



**Annual Statutory Accounts**

**Year ended 30 June 2009**

# MEDIGARD LTD

ABN 49 090 003 044

## Full Year Statutory Accounts

For the year ended 30 June 2009

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## **Directors Report**

Your directors present their report on the company for the financial year ended 30 June 2009.

### **Directors**

The names of directors in office at any time during or since the end of the year are:

DONALD J CHANNER  
PETER W CLARK  
CHRISTOPHER J BISHOP (Appointed 1 September 2008)  
GRANT D PETERSON (Resigned 1 September 2008)  
PATRICIA M BOERO (Alternate for Mr D J Channer)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

### **Company Secretary**

The following person held the position of company secretary at the end of the financial year:

Mr Peter Emery – Mr Emery has had over thirty years experience in management of businesses as lawyer, investment banker, company director, consultant and academic. Amongst other awards, he holds the Advanced Company Directors Diploma. He was appointed company secretary on 10 July 2003.

### **Principal Activities**

The principal activities of the company during the year were the finalisation of existing products, regulatory and other approvals, marketing to, and negotiation with potential strategic partners and development of new products. Included in activities were further research and development and the maintenance of, and new applications for relevant patents.

### **Operating Results**

The operating loss of the company after providing for income tax is \$761,323.

### **Dividends Paid or Recommended**

No dividends have been paid or declared for payment.

## **REVIEW OF OPERATIONS**

### **Research and Development**

The Medigard safety blood collection device, and automatic vacuum retractable syringe have been manufactured in sufficient quantities to allow testing and evaluation. The blood collection device has been evaluated by several major US hospitals and clinics with pleasing results. The company has also

received approval from the FDA in the USA which allows marketing of the BCD product. The syringe is the subject of an FDA application and has also been the subject of discussions and negotiations with potential manufacturers and distributors.

### **Financial Position**

The net assets of the company have decreased from \$1,263,215 at 30 June 2008 to \$833,255 at 30 June 2009. This decrease has resulted from the expenditure on research and development and associated operating and marketing costs.

### **Future Developments, Prospects and Business Strategies**

The company is in active discussions with US manufacturers and distributors. The company hopes to conclude negotiations in the short term with a view to both making and selling the Medigard products in North America. Thereafter Medigard will seek entry into other major international markets.

### **Significant Changes in State of Affairs**

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

### **After Balance Date Events**

There have been no significant events since balance date.

### **Environmental Issues**

All products have as their core philosophy 'the protection of the community', to the extent that the medical and social environments are rendered safer as a consequence of the subject medical instruments. This tenet extends to all pursuits of the company.

### **Information on Directors**

<b>D J CHANNER</b>	- Chairman Non-executive
Qualifications	- Bachelor of Engineering (University of Queensland)
Experience	- Appointed Chairman at incorporation. He has been involved in many private companies as both director and chairman
Interest in shares and options	27,117,692 ordinary shares in Medigard Limited and 4,566,004 shares held by an associated entity Sun Sea Pty Ltd as trustee for the Sun Sea Investment Trust. 9,039,231 listed options are held with 1,522,001 listed options held by Sun Sea Pty Ltd as trustee for the Sun Sea Investment Trust.
Special Responsibilities	- Member of the Nomination and Remuneration Committee - Member of the Finance Committee

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<b>P W CLARK</b>	- Executive
Qualifications	- Bachelor of Science (University of Queensland) - Doctor of Philosophy (Indiana University) - Master of Business Administration (University of Queensland)
Experience	- Board member since incorporation. Significant experience as Business Consultant specialising in innovation commercialisation, business planning, market research, analysis and reports
Interest in Shares and Options	7,568,687 ordinary shares in Medigard Limited, holds 41,659 shares in Medigard jointly with his spouse and 104,132 shares held by spouse. 2,522,896 listed options are held and a further 13,886 listed options held with his spouse and 34,711 listed options are held by spouse.
Special Responsibilities	- Chairman of the Nomination and Remuneration Committee
<b>C J BISHOP</b>	- Non-executive (Appointed 1 September 2008)
Qualifications	- Bachelor of Science (University of Auckland) - Doctor of Philosophy (University of Queensland)
Experience	Significant experience in the development and manufacture of sophisticated electronic products including medical instruments
Interest in Shares and Options	283,334 ordinary shares in Medigard Limited. 94,445 listed options are held.
Special Responsibilities	- Member of the Audit and Risk Committee - Member of the Nomination and Remuneration Committee - Chairman of the Finance Committee
<b>G D PETERSON</b>	- Non-executive (Resigned 1 September 2008)
Qualifications	- Bachelor of Commerce (University of Queensland) - Diploma of Securities Institute of Australia
Experience	Experience in accountancy, commercial business ventures, and corporate and international banking
Interest in Shares and Options	No ordinary shares in Medigard Limited. 2,750,000 options are held.
Special Responsibilities	- Member of the Audit and Risk Committee - Member of the Nomination and Remuneration Committee - Chairman of the Finance Committee
<b>P M BOERO</b>	- Alternate director for D J Channer (Non-executive)
Qualifications	- Bachelor of Business (University of Central Queensland) - Chartered Accountant
Experience	- Over 30 years experience in accounting and financial services across a broad range of industries.
Interest in Shares and Options	725,829 ordinary shares in Medigard Limited and 25,000 shares held by an associated entity The Boero Family Trust. 1,500,000 unlisted options and 241,943 listed options are held. The Boero Family Trust holds 8,333 listed options.
Special Responsibilities	- Member of the Audit and Risk Committee

