capital raising initiatives which will be required to improve the liquidity of the Group and enable the Group to continue its operations for a minimum of the next twelve months and pay its debts as and when the fall due.

As a result of these matters, there is a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business. The Group's ability to continue as a going concern and meet its commitments as they fall due is dependent upon the ability of the Group to successfully take appropriate actions including raising capital.

The Group has had a past history of successful capital raising. Additionally, the Group is negotiating supply contracts with large pharmaceutical companies that could provide considerable operating cash that is currently not included in internal budgets. Accordingly, the Directors believe that the Group will be successful in the above and hence, have prepared the financial report on a going concern basis.

c) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

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.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

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 2016 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 acquisition 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

Operating segments are reported in a manner consistent with the internal reporting provided to the Board that is identified as the chief operating decision maker.

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 statement of comprehensive income.

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 statement of comprehensive income 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 other comprehensive income.

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 and accessories

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, including the R&D tax concession, 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 statement of comprehensive income 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.

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 statement of comprehensive income 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 cash 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 statement of comprehensive income.

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 statement of comprehensive income 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 statement of comprehensive income.

q) Intangible assets

i) Patents

Patents 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 over their estimated useful lives. Patents have a useful life of 20 years from grant date.

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 statement of comprehensive income 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 statement of comprehensive income 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 corporate 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 30.

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 Group 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.

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 sheet 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 31, has been prepared on the same basis as the consolidated financial statements.

Tax consolidation legislation

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

Investments in subsidiaries

Investments in subsidiaries are accounted for at cost in the financial statements of AtCor Medical Holdings Limited, less impairment losses.

z) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2016 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 2018 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 will not be adopting AASB 9 early.

ii) AASB 15 Revenue from Contracts with Customers

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118 which covers contracts for goods and services. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The notion of control replaces the existing notion of risks and rewards. The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognise transitional adjustments in retained earnings on the date of initial application i.e. without restating the comparative period. The new rules will only need to be applied to contracts that are not completed as of the initial application. A preliminary assessment has identified recognition of lease revenue as an area that is likely to be affected. At this stage the Group does not believe there will be any material impact on the Group's accounting for revenue. However, the impact on future revenues will be dependent on future revenue contracts and this is yet to be determined. The standard is mandatory for financial years commencing on or after 1 January 2018. The Group will not be adopting AASB15 early.

iii) AASB 16 Leases

Under the new standard issued in February 2016, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has operating lease commitments of $90,608. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows. This standard is mandatory for financial years commencing on or after 1 January 2019. The Group does not intend to adopt the standard before its effective date.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

NOTE 2 – CAPITAL AND FINANCIAL RISK MANAGEMENT

Capital management

The Group's objectives when managing the company's share capital, reserves and accumulated losses, which represents the Group's capital, are to:

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders; and
- sustain future product development.

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 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.

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

	30 June 2016		30 June 2015	
	in USD	in EUR	in USD	in EUR
Trade receivables	106,162	131,970	176,683	152,644
Financial assets	67,925	184,684	342,969	405,572
Trade payables	(40,203)	(16,304)	(87,124)	(25,969)

Sensitivity

Based on the financial instruments held at 30 June 2016, had the Australian dollar weakened/strengthened by 10% against the US dollar with all other variables held constant, the Group's pre-tax result for the year would have varied by $19,983/($17,985) (2015: $62,410/($56,168)). Had the Australian dollar weakened/strengthened by 10% against the Euro with all other variables held constant, the Group's pre-tax result for the year would have varied by $49,655/$44,689 (2015: $85,651/($77,086)).

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

Management has determined the operating segments based on the reports reviewed by the Board of Directors that are used to make strategic decisions. The Board considers the business from a geographical perspective and has identified three reportable segments, which are by geographic area.

