

1. Company details

| | |
|-------------------|---------------------------------|
| Name of entity: | Optiscan Imaging Limited |
| ABN: | 81 077 771 987 |
| Reporting period: | For the year ended 30 June 2019 |
| Previous period: | For the year ended 30 June 2018 |

2. Results for announcement to the market

| | | | \$ |
|--|------|----------|-------------|
| Revenues from ordinary activities | down | 52.3% to | 1,041,679 |
| Loss from ordinary activities after tax attributable to the owners of Optiscan Imaging Limited | up | 15.2% to | (2,344,119) |
| Loss for the year attributable to the owners of Optiscan Imaging Limited | up | 15.2% to | (2,344,119) |

Dividends

There were no dividends paid, recommended or declared during the current financial period.

Comments

The loss for the consolidated entity after providing for income tax amounted to \$2,344,119 (30 June 2018: \$2,035,328).

Financial performance

During the financial year ending 30 June 2019 (FY19), the consolidated entity generated ordinary revenue of \$1,041,679 from sales, system rentals and the provision of services (2018: \$2,185,579).

The consolidated entity also recorded research and development incentive income of \$230,882, a decrease of \$550,876 from the previous corresponding period (2018: \$781,758). Other grant income of \$49,583 was recorded for the period.

Total expenses for FY19 reduced to \$3,676,056, a decrease of \$1,338,578 from the corresponding period (2018: \$5,014,634). These expenses included share based payment expenditure of \$561,247 (2018: -\$9,874). Excluding these non-cash based expenses and depreciation, total expenses reduced by \$1,943,114 from the prior corresponding period. Administration costs for FY19 also included one-off costs of \$135,000 relating to redundancy costs and the development of the new Optiscan website.

Financial Position

The net assets decreased by \$377,622 to \$2,823,803 at 30 June 2019 (30 June 2018: \$3,201,425). The working capital position of the consolidated entity as at 30 June 2019 was an excess of current assets over current liabilities of \$2,545,505 (30 June 2018: \$2,806,936).

The increase in the net asset position of the consolidated entity was a result of the capital raised during the financial year of \$1,700,000 (before costs and including the \$200,000 advanced to the Company by directors by way of interest free loan to be converted to ordinary shares upon receipt of shareholder approval at the next general meeting of shareholders) less the loss from Operating Activities.

3. Net tangible assets

| | Reporting period Cents | Previous period Cents |
|---|------------------------------|-----------------------------|
| Net tangible assets per ordinary security | 0.60 | 0.74 |

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

There were no dividends paid, recommended or declared during the current financial period.

Previous period

There were no dividends paid, recommended or declared during the previous financial period.

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

10. Audit qualification or review

Details of audit/review dispute or qualification (if any):

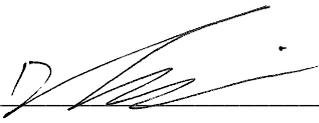
The financial statements have been audited and an unqualified opinion has been issued.

11. Attachments

Details of attachments (if any):

The Annual Report of Optiscan Imaging Limited for the year ended 30 June 2019 is attached.

12. Signed

Signed _____

Darren Lurie
Executive Chairman

Date: 30 August 2019

Optiscan Imaging Limited

ABN 81 077 771 987

Annual Report - 30 June 2019

Optiscan Imaging Limited
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30 June 2019



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|----------------------------------|---|
| Directors | Mr Darren Lurie (Executive Chairman) Dr Philip Currie (Non-executive Director) Mr Graeme Mutton (Non-executive Director) |
| Company secretary | Mr Justin Mouchacca |
| Notice of annual general meeting | The Company is proposing to hold its Annual General Meeting on Thursday 28 November 2019. |
| Registered office | 16 Miles Street Mulgrave, Victoria, 3170 Phone No.: (03) 9598 3333 Fax No.: (03) 9562 7742 |
| Principal place of business | 16 Miles Street Mulgrave, Victoria, 3170 Phone No.: (03) 9598 3333 Fax No.: (03) 9562 7742 |
| Share register | Computershare Investor Registry Services Yarra Falls 452 Johnston Street Abbotsford, Victoria, 3067 Phone No.: (03) 9415 5000 |
| Auditor | Grant Thornton Audit Pty Ltd Collins Square, Tower 5 727 Collins Street, Melbourne, VIC 3008 |
| Stock exchange listing | Optiscan Imaging Limited shares are listed on the Australian Securities Exchange (ASX code: OIL) |
| Website | www.optiscan.com |
| Corporate Governance Statement | The Company's Corporate Governance Statement has been released to ASX on this day and is available on the Company's website at the following link: https://www.optiscan.com/investors-media/corporate-governance/ |

Dear Shareholder,

On behalf of the Board of Optiscan Imaging Ltd, it gives me great pleasure to present our 2019 Annual Report. The 2019 financial year (FY19) represents a year of transition for Optiscan as we focused on our strategy to gear the Company for commercialisation and growth following multiple years of research and development.

In FY19, we continued our collaboration in neurosurgery with Carl Zeiss Meditec, with the CONVIVO system receiving 510(k) clearance in addition to the CE Mark that had previously been received. We confirmed a number of milestones had been achieved pursuant to the collaboration and resulting milestone payments were received.

During the year, we undertook many steps as part of developing an Optiscan clinical system. These included commencing work with the New York based Memorial Sloan Kettering Cancer Centre (MSKCC), one of the world's leading cancer centres, in relation to oral, cervical and oesophageal applications. Following the end of FY19, MSKCC has received approval to use the Optiscan system in an oral cancer clinical trial as well as continuing to work with Optiscan on the other applications.

We commenced a 4 stage breast cancer clinical trial at Western Australia's largest private hospital and as we near the conclusion of Stage 2 of the trial, we are discussing the possibility of conducting Stage 3 of the trial as a multi-centre trial, including the prospect of adding Melbourne based hospitals. Breast cancer is estimated to represent 15% of total cancer cases in the United States and 13% in Australia and we are working with both surgeons and pathologists to identify how our confocal laser endomicroscopy system can reduce the number of repeat surgeries, enhancing patient outcomes and lowering the financial cost on the health care system.

Critical to the development of the Optiscan clinical system has been the development of a re-sterilisable sheath which has received independent third-party validation of its capability for re-sterilisation.

The Company remains committed to developing new pre-clinical and translational research applications and sales. One such application, is our work with Monash University and the University of Michigan investigating a new hypothesis into the causes of anterior cruciate ligament injury. During the year, the Company re-built its website and re-branded its pre-clinical product the FIVE2 (ViewnVivo) reflecting the system's connection with the previous generation FIVE1. The re-sterilisable sheath will also provide additional opportunities for new applications in pre-clinical and translational research.

This commercial focus was accompanied by a detailed review of operating costs which enabled the Company to reduce its total expenses (excluding non-cash expenses) by over \$1.9m compared to the previous year. This together with the support from new and existing shareholders in our recent capital raising has given the Company the opportunity to pursue these opportunities for commercialisation and growth.

As we reflect on this year of positive development for Optiscan, I would like to thank shareholders for their commitment to the Company and our vision. I'd also like to thank my fellow Board members for their leadership and collaboration through 2019 as well as our management and staff at all levels who have contributed and are committed to our future.

I anticipate this momentum will continue to build in 2020, and I look forward to sharing our success with you.

Yours sincerely,



Darren Lurie
Executive Chairman

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity' or 'the group') consisting of Optiscan Imaging Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2019.

Directors

The following persons were directors of Optiscan Imaging Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Mr Darren Lurie - Executive Chairman
Dr Philip Currie - Non-executive Director
Mr Graeme Mutton - Non-executive Director

Principal activities

The principal activities of the consolidated entity during the year were the development and commercialisation of confocal microscopes. The consolidated entity carried out its principal activities through:

- its collaboration with Carl Zeiss Meditech;
- its marketing of the FIVE2 (ViewnVivo) system in pre-clinical and translational research markets;
- the carrying on of a breast cancer trial at Hollywood Private Hospital; and
- the commencement of seeking regulatory approval for the marketing of its own clinical system.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Review of operations

The loss for the consolidated entity after providing for income tax amounted to \$2,344,119 (30 June 2018: \$2,035,328).

Financial performance

During the financial year ending 30 June 2019 (FY19), the consolidated entity generated ordinary revenue of \$1,041,679 from sales, system rentals and the provision of services (2018: \$2,185,579).

