



A photograph showing a person's hands against a light background. One hand is held open palm-up, and the other hand is placed on top of it, fingers interlaced. A large, solid red heart is centered over the hands. In the background, the curved metal body of a stethoscope is visible.  
Essential for  
hypertension  
management

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**ANNUAL REPORT 2017**  
ATCOR MEDICAL HOLDINGS LIMITED



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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 3 to 5 and in the directors' report on pages 7 to 17, both of which are not part of this financial report. The financial report was authorised for issue by the directors on 31 August 2017. 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](http://atcormedical.com).



Dear Shareholder,

As outlined in the CEO's report on pages 3 to 5, 2016/17 has been a challenging year during which AtCor has changed its operating model and cost structure to reduce its reliance on pharma revenues, which can fluctuate greatly year-to-year, while positioning the business for future growth and profitability. To put this into context, it is worthwhile re-visiting the three distinct phases the company has moved through over the past 12 months.

Firstly, during 2016 AtCor upscaled its resources with the aim of selling more SphygmoCor® systems into the US clinical market. This followed receiving the CPT-1 reimbursement code during 2015/16. It is pleasing to report that over the past year the company has signed three network supply agreements with integrated healthcare delivery networks (IDNs). The IDNs provide a solid platform for future sales, but growth has been much slower than planned and it was expensive to maintain the larger sales force through the lengthy sales cycle.

## CHAIRMAN'S LETTER TO SHAREHOLDERS

It is important to consider why this is so: experience shows that it takes significant time and effort to effect change in clinical practice, and that clinicians are reluctant to switch from the 'old' way. However, the benefit and value of SphygmoCor, once in regular use, in identifying early signs of hypertension and in improving treatment of patients are overwhelming.

Secondly, given this slower uptake in the US clinical market, AtCor recalibrated its US sales resources and wound back its near-term expectations for non-pharma sales. Cost reductions were instigated in both the US and Australia to bring costs into line with revenue and strive for break-even. Costs in the second half were materially lower and have trended down quarter-on-quarter since the changes.

Thirdly, AtCor embarked upon a strategic review, announced in May 2017, which is directed towards ensuring the company has a sustainable platform for the future. This included opening up a dialogue with a number of parties regarding a potential joint venture, strategic investment or transaction and exploring potential applications for SphygmoCor® technology in the wellness and in the consumer and prescription based wearables market. Discussions are ongoing.

The board continues to believe that the SphygmoCor technology has tremendous upside in both its current market segments and in new markets and applications. Investment will continue in developing new IP and evolving the current product suite.

Renewal at both the board and senior management level will continue in 2018, in line with the two changes already announced. Firstly, Professor Michael O'Rourke, co-founder of the company and inventor of SphygmoCor technology, will retire at the upcoming annual general meeting and, secondly, long-serving managing director & CEO Duncan Ross will transition out of his current role and a new CEO will be appointed. On behalf of the board, I would like to thank both of them for their great contributions to the company.

The company appreciates the commitment which shareholders have shown during the recent capital raising that secured \$1.1 million through a placement and share purchase plan. These funds will be used to pursue this new strategy and to serve clinicians, researchers and pharmaceutical clinical trials with an efficient cost base.

We look forward to keeping you apprised of progress, and sincerely thank you for your continued support.

A handwritten signature in black ink, appearing to read "Donal O'Dwyer".

**Donal O'Dwyer**  
Sydney, Australia

31 August 2017



SphygmoCor XCEL series



Oscar 2 with SphygmoCor inside



SphygmoCor EM series

SphygmoCor gold standard technology is delivered on three distinct product platforms



Dear Shareholder,

Over 2017 AtCor has fundamentally changed its operating model and cost structure so as to reduce its reliance on pharma revenues, which can fluctuate greatly year-to-year, while positioning the business for future growth and profitability. This will be accomplished by three means:

1. application of existing technology in new markets;
2. developing strategic partnerships; and
3. continued focus on developing AtCor's core markets serving clinicians, researchers and pharmaceutical clinical trials with an efficient cost base.

These changes have come about following a strategic review announced in May 2017 which is directed towards ensuring the company has a sustainable platform for the future.

## LETTER FROM THE CHIEF EXECUTIVE OFFICER

### Sales

Total FY2017 sales of \$4.3 million were within guidance provided in May 2017, though lower than that achieved in FY2016. Pleasingly, non-pharma sales in the US grew by 23% year-on-year (measured on a constant currency basis) while European sales rose by 14% and Asia Pacific was lower following a record year in Australia in FY2016. Pharmaceutical trial revenues fell between years by \$1.0 million reflecting the volatile timing of such activities. That said, it is encouraging to report that three pharmaceutical trials with a combined contract value of \$0.8 million were closed in July 2017.

As noted above, North American sales were particularly strong and reflected greater technology awareness resulting from the US CPT-1 reimbursement code and the strengthening US economy. Unit sales of the SphygmoCor XCEL clinical device to hospitals and clinical practices increased by 11% year-on-year and volume is expected to increase further in the coming year following the recent signing of network supply agreements with three integrated healthcare delivery networks (IDN's). Sales representative productivity improved in both the Clinical and Research channels. Gross margin for the year fell slightly to 76.5%, reflecting the changed sales mix. Net loss in FY2017 was \$4.6 million, which included unrealised foreign exchange losses of \$0.4 million.

### Sizing the business to move more quickly to profitability

As communicated throughout the year and accelerated under the strategic review, expense reductions were taken with the aim of not impacting AtCor's revenue generation capability. Expenses for FY2017 were down 18% (\$7.7 million in FY2017 versus \$9.2 million in FY2016). Importantly, 2H2017 expenses were \$0.8 million lower than the first half. Further expense reductions are being implemented during 1H2018 with the aim of having an underlying expense base that will bring AtCor close to break even in FY2018, excluding any restructuring costs.

## FOUNDATIONS FOR GROWTH AND DIVERSIFICATION

### Market environment

While the US hospital market is awaiting the outcome of proposed changes to the Affordable Care Act, the overall market remains favourable for the uptake of SphygmoCor technology.

### US Clinical market

AtCor is focused on multi doctor, multi-location cardiology and nephrology practices and Integrated Delivery Networks (IDN's) as ideal customers. These groups have the capacity to adopt new technologies and are looking for ways to differentiate themselves from other medical providers through enhanced care models. Additionally, they offer sales efficiencies for AtCor. Signing a network agreement gives the company's sales team access to a large cohort of equity owned and affiliated health providers.

Payers continue to move from a fixed reimbursement per procedure toward a mix of fixed and variable payment, reimbursing doctors also based on performance based metrics. With 46% of US hypertension patients not well controlled, getting hypertension under control is a metric on which payers and doctors are coming into alignment. For example, in the cardiology department of one of the IDN's who has signed with AtCor, improved hypertension control is the number one department objective.

### Longevity and prevention market

Increasing levels of demand are in evidence in this sub segment of the clinical market. The patients are generally self-funding, and it encompasses providers such as those serving executive health and integrative doctors using both western and alternative therapies.