Geographic areas are:

- Americas (includes global pharmaceutical trials business)
- Europe (includes Middle East and Africa)
- Asia Pacific (includes Asia and Australia/NZ)

b) Segmental information provided to the Board

	Americas $	Europe $	Asia Pacific $	Inter-segment eliminations/ unallocated $	Consolidated $
2016					
Sales to external customers	3,494,824	659,447	865,116	–	5,019,387
Intersegment sales	–	–	1,581,446	(1,581,446)	–
Total sales revenue	3,494,824	659,447	2,446,562	(1,581,446)	5,019,387
Other revenue/income	–	–	461,916	–	461,916
Total segment revenue/income	**3,494,824**	**659,447**	**2,908,478**	**(1,581,446)**	**5,481,303**
Segment result	(1,457,248)	(18,504)	(3,441,447)	–	(4,917,199)
Unallocated revenue less unallocated expenses					111,307
Loss before income tax					(4,805,892)
Income tax expense					–
Loss for the year					**(4,805,892)**
2015					
Sales to external customers	3,916,888	779,781	770,789	–	5,467,457
Intersegment sales	–	–	1,188,109	(1,188,109)	–
Total sales revenue	3,916,888	779,781	1,958,898	(1,188,109)	5,467,457
Other revenue/income	7,107	–	461,182	–	468,289
Total segment revenue/income	**3,923,995**	**779,781**	**2,420,080**	**(1,188,109)**	**5,935,746**
Segment result	380,004	30,468	(2,875,366)	–	(2,464,894)
Unallocated revenue less unallocated expenses					1,024,717
Loss before income tax					(1,440,177)
Income tax expense					–
Loss for the year					**(1,440,177)**

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.

Segment revenue

Revenues of approximately $1,241,893 (2015: $1,048,273) was derived from one customer. These revenues are attributable to the Americas operating segment.

NOTE 5 – REVENUE

	Consolidated 2016 $	2015 $
From continuing operations		
Sales revenue		
Sale of goods	4,703,077	4,492,967
Sale of services	316,310	974,490
	5,019,387	**5,467,457**
Other revenue		
Interest	4,221	1,496
	5,023,608	**5,468,953**

NOTE 6 – OTHER INCOME

	Consolidated 2016 $	2015 $
R&D tax concession (Note(a))	461,916	461,182
Foreign exchange gains	108,505	987,476
Others	2,801	7,107
	573,222	**1,455,765**

a) R&D tax concession

A refund of $461,916 was received from the Australian Tax Office under the R&D tax concession program in 2016 (2015: $461,182).

NOTE 7 – EXPENSES

	Consolidated 2016 $	2015 $
Loss before income tax includes the following specific expenses:		
Depreciation on plant and equipment	112,688	88,056
Employee benefit expense	6,197,295	5,271,975
Rental expense relating to operating leases	192,610	171,640
Research and development	1,166,044	1,223,658

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	
	2016 $	2015 $
(Loss) from continuing operations before income tax expense	(4,805,892)	(1,440,177)
Tax at the Australian tax rate of 30% (2015: 30%)	(1,441,768)	(432,053)
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Non-assessable income – R&D tax concession	(153,972)	(138,354)
Share based payment	106,797	53,558
Sundry items	445	377
	(1,488,498)	**(516,472)**
Differences in overseas tax rates	352,657	126,259
Benefit of tax losses and temporary differences not recognised	1,135,841	390,213
Income tax expense	–	–

(b) Tax losses

	Consolidated	
	2016 $	2015 $
Unused tax losses for which no deferred tax asset has been recognised:	29,441,668	24,963,763
Potential tax benefit*	9,576,145	7,986,229

* Tax rate varies between different jurisdictions where the Group has operations (Australia and USA).

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(y).

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	
	2016 $	2015 $
Cash at bank and on hand	1,773,950	3,449,943
	1,773,950	**3,449,943**

a) Cash at bank and on hand

These are a combination of non-interest bearing and interest bearing at floating interest rates between 0.0% and 0.5% (2015: 0.0% and 0.5%).