The consolidated entity also recorded research and development incentive income of \$230,882, a decrease of \$550,876 from the previous corresponding period (2018: \$781,758). Other grant income of \$49,583 was recorded for the period.

Total expenses for FY19 reduced to \$3,676,056, a decrease of \$1,338,578 from the corresponding period (2018: \$5,014,634). These expenses included share based payment expenditure of \$561,247 (2018: -\$9,874). Excluding these non-cash based expenses and depreciation, total expenses reduced by \$1,943,114 from the prior corresponding period. Administration costs for FY19 also included one-off costs of \$135,000 relating to redundancy costs and the development of the new Optiscan website.

Financial position

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The increase in the net asset position of the consolidated entity was a result of the capital raised during the financial year of \$1,700,000 (before costs and including the \$200,000 advanced to the Company by directors by way of interest free loan to be converted to ordinary shares upon receipt of shareholder approval at the next general meeting of shareholders) less the loss from Operating Activities.

Optiscan Clinical Device

During the year ending 30 June 2019 (FY219), Optiscan initiated plans to seek regulatory approvals for the marketing of its own clinical system under the Optiscan brand. The initial clinical application is expected to be targeted at oral cancer screening and/or surgical tumour margin detection.

A pre-requisite for the use and approval of an Optiscan clinical device has been the development of a sterilisable sheath. Initial samples of the sheath were manufactured during FY19 and independent third party validation of the re-sterilisability of the sheath has been received after the end of FY19. The testing has confirmed the re-sterilisability of the sheath for up to 10 cycles in an autoclave machine.

Work is continuing on the product design and initial regulatory advice has been sought in relation to preparation of an application for FDA 510(k) clearance for the Optiscan system.

Breast Cancer Clinical Trial

In FY19, Optiscan commenced a four stage clinical trial using an Optiscan system to assess breast cancer surgical margin at Hollywood Private Hospital (Western Australia's largest private hospital) with principal investigators Dr Philip Currie, Dr Peter Willsher (Breast Surgeon of the Breast Cancer Research Centre –WA) and Dr Jespal Gill (Anatomical Pathologist and Head of Histopathology of Western Diagnostic Pathology).

The initial stage of the clinical trial (completed in FY19), focused on examining excised breast tissue specimens by both confocal laser endomicroscopy (CLE) and standard histopathology in order to determine patterns of normal, non-malignant and malignant tissue without impacting the ability to undertake standard histopathology of the same specimens and the trial of multiple imaging techniques and materials.

The second stage of the trial commenced in FY19. This stage of the trial involves the examination of fresh breast tissue specimens (ex vivo) in conjunction with the PARPi-FL imaging agent (developed by Summit Biomedical Imaging) in the pathology laboratory.

The ultimate goal of the four stages of the clinical trial is to assist both surgeons and pathologists to provide real-time determination of the required surgical margin reducing the risk of residual tumour, the need for repeat surgeries and the emotional distress suffered by patients.

Breast cancer is the second most frequently diagnosed new cancer and has the second highest mortality rate of cancers in females. In 2019, there were an estimated 271,270 new cases of invasive breast cancer diagnosed in the United States (15% of total cancer cases) and in 2018 an estimated 18,235 new cases (13% of total cancers cases) were diagnosed in Australia. Lumpectomies now account for approximately 60% of surgeries for early stage breast cancer.

Memorial Sloan Kettering Cancer Centre (MSKCC) and Summit Biomedical Imaging (SBI)

During FY19 Optiscan commenced working with MSKCC (the largest and oldest private cancer centre in the world) and SBI in the development of screening, early diagnosis and surgical tools targeting cancer cells for oral, oesophageal and cervical cancers. Following the end of the financial year, MSKCC received approval from its Institutional Review Board and the United States Food and Drug Administration (FDA) for the use of the Optiscan system in an oral cancer human clinical trial. An Optiscan system has been sent to MSKCC for use in this clinical trial. MSKCC is also using Optiscan technology for imaging oesophageal and cervical human tissue specimens (ex vivo). Following the completion of this ex vivo imaging, it is expected that MSKCC will seek approval for the conduct of in human cervical and oesophageal clinical trials utilising Optiscan technology.

SBI is a biomedical technology company focused on developing innovative biomedical technologies for cancer diagnosis and treatment. SBI has been awarded a federal grant (U.S.) through NIH's Small Business Innovation Research (SBIR) program to support investigation of a diagnostic optical molecular imaging agent (PARPi-FL) which targets PARP1, an enzyme that is highly overexpressed in several human cancers, including oral squamous cell carcinoma, cervical cancer and breast cancer.

Carl Zeiss Meditech (CZM) Collaboration

The collaboration with CZM remains a key pillar of the Optiscan business. In FY19, the sales of systems, probes, research and development support and other services to CZM generated revenue of \$980k. During FY19, CZM received FDA 510(k) clearance for the CONVIVO, a critical step to enable sales into the United States market. This was in addition to the CE Mark received for CONVIVO earlier in the 2018 calendar year.

Developing new pre-clinical and translational applications for FIVE2 (ViewnVivo)

In the first half of FY19, Optiscan embarked on a multi-faceted rebranding of the FIVE2 (ViewnVivo) with the release of a new website the cornerstone of this re-branding. The new website includes an updated publication list and filtered search function as a research tool for prospective users and customers. Newly released or identified publications referencing Optiscan technology are regularly updated to the list. During FY19, Optiscan developed multiple presentations and other marketing collateral for delivery at conferences, demonstrations and potential customer site visits.

Significant time was invested with both Monash University and CSIRO to develop applications whereby Optiscan technology delivers advantages over existing technologies currently used in the laboratory.

During FY19, Optiscan entered into rental arrangements for the supply of systems with two overseas institutions. These rental arrangements enable the receipt of cash flows whilst funding for the purchase of systems is investigated and sought by the institution.

Chinese, North American and Australian institutions have submitted or expressed their intention to submit funding applications for the purchase of FIVE2 (ViewnVivo) systems and the Company is awaiting determination of these funding applications.

Financial

Following a review of activities and the cost base of the Company's operations, the Company reduced its expenses (excluding non-cash expenses) in FY19 by in excess of \$1.9m compared to FY18.

In June 2019, the Company raised \$1.7m (before expenses) from new and existing investors. This amount included \$200k from directors advanced to the Company by way of interest free loan to be converted to ordinary shares upon receipt of shareholder approval at the next general meeting of shareholders.

Significant changes in the state of affairs

On 14 June 2019, the Company announced that it had received commitments from professional and sophisticated investors for a capital raising of \$1,500,000 through the issue of 37,500,000 new fully paid ordinary shares with an issue price of \$0.04 (4 cents) per share. The Directors also agreed to apply for a total of \$200,000 worth of shares which will be subject to shareholder approval at the next general meeting of shareholders. The funds in relation to the application by Directors were loaned to the Company on an interest free basis.

Matters subsequent to the end of the financial year

The following matters or circumstances have arisen since 30 June 2019 that have significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years:

- approval from the Institutional Review Board of Memorial Sloan Kettering Cancer Center (MSKCC) and the United States Food and Drug Administration (FDA) for the use of an Optiscan system in an oral cancer human clinical trial. An Optiscan system has been sent to MSKCC for use in this clinical trial;
- receipt of independent third party validation of the re-sterilisability of the sheath developed and manufactured by Optiscan in FY19. The testing has confirmed re-sterilisability of the sheath for up to 10 cycles in an autoclave machine.

No other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

The Directors have outlined in the Operating and Financial Review above that they expect to continue to derive income from the CZM collaboration over the next year, as well as achieving sales of Five 2 (ViewnVivo), the second-generation pre-clinical and translational research product. The Company expects to develop a system suitable for marketing for clinical use and to seek regulatory approval for the clinical use of this system in one or more cancer applications. The Company also expects to complete Stage 2 of its breast cancer trial and commence Stage 3 of the trial in one or more medical centres.