## **Remuneration Report (Audited)**

This report details the nature and amount of remuneration for the key management personnel of Medigard during the financial year. The key management personnel consists of the directors and Peter Emery. There were no executives of the company other than those included as part of key management personnel.

### **Remuneration Policy**

The remuneration policy of Medigard Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long term incentives. The board of Medigard Limited believes the remuneration to be appropriate for the current stage of the company's development.

The directors receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits.

All remuneration paid to directors and executives is valued at the cost to the company and expensed. Shares given to directors and executives are to be valued as the difference between the market price of those shares and the amount paid by the director or executive. Options are valued using the Black-Scholes methodology.

The board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The maximum aggregate amount of fees that can be paid to directors is subject to approval by shareholders at the Annual General Meeting.

The remuneration policy is designed to recognise effort of directors, key personnel and consultants. It is not linked directly to the current financial performance of the company.

The financial performance of the company since listing in 2004 is reflected in the accumulated losses of \$3,552,555. The company is continuing on the path to commercialisation. This has impacted on shareholders wealth as reflected in the 30 June 2009 share price of \$0.08 compared to the listing price of \$0.20.

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**Details of remuneration for year ended 30 June 2009**

The remuneration for the key management personnel of the company was as follows –

**2009**

Director	Short Term Benefits		Share Based Payment Equity Settled Options	Other Benefits Insurance	Total	% share based payments
	Cash Salary	Super-annuation				
	\$	\$	\$	\$	\$	
Mr D J Channer	33,000	2,970	-	1,843	37,813	-
Dr P W Clark	52,501	4,725	-	1,843	59,069	-
Dr C J Bishop	15,625	1,406	9,000	1,536	27,567	34.04%
Mr G D Peterson	3,125	281	-	307	3,713	-
Mrs P M Boero	18,000	-	-	1,843	19,843	-
	122,251	9,382	9,000	7,372	148,005	

**Other Key Management Personnel**

Mr P M Emery	60,825	-	-	1,843	62,668	
	183,076	9,382	9,000	9,215	210,673	

**2008**

Director	Short Term Benefits		Share Based Payment Equity Settled Options	Other Benefits Insurance	Total	% share based payments
	Cash Salary	Super-annuation				
	\$	\$	\$	\$	\$	
Mr D J Channer	42,167	3,960	-	1,843	47,970	0
Dr P W Clark	67,083	6,300	-	1,843	75,226	0
Mr G D Peterson	23,958	2,250	187,909	1,843	215,960	87.11%
Mrs P M Boero	18,000	-	102,496	1,843	122,339	83.78%
	151,208	12,510	290,405	7,372	461,495	

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**Other Key  
Management  
Personnel**

Mr P M Emery	66,575	-	170,826	1,843	239,244
	217,783	12,510	461,231	9,215	700,739

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**Options Granted as Remuneration**

- There were no options granted as remuneration during the year ended 30 June 2009

Options granted as remuneration during the year ended 30 June 2008.

Director	Granted No	Grant Date	Value per Option at Grant Date	Exercise Price per Option Granted	Expiry Date per Option Granted
Mr G D Peterson	2,750,000	17.08.07	0.068	0.20	17.08.12
Mrs P M Boero	1,500,000	17.08.07	0.068	0.20	17.08.12
	4,250,000				

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**Other Key Management  
Personnel**

Mr P M Emery	2,500,000	17.08.07	0.068	0.20	17.08.12
	6,750,000				

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**Notes in relation to options**

- All options were issued in consideration for services rendered.
- All options vested on the grant date
- No options were forfeited during the year
- The value of options granted has been disclosed in the remuneration tables.

**Service Agreements**

Service agreements entered into with key management personnel do not provide for pre-determined compensation values or the manner of payment. Compensation is determined in accordance with the general remuneration policy outlined above. The manner of payment is determined on a case by case basis and is generally a mix of cash and non-cash benefits as considered appropriate by the Nomination and Remuneration Committee.

It is the Company's policy that service contracts for key management personnel are unlimited in term but capable of termination on three month's notice. The Company retains the right to terminate the contract immediately by making payment equal to three month's pay in lieu of notice.

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On termination, key management personnel are entitled to receive their statutory entitlements of accrued annual and long service leave, together with any superannuation benefits. No other termination benefits are payable.