### Research market

The global research market continues to expand its use of SphygmoCor. This bodes well as research is a vital proving ground for new applications to eventually move into clinical practice. With good initial evidence being published, there is increasing interest in new applications for SphygmoCor in prevention, early diagnosis and managing disease states such as cognitive function, heart failure and preeclampsia (a pregnancy complication characterized by high blood pressure and signs of damage to another organ system, most often the liver and kidneys). Research work in exercise physiology in the university setting continues to show increased awareness year on year with demand especially strong in Australia and the US.

### Wearables market opportunity

Wearables represents a potential opportunity for AtCor to leverage its core competence of acquiring non-invasive physiological signals and processing the data into meaningful and actionable clinical information. AtCor has identified that its best target segments are the high-end consumer/elite athlete market and the prescription based medical segments. As disease management moves beyond the traditional hub and spoke model (hospitals and clinics), the outer spoke will migrate to and solidify in the patients' home and during their routine, daily activities. Discussions are underway with potential partners.

### Pharmaceutical and medical device trials market

AtCor is cautiously optimistic of a near term rebound in this segment. In early July the company announced \$0.8 million in new contracts encompassing three new pharmaceutical trials with major pharmaceutical companies. Two are new clients and two of the trials are in new therapeutic areas including acute coronary syndrome. SphygmoCor has also been specified in two large phase-III heart failure trials scheduled for FY2018 and negotiations have commenced. Additionally, up to two pivotal medical devices trials for the renal denervation procedure are expected to commence in FY2018, and SphygmoCor has been specified. Preliminary data has determined that SphygmoCor may be useful in selecting patients who will respond positively to invasive ablation (denervation) of their renal (kidney) artery which supplies the kidney with blood in cases where hypertension cannot be adequately controlled with drug therapy. Regulators are focused on the procedure only being conducted in patients who are pre-selected to benefit.

### SphygmoCor Inside

AtCor has successfully miniaturised its core technology onto both a codified chip and in a secure dll form. The codified chip has been successfully deployed commercially through our global alliance with SunTech Medical for the 'Oscar 2 with SphygmoCor Inside' 24-hour ambulatory blood pressure device. By including SphygmoCor, the device allows for 24-hour monitoring of not just brachial cuff but also central aortic pressures. The dll was developed with further enhancement in mind for the wearables market and has been successfully utilised in a trial with a major technology company. These developments also further position AtCor's gold standard technology as the go-to brand for companion medical device opportunities.

## New IP

Three new, innovative patent applications were lodged in FY2017. Prominent among them:

- Non-Invasive Blood Pressure (NIBP) Measurement;

**Cuff-less:** A radial-wrist sensor would gather raw waveforms and through statistical work incorporating machine learning, the equivalent brachial cuff blood pressure may be determined. This could revolutionise brachial blood pressure in all care settings including the hospital, office, home and wearables market, through elimination of the cuff and the technology would also provide the opportunity for continuous monitoring.

- Non-Invasive Brachial Blood Pressure Measurement (correcting for brachial cuff error): It is well understood that the traditional brachial cuff is not equivalent to a catheter in the arm measuring invasive brachial blood pressure. The variation depending on the manufacturer and other factors can cause an over-estimation of 10mm Hg or more in systolic blood pressure. A recent meta-analysis in the Journal of the American College of Cardiology showed that only 50% of hypertension patients had the same blood pressure invasively at the arm as was determined by the cuff. AtCor has developed a process whereby it can correct the discrepancy to bring the cuff brachial blood pressure in line with invasive brachial blood pressure. Revenue opportunities from this could include licensing to major medical device companies, developing proprietary devices or OEM supply.

## Business development

Under the strategic review, AtCor has accelerated its efforts and has a good level of engagement with a number of parties relevant to the company on a potential joint venture, strategic investment or transaction. A dialogue is also on foot relative to applications for SphygmoCor® technology in the wearables market. The company is committed to strategic partnering which can build scale and diversity into its business, open new channels to market, assist in other functions and most importantly accelerate and diversify sales at a lower overall cost of selling. The SphygmoCor technology has tremendous upside in both market segments currently served and new markets and applications. With AtCor's substantial IP portfolio and gold standard technology, a partner of scale could help the company secure maximum market penetration.

## IN CLOSING

AtCor has taken a number of steps to manage its cost base while maintaining its revenue generation capability. The opportunities for the technology are considerable and the AtCor Board and management are actively exploring ways to maximise shareholder value – either in its own right or with other parties. With costs well in hand energies are now focused on both diversification and growth.

We look forward to keeping your apprised of progress and sincerely thank you, our investors, for your continued support.

Sincerely,



Duncan R. Ross

Chicago, Illinois USA

31 August 2017

## EXPERIENCES FROM NEW SPHYGMOCOR CLINICAL USERS

**“** I recently implemented SphygmorCor into my nephrology practice and have found that it adds critical new information that allows me to better manage my patients' blood pressure. I am now seeing a lot of cases where central blood pressure is far lower than I would have expected and I use this information to remove or reduce medication. When I see patients for follow up, they feel much better and I'm finding that their creatinine levels are lower, as well. SphygmoCor has quickly become an indispensable part of our practice. **”**

Shahabul Arfeen, MD  
Nephrology Specialists, P.C.

**“** I am very glad I purchased the SphygmorCor PWA. It is of tremendous adjunctive value in clinical decision-making with regards to escalating, reducing, or continuing the same antihypertensive regimen as well as deciding whether to emphasize vasodilating agents or non-vasodilating agents. If I had my way, this would be the new gold standard for measuring clinical/office BP measurements. **”**

David Antecol, MD  
Cardiology Associates

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



1. Mayo Clinic, Rochester, Minnesota
2. Cleveland Clinic
3. Johns Hopkins Hospital, Baltimore
4. Massachusetts General Hospital, Boston
5. UCSF Medical Center, San Francisco
6. University of Michigan Hospitals and Health Centers, Ann Arbor
7. Ronald Reagan UCLA Medical Center, Los Angeles
8. New York-Presbyterian Hospital, New York
9. Stanford Health Care-Stanford Hospital, Stanford, California
10. Hospitals of the University of Pennsylvania-Penn Presbyterian, Philadelphia
11. Cedars-Sinai Medical Center, Los Angeles
12. Barnes-Jewish Hospital, St. Louis
13. Northwestern Memorial Hospital, Chicago
14. UPMC Presbyterian Shadyside, Pittsburgh
15. University of Colorado Hospital, Aurora
16. Thomas Jefferson University Hospitals, Philadelphia
17. Duke University Hospital, Durham, North Carolina
18. Mount Sinai Hospital, New York
19. NYU Langone Medical Center, New York
20. Mayo Clinic Phoenix

## 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 2017.

### 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
- D. L. Brookes
- R. K. Nelson

### 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 \$4,327,283 (2016: \$5,019,387). The loss for the year after income tax amounted to \$4,363,571 (2016: loss of \$4,805,892). 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 3 to 5 of this annual report.

Management and the Board continue to manage the liquidity of the Group. In May 2017 the Group advised the market a strategic review was being undertaken and an update on this process was provided on 2 August 2017. Since then net proceeds of \$775,000 has been raised via a share placement and the Group has also announced a Share Purchase Plan that will raise up to \$500,000. 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

A share placement to sophisticated and institutional shareholders was completed, raising \$775,000 net of fees. A Share Purchase Plan has also been announced to raise up to \$500,000.