Environmental regulation

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on directors

| | |
|--------------------------------------|---|
| Name: | Mr Darren Lurie |
| Title: | Executive Chairman |
| Qualifications: | B.Comm (Hons), B.LLB (Hons) |
| Experience and expertise: | Darren Lurie is an experienced leader of boards and management teams as Chair, CEO and CFO. He has experience working across a range of industries operating both domestically and internationally. Prior to joining Optiscan, Darren was the Group CFO and Head of Corporate Development for EduCo International Group, an investee company of Baring Private Equity Asia and a leading provider of education and related services with campuses in the USA, Australia, Canada and Ireland, across the Higher Education, Career and English sectors. Darren is a former chair and non-executive director of ASX listed Farm Pride Foods Ltd (ASX:FRM), one of Australia's leading agribusinesses. He has fifteen years' experience as a corporate advisor leading finance, strategy and merger and acquisition assignments across a range of industries. |
| Other current directorships: | None |
| Former directorships (last 3 years): | None |
| Interests in shares: | None |
| Interests in options: | 8,000,000 unlisted options |
| Interests in rights: | 1,100,000 unlisted performance rights |
| Name: | Dr Philip Currie |
| Title: | Non-executive Director |
| Qualifications: | MBBS (Hons), FRACP, MBA |
| Experience and expertise: | Dr Currie is a cardiologist with more than 35 years in cardiology both in the United States and in Australia with extensive experience in medical research, clinical cardiology and business. He has a medical degree, MBBS (Hons) from Monash University and an MBA from the University of Michigan. |
| Other current directorships: | None |
| Former directorships (last 3 years): | None |
| Interests in shares: | 15,097,500 fully paid ordinary shares, |
| Interests in options: | 4,800,000 unlisted options |
| Interests in rights: | 660,000 unlisted performance rights |

| | |
|--------------------------------------|---|
| Name: | Mr Graeme Mutton |
| Title: | Non-executive Director |
| Qualifications: | Certified Practising Accountant (retired) |
| Experience and expertise: | After graduating in Accounting in 1968, Graeme managed a public accounting practice for CP Bird and Associates at Bruce Rock in Western Australia for approximately five years. During this time, he purchased City Plating Company, an electroplating business which he successfully managed for 30 years until it was sold in 2000. This background exposed him to many businesses and provided a practical knowledge of all aspects required to successfully operate a small to medium enterprise. Graeme is a long standing shareholder of Optiscan and has a deep understanding of Optiscan's technology and applications. |
| Other current directorships: | None |
| Former directorships (last 3 years): | None |
| Interests in shares: | 10,097,696 fully paid ordinary shares |
| Interests in rights: | 180,000 unlisted performance rights |

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company secretary

Mr Justin Mouchacca, CA

Mr Mouchacca holds a Bachelor of Business majoring in Accounting. Justin became a Chartered Accountant in 2011 and from July 2013 to June 2019 was a Director of chartered accounting firm, Leydin Freyer Corp Pty Ltd. Since July 2019, Mr Mouchacca has been principal of JM Corporate Services Pty Ltd, a firm specialising in outsourced company secretarial services and financial duties. Justin has over 12 years' experience in the accounting profession including 7 years in the corporate secretarial services and is a company secretary and finance officer for a number of entities listed on the Australian Securities Exchange.

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') held during the year ended 30 June 2019, and the number of meetings attended by each director were:

| | Full Board | |
|---------------|------------|------|
| | Attended | Held |
| Philip Currie | 13 | 13 |
| Darren Lurie | 13 | 13 |
| Graeme Mutton | 13 | 13 |

Held: represents the number of meetings held during the time the director held office.

Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

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

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('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

The Board is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the consolidated entity depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The reward framework is designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:

- having profit as a core component of plan design
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- attracting and retaining high calibre executives

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience
- reflecting competitive reward for contribution to growth in shareholder wealth
- providing a clear structure for earning rewards

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

Non-executive directors remuneration

The Constitution of the company and the ASX Listing Rules establish an aggregate or maximum level of remuneration available to non-executive directors, to be divided amongst the directors as agreed. The aggregate amount approved by shareholders to be available for remuneration of non-executive directors is \$400,000 per annum.

The Board has determined that non-executive directors shall receive only fixed remuneration by way of payment of fees. There is no variable, short term incentive remuneration for non-executive directors, nor is there any entitlement to retiring allowances or payments other than the statutory superannuation required by law.

Non-executive directors receive an annual fee for all services provided to the company, including being a director of the company and any of its subsidiaries, and for serving on board sub committees in accordance with the requirements of the Corporate Governance Policy.

Non-executive directors are encouraged to hold shares in the company which have been purchased on market or through placements where participation by the directors has been approved by shareholders in general meeting. It is considered good governance for the directors to have a personal financial stake in the company.

Executive remuneration

The Remuneration Committee (currently comprising the board) is responsible for establishing the structure and amount of remuneration.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits
- short-term performance incentives
- share-based payments
- other remuneration such as superannuation and long service leave

The combination of these comprises the executive's total remuneration.

The level of fixed remuneration is set so as to provide a base level of remuneration, which is both appropriate to the position and competitive in the market.

Fixed remuneration is reviewed as required by the Remuneration Committee, and the process consists of a review of company and individual performance, and comparative remuneration in the market. All employees are provided with the opportunity to receive their fixed remuneration in both cash and benefits, subject to there being no change in overall cost to the company. Compulsory superannuation contributions are included in the determination of fixed remuneration.

Variable Remuneration

The objectives and structure of the Group's policy on Variable Remuneration is set out below.

Variable Remuneration - Short Term Incentive (STI)

The objective of the STI program is to link the achievement of the group's operational targets with the remuneration received by key management personnel with prime responsibility for meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the key management personnel to achieve the operational targets and such that the cost to the company is reasonable in the circumstances.

Actual STI payments granted to key management personnel depend on the extent to which specific operating targets set at the beginning of the financial year are met. The operational targets consist of a number of Key Performance Indicators (KPI's) covering both financial and non-financial measures of performance. Typically included are such measures as achievement of budgeted financial outcomes and key milestones, for example, demonstrating clinical efficacy, achieving quality accreditation, obtaining regulatory clearance or measures such as control of expenditure or achievement of sales targets. The Board or Remuneration Committee establishes clear performance benchmarks, which must be met in order to trigger payments under the short term incentive scheme.

The aggregate amount of annual STI payments available for key management personnel and other executives is subject to the approval of the Remuneration Committee. Payments made are usually delivered as a cash bonus. No cash bonuses were paid during the year ended 30 June 2019.

Variable Remuneration - Long Term Incentive (LTI)

Long term incentives are delivered to executives and employees by way of grant of options under the Employee Share Option Plan.

The objective of the long term incentive plan is to reward executives and employees in a manner which aligns this element of remuneration with the creation of shareholder wealth.

The Remuneration Committee is responsible for the allocation of options, and determines the quantum of grants by reference to group and individual performance against targets.

Incentives and Company Performance

The link between incentive structure and company performance is an important aspect of remuneration philosophy. The purpose of the remuneration policies of the Group is to create an effective and transparent link between the incentives provided and the performance of the Group.

The Group is in the process of transition from a business predominantly engaged in research and development (“R&D”) to one increasingly focussed on commercialisation of its technology. Whilst substantial progress has been made, the transition from loss making R&D activities to profit making trading has not yet been completed. As a consequence, performance to date cannot appropriately be determined with conventional financial measurement tools. As the group has expensed all R&D expenditure incurred to date, losses have been reported so conventional earnings measures such as profit growth, EPS or dividend yield and payout are not applicable.

In view of the limited relevance of financial measurement tools, the Board of Directors has determined that the performance of the group is best reviewed in the context of achievement of key milestones. During the period, no additional STI or LTI remuneration was awarded based on milestones.

Employment Contracts

All staff including executives are engaged under rolling employment agreements. The contracts continue indefinitely subject to satisfactory performance, and provide one month's notice. Under the terms of the agreements:

- The company may terminate the employment agreement by providing the requisite period of written notice or by providing payment in lieu of notice, based on the fixed component of remuneration. Any unvested options at the expiry of the notice period will be forfeited.

- On resignation any unvested options are forfeited.

- The company may terminate the agreement at any time without notice if serious misconduct has occurred, in which case the executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination.

Voting and comments made at the company's 30 November 2018 Annual General Meeting ('AGM')

At the 2018 AGM, 93.70% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2018. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

Amounts of remuneration

Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables.