**This is the end of the remuneration report.**

**Meetings of Directors**

During the financial year, eleven meetings of directors were held. Three committee meetings were held during that time. Attendances by each director during the year were:

Directors	Director's Meetings		Committee Meetings					
			Audit & Risk		Finance		Nomination & Remuneration	
	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended	Number eligible to attend	Number Attended
D.J. CHANNER	11	11	0	0	1	1	1	1
P. W. CLARK	11	11	1	1	0	0	1	1
CJ BISHOP	9	9	0	0	0	0	0	0
G. D. PETERSON	2	2	1	1	1	1	1	1
P.M. BOERO	0	0	1	1	0	0	0	0

**Indemnifying Officers or Auditor**

During or since the end of the financial year the company has given an indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums as follows:

The company has paid premiums to insure each of the following directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of director of the company, other than conduct involving a wilful breach of duty in relation to the company:

- Donald J Channer
- Peter W Clark
- Christopher J Bishop
- Grant D Peterson
- Patricia M Boero

The total premium has been allocated equally amongst the directors.

The company has not indemnified the auditors.

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**Options**

As at the date of this report the unissued ordinary shares of Medigard Limited under options are as follows:

Grant Date	Date of expiry	Exercise price	Number
17/08/2007	17/08/2012	\$0.20	6,750,000
17/01/2008	17/01/2011	\$0.20	850,000
21/04/2009	31/03/2010	\$0.12	24,583,352
			<u>32,183,352</u>

No person entitled to exercise the option had or has any right by virtue of the option to participate in any share issue of the company or of any other body corporate.

**Proceedings on Behalf of Company**

No person has applied for leave of Court to bring proceedings on behalf of the company or 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 any part of those proceedings.

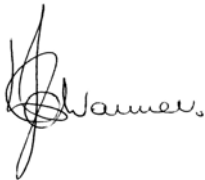
The company was not a party to any such proceedings during the year.

**Non-audit Services**

No fees were paid to the external auditors for non-audit services during the year ended 30 June 2009.

**Auditor's Independence Declaration**

The auditor's independence declaration for the year ended 30 June 2009 has been received and can be found on the following page.



Signed in accordance with a resolution of the Board of Directors on 24 September 2009.

Director                      Donald J Channer



BDO Kendalls

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ABN 70 202 702 402

**DECLARATION OF INDEPENDENCE BY ANTHONY WHYTE TO  
THE DIRECTORS OF MEDIGARD LIMITED**

As lead auditor of Medigard Limited for the year ended 30 June 2009, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

**BDO Kendalls (QLD)**

A handwritten signature in black ink, appearing to be 'A J Whyte'. The signature is stylized with overlapping loops and a long horizontal stroke extending to the right.

**A J Whyte**

Brisbane  
24 September 2009

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**INCOME STATEMENT**  
**FOR THE YEAR ENDED 30 JUNE 2009**

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		2009	2008
		\$	\$
Revenue	2	169,504	251,219
Depreciation and amortisation expense	3	(43,687)	(37,565)
Finance costs		(6,255)	-
Other expenses	3	(880,885)	(1,472,649)
Loss before income tax expense	3	(761,323)	(1,258,995)
Income tax expense	4	-	-
Loss for the year		<u>(761,323)</u>	<u>(1,258,995)</u>
Basic earnings per share (cents per share)	7	(1.10)	(1.86)
Diluted earnings per share (cents per share)		(1.10)	(1.86)

The Income Statement should be read in conjunction with the Notes to the financial statements.

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**BALANCE SHEET**  
**AS AT 30 JUNE 2009**

		2009	2008
		\$	\$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	8	276,374	131,673
Trade and other receivables	9	108,808	122,373
Financial assets	10	298,250	650,500
Other current assets	11	4,462	22,560
<b>TOTAL CURRENT ASSETS</b>		<b>687,894</b>	<b>927,106</b>
<b>NON-CURRENT ASSETS</b>			
Financial Assets	10	96,696	201,555
Property, plant and equipment	12	10,883	15,575
Intangible assets	13	217,314	172,999
Other non current assets	14	10,560	10,560
<b>TOTAL NON-CURRENT ASSETS</b>		<b>335,453</b>	<b>400,689</b>
<b>TOTAL ASSETS</b>		<b>1,023,347</b>	<b>1,327,795</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables	15	86,902	64,580
Interest bearing liabilities	16	103,190	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>190,092</b>	<b>64,580</b>
<b>TOTAL LIABILITIES</b>		<b>190,092</b>	<b>64,580</b>
<b>NET ASSETS</b>		<b>833,255</b>	<b>1,263,215</b>
<b>EQUITY</b>			
Issued Capital	17	3,865,963	3,534,600
Reserves	18	519,837	519,837
Retained losses		(3,552,545)	(2,791,222)
<b>TOTAL EQUITY</b>		<b>833,255</b>	<b>1,263,215</b>

The Balance Sheet should be read in conjunction with the Notes to the financial statements.