### 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 64.

#### **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 4 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: 6,067,517 ordinary shares in AtCor Medical Holdings Limited.

### **Duncan R. Ross** BS, BBus

Managing Director and CEO. Age 59.

#### **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 in 2006. Previously EVP Diagnostics Sysmex America and 10 years in positions of increasing responsibility with Baxter International and the American Hospital Supply Corporation.

#### **Other current directorships**

None.

#### **Former directorships in last three years**

None.

#### **Special responsibilities**

CEO.

#### **Interests in shares and options**

Direct: 4,603,052 ordinary shares in AtCor Medical Holdings Limited.

4,500,000 options over ordinary shares in AtCor Medical Holdings Limited.

Indirect: Nil.

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

Non-executive director. Age 80.

#### **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: 5,300,000 ordinary shares in AtCor Medical Holdings Limited.

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

Indirect: 5,341,396 ordinary shares in AtCor Medical Holdings Limited.

### **Dr David Brookes MBBS, FACRRM, FAICD**

Independent non-executive director. Age 57.

### **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 RHS Ltd, an ASX listed entity.

### **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: 1,295,182 ordinary shares in AtCor Medical Holdings Limited.

### **Mr King Nelson BA, MBA**

Independent non-executive director. Age 60.

### **Experience and expertise**

Joined the Board as an Independent Director on 13 November 2015. Has more than 35 years' experience in the medical devices industry, including CEO-President roles with Uptake Medical, Kerberos Proximal Solutions, VenPro, Baxter International and American Hospital Supply Corporation. Uptake Medical was sold in August 2016.

### **Other current directorships**

None.

### **Former directorships in last three years**

Uptake Medical Corporation.

### **Special responsibilities**

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

### **Interests in shares and options**

Direct: 153,846 ordinary shares in AtCor Medical Holdings Limited.

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 2017, and the numbers of meetings attended by each director were:

	Meetings of committees								
	Full meetings of directors		Meetings of non- executive directors		Audit		Remuneration		
	A	B	A	B	A	B	A	B	
D. O'Dwyer (Chairman)	10	10	4	4	2	2	2	2	
D. R. Ross (CEO)	10	10	*	*	**	**	**	**	**
M. F. O'Rourke	10	10	4	4	**	**	**	**	**
D. L. Brookes	10	10	4	4	2	2	2	2	2
R. K. Nelson	10	10	4	4	2	2	2	2	2

A Number of meetings attended

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

\* Not a non-executive director

\*\* Not a member of the relevant committee

## RETIREMENT, ELECTION AND CONTINUATION IN OFFICE OF DIRECTORS

- D. Brookes retired by rotation as a director and was re-elected on 28 October 2016.

## 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 2015 shareholder meeting, 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
- King Nelson

### 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 2017. Fees are inclusive of committee fees.

#### Board fees per annum

• Board chairman	\$110,000	[ ]
• Board non-executive director	\$50,000	
• Committee chair	\$10,000	

Fees were reduced by 50% from October 2016 to preserve cash and this remains in place for the immediate future.

#### Superannuation

Superannuation contributions for Australian based non-executive director'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

non-executive directors 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 \$
<b>Non-executive directors</b>					
D. O'Dwyer (Chairman)	2017	62,785	5,965	16,597	85,347
	2016	97,858	9,296	28,069	135,223
M. F. O'Rourke	2017	28,539	2,711	11,490	42,740
	2016	44,324	4,211	19,432	67,967
R. K. Nelson* (appointed 13 November 2015)	2017	37,182	–	11,490	48,672
	2016	37,895	–	19,432	57,327
D. L. Brookes	2017	26,250	11,250	11,490	48,990
	2016	53,234	5,057	19,432	77,723
P. R. Jenkins (retired 13 November 2015)	2016	20,881	1,984	–	22,865
<b>Total non-executive directors</b>	2017	<b>154,756</b>	<b>19,926</b>	<b>51,067</b>	<b>225,749</b>
	2016	254,192	20,548	86,365	361,105

\* 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 FY2017 the average rate was US\$0.7418.

## 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 2017, 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 FY2017 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. No options were issued in 2017.

#### **Voting and comments made at the AtCor Medical Holdings Limited 2016 AGM**

AtCor Medical Holdings Limited received a unanimous ‘yes’ vote on a show of hands and 88% ‘yes’ votes from proxies for its remuneration report for the 2016 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 tables**

Year	Fixed remuneration				Variable remuneration		Total \$	Remuneration proportions			
	Salary and fees \$	Short term (Non-monetary benefits) \$	Post employment benefits (Superannuation) \$	Sub-total \$	Short term (Cash bonus) <sup>2</sup> \$	Long term (Share-based payment options) <sup>3</sup> \$		Fixed %	At risk STI %	At risk LTI %	
D. R. Ross <sup>1</sup> (CEO)	2017	429,619	29,217	–	458,836	–	40,471	499,307	59	35	6
	2016	514,292	29,206	–	543,498	–	59,933	603,431	58	35	7
P. L. Manley	2017	184,282	–	33,462	217,744	–	13,112	230,856	76	19	5
	2016	214,720	–	34,687	249,407	–	24,100	273,507	76	17	7
D. T. Kurschinski <sup>1</sup>	2017	313,371	29,242	–	342,614	–	18,224	360,838	64	32	4
	2016	373,703	29,206	–	402,909	4,303	33,804	441,016	63	31	6
M. R. Harding	2017	203,513	–	21,440	224,953	30,449	14,283	269,685	66	30	4
	2016	230,630	–	28,846	259,476	18,647	25,822	303,945	65	29	6
Total	2017	1,130,786	58,459	54,902	1,244,147	30,449	86,090	1,360,686	65	30	5
	2016	1,333,345	58,412	63,533	1,455,290	22,950	143,659	1,621,899	63	30	7

<sup>1</sup> D Ross and D Kurschinski are paid in US\$ as they are US-based. Changes in base pay and non-monetary benefits are partly attributable to the stronger A\$ against the US\$ through FY17 (Ave rate FY17: 0.7521, FY16: 0.7298)

<sup>2</sup> Cash bonus is the amount paid or payable for the respective financial year

<sup>3</sup> 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.

<sup>4</sup> All KMP salaries were reduced temporarily by 20% effective from 1 October 2016. These reductions are still in place.