The key management personnel of the consolidated entity consisted of the following directors of Optiscan Imaging Limited:

- Mr Darren Lurie - Executive Chair
- Dr Philip Currie - Non-executive Director
- Mr Graeme Mutton - Non-executive Director
- Mr Alan Hoffman - Non-executive and Executive Chair (resigned 17 April 2018)
- Mr Peter Francis - Non-executive Director (resigned 23 April 2018)
- Dr Ian Griffiths - Non-executive Director (resigned 23 April 2018)
- Mr Ian Mann - Non-executive Director (ceased 10 May 2018)

And the following persons:

- Mr Archibald Fraser - Chief Executive Officer (resigned 22 January 2018)
- Mr Peter Delaney - Chief Technical Officer (resigned 22 November 2018)
- Mr Justin Mouchacca – Company Secretary (Mr Mouchacca was not acting Chief Financial Officer during FY19 but carried out the role in FY18.)

| | Short-term benefits | | | Post-employment benefits | Long-term benefits | Share-based payments | | Total |
|---------------------------------|----------------------|------------------|----------------------|--------------------------|--------------------|---------------------------|----------------|----------------|
| | Cash salary and fees | Other Allowances | Annual leave expense | Super-annuation | Long service leave | Equity-performance rights | Equity- | |
| 2019 | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| <i>Non-Executive Directors:</i> | | | | | | | | |
| Philip Currie | 40,000 | - | - | 3,800 | - | 38,280 | 94,048 | 176,128 |
| Graeme Mutton | 35,500 | - | - | 3,372 | - | 10,440 | - | 49,312 |
| <i>Executive Directors:</i> | | | | | | | | |
| Darren Lurie (1) | 271,804 | - | - | 25,821 | - | 63,800 | 155,847 | 517,272 |
| | <u>347,304</u> | <u>-</u> | <u>-</u> | <u>32,993</u> | <u>-</u> | <u>112,520</u> | <u>249,895</u> | <u>742,712</u> |

(1) Appointed director 20 April 2018. Served as Executive Chair from 31 May 2018. All remuneration for the year included under Executive Directors.

| | Short-term benefits | | | Post-employment benefits | Long-term benefits | Share-based payments | | Total |
|--|----------------------|-----------------------|----------------------|--------------------------|--------------------|------------------------|----------------|----------------|
| | Cash salary and fees | Other Allowances (11) | Annual leave expense | Super-annuation | Long service leave | Cessation payment (10) | Equity-settled | |
| 2018 | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| <i>Non-Executive Directors:</i> | | | | | | | | |
| Philip Currie (2) | 38,279 | - | - | 3,623 | - | - | - | 41,902 |
| Graeme Mutton (3) | 8,753 | - | - | 832 | - | - | - | 9,585 |
| Alan Hoffman (4) | 95,663 | - | - | 5,938 | - | - | - | 101,601 |
| Peter Francis (5) | 33,333 | - | - | 3,167 | - | - | - | 36,500 |
| Ian Mann (6) | 33,333 | - | - | 3,167 | - | - | - | 36,500 |
| Ian Griffiths (7) | 33,333 | - | - | 3,167 | - | - | - | 36,500 |
| <i>Executive Directors:</i> | | | | | | | | |
| Darren Lurie (1) | 41,041 | - | - | 3,956 | - | - | - | 44,997 |
| <i>Other Key Management Personnel:</i> | | | | | | | | |
| Archie Fraser (8) | 112,328 | (41,593) | 11,768 | 10,671 | (252) | 257,280 | (9,874) | 340,328 |
| Peter Delaney (12) | 131,358 | - | 13,310 | 12,479 | 1,332 | - | - | 158,479 |
| Justin Mouchacca (9) | 78,000 | - | - | - | - | - | - | 78,000 |
| | <u>605,421</u> | <u>(41,593)</u> | <u>25,078</u> | <u>47,000</u> | <u>1,080</u> | <u>257,280</u> | <u>(9,874)</u> | <u>884,392</u> |

- (1) Appointed director 20 April 2018. Served as Executive Chair from 31 May 2018. All remuneration for the year included under Executive Directors.
- (2) Appointed 17 July 2017.
- (3) Appointed 20 April 2018.
- (4) Served as Executive Chair from 16 February 2018 to 17 April 2018. All remuneration for the year included under Non-Executive Directors. Resigned 17 April 2018.
- (5) Resigned 23 April 2018.
- (6) Ceased 10 May 2018.
- (7) Resigned 23 April 2018.
- (8) Resigned 22 January 2018. The negative share based payment amount comprises executive options amortisation expense of \$60,126 relating to Mr Fraser's options, offset by a reversal of executive options amortisation expense of \$70,000 arising on the forfeiture of his executive options upon which expenses had previously been recognised. Refer Note 20.
- (9) Fees paid to Leydin Freyer Corp Pty Ltd, of which Justin Mouchacca is a director, in respect of Company Secretarial, Chief Financial Officer and Accounting services.
- (10) Upon his resignation on 22 January 2018, Archie Fraser received a cessation payment of \$257,280 comprising: Salary (6 months' notice) of \$100,000; and a further agreed payment of \$157,280.
- (11) Relates to repayment of other allowances received in the current and prior period.
- (12) As announced on 16 November 2018, Mr Peter Delaney provided the Company with his notice of intention to resign from the role of Chief Technology Officer as of 22 November 2018.

The proportion of remuneration linked to performance in STI or LTI and the fixed remuneration proportion are as follows:

| Name | Fixed remuneration | | At risk - STI | | At risk - LTI | |
|--|--------------------|------|---------------|------|---------------|------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| <i>Non-Executive Directors:</i> | | | | | | |
| Darren Lurie | 58% | 100% | - | - | 42% | - |
| Philip Currie | 25% | 100% | - | - | 75% | - |
| Graeme Mutton | 79% | 100% | - | - | 21% | - |
| Alan Hoffman | - | 100% | - | - | - | - |
| Peter Francis | - | 100% | - | - | - | - |
| Ian Mann | - | 100% | - | - | - | - |
| Ian Griffiths | - | 100% | - | - | - | - |
| <i>Other Key Management Personnel:</i> | | | | | | |
| Archie Fraser | - | 103% | - | - | - | (3%) |
| Peter Delaney | - | 100% | - | - | - | - |
| Justin Mouchacca | - | 100% | - | - | - | - |

Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

| | |
|----------------------|---|
| Name: | Darren Lurie |
| Title: | Executive Chair |
| Agreement commenced: | 31 May 2018 |
| Term of agreement: | No fixed term. |
| Details: | Mr Lurie has been appointed as Executive Chair for an interim period. His remuneration for the executive role is \$1,000 per day in addition to his Non-Executive Chair's fees. There is no performance-related payment as part of the employment contract. There is no provision for a specific termination payment. |

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

Share-based compensation

Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2019 (2018: Nil).

Options

During the financial year, the company granted 12,800,000 unlisted options with various vesting and exercise dates, to directors following receipt of shareholder approval at the company's 2018 Annual General Meeting of shareholders. Each of the options issued have market based performance conditions, as noted below, and the relevant share price hurdles need to be achieved before the options can be exercised before the expiry date.

There were no options issued to directors and other key management personnel as part of compensation during the previous year ended 30 June 2018.

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

| Name | Number of | | Vesting date, Vesting Price and exercisable date | | Expiry date | Exercise price | Fair value per option at grant date |
|---------------|--------------------|------------|--|--|-------------|----------------|---|
| | options granted | Grant date | | | | | |
| Darren Lurie | 2,000,000 | 30-Nov-18 | 31-May-19 - \$0.08 | | 31-May-22 | \$0.050 | \$0.034 |
| Darren Lurie | 2,000,000 | 30-Nov-18 | 30-Nov-19 - \$0.08 | | 30-Nov-22 | \$0.050 | \$0.036 |
| Darren Lurie | 2,000,000 | 30-Nov-18 | 31-May-20 - \$0.08 | | 31-May-23 | \$0.065 | \$0.034 |
| Darren Lurie | 2,000,000 | 30-Nov-18 | 30-Nov-20 - \$0.10 | | 30-Nov-23 | \$0.080 | \$0.034 |
| Philip Currie | 1,200,000 | 30-Nov-18 | 31-May-19 - \$0.08 | | 31-May-22 | \$0.050 | \$0.034 |
| Philip Currie | 1,200,000 | 30-Nov-18 | 30-Nov-19 - \$0.08 | | 30-Nov-22 | \$0.050 | \$0.036 |
| Philip Currie | 1,200,000 | 30-Nov-18 | 31-May-20 - \$0.08 | | 31-May-23 | \$0.065 | \$0.034 |
| Philip Currie | 1,200,000 | 30-Nov-18 | 30-Nov-20 - \$0.10 | | 30-Nov-23 | \$0.080 | \$0.034 |

Options granted carry no dividend or voting rights.