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**STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2009**

	Issued Capital	Retained Earnings	Share Based Payment Reserve	Total Equity
	\$	\$	\$	\$
<b>At 1 July 2007</b>	3,534,600	(1,532,227)	19,613	2,021,986
Loss for the Year		(1,258,995)	-	(1,258,995)
Issue of Shares	-	-	-	-
Issue of Options	-	-	500,224	500,224
<b>At 30 June 2008</b>	<b>3,534,600</b>	<b>(2,791,222)</b>	<b>519,837</b>	<b>1,263,215</b>
Loss for the Year	-	(761,323)	-	(761,323)
Cost of Share Issue	(37,637)	-	-	(37,637)
Issue of Shares	360,000	-	-	360,000
Issue of Options	-	-	-	-
<b>At 30 June 2009</b>	<b>3,865,963</b>	<b>(3,552,545)</b>	<b>519,837</b>	<b>833,255</b>

The Statement of Changes in Equity should be read in conjunction with the Notes to the Financial Statements.

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**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2009**

	2009	2008
	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Payments to suppliers and employees	(609,475)	(624,130)
Research and Development Tax Offset	113,489	172,695
GST Refunded	28,129	27,774
Interest received	71,620	143,680
Net cash used in operating activities	22a <u>(396,237)</u>	<u>(279,981)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	201,885	382,307
Purchase of property, plant and equipment	(362)	(868)
Proceeds from sale of property, plant and equipment	548	-
Purchase of other non-current assets	(83,496)	(45,850)
Net cash provided by investing activities	<u>118,575</u>	<u>335,589</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from Issue of Shares	360,000	-
Payment for Costs of Share Purchase Plan	(37,637)	-
Proceeds from loans	100,000	-
	<u>422,363</u>	<u>-</u>
Net increase/(decrease) in cash held	144,701	55,608
Cash at 1 July 2008	131,673	76,065
Cash at 30 June 2009	8 <u><b>276,374</b></u>	<u><b>131,673</b></u>

The Cash Flow statement should be read in conjunction with the Notes to the financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2009**

**Note 1 Statement of Significant Accounting Policies**

The financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, including Australian Accounting Interpretations other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001. The Financial Report also complies with all International Financial Reporting Standards (IFRS) in their entirety.

The financial report covers Medigard Limited as an individual company. Medigard Limited is a listed public company, incorporated and domiciled in Australia.

The following is a summary of the material accounting policies adopted by the company in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

**Basis of Preparation**

The accounting policies set out below have been consistently applied to all years presented.

**Reporting Basis and Conventions**

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected assets for which the fair value basis of accounting has been applied.

**Going Concern**

The financial statements have been prepared on a going concern basis which contemplates the continuity of normal business activities and the realisation of assets and discharge of liabilities in the ordinary course of business. The ability of the company to continue to adopt the going concern assumption will depend upon the successful commercialisation of the company's medical products. The company is in active discussions with US manufacturers and distributors and is hoping to conclude the negotiations in the short term with a view to both making and selling the Medigard products in North America.

The ability of the company to continue to adopt the going concern assumption is also dependent on the company being able to raise capital as and when required. A successful conclusion to current negotiations with US manufacturers and distributors is expected to assist with the raising of capital if required.

## **Accounting Policies**

### **a Income Tax**

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

### **b Property, Plant and Equipment**

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

#### **Plant and equipment**

Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the asset's employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

#### **Depreciation**

The depreciable amount of all fixed assets is depreciated on a straight line basis over their useful lives to the company commencing from the time the asset is held ready for use. Properties held for investment purposes are not subject to depreciation.

The depreciation rates used for each class of depreciable assets are:

Plant and equipment	20%
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**c Financial Instruments**

**Recognition**

Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are measured as set out below.

**Loans and Receivables**

Loans and receivables are non-derivates financial instruments. Subsequent to initial recognition, they are recognised at amortised cost using the effective interest method less any impairment losses.

**Financial assets at fair value through profit and loss**

A financial asset is classified in this category if acquired principally for the purpose of selling in the short term, or if so designated by management and within the requirement of AASB 139: Recognition and Measurement of Financial Instruments. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

**d Fair Value**

Fair value is determined based on current bid prices for all quoted investments and market pricing models for unlisted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models (refer Note 26 for further details).

**e Intangibles**

**Patents and Trademarks**

Patents and trademarks are recognised in the accounts at cost of acquisition. Patents and trademarks have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. Patents and trademarks are amortised over their useful life.

**Research and Development Expenditure**

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project will deliver future economic benefits and these benefits can be measured reliably.

Development costs have a finite life and are amortised on a systematic basis matched to the future economic benefits over the useful life of the project.

**f Equity-settled compensation**

The company operates a share-based compensation plan. The total amount to be expensed over the vesting period is determined by reference to the fair value of the shares or the options granted.