NOTE 10 – CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated	
	2016 $	2015 $
Trade receivables	2,135,043	1,565,168
Less: Provision for doubtful debts (a)	(45,765)	(40,872)
	2,089,278	1,524,296
Other receivables	19,933	24,612
	2,109,211	**1,548,908**

a) Impaired trade receivables

As at 30 June 2016 current trade receivables of the Group with a nominal value of $45,765 (2015: $40,872) were impaired. The amount of the provision was $45,765 (2015: $40,872).

	Consolidated	
	2016 $	2015 $
At 1 July	40,872	52,637
Provision for impairment recognised during the year	44,565	8,454
Receivables written off during the year as uncollectible	(39,672)	(20,219)
	45,765	**40,872**

The creation and release of the provision for impaired receivables has been included in 'marketing and sales expenses' in the statement of comprehensive income. 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 2016, trade receivables of $292,769 (2015: $160,215) 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	
	2016 $	2015 $
0 – 30 days	182,617	58,786
30 – 60 days	403	48,377
> 60 days	109,749	53,052
	292,769	**160,215**

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	
	2016 $	2015 $
Raw materials and stores at cost	313,470	452,033
Finished goods at cost	104,736	87,365
	418,206	**539,398**

Inventories recognised as expense during the year ended 30 June 2016 amounted to $483,147 (2015: $329,514). A charge of $Nil was taken to write-off obsolete inventories in the year ended 30 June 2016 (2015: $Nil).

NOTE 12 – CURRENT ASSETS – OTHER

	Consolidated	
	2016 $	2015 $
Prepayments	54,505	143,351
Other	27,476	20,511
	81,981	**163,862**

NOTE 13 – NON-CURRENT ASSETS – PLANT AND EQUIPMENT

Consolidated	Manufacturing plant and equipment $	Furniture, fittings and equipment $	Devices leased to customers $	Total $
At 1 July 2014				
Cost	496,100	739,166	92,585	1,327,851
Accumulated depreciation	(313,720)	(652,251)	(82,304)	(1,048,275)
Net book amount	**182,380**	**86,915**	**10,281**	**279,576**
Year ended 30 June 2015				
Opening net book amount	182,380	86,915	10,281	279,576
Additions	4,765	42,346	–	47,111
Exchange differences	–	11,623	1,231	12,854
Depreciation charge	(40,389)	(36,155)	(11,512)	(88,056)
Closing net book amount	**146,756**	**104,729**	**–**	**251,485**
At 30 June 2015				
Cost	500,865	793,135	93,816	1,387,816
Accumulated depreciation	(354,109)	(688,406)	(93,816)	(1,136,331)
Net book amount	**146,756**	**104,729**	**–**	**251,485**
Year ended 30 June 2016				
Opening net book amount	146,756	104,729	–	251,485
Additions	7,057	62,732	5,608	75,397
Assets written off (cost)	–	(113,626)	(93,816)	(207,442)
Exchange differences	–	6,189	–	6,189
Depreciation charge	(33,165)	(79,523)	(195)	(112,883)
Depreciation on write-offs	–	113,626	93,816	207,442
Closing net book amount	**120,648**	**94,127**	**5,413**	**220,188**
At 30 June 2016				
Cost	507,922	742,241	5,608	1,255,771
Accumulated depreciation	(387,274)	(648,114)	(195)	(1,035,583)
Net book amount	**120,648**	**94,127**	**5,413**	**220,188**

NOTE 14 – CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated	
	2016 $	2015 $
Trade payables	278,043	567,721
Customer prepayments	99,822	140,417
Employee benefits – annual leave	372,312	316,083
Other payables	507,657	430,124
	1,257,834	**1,454,345**

NOTE 15 – CURRENT LIABILITIES – PROVISIONS

	Consolidated	
	2016 $	2015 $
Current employee benefits – long service leave	**125,825**	**128,976**

The current portion of this liability includes the unconditional entitlements to long service leave where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the provision of $125,825 (2015: $128,976) is presented as current since the Group does not have the unconditional right to defer settlement for any of these obligations. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months.