The number of options over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 30 June 2019 are set out below:

| Name | Number of options granted during the year 2019 | Number of options granted during the year 2018 | Number of options vested during the year 2019 | Number of options vested during the year 2018 |
|---------------|---|---|--|--|
| Archie Fraser | - | - | - | 1,500,000 |

Details of options over ordinary shares granted, vested and lapsed for directors and other key management personnel as part of compensation during the years ended 30 June 2019 and 30 June 2018 are set out below:

| Name | Grant date | Vesting date | Number of options granted | Value of options granted \$ | Value of options vested \$ | Number of options lapsed | Value of options lapsed \$ |
|---------------|------------|--------------|---------------------------|-----------------------------|----------------------------|--------------------------|----------------------------|
| Darren Lurie | 30-Nov-18 | 31-May-19 | 2,000,000 | 68,000 | - | - | - |
| Darren Lurie | 30-Nov-18 | 30-Nov-19 | 2,000,000 | 72,000 | - | - | - |
| Darren Lurie | 30-Nov-18 | 31-May-20 | 2,000,000 | 68,000 | - | - | - |
| Darren Lurie | 30-Nov-18 | 30-Nov-20 | 2,000,000 | 68,000 | - | - | - |
| Philip Currie | 30-Nov-18 | 31-May-19 | 1,200,000 | 40,800 | - | - | - |
| Philip Currie | 30-Nov-18 | 30-Nov-19 | 1,200,000 | 43,200 | - | - | - |
| Philip Currie | 30-Nov-18 | 31-May-20 | 1,200,000 | 40,800 | - | - | - |
| Philip Currie | 30-Nov-18 | 30-Nov-20 | 1,200,000 | 40,800 | - | - | - |
| Alan Hoffman | 28-Nov-16 | 28-Nov-16 | - | - | - | 1,000,000 | (82,110) |
| Ian Mann | 28-Nov-16 | 28-Nov-16 | - | - | - | 1,400,000 | (47,330) |
| Peter Francis | 28-Nov-16 | 28-Nov-16 | - | - | - | 2,250,000 | (82,110) |
| Ian Griffiths | 28-Nov-16 | 28-Nov-16 | - | - | - | 2,000,000 | (69,530) |

Performance Rights

During the financial year, the Company granted 1,940,000 performance rights to Directors of the Company following receipt of shareholder approval at the Company's 2018 Annual General Meeting of shareholders.

The terms and conditions of each grant of performance rights affecting remuneration of Directors in this financial year are as follows:

| Name | Number of performance rights | Grant Date | Fair value per right at grant date |
|---------------|------------------------------|------------|------------------------------------|
| Darren Lurie | 1,100,000 | 30/11/2018 | 0.058 |
| Graeme Mutton | 180,000 | 30/11/2018 | 0.058 |
| Philip Currie | 660,000 | 30/11/2018 | 0.058 |

As at the date of this report all performance rights have vested and are exercisable.

| Name | Grant date | Vesting date | Number of performance rights granted | Value of performance rights granted \$ | Value of performance rights vested \$ |
|---------------|------------|--------------|--------------------------------------|--|---------------------------------------|
| Darren Lurie | 30/11/2018 | 01/12/2018 | 1,100,000 | 63,800 | 63,800 |
| Graeme Mutton | 30/11/2018 | 01/12/2018 | 180,000 | 10,440 | 10,440 |
| Philip Currie | 30/11/2018 | 01/12/2018 | 660,000 | 38,280 | 38,280 |

Additional information

The earnings of the consolidated entity for the five years to 30 June 2019 are summarised below:

| | 2019 \$ | 2018 \$ | 2017 \$ | 2016 \$ | 2015 \$ |
|------------------------------|-------------|-------------|-------------|-------------|-------------|
| Revenue | 1,041,679 | 2,185,579 | 1,348,964 | 313,399 | 58,122 |
| Net profit/(loss) before tax | (2,344,119) | (2,035,328) | (2,942,925) | (1,337,056) | (1,395,399) |
| Net profit/(loss) after tax | (2,344,119) | (2,035,328) | (2,942,925) | (1,337,056) | (1,395,399) |

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

| | 2019 | 2018 | 2017 | 2016 | 2015 |
|--|--------|--------|--------|--------|--------|
| Share price at financial year start (\$) | 0.06 | 0.10 | 0.02 | 0.05 | 0.03 |
| Share price at financial year end (\$) | 0.06 | 0.06 | 0.10 | 0.02 | 0.05 |
| Basic earnings per share (cents per share) | (0.54) | (0.61) | (0.88) | (0.61) | (0.72) |

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

| | Balance at the year | Holdings at date of as KMP | Additions | Disposals/ Holdings at date as KMP | Balance at the year |
|------------------------|------------------------|----------------------------------|----------------|---|------------------------|
| <i>Ordinary shares</i> | | | | | |
| Philip Currie | 14,687,500 | - | 410,000 | - | 15,097,500 |
| Graeme Mutton | 9,997,696 | - | 100,000 | - | 10,097,696 |
| | <u>24,685,196</u> | <u>-</u> | <u>510,000</u> | <u>-</u> | <u>25,195,196</u> |

Option holding

The number of options over ordinary shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

| | Balance at the start of the year | Granted | Exercised | Holdings at date of cessation/ of KMP* | Balance at the end of the year |
|-------------------------------------|--|-------------------|-----------|---|--------------------------------------|
| <i>Options over ordinary shares</i> | | | | | |
| Darren Lurie | - | 8,000,000 | - | - | 8,000,000 |
| Philip Currie | - | 4,800,000 | - | - | 4,800,000 |
| | <u>-</u> | <u>12,800,000</u> | <u>-</u> | <u>-</u> | <u>12,800,000</u> |

| | Vested and exercisable | Vested and unexercisable | Balance at the end of the year |
|-------------------------------------|---------------------------|-----------------------------|--------------------------------------|
| <i>Options over ordinary shares</i> | | | |
| Darren Lurie | - | - | - |
| Philip Currie | - | - | - |
| | <u>-</u> | <u>-</u> | <u>-</u> |

Performance Rights

The number of performance rights in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

| | Balance at the start of the year | Granted | Exercised | Balance at the end of the year |
|---------------------------|--|-----------|-----------|--------------------------------------|
| <i>Performance rights</i> | | | | |
| Darren Lurie | - | 1,100,000 | - | 1,100,000 |
| Graeme Mutton | - | 180,000 | - | 180,000 |
| Philip Currie | - | 660,000 | - | 660,000 |
| | - | 1,940,000 | - | 1,940,000 |

All performance rights on issue have vested and are exercisable.

Other transactions with key management personnel and their related parties

During the financial year, each of the Directors provided interest free loans to the Company totalling \$200,000. Each of the loans are proposed to be repaid through the issue of fully paid ordinary shares with an issue price of \$0.04 (4 cents) per share, following receipt of shareholder approval.

Other transactions with key management personnel and their related parties

Information about transactions with key management personnel and their related parties is disclosed in Note 28 Related party transactions. There were no transactions with non-director key management personnel and their related entities during the years ended 30 June 2019 and 30 June 2018, with the exception of remuneration-related transactions disclosed in this remuneration report.

This concludes the remuneration report, which has been audited.

Shares under option

Unissued ordinary shares of Optiscan Imaging Limited under option at the date of this report are as follows:

| Grant date | Expiry date | Exercise price | Number under option |
|------------|-------------|----------------|---------------------|
| 30-Nov-18 | 31-May-22 | \$0.050 | 6,400,000 |
| 30-Nov-18 | 30-Nov-22 | \$0.050 | 6,400,000 |
| 30-Nov-18 | 31-May-23 | \$0.065 | 6,400,000 |
| 30-Nov-18 | 30-Nov-23 | \$0.080 | 6,400,000 |
| | | | <u>25,600,000</u> |

No person entitled to exercise the options 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.