### Short term incentives

For each cash bonus included in the table on page 13 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\$228,000	60	0	100
P. L. Manley	\$63,754	25	0	100
D. T. Kurschinski	US\$138,590	50	0	100
M. R. Harding	\$118,556	45	26	74

## 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. initially granted	No. vested during the year	No. vested to date	No. lapsed/forfeited during the year <sup>2</sup>	Balance at end of year	Intrinsic value at year end <sup>1</sup> \$			
										2018	2019	2020
<b>Non-executive directors</b>												
D. O'Dwyer (Chairman)	Nov15	Nov19	\$0.261	650,000	650,000	650,000	-	650,000	-	-	-	-
M. F. O'Rourke	Nov15	Nov19	\$0.261	450,000	450,000	450,000	-	450,000	-	-	-	-
D. L. Brookes	Nov15	Nov19	\$0.261	450,000	450,000	450,000	-	450,000	-	-	-	-
R. K. Nelson	Nov 15	Nov 19	\$0.261	450,000	450,000	450,000	-	450,000	-	-	-	-
<b>Executive directors</b>												
D. R. Ross (CEO)	Oct12	Oct17	\$0.084	1,400,000	-	1,400,000	-	1,400,000	-	-	-	-
	Oct13	Oct18	\$0.181	2,100,000	700,000	2,100,000	-	2,100,000	-	-	-	-
	Nov15	Nov20	\$0.250	1,000,000	333,334	333,334	-	1,000,000	-	666,666	-	-
<b>Other key management personnel</b>												
P. L. Manley	Aug12	Aug17	\$0.075	450,000	-	450,000	-	150,000	-	-	-	-
	Aug13	Aug18	\$0.139	500,000	166,667	500,000	-	500,000	-	-	-	-
	Aug14	Aug19	\$0.112	200,000	66,667	133,333	-	200,000	-	66,667	-	-
	Aug15	Aug20	\$0.256	360,000	120,000	120,000	-	360,000	-	120,000	120,000	-
D. T. Kurschinski	Feb12	Feb17	\$0.098	500,000	-	-	500,000	-	-	-	-	-
	Aug12	Aug17	\$0.075	1,000,000	-	1,000,000	-	850,000	-	-	-	-
	Aug13	Aug18	\$0.139	725,000	241,667	725,000	-	725,000	-	-	-	-
	Aug14	Aug19	\$0.112	275,000	91,666	183,333	-	275,000	-	91,667	-	-
	Aug15	Aug20	\$0.256	500,000	166,667	166,667	-	500,000	-	166,666	166,667	-
M. R. Harding	Aug12	Aug17	\$0.075	400,000	-	400,000	-	133,333	-	-	-	-
	Aug13	Aug18	\$0.139	300,000	100,000	300,000	-	300,000	-	-	-	-
	Aug14	Aug19	\$0.112	450,000	150,000	300,000	-	450,000	-	150,000	-	-
	Aug15	Aug20	\$0.256	360,000	120,000	120,000	-	360,000	-	120,000	120,000	-

1 Intrinsic value is the closing share price at 30 June 2017 (\$0.035) less the exercise price multiplied by the option balance at year end.

2 Between the close of the financial year and the date of this directors report a further 1,133,333 options have expired having not been exercised.

#### 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 <sup>1</sup> \$
D. R. Ross	1,500,000	0.084	126,000	10,500
<b>Total</b>	<b>1,500,000</b>		<b>126,000</b>	<b>10,500</b>

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 – FY2017

	Balance at start of the year		Granted during the year		Exercised during the year		Forfeited in year		Balance at end of year	
	No.	Value <sup>1</sup> \$	No.	Value <sup>1</sup> \$	No.	Value <sup>2</sup> \$	No.	Value <sup>2</sup> \$	No.	Value <sup>1</sup> \$
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	324,850	–	–	1,500,000	10,500	–	–	4,500,000	278,876
P. L. Manley	1,210,000	69,407	–	–	–	–	–	–	1,210,000	69,407
D. T. Kurschinski	2,850,000	134,752	–	–	–	–	500,000	–	2,350,000	112,799
M. R. Harding	1,243,333	68,990	–	–	–	–	–	–	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 1st 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	4,529,055	–	1,538,462	6,067,517
M. F. O'Rourke	10,641,396	–	–	10,641,396
D. L. Brookes	1,161,572	–	307,692	1,469,264
R. K. Nelson	–	–	153,846	153,846
D. R. Ross	3,103,052	1,500,000	–	4,603,052
P. L. Manley	1,358,334	–	–	1,358,334
D. T. Kurschinski	158,522	–	–	158,522
M. R. Harding	816,667	–	–	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 2017 of US\$380,000 which is reviewed annually by the remuneration committee. Additionally the company contributes the employer portion to the US company's health plan on the employee's behalf. Value in FY17 – 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 6 months base salary.

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 years 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 2017 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 2017 of US\$277,179 which is reviewed annually by the remuneration committee. Additionally the company contributes the employer portion to the US company's health plan on the employee's behalf. Value in FY17 – 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 months 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 months 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 2017 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.

This concludes the remuneration report.

## INSURANCE OF OFFICERS

During the financial year, AtCor Medical Holdings Limited paid a premium of \$17,181 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 *Corporations Act 2001* for the following reasons:

- all non audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor; 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 18.

## 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

31 August 2017

## AUDITOR'S INDEPENDENCE DECLARATION



### Auditor's Independence Declaration

As lead auditor for the audit of AtCor Medical Holdings Limited for the year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

A handwritten signature in black ink, appearing to read "S Prakash".

S Prakash  
Partner  
PricewaterhouseCoopers

Sydney  
31 August 2017

# ANNUAL FINANCIAL REPORT 2017

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## STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 June 2017

	Notes	Consolidated	
		2017 \$	2016 \$
<b>Revenue from continuing operations</b>			
Revenue from sale of goods and services	5	4,327,283	5,019,387
Other revenue	5	553	4,221
<b>Total revenue</b>		<b>4,327,836</b>	<b>5,023,608</b>
Other income	6	473,124	573,222
<b>Expenses from ordinary activities</b>			
Cost of sale of goods		(1,016,673)	(1,074,301)
Marketing and sales expense		(4,074,219)	(5,015,102)
Product development and regulatory expense		(1,475,724)	(1,593,312)
Occupancy expense		(179,979)	(192,610)
Administration expense		(2,021,775)	(2,527,397)
Foreign exchange loss		(396,161)	—
<b>(Loss) before income tax</b>		<b>(4,363,571)</b>	<b>(4,805,892)</b>
Income tax expense	8	—	—
<b>(Loss) for the year</b>		<b>(4,363,571)</b>	<b>(4,805,892)</b>
<b>Other comprehensive (loss)</b>			
Items that may be reclassified to profit or loss			
Exchange differences on translation of foreign operations		371,990	(39,647)
<b>Total comprehensive (loss) for the year</b>		<b>(3,991,581)</b>	<b>(4,845,539)</b>
Total comprehensive (loss) attributable to members of AtCor Medical Holdings Limited		(3,991,581)	(4,845,539)

	Cents	Cents
<b>Earnings per share for (loss) attributable to the ordinary equity holders of the company:</b>		
Basic earnings per share	29	(2.0)
Diluted earnings per share	29	(2.0)

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

# BALANCE SHEET

As at 30 June 2017

	Notes	2017 \$	2016 \$	Consolidated
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	9	677,917	1,773,950	
Trade and other receivables	10	1,582,453	2,109,211	
Inventories	11	463,633	418,206	
Other	12	86,668	81,981	
Total current assets		2,810,671	4,383,348	
<b>Noncurrent assets</b>				
Plant and equipment	13	149,422	220,188	
Total noncurrent assets		149,422	220,188	
Total assets		2,960,093	4,603,536	
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Trade and other payables	14	1,404,991	1,257,834	
Provisions	15	121,910	125,825	
Total current liabilities		1,526,901	1,383,659	
<b>Noncurrent liabilities</b>				
Provisions	16	104,706	79,102	
Total noncurrent liabilities		104,706	79,102	
Total liabilities		1,631,607	1,462,761	
Net assets		1,328,486	3,140,775	
<b>EQUITY</b>				
Contributed equity	17	41,126,573	39,126,899	
Reserves	18(a)	2,327,448	1,775,840	
Accumulated losses	18(b)	(42,125,535)	(37,761,964)	
Total equity		1,328,486	3,140,775	

