

AtCor Medical Holdings Limited

AUDIT AND RISK COMMITTEE CHARTER

The Committee reviews this annually in light of current good practice in corporate governance and the duties and responsibilities of Board Audit and Risk Committees.

Last Review Date: 24 August 2009

1. ROLE OF THE AUDIT COMMITTEE

The role of the AtCor Medical Holdings Limited (AtCor) Audit and Risk Committee is to help the Board fulfil its corporate governance and oversight responsibilities relating to:

- financial accounting compliance;
- ethical compliance;
- risk management and internal control systems;
- external reporting; and
- the internal and external audit function.

2. ACCESS TO THE CHARTER

All Board directors and committee members, management and internal and external auditors have access to this Charter. It is also available via the Company's website.

3. AUTHORITY

In executing its responsibilities, the Committee has unlimited access to external auditors and senior management, and may:

- seek information it requires from employees and external auditors;
- obtain outside legal or other professional advice;
- meet with external auditors without management present; and
- require senior executives to attend Committee meetings as appropriate.

4. COMPOSITION

The Committee will consist of three non-executive directors appointed by the Board. These members will have good financial and/or operational expertise in AtCor's core areas of business. The Board will appoint the Chair of the Committee.

5. MEETINGS

5.1. Attendance

A quorum is 2 Committee members.

5.2. Administration

Management will nominate a secretary to the Committee who will assist the Chair in drawing up the agenda and keeping and circulating minutes. The minutes of the meeting will be approved by the Committee and signed by the Chair.

6. DUTIES

The Committee's duties are to:

- oversee and appraise the coverage and quality of the audits conducted by any internal or external auditors;
- schedule regular meetings to maintain open lines of communications among the Board and auditors. These meetings will serve as a forum in which to exchange views and information to confirm the auditors' respective authority and responsibilities;
- serve as an independent and objective party to review the financial information presented by management to shareholders, regulators and the general public;
- ensure the Company's administrative, operating and accounting controls are adequate;
- review the risk management practices adopted across all material aspects of the company's operations; and
- evaluate the Committee's own performance on a regular basis.

7. RESPONSIBILITIES

7.1. Financial Accounting Compliance

The Committee is responsible for reviewing and approving all significant accounting policy changes and for evaluating the adequacy and effectiveness of the Company's:

- administrative, operating and accounting policies
- management information and accounting control system
- policies to reduce exposure to fraud

To this end, it will actively communicate with management and external auditors, review written reports and monitor management's responses to correct deficiencies.

7.2. Ethical Compliance

The Committee is responsible for ensuring that management pays due attention to ethical considerations in implementing the Company's policies and practices. It also monitors the standard of corporate conduct in areas such as arms-length dealings and likely conflicts of interest.

7.3. Risk Management

The Committee is responsible for evaluating the:

- processes for determining and managing key risk areas; and
- process for assessing and continuously improving internal controls, particularly those related to areas of material risk.

It will also ensure the Company has an effective risk management system and that major risks are reported to the Board. The risk management system will include controls for any transactions that carry an unacceptable degree of risk.

The Committee will meet periodically with key management, external auditors and compliance staff to understand and discuss the control environment. It will also require periodic reports from nominated senior managers confirming the risk management system is operating correctly and detailing material risk.

7.4. External Reporting

The Committee is responsible for reviewing the accuracy and integrity of the following documents before they are released publicly:

- all financial and regulatory reports;
- the annual financial statements and reports; and
- the half-yearly and annual formal announcement of results to the Australian Stock Exchange.

The Committee will also review:

- any correspondence from regulators and others regarding the Company's financial reporting or related matter and monitor management's response to them;
- significant transactions outside the Company's normal business; and
- major outstanding contingent liabilities, including existing and potential legal actions against AtCor or its Board of Directors.

7.5. Oversight of the Audit Function

7.5.1. Internal Audit

At this stage AtCor has not implemented an internal audit function.

7.5.2. External Audit

The Committee is responsible for recommending external auditors to the Board, approving their audit plan and fee and evaluating their effectiveness. It also plays a central role in assessing external auditor independence and ensuring external auditors have appropriate access to management information.

7.5.3. Selecting and appointing the external auditor

The Committee oversees and is the final arbiter of the process of selecting the external auditor. It is responsible for ensuring the external auditor meets the required professional standards and requirements for auditor independence. To this end, when external audit services are to be tendered, the Committee will:

- review and, if necessary, amend the Request for Information (RFI) prepared by management;
- review responses to this RFI and evaluate management's recommendation;
- before any decision is made, report the results of this review to the Board and make the final recommendation
- brief and work with the selected external auditor after their appointment to support the audit function.

7.5.4. Ensuring external auditor independence

The Board has already stipulated that:

- past or present lead audit partners of the firm currently engaged as the Company's external auditor are not eligible for appointment to the Board;
- the lead audit partner will be required to rotate off the audit after their involvement for a maximum of five years, and there will be a period of at least three years before that partner can be involved in the audit again.

In addition, the Committee will require the external auditors to confirm, in writing, that they have complied with all professional and regulatory requirements relating to auditor independence. The Committee will also periodically assess the relationships and services provided by the external auditors and others that may lead to actual or perceived lack of independence.

7.5.5. Provision of Non-Audit Services by External Auditors

The Board of AtCor believes it is not appropriate for the external auditor to express an opinion on its own work. The external auditors will therefore not provide investigations or consulting services that conflict with the role of statutory auditor. Examples of services that the external auditor should provide include:

- preparing accounting records and financial statements;
- designing and implementing new IT systems and financial controls;
- valuation services in relation to amounts included in the company's accounts;
- actuarial services;
- internal audit services;
- management functions, including senior management secondments;
- recruitment and human resources services;
- broker, dealer or investment advisor services;
- legal services.

The external auditors will be permitted to provide some non-audit services that do not conflict with this role. Examples of services that may be provided without Audit Committee approval include:

- tax compliance services;
- advice on applying appropriate accounting standards;
- audits or verification of regulatory returns.

The external auditors may be permitted to provide non-audit services where their detailed knowledge of the Company's activities could permit cost and output efficiencies, provided stringent independence requirements are satisfied. These services must be approved by the Chair.

Examples of such services include:

- strategic tax advice;
- due diligence on potential acquisitions/investments;
- investigating accounting assignments;
- corporate finance advice (deal structuring and execution) including Independent Accountant's Statements.

The Audit Committee will recommend to the Board, on a totally transparent basis, how the full details of fees paid to the external auditors should be disclosed in the Annual Accounts.

8. REPORTING REQUIREMENTS

The Committee will:

- ensure that minutes of each Committee meeting are included with papers for the next full board meeting;
- regularly update the Board about Committee activities and recommendations; and
- ensure the Board is aware of matters that may significantly impact the financial condition or risk profile of the business.