The following amounts reflect leave that is not expected to be taken or paid within the next 12 months

	Consolidated	
	2016 $	2015 $
	117,245	**128,976**

NOTE 16 – NON-CURRENT LIABILITIES – PROVISIONS

	Consolidated	
	2016 $	2015 $
Employee benefits – long service leave	**79,102**	**36,282**

NOTE 17 – CONTRIBUTED EQUITY

a) Share capital

	2016 No. of shares	2015 No. of shares	2016 $	2015 $
Fully paid ordinary shares	**201,720,539**	**180,879,646**	**39,126,899**	**35,830,567**

(b) Movements in ordinary share capital

Date	Details	No. of shares	Issue price $	Total $
1 July 2014	**Opening balance**	**157,440,279**		**32,850,570**
8 December 2014	Share placement	10,752,700	$0.093	1,000,001
	Less: fees			(12,000)
12 March 2015	Shares issued on exercise of options	22,500	$0.12	2,700
12 March 2015	Shares issued on exercise of options	22,500	$0.098	2,205
12 March 2015	Shares issued on exercise of options	28,333	$0.075	2,125
12 March 2015	Shares issued on exercise of options	21,667	$0.139	3,012
18 March 2015	Shares issued on exercise of options	100,000	$0.12	12,000
18 March 2015	Shares issued on exercise of options	50,000	$0.098	4,900
18 March 2015	Shares issued on exercise of options	175,000	$0.075	13,125
24 March 2015	Shares issued on exercise of options	350,000	$0.098	34,300
24 March 2015	Shares issued on exercise of options	266,667	$0.075	20,000
27 March 2015	Shares issued on exercise of options	300,000	$0.12	36,000
27 March 2015	Shares issued on exercise of options	150,000	$0.098	14,700
27 March 2015	Shares issued on exercise of options	300,000	$0.075	22,500
25 June 2015	Share placement	10,900,000	$0.18	1,962,000
	Less: fees			(137,571)
30 June 2015	**Closing balance**	**180,879,646**		**35,830,567**
23 July 2015	Share placement	17,793,393	$0.18	3,202,811
	Less: fees			(204,743)
16 September 2015	Shares issued on exercise of options	150,000	$0.075	11,250
22 January 2016	Shares issued on exercise of options	250,000	$0.075	18,750
22 January 2016	Shares issued on exercise of options	310,000	$0.098	30,380
22 January 2016	Shares issued on exercise of options	95,000	$0.12	11,400
2 February 2016	Shares issued on exercise of options	570,000	$0.12	68,400
11 February 2016	Shares issued on exercise of options	195,000	$0.12	23,400
17 February 2016	Shares issued on exercise of options	477,500	$0.12	57,300
21 June 2016	Shares issued on exercise of options	1,000,000	$0.084	84,000
	Less: fees			(6,616)
30 June 2016	**Closing balance**	**201,720,539**		**39,126,899**

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.

Ordinary shares have no par value.

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 30.

NOTE 18 – RESERVES AND ACCUMULATED LOSSES

a) Reserves

	Consolidated	
	2016 $	2015 $
Share-based payments reserve	2,064,246	1,708,257
Foreign currency translation reserve	(288,406)	(248,759)
	1,775,840	**1,459,498**
MOVEMENTS		
Share-based payments reserve		
Balance 1 July	1,708,257	1,529,732
Option expense	355,989	178,525
Balance 30 June	**2,064,246**	**1,708,257**
Foreign currency translation reserve		
Balance 1 July	(248,759)	419,540
Currency translation differences arising through the year	(39,647)	(668,299)
Balance 30 June	**(288,406)**	**(248,759)**

b) Accumulated losses

Movements in accumulated losses were as follows:

	Consolidated	
	2016 $	2015 $
Balance 1 July	(32,956,072)	(31,515,895)
Net (loss) for the year	(4,805,892)	(1,440,177)
Balance 30 June	**(37,761,964)**	**(32,956,072)**

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 19 – DIVIDENDS

No dividends were paid or declared since 30 June 2016 and the directors do not recommend the payment of a dividend. There are no franking credits as at 30 June 2016 (2015: Nil).