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

## STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2017

	Notes	Contributed equity \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 1 July 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 income		–	(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

Loss for the year		–	–	(4,363,571)	(4,363,571)
Other comprehensive income		–	371,990	–	371,990
Total comprehensive profit/(loss) for the year		–	371,990	(4,363,571)	(3,991,581)

### Transactions with equity holders in their capacity as equity holders:

Capital placement and rights issue (net)	17	1,756,874	–	–	1,756,874
Share options exercised	17	242,800	–	–	242,800
Share options expensed	18	–	179,618	–	179,618
		1,999,674	179,618	–	2,179,292
Balance at 30 June 2017		41,126,573	2,327,448	(42,125,535)	1,328,486

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

## CASH FLOW STATEMENT

For the year ended 30 June 2017

	Notes	2017 \$	2016 \$	Consolidated
<b>Cash flows from operating activities</b>				
Receipts from customers (inclusive of goods and services tax)		4,790,031	4,456,241	
Payments to suppliers and employees (inclusive of goods and services tax)		(8,326,462)	(9,842,529)	
		(3,536,431)	(5,386,288)	
Other revenue		470,248	461,916	
Interest received		553	4,221	
Net cash outflow from operating activities	28	(3,065,630)	(4,920,151)	
<b>Cash flows from investing activities</b>				
Payments for property, plant and equipment		(17,245)	(75,397)	
Net cash outflow from investing activities		(17,245)	(75,397)	
<b>Cash flows from financing activities</b>				
Net proceeds from issue of shares		1,999,674	3,296,332	
Net cash inflow from financing activities		1,999,674	3,296,332	
Net increase/(decrease) in cash and cash equivalents		(1,083,201)	(1,699,216)	
Cash and cash equivalents at the beginning of the financial year		1,773,950	3,449,943	
Effects of exchange rate changes on cash and cash equivalents		(12,832)	23,223	
Cash and cash equivalents at end of financial year	9	677,917	1,773,950	

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 2017

## 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 ('Group' or 'Consolidated Entity').

### 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 2017, the Group incurred an operating loss after tax of \$4,363,571 (2016: \$4,805,892) and net cash outflows from operating activities of \$3,065,630 (2016: \$4,920,151). As at 30 June 2017, the Group has cash and cash equivalents of \$677,917 (2016: \$1,773,950) and no debt. Subsequent to year end, the Group has successfully secured net capital injection of \$775,000 through a capital raising and announced a Share Purchase Plan to raise up to \$500,000, of which \$270,000 is underwritten.

The Group has continued to make progress engaging with large US buying groups, known as integrated delivery networks

(IDN's), as a supplier into their hospital and medical systems. The Group is established in its key sales markets and has strong clinical evidence to support adoption of the SphygmoCor system by clinicians. The Group is also working to develop new income streams as a matter of priority which will be incremental to the Group's Research and Clinical market segments. Further, the Group is undertaking a strategic restructuring process and review of the company's operating model to focus on a wider range of sales rather than rely upon pharma revenues, which can fluctuate greatly year-to-year. Lastly, to preserve the cash on hand the Board and management have implemented a number of cost savings measures to reduce the expense base, including reducing headcount and restructuring the Group's operation model in order to achieve sustainable profitability.

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 meeting its sales targets or raising capital to support an investment in achieving sales forecasts.

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 consolidated financial statements do not include adjustments relating to the recoverability or classification of the recorded asset amounts nor to the amount or classification of liabilities that might be necessary should the Group not be able to continue as a going concern. The directors consider that it is reasonable to expect that the Group will be successful in the above matters and, accordingly, have prepared the consolidated financial statements 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 2017 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 July 1, 2005.

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

#### 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 2017 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 \$309,114. 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 and 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 2017		30 June 2016	
	in US\$	in EUR	in US\$	in EUR
Trade receivables	107,156	165,802	106,162	131,970
Financial assets	50,672	92,158	67,925	184,684
Trade payables	(112,236)	(18,938)	(40,203)	(16,304)

#### Sensitivity

Based on the financial instruments held at 30 June 2017, 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 \$6,600/(\$5,939) (2016: \$19,983/(\$17,985)). 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 \$39,483/\$35,536 (2016: \$49,655/(\$44,689)).

### 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 projections and other considerations made by the directors in these circumstances involve estimates and judgements of future cash flows 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 \$
<b>2017</b>					
Sales to external customers	2,849,885	721,549	755,849	–	4,327,283
Intersegment sales	–	–	1,498,766	(1,498,766)	–
Total sales revenue	2,849,885	721,549	2,254,615	(1,498,766)	4,327,283
Other revenue/income	–	–	470,248	–	470,248
Total segment revenue/income	2,849,885	721,549	2,724,863	(1,498,766)	4,797,531
Segment result	(1,197,713)	53,583	(2,826,155)	–	(3,970,285)
Unallocated revenue less unallocated expenses				(393,286)	
Loss before income tax				(4,363,571)	
Income tax expense				–	
Loss for the year				(4,363,571)	
<b>2016</b>					
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)	

### 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

There was no significant concentration of revenue attributable to one customer in 2017 (2016: \$1,241,893 from one customer attributable to the Americas operating segment).

## NOTE 5 – REVENUE

	Consolidated	
	2017 \$	2016 \$
<b>From continuing operations</b>		
Sales revenue		
Sale of goods	4,015,531	4,703,077
Sale of services	311,752	316,310
	<b>4,327,283</b>	<b>5,019,387</b>
Other revenue		
Interest	553	4,221
	<b>4,327,836</b>	<b>5,023,608</b>

## NOTE 6 – OTHER INCOME

	Consolidated	
	2017 \$	2016 \$
R&D tax concession (Note(a))	470,248	461,916
Foreign exchange gains	–	108,505
Others	2,876	2,801
	<b>473,124</b>	<b>573,222</b>

### a) R&D tax concession

A refund of \$470,248 was received from the Australian Tax Office under the R&D tax concession program in 2017 (2016: \$461,916).