Performance Rights

Unissued ordinary shares of Optiscan Imaging Limited subject to performance rights as at the date of this report are as follows:

| Grant date | Exercise price | Number |
|------------|----------------|------------------|
| 30-Nov-18 | Nil | 1,940,000 |
| 20-Dec-18 | Nil | <u>660,000</u> |
| | | <u>2,600,000</u> |

Shares issued on the exercise of options

There were no ordinary shares of Optiscan Imaging Limited issued on the exercise of options during the year ended 30 June 2019 and up to the date of this report.

Indemnity and insurance of officers

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

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.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 25 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 25 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Officers of the company who are former partners of Grant Thornton Audit Pty Ltd

There are no officers of the company who are former partners of Grant Thornton Audit Pty Ltd.

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 immediately after this directors' report.

Auditor

Grant Thornton Audit Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

A handwritten signature in black ink, appearing to read "D Lurie", written over a horizontal line.

Darren Lurie
Executive Chairman

30 August 2019

Auditor's Independence Declaration

To the Directors of Optiscan Imaging Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Optiscan Imaging Limited for the year ended 30 June 2019, 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.



Grant Thornton Audit Pty Ltd
Chartered Accountants



M.A Cunningham
Partner – Audit & Assurance

Melbourne, 30 August 2019

Optiscan Imaging Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2019



| | Note | Consolidated 2019 \$ | 2018 \$ |
|--|------|----------------------------|--------------------|
| Revenue | 5 | 1,041,679 | 2,185,579 |
| Other income | 6 | 290,258 | 793,727 |
| Expenses | | | |
| Research & development and intellectual property expenses | | (703,784) | (1,974,733) |
| Share-based payment expenses | 7 | (561,247) | 9,874 |
| Depreciation expense | 7 | (122,055) | (88,640) |
| Operational expenses | | (1,105,881) | (1,250,564) |
| Other expenses | | (23,331) | (35,743) |
| Administration costs | | (1,159,758) | (1,632,328) |
| Finance costs | 7 | - | (42,500) |
| Loss before income tax expense | | (2,344,119) | (2,035,328) |
| Income tax expense | 8 | - | - |
| Loss after income tax expense for the year attributable to the owners of Optiscan Imaging Limited | 21 | (2,344,119) | (2,035,328) |
| Other comprehensive income for the year, net of tax | | - | - |
| Total comprehensive income for the year attributable to the owners of Optiscan Imaging Limited | | <u>(2,344,119)</u> | <u>(2,035,328)</u> |
| | | Cents | Cents |
| Basic earnings per share | 33 | (0.54) | (0.49) |
| Diluted earnings per share | 33 | (0.54) | (0.49) |

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Optiscan Imaging Limited
Statement of financial position
As at 30 June 2019



| | Note | Consolidated 2019 \$ | 2018 \$ |
|--------------------------------|------|----------------------------|---------------------|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | 9 | 1,752,440 | 1,562,494 |
| Trade and other receivables | 10 | 424,373 | 1,247,329 |
| Inventories | 11 | 1,155,208 | 885,579 |
| Other | 12 | 31,909 | 26,690 |
| Total current assets | | <u>3,363,930</u> | <u>3,722,092</u> |
| Non-current assets | | | |
| Property, plant and equipment | 13 | 227,890 | 345,402 |
| Other | 14 | 52,625 | 62,625 |
| Total non-current assets | | <u>280,515</u> | <u>408,027</u> |
| Total assets | | <u>3,644,445</u> | <u>4,130,119</u> |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | 15 | 393,295 | 649,789 |
| Borrowings | 16 | 200,000 | - |
| Provisions | 17 | 225,130 | 265,367 |
| Total current liabilities | | <u>818,425</u> | <u>915,156</u> |
| Non-current liabilities | | | |
| Provisions | 18 | 2,217 | 13,538 |
| Total non-current liabilities | | <u>2,217</u> | <u>13,538</u> |
| Total liabilities | | <u>820,642</u> | <u>928,694</u> |
| Net assets | | <u>2,823,803</u> | <u>3,201,425</u> |
| Equity | | | |
| Issued capital | 19 | 59,392,382 | 57,987,132 |
| Reserves | 20 | 2,209,681 | 1,879,934 |
| Accumulated losses | 21 | <u>(58,778,260)</u> | <u>(56,665,641)</u> |
| Total equity | | <u>2,823,803</u> | <u>3,201,425</u> |

The above statement of financial position should be read in conjunction with the accompanying notes

Optiscan Imaging Limited
Statement of changes in equity
For the year ended 30 June 2019



| Consolidated | Issued capital \$ | Foreign currency translation reserve \$ | Share based payments reserve \$ | Accumulated losses \$ | Total equity \$ |
|--|----------------------------------|--|--|--------------------------------------|----------------------------|
| Balance at 1 July 2017 | 53,870,454 | (4,435) | 2,429,653 | (54,630,313) | 1,665,359 |
| Loss after income tax expense for the year | - | - | - | (2,035,328) | (2,035,328) |
| Other comprehensive income for the year, net of tax | - | - | - | - | - |
| Total comprehensive income for the year | - | - | - | (2,035,328) | (2,035,328) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | |
| Contributions of equity, net of transaction costs (note 19) | 3,880,000 | - | - | - | 3,880,000 |
| Share-based payments (note 34) | - | - | 60,126 | - | 60,126 |
| Transaction costs of share issues (Note 19) | (298,732) | - | - | - | (298,732) |
| Exercise of options (Note 19) | 535,410 | - | (535,410) | - | - |
| Forfeit of options (Note 34) | - | - | (70,000) | - | (70,000) |
| Balance at 30 June 2018 | 57,987,132 | (4,435) | 1,884,369 | (56,665,641) | 3,201,425 |

| Consolidated | Issued capital \$ | Foreign currency translation reserve \$ | Share based payments reserve \$ | Accumulated losses \$ | Total equity \$ |
|--|----------------------------------|--|--|--------------------------------------|----------------------------|
| Balance at 1 July 2018 | 57,987,132 | (4,435) | 1,884,369 | (56,665,641) | 3,201,425 |
| Loss after income tax expense for the year | - | - | - | (2,344,119) | (2,344,119) |
| Other comprehensive income for the year, net of tax | - | - | - | - | - |
| Total comprehensive income for the year | - | - | - | (2,344,119) | (2,344,119) |
| <i>Transactions with owners in their capacity as owners:</i> | | | | | |
| Contributions of equity, net of transaction costs (note 19) | 1,405,250 | - | - | - | 1,405,250 |
| Share-based payments (note 34) | - | - | 561,247 | - | 561,247 |
| Lapse of options (Note 34) | - | - | (231,500) | 231,500 | - |
| Balance at 30 June 2019 | 59,392,382 | (4,435) | 2,214,116 | (58,778,260) | 2,823,803 |

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

Optiscan Imaging Limited
Statement of cash flows
For the year ended 30 June 2019



| | Note | Consolidated 2019 \$ | 2018 \$ |
|--|------|----------------------------|------------------|
| Cash flows from operating activities | | | |
| Receipts from customers (inclusive of GST) | | 1,237,865 | 2,069,495 |
| Payments to suppliers and employees (inclusive of GST) | | (3,499,130) | (5,386,179) |
| Interest received | | 9,793 | 11,969 |
| Receipt of research and development tax incentive | | 775,520 | 980,923 |
| Receipt of other grants | | 55,155 | - |
| | | <hr/> | <hr/> |
| Net cash used in operating activities | 32 | (1,420,797) | (2,323,792) |
| Cash flows from investing activities | | | |
| Payments for property, plant and equipment | 13 | (4,507) | (290,523) |
| Payments for security deposits | | - | (62,625) |
| Proceeds from release of security deposits | | 10,000 | - |
| | | <hr/> | <hr/> |
| Net cash from/(used in) investing activities | | 5,493 | (353,148) |
| Cash flows from financing activities | | | |
| Proceeds from issue of shares | 19 | 1,500,000 | 3,880,000 |
| Proceeds from short term loan | | 200,000 | 300,000 |
| Repayment of short term loan | | - | (300,000) |
| Share issue transaction costs | | (94,750) | (298,732) |
| Payment of finance costs | | - | (42,500) |
| | | <hr/> | <hr/> |
| Net cash from financing activities | | 1,605,250 | 3,538,768 |
| Net increase in cash and cash equivalents | | 189,946 | 861,828 |
| Cash and cash equivalents at the beginning of the financial year | | 1,562,494 | 700,666 |
| | | <hr/> | <hr/> |
| Cash and cash equivalents at the end of the financial year | 9 | <u>1,752,440</u> | <u>1,562,494</u> |

The above statement of cash flows should be read in conjunction with the accompanying notes

Note 1. General information

The consolidated general purpose financial statements of the Group have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB). Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Optiscan Imaging Limited is a for-profit entity statements prepared on accruals basis under the historical cost convention except for the revaluation of properties, investments and derivatives.