NOTE 20 – KEY MANAGEMENT PERSONNEL DISCLOSURES

a) Key management personnel compensation

	Consolidated	
	2016 $	2015 $
Short-term employee benefits	1,414,707	1,605,058
Long-term benefits	14,211	10,926
Post-employment benefits	63,533	78,667
Share-based payments	143,659	118,438
	1,636,110	**1,813,089**

The Group 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.

NOTE 21 – 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	
	2016 $	2015 $
Audit services		
PricewaterhouseCoopers Australian firm		
Audit and review of financial reports and other audit work under the *Corporations Act 2001*	123,541	119,906
Total remuneration for assurance services	**123,541**	**119,906**

NOTE 22 – CONTINGENCIES

a) Contingent liabilities

No contingent liabilities exist at this time.

b) Contingent assets

No contingent assets exist at this time.

NOTE 23 – COMMITMENTS

a) Lease commitments: Group as lessee

	Consolidated 2016 $	2015 $
Commitments for minimum lease payments in relation to non-cancellable operating leases for office premises and office equipment are payable as follows:		
Within one year	82,082	192,415
Later than one year but not later than five years	8,526	19,198
More than five years	–	–
	90,608	**211,613**

NOTE 24 – 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 25.

c) Key management personnel

Disclosures relating to key management personnel are set out in Note 20 and in the remuneration report within the Directors' Report.

NOTE 25 – 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(d):

Name of entity	Country of incorporation	Class of shares	Equity holding* 2016 %	2015 %
AtCor Medical Pty Limited	Australia	Ordinary	100%	100%
AtCor Medical Inc.	USA	Ordinary	100%	100%

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

NOTE 26 – ECONOMIC DEPENDENCY

The Group depends upon single suppliers of some key components for its SphygmoCor device due to manufacturing specifications requiring these particular components.

NOTE 27 – EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

No matters or circumstances have arisen since 30 June 2016 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 the future financial years; or

c) The Group's state of affairs in future financial years.

NOTE 28 – RECONCILIATION OF (LOSS) AFTER INCOME TAX TO NET CASH (OUTFLOW) FROM OPERATING ACTIVITIES

	Consolidated	
	2016 $	2015 $
Loss for the year	**(4,805,892)**	**(1,440,177)**
Depreciation and amortisation	112,688	88,056
Noncash employee benefits expense – share-based payments	355,989	178,525
Unrealised exchange difference	(68,863)	(995,700)
Change in operating assets and liabilities:		
(Increase) in trade and other receivables	(560,303)	(1,196)
Decrease/(Increase) in inventories	121,191	(1,859)
Decrease/(Increase) in other operating assets	81,881	(65,575)
(Decrease)/Increase in trade and other payables	(196,511)	238,772
Increase in other provisions	39,669	33,507
Net cash (outflow) from operating activities	**(4,920,151)**	**(1,965,647)**

NOTE 29 – EARNINGS PER SHARE

a) Earnings per share

	Consolidated 2016 Cents	Consolidated 2015 Cents
Basic earnings per share	(2.4)	(0.9)
Diluted earnings per share	(2.4)	(0.9)

b) Reconciliations of earnings used in calculating earnings per share

	Consolidated 2016 $	Consolidated 2015 $
Basic earnings per share		
Loss from continuing operations	(4,805,892)	(1,440,177)
Diluted earnings per share		
Loss from continuing operations attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	(4,805,892)	(1,440,177)

c) Weighted average number of shares used as the denominator

	Consolidated 2016 No. of shares	Consolidated 2015 No. of shares
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	198,465,298	164,081,322
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	198,465,298	164,081,322

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 30.