## NOTE 7 – EXPENSES

	Consolidated	
	2017 \$	2016 \$
<b>Loss before income tax includes the following specific expenses:</b>		
Depreciation on plant and equipment	84,990	112,688
Employee benefit expense	5,176,595	6,197,295
Rental expense relating to operating leases	179,979	192,610
Research and development	1,089,301	1,166,044

## 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	
	2017 \$	2016 \$
(Loss) from continuing operations before income tax expense	(4,363,571)	(4,805,892)
Tax at the Australian tax rate of 27.5% (2016: 30%)	(1,199,982)	(1,441,768)

#### Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:

Non-assessable income – R&D tax concession	(182,874)	(153,972)
Share based payment	49,395	106,797
Sundry items	269	445
	<b>(1,333,192)</b>	<b>(1,488,498)</b>
Differences in overseas tax rates	451,061	352,657
Benefit of tax losses and temporary differences not recognised	882,131	1,135,841
Income tax expense	–	–

### b) Tax losses

	Consolidated	
	2017 \$	2016 \$
Unused tax losses for which no deferred tax asset has been recognised:	33,069,324	29,441,668
Potential tax benefit*	10,543,902	9,576,145

\* 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	
	2017 \$	2016 \$
Cash at bank and on hand	677,917	1,773,950
	<b>677,917</b>	<b>1,773,950</b>

### 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% (2016: 0.0% and 0.5%).

## NOTE 10 – CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	Consolidated	
	2017 \$	2016 \$
Trade receivables	1,554,875	2,135,043
Less: Provision for doubtful debts (a)	(16,842)	(45,765)
	<b>1,538,033</b>	<b>2,089,278</b>
Other receivables	44,420	19,933
	<b>1,582,453</b>	<b>2,109,211</b>

### a) Impaired trade receivables

As at 30 June 2017 current trade receivables of the Group with a nominal value of \$16,842 (2016: \$45,765) were impaired. The amount of the provision was \$16,842 (2016: \$45,765).

	Consolidated	
	2017 \$	2016 \$
At 1 July	45,765	40,872
Provision for impairment recognised during the year	15,387	44,565
Receivables written off during the year as uncollectible	(44,310)	(39,672)
	<b>16,842</b>	<b>45,765</b>

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 2017, trade receivables of \$295,747 (2016: \$292,769) 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	
	2017 \$	2016 \$
0 – 30 days	132,144	182,617
30 – 60 days	67,813	403
> 60 days	95,790	109,749
	<b>295,747</b>	<b>292,769</b>

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	
	2017 \$	2016 \$
Raw materials and stores at cost	359,633	313,470
Finished goods at cost	104,000	104,736
	<b>463,633</b>	<b>418,206</b>

Inventories recognised as expense during the year ended 30 June 2017 amounted to \$411,714 (2016: \$483,147). A charge of \$Nil was taken to write-off obsolete inventories in the year ended 30 June 2017 (2016: \$Nil).

## NOTE 12 – CURRENT ASSETS – OTHER

	Consolidated	
	2017 \$	2016 \$
Prepayments	63,742	54,505
Other	22,926	27,476
	<b>86,668</b>	<b>81,981</b>

### NOTE 13 – NON-CURRENT ASSETS – PLANT AND EQUIPMENT

Consolidated	Manufacturing plant and equipment \$	Furniture, fittings and equipment \$	Devices leased to customers \$	Total \$
<b>At 1 July 2015</b>				
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
<b>Year ended 30 June 2016</b>				
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
<b>At 30 June 2016</b>				
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
<b>Year ended 30 June 2017</b>				
Opening net book amount	120,648	94,127	5,413	220,188
Additions	288	13,041	3,916	17,245
Exchange differences	–	(3,103)	82	(3,021)
Depreciation charge	(32,408)	(49,539)	(3,043)	(84,990)
Closing net book amount	88,528	54,526	6,368	149,422
<b>At 30 June 2017</b>				
Cost	508,210	748,922	9,443	1,266,575
Accumulated depreciation	(419,682)	(694,396)	(3,075)	(1,117,153)
Net book amount	88,528	54,526	6,368	149,422

#### NOTE 14 – CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	Consolidated	
	2017 \$	2016 \$
Trade payables	482,684	278,043
Customer prepayments	169,449	99,822
Employee benefits – annual leave	356,639	372,312
Other payables	396,219	507,657
	1,404,991	1,257,834

#### NOTE 15 – CURRENT LIABILITIES – PROVISIONS

	Consolidated	
	2017 \$	2016 \$
Current employee benefits – long service leave	121,910	125,825

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 \$121,910 (2016: \$125,825) 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	
	2017 \$	2016 \$
	121,910	117,245

#### NOTE 16 – NON-CURRENT LIABILITIES – PROVISIONS

	Consolidated	
	2017 \$	2016 \$
Employee benefits – long service leave	104,706	79,102

## NOTE 17 – CONTRIBUTED EQUITY

### a) Share capital

	2017 No. of shares	2016 No. of shares	2017 \$	2016 \$
Fully paid ordinary shares	233,630,539	201,720,539	41,126,573	39,126,899

### (b) Movements in ordinary share capital

Date	Details	No. of shares	Issue price \$	Total \$
1 July 2015	Opening 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
	Shares issued on exercise of options	1,460,000	\$0.08	116,800
21 Oct 2016	Shares issued on exercise of options	1,500,000	\$0.084	126,000
22 Nov 2016	Share placement	26,950,000	\$0.065	1,751,750
	Less: fees			(120,395)
23 Dec 2016	Share placement	2,000,000	\$0.065	130,000
	Less: fees			(4,481)
30 June 2017	Closing balance	233,630,539		41,126,573

### 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	
	2017 \$	2016 \$
Share-based payments reserve	2,243,864	2,064,246
Foreign currency translation reserve	83,584	(288,406)
	<b>2,327,448</b>	<b>1,775,840</b>

### MOVEMENTS

#### Share-based payments reserve

Balance 1 July	2,064,246	1,708,257
Option expense	179,618	355,989
Balance 30 June	<b>2,243,864</b>	<b>2,064,246</b>

#### Foreign currency translation reserve

Balance 1 July	(288,406)	(248,759)
Currency translation differences arising through the year	371,990	(39,647)
Balance 30 June	<b>83,584</b>	<b>(288,406)</b>

### b) Accumulated losses

Movements in accumulated losses were as follows:

	Consolidated	
	2017 \$	2016 \$
Balance 1 July	(37,761,964)	(32,956,072)
Net (loss) for the year	(4,363,571)	(4,805,892)
Balance 30 June	<b>(42,125,535)</b>	<b>(37,761,964)</b>

### 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 2017 and the directors do not recommend the payment of a dividend. There are no franking credits as at 30 June 2017 (2016: Nil).

## NOTE 20 – KEY MANAGEMENT PERSONNEL DISCLOSURES

### a) Key management personnel compensation

	Consolidated	
	2017 \$	2016 \$
Short-term employee benefits	1,219,694	1,414,707
Long-term benefits	10,641	14,211
Post-employment benefits	54,902	63,533
Share-based payments	86,090	143,659
	1,371,327	1,636,110

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	
	2017 \$	2016 \$
<b>Audit services</b>		
PricewaterhouseCoopers Australian firm		
Audit and review of financial reports and other audit work under the <i>Corporations Act 2001</i>	119,835	123,541
Total remuneration for assurance services	119,835	123,541

## 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	
	2017 \$	2016 \$
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	201,252	82,082
Later than one year but not later than five years	107,862	8,526
	<b>309,114</b>	<b>90,608</b>

## 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*	
			2017 %	2016 %
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**

On 8 August 2017 a share placement was completed in which 33,000,000 shares were placed with sophisticated investors, raising \$825,000 before fees.

A Share Purchase Plan has been announced to raise up to \$500,000. This will close on 18 September 2017.