**g Cash and Cash Equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the balance sheet.

**h Revenue**

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Net gains/losses on financial assets at fair value through the Profit and Loss exclude any interest income earned in relation to the financial assets.

All revenue is stated net of the amount of goods and services tax (GST).

**i Leases**

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

**j Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

**k Comparative Figures**

Where required by Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

**1 Impairment of Assets (including financial instruments)**

The company assesses impairment at each reporting date by evaluating conditions specific to the company that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined by reference to the fair value of the financial instrument at balance date.

**m Critical Accounting Estimates and Judgements**

**Key Judgements – Market Value of Floating Rate Notes**

Included in Financial Assets are Floating Rate Notes which have been booked to account at a value of \$394,946 at 30 June 2009. The current market for floating rate notes has been adversely affected by the difficulty in global financial markets and the thin trading that prevails for such investments. Any sale of these financial assets will be conducted in an orderly manner as working capital is required.

	<b>2009</b>	<b>2008</b>
	\$	\$
<b>Note 2 Revenue</b>		
Operating activities		
- interest received – cash at bank	7,087	17,436
interest received – financial instruments	64,533	120,294
- Research & Development Tax Offset	97,884	113,489
	169,504	251,219

**Note 3 Loss for the Year**

**a. Expenses:**

Depreciation of non-current assets:

- Plant and equipment	4,506	6,908
Total depreciation	4,506	6,908

Amortisation of non-current assets

- Patents & Trademarks	39,181	30,657
Total amortisation	39,181	30,657

Rental Expense	27,618	28,954
Research and Development Costs	213,677	230,993
Consulting Fees	60,825	530,806
Directors Fees	113,250	133,207
Fees & Permits	35,896	34,099
Loss on Financial Assets at fair value through Profit and Loss	255,223	359,447
Other Expenses	174,396	155,143
	880,885	1,472,649

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	2009	2008
	\$	\$
<b>Note 4 Income Tax Expense</b>		
a. The prima facie tax on loss from ordinary activities before income tax is reconciled to the income tax as follows:		
Prima facie tax benefit on loss from ordinary activities before income tax at 30% (2008: 30%)	228,397	377,698
Less: Tax effect of permanent differences	(29,365)	116,020
Less: Tax effect of timing differences not brought to account	57,099	107,848
Income tax credit attributable to company	-	153,830
Future income tax benefits not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1(a) occur	(200,663)	(153,830)
Income Tax Expense	-	-
Total value of tax losses carried forward	411,508	381,324

**Note 5 Interests of Key Management Personnel**

**Options Holdings**

**Number of Options Held by Key Management Personnel**

	Balance 1.07.2008	Granted as Compen- sation	Options Exercised	Net Change Other	Balance 30.06.2009	Total Exercisable 30.06.09
Mr D J Channer	-	-	-	10,561,232	10,561,232	10,561,232
Dr P W Clark	-	-	-	2,571,493	2,571,493	2,571,493
Dr C J Bishop	-	-	-	94,445	94,445	94,445
Mr G D Peterson	2,750,000	-	-	-	2,750,000	2,750,000
Mrs P M Boero	1,500,000	-	-	250,276	1,750,276	1,750,276
Mr P M Emery	2,500,000	-	-	130,139	2,630,139	2,630,139
	6,750,000	-	-	13,607,585	20,357,585	20,357,585

**Note** All options issued to key personnel vested on grant date.

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**Shareholdings**

**Number of Shares Held by Key Management Personnel**

	Balance 1.7.2008	Received as Compen- sation	Options Exercised	Net Change Other	Balance 30.06.2009
Mr D J Channer	31,600,362	-	-	83,334	31,683,696
Dr P W Clark	7,681,144	-	-	33,334	7,714,478
Dr C J Bishop	-	200,000		83,334	283,334
Mr G D Peterson	587,703	-	-	(587,703)	-
Mrs P M Boero	667,495	-	-	83,334	750,829
Mr P M Emery	390,416	-	-	-	390,416
	<u>40,927,120</u>	<u>200,000</u>	<u>-</u>	<u>(304,367)</u>	<u>40,822,753</u>

**2009**  
\$

**2008**  
\$

**Note 6 Auditor's remuneration**

Remuneration of the auditor of the company for:

- auditing or reviewing the financial report	24,926	20,755
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**Note 7 Earnings per Share**

**a. Reconciliation of Earnings to Net Profit or Loss**

Net Loss	(761,323)	(1,258,995)
Earnings used in the calculation of basic EPS	<u>(761,323)</u>	<u>(1,258,995)</u>

**b. Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS**

Weighted average number of ordinary shares outstanding during the year used in calculation of basic EPS	69,085,356	67,550,000
Weighted average number of options outstanding	<u>12,620,871</u>	<u>6,582,603</u>

**Note 8 Cash and Cash Equivalents**

Cash at bank	276,374	131,673
	<u>276,374</u>	<u>131,673</u>

Reconciliation of Cash

Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows:

Cash	<u>276,374</u>	<u>131,673</u>
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The effective interest rate on short-term bank deposits was 2.8% (2008: 8.40%).