No options granted are included in the calculation of diluted earnings per share because they are not dilutive for the year ended 30 June 2016.

NOTE 30 – 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 and 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 five year period, and 33.3% of each new tranche vests and is exercisable after each of the first three anniversaries of the date of grant.

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

When exercisable, each option is convertible into one 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 five trading days immediately before the options are granted.

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

			No. of shares					
Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Expired/ forfeited during the year	Balance at end of the year	Exercisable at end of the year
Consolidated – 2016								
17 Feb 2011	17 Feb 2016	$0.120	1,362,500	–	(1,337,500)	(25,000)	–	–
21 Oct 2011	21 Oct 2016	$0.084	2,500,000	–	(1,000,000)	–	1,500,000	1,500,000
16 Feb 2012	16 Feb 2017	$0.098	1,607,500	–	(310,000)	–	1,297,500	1,297,500
23 Aug 2012	23 Aug 2017	$0.075	2,955,000	–	(400,000)	–	2,555,000	2,555,000
5 Oct 2012	5 Oct 2017	$0.075	200,000	–	–	–	200,000	200,000
26 Oct 2012	26 Oct 2017	$0.084	1,400,000	–	–	–	1,400,000	1,400,000
19 Nov 2012	19 Nov 2017	$0.085	125,000	–	–	–	125,000	125,000
29 Aug 2013	29 Aug 2018	$0.139	3,193,333	–	–	–	3,193,333	2,121,664
31 Oct 2013	31 Oct 2018	$0.181	2,100,000	–	–	–	2,100,000	1,400,000
28 Aug 2014	28 Aug 2019	$0.112	1,825,000	–	–	–	1,825,000	608,337
24 Mar 2015	24 Mar 2020	$0.194	350,000	–	–	–	350,000	116,667
25 Jun 2015	25 Jun 2020	$0.200	150,000	–	–	(150,000)	–	–
20 Aug 2015	20 Aug 2020	$0.256	–	2,600,000	–	–	2,600,000	–
13 Nov 2015	13 Nov 2019	$0.261	–	2,000,000	–	–	2,000,000	–
13 Nov 2015	13 Nov 2020	$0.250	–	1,000,000	–	–	1,000,000	–
18 Jan 2016	18 Jan 2021	$0.197	–	500,000	–	–	500,000	
12 Feb 2016	12 Feb 2021	$0.199	–	350,000	–		350,000	
Total			**17,768,333**	**6,450,000**	**(3,047,500)**	**(175,000)**	**20,995,833**	**11,324,168**
Weighted average exercise price			**$0.11**	**$0.25**	**$0.10**	**$0.12**	**$0.16**	**$0.11**

Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Expired/ forfeited during the year	Balance at end of the year	Exercisable at end of the year
			No. of shares					
Consolidated – 2015								
20 Aug 2009	20 Aug 2014	$0.165	400,000	–	–	(400,000)	–	–
18 Feb 2010	18 Feb 2015	$0.164	625,000	–	–	(625,000)	–	–
1 Mar 2010	1 Mar 2015	$0.164	150,000	–	–	(150,000)	–	–
17 Feb 2011	17 Feb 2016	$0.120	1,785,000	–	(422,500)	–	1,362,500	1,362,500
21 Oct 2011	21 Oct 2016	$0.084	2,500,000	–	–	–	2,500,000	2,500,000
16 Feb 2012	16 Feb 2017	$0.098	2,180,000	–	(572,500)	–	1,607,500	1,607,500
23 Aug 2012	23 Aug 2017	$0.075	3,625,000	–	(670,000)	–	2,955,000	2,438,334
5 Oct 2012	5 Oct 2017	$0.075	300,000	–	(100,000)	–	200,000	66,667
26 Oct 2012	26 Oct 2017	$0.084	1,400,000	–	–	–	1,400,000	933,333
19 Nov 2012	19 Nov 2017	$0.085	125,000	–	–	–	125,000	83,333
29 Aug 2013	29 Aug 2018	$0.139	3,215,000	–	(21,667)	–	3,193,333	1,050,004
31 Oct 2013	31 Oct 2018	$0.181	2,100,000	–	–	–	2,100,000	700,000
28 Aug 2014	28 Aug 2019	$0.112	–	1,825,000	–	–	1,825,000	–
24 Mar 2015	24 Mar 2020	$0.194	–	350,000	–	–	350,000	–
25 Jun 2015	25 Jun 2020	$0.200	–	150,000	–	–	150,000	–
Total			**18,405,000**	**2,325,000**	**(1,786,667)**	**(1,175,000)**	**17,768,333**	**10,741,671**
Weighted average exercise price			**$0.11**	**$0.13**	**$0.09**	**$0.16**	**$0.11**	**$0.10**

Nil options were forfeited during 2016 (2015: 360,000) and 25,000 options expired (2015: 1,175,000) in the same period whilst 3,047,500 options were exercised (2015: 1,786,667).

The weighted average remaining contractual life of share options outstanding at the end of the period was 2.4 years (2015: 2.5 years).

Fair value of options granted

The weighted average assessed fair value at grant date of options granted during the year ended 2016 was 8.5 cents per option (2015: 4.8 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 2016 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) Average exercise price: $0.25 (2015: $0.13)

(c) Expiry date: 5 years from grant date (2015: 5 years from grant date)

(d) Average share price at grant date: $0.21 (2015: $0.115)

(e) Expected price volatility of the company's shares: 60% (2015: 60%)

(f) Expected dividend yield: Nil% (2015: Nil%)

(g) Risk free interest rate: 2.00% (2015: 2.25%).

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	
	2016 $	2015 $
Options issued under employee option plan	**355,989**	**178,525**

NOTE 31 – PARENT ENTITY FINANCIAL INFORMATION

a) Summary financial information

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

	2016 $	2015 $
Balance sheet		
Current assets	1,045,883	1,903,023
Total assets	46,932,940	43,696,048
Current liabilities	387,791	808,835
Total liabilities	**15,406,509**	**14,066,019**
Shareholders equity		
Issued capital	45,584,189	42,287,857
Reserves – Share based payments	2,064,246	1,708,257
Accumulated losses	(16,122,004)	(14,366,085)
	31,526,431	**29,630,029**
Loss for the year	(1,755,886)	(1,586,503)
Total comprehensive loss	**(1,755,886)**	**(1,586,503)**

(b) Guarantees entered into by the parent entity

No guarantees have been entered into by the parent entity during 2016 or 2015.

(c) Contingent liabilities of the parent entity

The parent entity did not have any contingent liabilities as at 30 June 2016 or 30 June 2015.

(d) Contractual commitments

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

DIRECTORS' DECLARATION

For the year ended 30 June 2016

In the directors' opinion:

(a) the financial statements and notes set out on pages 21 to 47 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 2016 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

30 August 2016

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS

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 2016, the statement of comprehensive income, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for AtCor Medical Holdings Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at 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, 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. Those 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 consolidated 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.

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

Independence

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

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pwc

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 2016 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

(b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Material uncertainty regarding continuation as a going concern

Without modifying our opinion, we draw attention to Note 1(b) in the financial report, which indicates that the consolidated entity incurred an operating loss after tax of $4,805,892 and net cash outflows from operating activities of $4,920,151 and comments on the consolidated entity being dependent on successfully raising additional capital or other sources of finance to enable it to continue its operations. These conditions, along with other matters as set forth in Note 1(b), indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business and at the amounts stated in the financial report.