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

	<b>Consolidated</b>	
	<b>2017</b> \$	<b>2016</b> \$
Loss for the year	(4,363,571)	(4,805,892)
Depreciation and amortisation	84,990	112,688
Noncash employee benefits expense – share-based payments	179,618	355,989
Unrealised exchange difference	387,844	(68,863)
<b>Change in operating assets and liabilities:</b>		
(Increase)/decrease in trade and other receivables	526,757	(560,303)
(Increase)/decrease in inventories	(45,426)	121,191
(Increase)/decrease in other operating assets	(4,687)	81,881
Increase/(decrease) in trade and other payables	147,157	(196,511)
Increase in other provisions	21,688	39,669
Net cash (outflow) from operating activities	(3,065,630)	(4,920,151)

## NOTE 29 – EARNINGS PER SHARE

### a) Earnings per share

	Consolidated	
	2017 Cents	2016 Cents
Basic earnings per share	(2.0)	(2.4)
Diluted earnings per share	(2.0)	(2.4)

### b) Reconciliations of earnings used in calculating earnings per share

	Consolidated	
	2017 \$	2015 \$
<b>Basic earnings per share</b>		
Loss from continuing operations	(4,363,571)	(4,805,892)
<b>Diluted earnings per share</b>		
Loss from continuing operations attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	(4,363,571)	(4,805,892)

### c) Weighted average number of shares used as the denominator

	Consolidated	
	2017 No. of shares	2016 No. of shares
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	221,263,936	198,465,298
<b>Adjustments for calculation of diluted earnings per share:</b>		
Options	-	-
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	221,263,936	198,465,298

### 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 2017.

## 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 5 trading days immediately before the options are granted.

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

Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	Expired/forfeited during the year	No. of shares	
							Balance at end of the year	Exercisable at end of the year
<b>Consolidated – 2017</b>								
21 Oct 11	21 Oct 16	\$0.084	1,500,000	–	(1,500,000)	–	–	–
16 Feb 12	16 Feb 17	\$0.098	1,297,500	–	–	(1,297,500)	–	–
23 Aug 12	23 Aug 17	\$0.075	2,555,000	–	–	(100,000)	2,455,000	2,455,000
5 Oct 12	5 Oct 17	\$0.075	200,000	–	–	–	200,000	200,000
26 Oct 12	26 Oct 17	\$0.084	1,400,000	–	–	–	1,400,000	1,400,000
19 Nov 12	19 Nov 17	\$0.085	125,000	–	–	–	125,000	125,000
29 Aug 13	29 Aug 18	\$0.139	3,193,333	–	–	(195,000)	2,998,333	2,998,333
31 Oct 13	31 Oct 18	\$0.181	2,100,000	–	–	–	2,100,000	2,100,000
28 Aug 14	28 Aug 19	\$0.112	1,825,000	–	–	–	1,825,000	1,216,667
24 Mar 15	24 Mar 20	\$0.194	350,000	–	–	–	350,000	233,333
20 Aug 15	20 Aug 20	\$0.256	2,600,000	–	–	(170,000)	2,430,000	1,620,000
13 Nov 15	13 Nov 19	\$0.261	2,000,000	–	–	–	2,000,000	2,000,000
13 Nov 15	13 Nov 20	\$0.250	1,000,000	–	–	–	1,000,000	333,334
18 Jan 16	18 Jan 21	\$0.197	500,000	–	–	(500,000)	–	–
12 Feb 16	12 Feb 21	\$0.199	350,000	–	–	–	350,000	116,667
Total			20,995,833	–	(1,500,000)	(2,262,500)	17,233,333	14,798,334
Weighted average exercise price			\$0.16	–	\$0.08	\$0.13	\$0.17	\$0.16

Grant date	Expiry date	Exercise price	Balance at start of the year	Granted during the year	Exercised during the year	No. of shares		
						Expired/forfeited during the year	Balance at end of the year	Exercisable at end of the year
<b>Consolidated – 2016</b>								
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	–
<b>Total</b>			<b>17,768,333</b>	<b>6,450,000</b>	<b>(3,047,500)</b>	<b>(175,000)</b>	<b>20,995,833</b>	<b>11,324,168</b>
<b>Weighted average exercise price</b>			<b>\$0.11</b>	<b>\$0.25</b>	<b>\$0.10</b>	<b>\$0.12</b>	<b>\$0.16</b>	<b>\$0.11</b>

965,000 options were forfeited during 2017 (2016: Nil) and 1,297,500 options expired (2016: 25,000) in the same period whilst 1,500,000 options were exercised (2016: 3,047,500).

The weighted average remaining contractual life of share options outstanding at the end of the period was 1.7 years (2016: 2.4 years).

#### Fair value of options granted

The weighted average assessed fair value at grant date of options granted during the year ended 2017 was Nil cents per option as no options were issued during the year (2016: 8.5 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 2017 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: \$n/a (2016: \$0.25)
- (c) expiry date: 5 years from grant date (2016: 5 years from grant date)
- (d) average share price at grant date: \$n/a (2016: \$0.21)
- (e) expected price volatility of the company's shares: 60% (2016: 60%)
- (f) expected dividend yield: Nil% (2016: Nil%)
- (g) risk free interest rate: 1.94% (2016: 2.00%).

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

#### **b) Expenses arising from share-based payment transactions**

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

	Consolidated	
	2017 \$	2016 \$
Options issued under employee option plan	179,618	355,989

### **NOTE 31 – PARENT ENTITY FINANCIAL INFORMATION**

#### **a) Summary financial information**

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

	2017 \$	2016 \$
<b>Balance sheet</b>		
Current assets	237,051	1,045,883
Total assets	16,763,571	46,932,940
Current liabilities	771,380	387,791
Total liabilities	15,800,785	15,406,509
<b>Shareholders equity</b>		
Issued capital	47,583,863	45,584,189
Reserves – Share based payments	2,243,864	2,064,246
Accumulated losses	(48,864,942)	(16,122,004)
	962,785	31,526,431
Loss for the year	(32,742,938)	(1,755,886)
Total comprehensive loss	(32,742,938)	(1,755,886)

#### **(b) Explanation of loss**

During the year, given the results of the Group, the investment in subsidiary of \$15,132,000 was written down to Nil. Additionally, an impairment of \$17,000,000 was recognised against the intercompany receivables in the parent entity.

#### **(c) Guarantees entered into by the parent entity**

No guarantees have been entered into by the parent entity during 2017 or 2016.

#### **(d) Contingent liabilities of the parent entity**

The parent entity did not have any contingent liabilities as at 30 June 2017 or 30 June 2016.

#### **(e) Contractual commitments**

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

## DIRECTORS' DECLARATION

For the year ended 30 June 2017

In the directors' opinion:

- (a) the financial statements and notes set out on pages 20 to 46 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 2017 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

31 August 2017

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS



## *Independent auditor's report*

To the shareholders of AtCor Medical Holdings Limited

### *Report on the audit of the financial report*

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#### *Our opinion*

In our opinion:

The accompanying financial report of AtCor Medical Holdings Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### **What we have audited**

The financial report comprises:

- the balance sheet as at 30 June 2017
- the statement of comprehensive income for the year then ended
- the statement of changes in equity for the year then ended
- the cash flow statement for the year then ended
- the notes to the financial statements, which include a summary of significant accounting policies
- the directors' declaration.