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	2009	2008
	\$	\$
<b>Note 9 Receivables</b>		
CURRENT		
Short Term Deposits	500	500
Other Debtors	108,308	121,873
	108,808	122,373

No receivables are past due or impaired at year end.

**Note 10 Other Financial Assets**

CURRENT		
Investments held at fair value through Profit and Loss account.		
Floating Rate Interest Rate Securities – listed, at market value	298,250	650,500
NON CURRENT		
Investments held at fair value through Profit and Loss account.		
Floating Rate Interest Rate Securities –unlisted, at valuation	96,696	201,555

**Note 11 Other**

Prepayments	4,462	22,560
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**Note 12 Property Plant and Equipment**

Plant and Equipment – at cost	55,099	56,418
Less: Accumulated depreciation	(44,216)	(40,843)
Carrying amount at the end of the year	10,883	15,575
Balance at beginning of the year	15,575	21,615
Additions – at cost	362	868
Disposal	(548)	-
Depreciation expense	(4,506)	(6,908)
Carrying amount at the end of the year	10,883	15,575

**Note 13 Intangible Assets**

Patents, and trademarks – at cost	365,708	282,212
Less: Accumulated amortisation	(148,394)	(109,213)
	217,314	172,999

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	2009	2008
	\$	\$
Balance at beginning of year	172,999	177,550
Additions – at cost	83,496	26,106
Amortisation	(39,181)	(30,657)
Carrying amount at the end of the year	217,314	172,999

**Note 14 Other Assets**

Research and development – at cost	10,560	10,560
Accumulated Amortisation	-	-
	10,560	10,560

**Note 15 Payables**

CURRENT

Unsecured Liabilities

Trade Creditors	48,270	47,876
Sundry Creditors and Accrued Expenses	38,632	16,704
	86,902	64,580

**Note 16 Interest Bearing Liabilities**

CURRENT

Unsecured Loan – D J Channer

	103,190	-
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**Note 17 Issued Capital**

a. 73,750,055 (2008: 67,550,000) fully paid ordinary shares	3,865,963	3,534,600
	3,865,963	3,534,600

No.

No.

At the beginning of the reporting period	67,550,000	67,550,000
Shares issued during the year		
- 20 January 2009 – Remuneration Share Issue	200,000	
3 April 2009 – Share Purchase Plan	6,000,055	
At reporting date	73,750,055	67,550,000

**b. Options**

- i. 24,583,352 listed options issued under the shareholders loyalty plan on 21 April 2009. The options were issued for no consideration.
- ii. 316,667 unlisted options lapsed 18 June 2009.

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As at 30 June 2009 the unissued ordinary shares of Medigard Limited under options were as follows:

Grant Date	Date of expiry	Exercise price	Number
17/08/2007	17/08/2012	\$0.20	6,750,000
17/01/2008	17/01/2011	\$0.20	850,000
21/04/2009	31/03/2010	\$0.12	24,583,352
			<u>32,183,352</u>

As at 30 June 2008 the unissued ordinary shares of Medigard Limited under options were as follows:

Grant Date	Date of expiry	Exercise price	Number
18/06/2004	18/06/2009	\$0.40	100,000
18/07/2004	18/06/2009	\$0.40	16,667
18/08/2004	18/06/2009	\$0.40	16,667
18/09/2004	18/06/2009	\$0.40	16,666
18/10/2004	18/06/2009	\$0.40	16,667
18/11/2004	18/06/2009	\$0.40	16,667
18/12/2004	18/06/2009	\$0.40	16,666
18/01/2005	18/06/2009	\$0.40	16,667
18/02/2005	18/06/2009	\$0.40	16,667
18/03/2005	18/06/2009	\$0.40	16,666
18/04/2005	18/06/2009	\$0.40	16,667
18/05/2005	18/06/2009	\$0.40	16,667
18/06/2005	18/06/2009	\$0.40	16,666
18/07/2005	18/06/2009	\$0.40	16,667
17/08/2007	17/08/2012	\$0.20	6,750,000
17/01/2008	17/01/2011	\$0.20	850,000
			<u>7,916,667</u>

**c. Capital Risk Management**

The company manages its capital to ensure that the company will be able to continue as a going concern and meet performance milestones set in the budget.

The company's overall strategy remains unchanged from 2008.

The capital structure of the company consists of the funds raised when the company floated less accumulated losses to date and the unsecured loan.

**Note 18 Reserves**

**Share Based Payment Reserve**

The share based payment reserve is used to recognise the fair value of options issued to directors and employees.

All options have been valued using the Black-Scholes option pricing model.