Report on the Remuneration Report

We have audited the remuneration report included in pages 8 to 18 of the directors' report for the year ended 30 June 2016. 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 2016 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

S Prakash

S Prakash
Partner

Sydney
30 August 2016

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 5 September 2016.

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	47	6,088
1,001 to 5,000	166	617,227
5,001 to 10,000	217	1,785,246
10,001 to 100,000	792	31,762,932
100,001 and Over	275	169,009,046
Total	**1,497**	**203,180,539**

There were 159 holders of unmarketable parcels of ordinary shares.

B. EQUITY SECURITY HOLDERS

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

	No. of shares	%
Cb Co Pty Ltd <The Curran Superannuation Fund>	15,470,000	7.61%
National Nominees Limited	15,205,572	7.48%
Pehila Pty Ltd <O'Rourke Super Fund A/C>	10,641,396	5.24%
Oceania Capital Partners Limited	7,739,241	3.81%
Richard Ewan Mews	3,437,500	1.69%
Mr Donald O'Dwyer & Mrs Judith O'Dwyer <Dundrum Super Fund A/C>	3,100,885	1.53%
Custodial Services Limited <Beneficiaries Holding A/C>	2,674,550	1.32%
Dr Russell Kay Hancock	2,500,000	1.23%
ABN AMRO Clearing Sydney Nominees Pty Ltd <Custodian A/C>	2,372,469	1.17%
Five Talents Limited	2,171,464	1.07%
Mr Pawel Rej & Mrs Miroslawa Rej	2,160,901	1.06%
Souttar Superannuation Pty Ltd <Greenslade Super Fund A/C>	2,137,635	1.05%
Mr Richard Ewan Mews & Ms Wee Khoon Mews <Mews Super Fund A/C>	2,121,707	1.04%
BNP Paribas Noms Pty Ltd <DRP>	2,007,843	0.99%
Barrijag Pty Ltd <The Hadley S/F A/C>	2,000,000	0.98%
Redbrook Nominees Pty Ltd	1,850,000	0.91%
HSBC Custody Nominees (Australia) Limited	1,823,888	0.90%
Drumnadrochit Futures Pty Ltd	1,712,489	0.84%
Global Meridian Team Pty Limited <Global Meridian Team Super Fund>	1,700,000	0.84%
Mr Wayne Geoffrey Paterson	1,499,043	0.74%
Total	**84,326,583**	**41.50%**

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	18,095,833	20
Other unquoted options to take up ordinary shares	2,900,000	5
	20,995,833	**25**

C. SUBSTANTIAL HOLDERS

Substantial holders in the company are set out below:

	No. of shares held	Percentage of issued shares
CB Co Pty Ltd <The Curran Superannuation Fund>	15,470,000	7.61%
National Nominees Limited	15,205,572	7.48%
Pehila Pty Ltd <O'Rourke Super Fund A/C>	10,641,396	5.24%

D. VOTING RIGHTS

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

a) Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

b) Options

No voting rights.

E. NOTICE OF ANNUAL GENERAL MEETING

The annual general meeting of AtCor Medical Holdings Limited will be held on 28 October 2016 from 10:00am at PwC offices, Level 10, Darling Park, 201 Sussex Street Sydney NSW 2000.

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)

Dr David Brookes, Non-executive Director (MBBS FACRRM)
Mr King Nelson, Non-executive Director (BA, MBA)

SECRETARY

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

PRINCIPAL REGISTERED OFFICE IN AUSTRALIA

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

SHARE AND DEBENTURE REGISTER

Link Market Services Ltd
Level 12, 680 George Street
PO Box 20013
World Square NSW 2000

AUDITOR

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

SOLICITORS

Dibbs Barker
Level 8, 123 Pitt Street
GPO Box 983
Sydney NSW 2001

STOCK EXCHANGE LISTINGS

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

AUSTRALIAN BUSINESS NUMBER

ABN 81 113 252 234