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#### *Basis for opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

#### **Independence**

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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### *Material uncertainty related to going concern*

We draw attention to Note 1(b) in the financial report, which indicates that the Group incurred an operating loss after tax of \$4,363,571 and net cash outflows from operating activities of \$3,065,630 during the year ended 30 June 2017. As at 30 June 2017, the consolidated entity has cash and cash equivalents of \$677,917 and no debt. Subsequent to year end, the Group has successfully secured net capital injection of \$775,000 through a capital raising. 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 meeting its sales targets or raising further capital to support an investment in achieving sales forecasts. These conditions, along with other matters set forth in Note 1(b), indicate that a material uncertainty exists that may cast significant doubt on the consolidated entity's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### *Our audit approach*

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



<b>Materiality</b>	<b>Audit scope</b>	<b>Key audit matters</b>
<ul style="list-style-type: none"> <li>For the purpose of our audit we used overall Group materiality of \$177,500, which represents approximately 5% of the Group's three year average profit/loss before tax.</li> <li>We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.</li> <li>We chose Group profit/loss before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured. Due to fluctuations in profit</li> </ul>	<ul style="list-style-type: none"> <li>Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.</li> </ul>	<ul style="list-style-type: none"> <li>Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee: <ul style="list-style-type: none"> <li>Material uncertainty related to going concern</li> <li>Disclosure of parent entity's net investment</li> </ul> </li> <li>These are further described in the <i>Key audit matters</i> section of our report, except for the matter which is described in the <i>Material uncertainty related to going concern</i> section.</li> </ul>



<b>Materiality</b>	<b>Audit scope</b>	<b>Key audit matters</b>
<p>and loss from year to year, we chose a three year average.</p> <ul style="list-style-type: none"> <li>• We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.</li> </ul>		

#### **Key audit matters**

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matter described below to be the key audit matter to be communicated in our report.

<b>Key audit matter</b>	<b>How our audit addressed the key audit matter</b>
<p><b>Disclosure of parent entity's net investment (Refer to note 1(v) and note 31 (a) and (b))</b></p> <p>In the notes to the financial statements the Group has disclosed that given the results of the Group during the year, the parent entity has written down its investment in subsidiary by \$15,132,000 to a nil value, and has recognised an impairment provision of \$17,000,000 against the intercompany receivables in the parent entity.</p> <p>This is a key audit matter due to the importance of the parent entity disclosure to the users of the accounts and the magnitude of the investment written down and impairment provision.</p>	<p>We have tested the Group's disclosure and the impairment analysis by performing the following:</p> <ul style="list-style-type: none"> <li>• Comparing the parent entity's net investment (being the parent entity investment in the subsidiary and intercompany receivables) in its subsidiaries against the market capitalisation of the Group and the consolidated net assets of the Group at 30 June 2017;</li> <li>• Considering the carrying value of the parent entity's net investments in its subsidiaries by testing the Group's cash flow forecasts for the period to end of August 2018 to assess the future profitability of the Group;</li> <li>• Testing the disclosures made in the financial report of the Group in relation to the investment written down and the impairment provision recognised by the parent entity.</li> </ul>

#### **Other information**

The directors are responsible for the other information. The other information comprises the Corporate directory, CEO's Report, and Director's report included in the Group's annual report for the year ended 30 June 2017 but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.



#### *Responsibilities of the directors 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 *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

#### *Auditor's responsibilities for the audit of the financial report*

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.

#### *Report on the remuneration report*

##### *Our opinion on the remuneration report*

We have audited the remuneration report included in pages 7 to 17 of the directors' report for the year ended 30 June 2017.

In our opinion, the remuneration report of AtCor Medical Holdings Limited for the year ended 30 June 2017 complies with section 300A of the *Corporations Act 2001*.

#### *Responsibilities*

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.

PricewaterhouseCoopers

PricewaterhouseCoopers

S Prakash

S Prakash  
Partner

Sydney  
31 August 2017

## SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 11 October 2017.

### 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	51	6,162
1,001 to 5,000	133	486,637
5,001 to 10,000	165	1,351,871
10,001 to 100,000	745	30,981,392
100,001 and Over	359	248,197,402
Total	1,453	281,023,494

There were 484 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	5.50%
Mr Paul Joseph Cozzi	8,866,903	3.16%
Mr Paul Cozzi	7,790,883	2.77%
Pehila Pty Ltd <O'Rourke Super Fund A/C>	5,896,951	2.10%
Prof Michael Francis O'Rourke	5,670,370	2.02%
Mr Donald O'Dwyer & Mrs Judith O'Dwyer <Dundrum Super Fund A/C>	5,194,902	1.85%
Souttar Superannuation Pty Ltd <Greenslade Super Fund A/C>	5,187,635	1.85%
Pacific Union Capital Pty Ltd	4,000,000	1.42%
Drumnadrochit Futures Pty Ltd	3,887,489	1.38%
Mr Richard Ewan Mews & Ms Wee Khoon Mews <Mews Super Fund A/C>	3,638,220	1.29%
BNP Paribas Nominees Pty Ltd <IB AU Noms Retailclient DRP>	3,513,430	1.25%
Mr Pawel Rej & Mrs Mirosława Rej	3,490,901	1.24%
CPO Superannuation Fund Pty Ltd <C & P O'Connor S/F A/C>	3,450,000	1.23%
Corporate Property Services Pty Ltd <K W Share A/C>	3,280,837	1.17%
Custodial Services Limited <Beneficiaries Holding A/C>	3,002,979	1.07%
Rigi Investments Pty Ltd <The Cape A/C>	3,000,000	1.07%
Mr Duncan Richardson Ross & Ms Carol Harvey Ross	2,916,667	1.04%
Forsyth Barr Custodians Ltd <Forsyth Barr Ltd-Nominee A/C>	2,687,213	0.96%
Citicorp Nominees Pty Limited	2,580,111	0.92%
Geoffrey David Hugh Tucker	2,500,000	0.89%
<b>Total</b>	<b>96,025,491</b>	<b>34.17%</b>

### **Unquoted equity securities**

	<b>No. on issue</b>	<b>No. of holders</b>
Options issued under the AtCor Medical Holdings Employee Share Option Plan to take up ordinary shares	11,778,333	16
Other unquoted options to take up ordinary shares	2,300,000	5
	14,078,333	21

### **C. SUBSTANTIAL HOLDERS**

Substantial holders in the company are set out below:

	<b>No. of shares held</b>	<b>Percentage of issued shares</b>
CB Co Pty Ltd <The Curran Superannuation Fund>	15,470,000	5.50%

### **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 30 November 2017 from 10:00am at DibbsBarker offices, Level 8, Angel Place, 123 Pitt Street Sydney NSW 2000.

## CORPORATE DIRECTORY

### DIRECTORS

Mr Donal O'Dwyer, Non-executive Chairman (BEng, MBA)  
Mr Duncan Ross, CEO and Managing Director (BS, BBus)  
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  
One International Towers  
Sydney  
Watermans Quay  
Barangaroo NSW 2000

### SOLICITORS

DibbsBarker  
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