	2009	2008
	\$	\$
Option Reserve	519,837	519,837

**Note 19 Capital and Leasing Commitments**

**Operating Lease Commitments**

Non cancellable operating leases contracted for but not capitalised in the financial statements

**Payable**

- not later than 1 year	16,180	22,160
- later than 1 year but not later than 5 years	30,020	5,540
- later than 5 years	-	-

The property lease has a 3 year term which commenced on 1 April 2009 with rent payable monthly in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased by CPI annually.

**Note 20 Contingent Liabilities and Contingent Assets**

**Contingent Liabilities**

The company has no known contingent liabilities.

**Contingent Assets**

The company has no known contingent assets.

**Note 21 Segment Reporting**

The company operates within Australia predominantly in one business – the development of innovative medical instruments.

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	2009	2008
	\$	\$
<b>Note 22 Cash Flow Information</b>		
<b>a. Reconciliation of Cash Flow from Operations with Loss from ordinary activities after Income Tax</b>		
Loss after income tax	(761,323)	(1,258,995)
Cash flows excluded from loss attributable to operating activities		
Non-cash flows in loss		
Amortisation	39,181	30,657
Depreciation	4,506	6,908
Movement in market value of investments	255,223	359,447
Share issue expensed	9,000	500,224
Changes in assets and liabilities,		
(Increase)/decrease in trade and term debtors	13,565	60,070
(Increase)/decrease in prepayments	18,098	1,469
Increase/(decrease) in trade creditors and accruals	25,513	20,239
Cash flows from operations	(396,237)	(279,981)

**b. Non-cash Financing and Investing Activities**

During the financial year 24,583,352 listed options were issued under the shareholder's loyalty plan. These options were issued for no consideration. There were no non-cash financing and investing activities in the preceding financial year.

**Note 23 Share-based Payments**

On 17 August 2007, options were issued to directors Mr G D Peterson and Mrs P M Boero, and other key management personnel, Mr P M Emery. On 17 January 2008, options were issued to technical consultants. All options were issued in recognition of additional services provided during the year.

**Note 24 Events After Balance Sheet Date**

There have been no significant events since balance date.

**Note 25 Related Party Transactions**

Transactions between related parties are on normal commercial terms and conditions no more favourable than those otherwise available to other parties unless stated

All fees payable to key management personnel for services rendered have been disclosed in the Remuneration Report included in the Directors Report.

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	2009	2008
	\$	\$
Transactions with related parties:		
(i) Director-related Entities		
Office rental paid to Channer Hook Unit Trust of which Donald Channer is a trustee	27,618	28,954
(ii) Interest bearing loan from Donald Channer	100,000	-
Interest paid to Donald Channer	3,065	-
Accrued interest payable to Donald Channer	3,190	-

The interest charged on the loan ranged from 7% to 8.5%. The loan is repayable on 31 March 2010.

**Note 26 Financial Risk Management**

The company's financial instruments include deposits with banks, floating rate interest securities, sundry debtors, accounts payable and an unsecured loan.

The main risks the company is exposed to through its financial instruments are credit risk, liquidity risk and market rate risk.

**Credit Risk**

Credit risk is the risk of financial loss to the company if a customer or counterpart to a financial instrument fails to meet its contractual obligations to the company.

Credit risk arises principally from receivables and financial instruments at fair value through Profit and Loss.

The objective of the company is to minimise risk of loss from credit risk exposure.

The principal debtor relates to the Research and Development Tax Offset from the Australian Taxation Office.

Of the \$394,946 the company has invested in floating rate notes, \$253,000 is capital guaranteed at maturity by Deutsche Bank. The notes subject to this guarantee have a face value of \$480,000 and a maturity date of 23 June 2015.

The entity has established a number of policies and processes to manage credit risk.

In respect of receivables, these include

- Review of aging
- Follow up procedures

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In respect of financial instruments at fair value through Profit and Loss Account, these include

- Regular contact with financial advisers
- Regular review by the board

The company's investment policy states that (1) only investment grade securities will form part of the portfolio (2) the lowest credit rating which can be purchased is BBB and (3) the portfolio will have an average investment grade of A. This policy has been set to limit the company's credit risk and maximise returns on investments.

The entity has no concentration of credit risk.

The entity's maximum exposure to credit risk, without taking into account the value of any collateral or other security, in the event other parties fail to perform their obligations under financial instruments in relation to each class of recognised financial asset at reporting date is the carrying amount of those assets as indicated in the Balance Sheet.

In relation to 'Other Receivables', credit risk is measured by an assessment of the recoverability of the individual debtor.

Credit risk on the floating rate notes is measured by reference to the interest received on the notes and the underlying credit rating attaching to the notes.

**Summary quantitative data**

	Face Value	Book Value	Effective interest rate
<b>2009</b>			
Listed Securities	533,000	298,250	7.99%
Unlisted Securities	450,000	96,696	42.10%
<b>2008</b>			
Listed Securities	850,000	650,500	11.58%
Unlisted Securities	450,000	201,555	25.25%

**Liquidity Risk**

Liquidity risk is the risk that the company will not be able to meet its financial obligations as they fall due.