The financial statements cover Optiscan Imaging Limited as a consolidated entity consisting of Optiscan Imaging Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, rounded to the nearest dollar, which is Optiscan Imaging Limited's functional and presentation currency.

Optiscan Imaging Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

16 Miles Street
Mulgrave, Victoria, 3170

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 30 August 2019. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 9 Financial Instruments

The consolidated entity has adopted AASB 9 from 1 July 2018.

Financial assets are measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. All other financial assets are classified and measured at fair value through profit or loss unless the consolidated entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI').

Allowances for impairment are recognised using an 'expected credit loss' ('ECL') model. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

For trade receivables and contract assets under AASB 15 the consolidated entity applies a simplified approach of recognising lifetime expected credit losses as these items do not have a significant financing component. The impairment allowance for trade receivables was did not require material adjustment at 1 July 2018.

Note 2. Significant accounting policies (continued)

When adopting AASB 9, the consolidated entity has applied transitional relief and elected not to restate prior periods. There were no differences arising from the adoption of AASB 9 in relation to classification, measurement, and impairment that required recognition in opening accumulated losses as at 1 July 2018.

AASB 15 Revenue from Contracts with Customers

The consolidated entity has adopted AASB 15 from 1 July 2018.

Revenue from contracts with customers is recognised to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This is based on a contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in the statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment.

In applying AASB 15, the consolidated entity has elected to use the modified retrospective method. On applying this standard, no material adjustments were required to be made to the financial statements.

Going concern

The financial report has been prepared on the going concern basis, which contemplates continuity of normal business activities and realisation of assets and liabilities in the ordinary course of business. The going concern of the consolidated entity is dependent upon it maintaining sufficient funds for its operations and commitments.

The working capital position as at 30 June 2019 of the consolidated entity results in an excess of current assets over current liabilities of \$2,545,505 (30 June 2018: \$2,806,936). The consolidated entity made a loss after tax of \$2,344,119 during the financial year (2018: \$2,035,328) and the net operating cash outflow was \$1,420,797 (2018: \$2,323,792 net outflow). The cash balance as at 30 June 2019 was \$1,752,440 (30 June 2018: \$1,562,494).

In June 2019 the company successfully completed a capital raising of \$1,700,000 (including the \$200,000 advanced to the company by directors by way of interest free loan to be converted to ordinary shares upon receipt of shareholder approval at the next general meeting of shareholders) and has recorded a receivable amount in relation to its R&D tax incentive grant for FY19 of \$230,882.

The directors are of the opinion that the existing cash reserves and forecast sales will provide the consolidated entity with adequate funds to ensure its continued viability and to operate as a going concern for a period of at least 12 months from the date of approval of the financial statements. During FY19, the company launched a new website which forms a key part of the re-branding of its FIVE2 (ViewnVivo) pre-clinical product. The company has increased its profile in Australian translational and pre-clinical research markets, including collaborating with CSIRO to identify new applications including 3D tissue cultures and continuing its engagement with Monash University regarding research applications. A number of Australian, Chinese and North American institutions have submitted or expressed their intention to submit funding applications for the purchase of FIVE2 (ViewnVivo) systems and while the original expected timing of some of these purchases has been delayed, the sales process is on-going. The directors continue to monitor the ongoing funding requirements of the consolidated entity and believe that sufficient funds can be secured if required and are of the opinion that the financial report has been appropriately prepared on a going concern basis.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention.

Note 2. Significant accounting policies (continued)

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity'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.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 29.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Optiscan Imaging Limited ('company' or 'parent entity') as at 30 June 2019 and the results of all subsidiaries for the year then ended. Optiscan Imaging Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity' or 'Group'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Optiscan Imaging Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars 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 financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Note 2. Significant accounting policies (continued)

Revenue recognition

The consolidated entity recognises revenue as follows:

Revenue from contracts with customers

The consolidated entity predominantly derives revenue from the sale of goods and services to customers on normal credit terms. The performance obligations of these contracts are the delivery of the product or service, as the case may be, at which point revenue from the sale of goods or services is recognised. Provision of services is carried on an individual contract basis and relevant revenue is recognised at the point in time as and when the completed service is delivered. At this time, the consolidated entity does not provide ongoing services to customers over a period of time. Sales contracts do not contain provisions for sales returns, rebates, discounts or any ongoing service or performance obligation and the total transaction price does not contain any variable consideration in relation to such items.

The Group's future obligations to transfer goods or services to a customer for which the Group has received consideration from the customer is recognised as a contract liability, and reports these amounts as such in its statement of financial position, until such time as the performance obligations are satisfied. If the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Policies applicable to comparative periods (30 June 2018):

Sale of goods

Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery.

Royalty revenue

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant licensing agreement.

Milestone revenue

Milestone revenue is recognised upon confirmation by the customer of successful completion of the relevant milestone per any underlying agreement.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Government grants

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where expenditure has been incurred that gives rise to an entitlement under a grant agreement, the grant income is accrued. Revenue is recognised only to the extent that there is reasonable assurance that the grant will be received and conditions attached will be complied with.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Note 2. Significant accounting policies (continued)

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

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.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The consolidated entity makes use of a simplified approach in accounting for trade and other receivables and records any required loss allowance at the amount equal to the expected lifetime credit losses. In using this practical expedient, the consolidated entity uses its historical experience, external indicators and forward-looking information to calculate the expected credit losses using a provision matrix.

Note 2. Significant accounting policies (continued)

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Policies applicable to comparative periods (30 June 2018):

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment. Trade receivables are generally due for settlement within 30 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment of trade receivables is raised when there is objective evidence that the consolidated entity will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 60 days overdue) are considered indicators that the trade receivable may be impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Other receivables are recognised at amortised cost, less any provision for impairment.

Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets. The depreciation rates applied to the main classes of plant and equipment are:

| | |
|------------------------------|-----------|
| Office furniture & equipment | 20% - 40% |
| Production equipment | 20% |
| R&D equipment | 30% - 40% |

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to the ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Note 2. Significant accounting policies (continued)

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

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. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. 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 high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments

Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Barrier Pricing or 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, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

Note 2. Significant accounting policies (continued)

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Issued capital

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.

Performance Shares are booked in the reserve and reallocated to issued capital upon vesting.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Optiscan Imaging Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

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.

Note 2. Significant accounting policies (continued)

Goods and Services Tax ('GST') and other similar taxes

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 the 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 in other receivables or other payables in the statement of financial position.

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 the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2019. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 16 Leases

AASB 16 sets out a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessees and lessors. AASB 16 applies a control model for the identification of leases, distinguishing between leases and service contracts on the basis of whether there is an identified asset controlled by the customer. The standard requires lessees to account for leases under an on-balance sheet model with the distinction between operating and finance leases being removed. Lessors continue to classify leases and account for them as operating or finance leases

The consolidated entity will adopt this standard from its application date of 1 July 2019. The consolidated entity is in the process of reviewing the impact on the financial results for future periods. For further information in relation to current lease commitments, refer to Note 27.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Barrier Pricing or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity. Refer Note 34.

Provision for impairment of receivables

Collectability of Trade Receivables is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off by reducing the carrying amount directly. A provision for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

Note 3. Critical accounting judgements, estimates and assumptions (continued)

Capitalisation of labour costs into inventory

The carrying value of inventories includes an allocation of capitalised labour costs relevant to the production of those inventories. In determining the amount of labour to be capitalised, management makes assumptions regarding the nature and quantum of the activities undertaken by personnel involved in the production and assembly of inventory.