The objective of managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they fall due, under both normal and stressed conditions.

The company has established a number of processes for managing liquidity risk. These include

- Regularly monitoring the actual cash flows and longer term forecasted cash flows (against the cash flow budget)
- Monitoring financial assets held for liquidity

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The company holds investments in two listed and one unlisted floating rate note. All projections have been prepared assuming the notes will be saleable at book value.

Note	Within 1 Year		1 to 5 years	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>Financial Liabilities</b>				
Trade and Sundry Creditors	86,902	64,580	-	-
Unsecured Loan	103,190	-	-	-
<b>Total Financial Liabilities</b>	<u>190,092</u>	<u>64,580</u>	<u>-</u>	<u>-</u>

### Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the entity's income or the value of its holdings of financial instruments.

### Interest Rate Risk

The entity is not exposed to market risks other than interest rate risk.

The company's interest rate risk relates to deposits held at banks, and investments in floating rate notes.

The objective of interest rate risk management is to manage and control interest rate risk exposures within acceptable parameters while optimising the return.

The entity has established a number of policies and processes for managing interest risk rate.

These include

- Monitoring interest rate risk exposure continuously

Interest on the bank deposits ranged between .05% and 4.25% during the year. Interest on the floating rate notes has been disclosed above in the description of Credit Risk.

Interest on the floating rate notes is based on Bank Bill swap rate plus a margin depending on the note held. This rate is paid on the face value of the floating rate notes

### Sensitivity Analysis

A change of 100 basis points (1%) in interest rates at reporting date would have increased/decreased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for the prior year.

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	Profit or Loss		Equity	
	+1%	-1%	+1%	-1%
30 June 2009	12,430	-12,430	12,430	-12,430
30 June 2008	14,230	-14,230	14,230	-14,230

**Net Fair Values**

The carrying value of assets and liabilities as disclosed in the Balance Sheet approximate their net fair value. The net fair value of the listed Floating Interest Rate Securities has been based on the quoted market offer price at balance date. The net fair value of the unlisted Floating Interest Rate Securities has been provided by the custodian of these securities.

**Note 27 Accounting Standards issued but not yet effective**

Certain Australian Accounting Standards and Interpretations have been issued or amended and are applicable to the Company but are not yet effective. They have not been adopted in preparation of the financial statements at reporting date. The directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial report.

**Note 28 Company Details**

The registered office of the company is:

MEDIGARD LIMITED  
SUITE 14A TEDDER TERRACES  
26-30 TEDDER AVENUE  
MAIN BEACH QLD 4217

The principal place of business is:

MEDIGARD LIMITED  
SUITE 14A TEDDER TERRACES  
26-30 TEDDER AVENUE  
MAIN BEACH QLD 4217

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**DIRECTOR'S DECLARATION**

The directors of the company declare that:

The financial statements, comprising the income statement, balance sheet, cash flow statement, statement of changes in equity, and accompanying notes, are in accordance with the Corporations Act 2001 and:

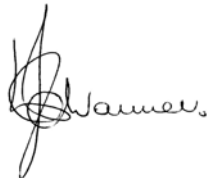
- i. Comply with Accounting Standards and the Corporations Regulations 2001; and
- ii. Give a true and fair view of the company's financial position as at 30 June 2008 and of its performance for the year ended on that date.

In the directors' opinion, there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

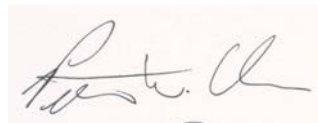
The remuneration disclosures included in pages 6 to 9 of the directors' report (as part of the audited Remuneration Report), for the year ended 30 June 2009, comply with section 300A of the Corporations Act 2001.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A.

This declaration is made in accordance with a resolution of the Board of Directors on 24 September 2009 and is signed for and on behalf of the directors by:



D J Channer  
Director



P W Clark  
Director



## **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MEDIGARD LIMITED**

### **Report on the Financial Report**

We have audited the accompanying financial report of Medigard Limited, which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

#### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

#### *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* would be in the same terms if it had been given to the directors at the time that this auditor's report was made.

*Auditor's Opinion*

In our opinion:

- (a) the financial report of Medigard Limited is in accordance with the Corporations Act 2001, including:
  - (i) giving a true and fair view of the company's financial position as at 30 June 2009 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

*Material Uncertainty Regarding Continuation as a Going Concern*

Without qualifying our opinion, we draw attention to Note 1 in the financial report which indicates that the ability of the company to continue to adopt the going concern basis of accounting, to maintain continuity of normal business activities, and to pay its debts as and when they fall due, is dependent on the successful commercialisation of the company's medical products and the successful raising in the future of any necessary funding through debt or equity. No adjustments have been made to the carrying value of assets of the recorded amount of liabilities should the company's plans not eventuate.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

*Auditor's Opinion*

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

**BDO Kendalls (QLD)**

BDO Kendalls



**A J Whyte**  
Partner

Brisbane: 24 September 2009