Provision for impairment of inventories

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Employee benefits provision

As discussed in note 2, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Note 4. Operating segments

Identification of reportable operating segments

The Group operated predominately in the confocal microscope industry. The Group's sales comprise sales of goods within that segment. AASB 8 requires operating segments to be identified on the basis of internal reports about the components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The board reviews the Group as a whole in the business segment of confocal microscopes within Australia. The majority of sales revenues are attributed to Germany, being 94.1% (2018: 88.2%), and other overseas markets 5.9% (2018: 11.8%). There was one customer that contributed revenues greater than 10%, which amounted to \$980,636 during the financial year. In the year ended 30 June 2018 there were 2 customers that contributed revenues greater than 10%.

All non-current assets are located in Australia.

Note 5. Revenue

| | Consolidated | |
|---------|---------------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Revenue | <u>1,041,679</u> | <u>2,185,579</u> |

Note 5. Revenue (continued)

Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

| | Consolidated | |
|---|---------------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| <i>Major product lines</i> | | |
| Sale of goods (goods transferred at a point in time) | 142,928 | 2,185,579 |
| Services provided (services transferred at a point in time) | 898,751 | - |
| | <u>1,041,679</u> | <u>2,185,579</u> |
| <i>Geographical regions</i> | | |
| Germany | 980,635 | 1,928,493 |
| China | 2,070 | 257,086 |
| Other (Australia and United States) | 58,974 | - |
| | <u>1,041,679</u> | <u>2,185,579</u> |

Note 6. Other income

| | Consolidated | |
|---------------------------------------|---------------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Government grants - R&D tax incentive | 230,882 | 781,758 |
| Government grants - other | 49,583 | - |
| Interest revenue | 9,793 | 11,969 |
| | <u>290,258</u> | <u>793,727</u> |

Note 7. Expenses

| | Consolidated | |
|--|---------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Loss before income tax includes the following specific expenses: | | |
| <i>Depreciation</i> | | |
| Plant and equipment | 122,055 | 88,640 |
| <i>Finance costs</i> | | |
| Interest and finance charges paid/payable | - | 42,500 |
| <i>Rental expense relating to operating leases</i> | | |
| Minimum lease payments | 150,838 | 151,107 |
| <i>Superannuation expense</i> | | |
| Defined contribution superannuation expense | 125,630 | 158,564 |
| <i>Share-based payments expense</i> | | |
| Share-based payments expense (Note 34) | 561,247 | (9,874) |
| <i>Employee benefits expense excluding superannuation</i> | | |
| Employee benefits expense excluding superannuation | 1,702,266 | 2,022,787 |

Note 8. Income tax expense

| | Consolidated | |
|--|---------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| <i>Numerical reconciliation of income tax expense and tax at the statutory rate</i> | | |
| Loss before income tax expense | (2,344,119) | (2,035,328) |
| Tax at the statutory tax rate of 27.5% (2018: 27.5%) | (644,633) | (559,715) |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Share-based payments | 154,343 | (2,715) |
| Non assessable gains | (61,960) | (214,983) |
| R&D Tax Incentive deductions foregone for tax offset | 144,253 | 494,215 |
| Expenditure not allowable for income tax purposes | 941 | 6,485 |
| Deferred tax assets recognised/(not recognised) | 407,056 | 276,713 |
| Income tax expense | - | - |
| <i>Deferred tax assets not recognised</i> | | |
| Deferred tax assets not recognised comprises temporary differences attributable to: | | |
| Undeducted patent costs | - | 241,319 |
| Employee benefit & warranty provisions | (14,418) | 76,699 |
| Expenses not yet deductible | (27,174) | 43,266 |
| Tax losses available | 14,052,028 | 13,242,095 |
| Total deferred tax assets not recognised | 14,010,436 | 13,603,379 |

The above potential tax benefit, which excludes tax losses, for deductible temporary differences has not been recognised in the statement of financial position as the recovery of this benefit is uncertain.

Note 9. Current assets - cash and cash equivalents

| | Consolidated | |
|--------------|---------------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Cash on hand | <u>1,752,440</u> | <u>1,562,494</u> |

Note 10. Current assets - trade and other receivables

| | Consolidated | |
|------------------------------------|---------------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Trade receivables | <u>150,347</u> | <u>346,533</u> |
| R&D Tax incentive grant receivable | 230,882 | 781,092 |
| GST refund receivable | <u>43,144</u> | <u>119,704</u> |
| | <u>274,026</u> | <u>900,796</u> |
| | <u>424,373</u> | <u>1,247,329</u> |

Note 11. Current assets - inventories

As stated at the lower of cost or net realisable value:

| | Consolidated | |
|------------------------------------|---------------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Raw materials and work in progress | 777,286 | 507,363 |
| Finished goods | <u>377,922</u> | <u>378,216</u> |
| | <u>1,155,208</u> | <u>885,579</u> |

Cost of sales reflects the value of inventory sold in the period.

No inventory items were impaired at 30 June 2019 (2018: Nil).

Note 12. Current assets - other

| | Consolidated | |
|-------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Prepayments | <u>31,909</u> | <u>26,690</u> |

Note 13. Non-current assets - property, plant and equipment

| | Consolidated | |
|--------------------------------|-----------------------|-----------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Plant and equipment - at cost | 1,158,042 | 1,153,535 |
| Less: Accumulated depreciation | <u>(932,207)</u> | <u>(810,152)</u> |
| | <u>225,835</u> | <u>343,383</u> |
| Production equipment - at cost | 260,537 | 260,537 |
| Less: Accumulated depreciation | <u>(258,482)</u> | <u>(258,518)</u> |
| | <u>2,055</u> | <u>2,019</u> |
| R&D Equipment - at cost | 364,905 | 364,905 |
| Less: Accumulated depreciation | <u>(364,905)</u> | <u>(364,905)</u> |
| | <u>-</u> | <u>-</u> |
| | <u><u>227,890</u></u> | <u><u>345,402</u></u> |

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

| Consolidated | Plant and equipment \$ | Production equipment \$ | Total \$ |
|-------------------------|------------------------------|-------------------------------|-----------------------|
| Balance at 1 July 2017 | 159,120 | - | 159,120 |
| Additions | 288,470 | 2,053 | 290,523 |
| Transfers to inventory | (15,601) | - | (15,601) |
| Depreciation expense | <u>(88,606)</u> | <u>(34)</u> | <u>(88,640)</u> |
| Balance at 30 June 2018 | 343,383 | 2,019 | 345,402 |
| Additions | 4,507 | 36 | 4,543 |
| Depreciation expense | <u>(122,055)</u> | <u>-</u> | <u>(122,055)</u> |
| Balance at 30 June 2019 | <u><u>225,835</u></u> | <u><u>2,055</u></u> | <u><u>227,890</u></u> |

Note 14. Non-current assets - other

| | Consolidated | |
|-------------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Security deposits | <u>52,625</u> | <u>62,625</u> |

Note 15. Current liabilities - trade and other payables

| | Consolidated | |
|------------------|---------------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Trade payables | 224,375 | 326,748 |
| Accrued expenses | 72,835 | 109,172 |
| Other creditors | 96,085 | 213,869 |
| | <u>393,295</u> | <u>649,789</u> |

Refer to note 23 for further information on financial instruments.

Note 16. Current liabilities - borrowings

| | Consolidated | |
|----------------------|---------------------|-------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Loans from Directors | <u>200,000</u> | <u>-</u> |

Refer to note 23 for further information on financial instruments.

As announced on 14 June 2019, the Company received binding commitments for a capital raising of \$1,700,000. Included in this amount was applications for shares from Directors of the Company amounting to \$200,000. Given the Directors are required to seek shareholder approval for the issue of any shares to them or their nominees, the Directors elected to loan the Company their applications funds through a non-interest bearing loan. In the event that non associated shareholders do not approve the issue of shares to Directors, the loans will become repayable.

Note 17. Current liabilities - provisions

| | Consolidated | |
|--------------------|---------------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Annual leave | 45,499 | 94,680 |
| Long service leave | 179,631 | 170,687 |
| | <u>225,130</u> | <u>265,367</u> |

Note 18. Non-current liabilities - provisions

| | Consolidated | |
|--------------------|---------------------|---------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Long service leave | <u>2,217</u> | <u>13,538</u> |

Note 19. Equity - issued capital

| | 2019 Shares | Consolidated 2018 Shares | 2019 \$ | 2018 \$ |
|------------------------------|----------------|--------------------------------|------------|------------|
| Ordinary shares - fully paid | 470,178,800 | 432,678,800 | 59,392,382 | 57,987,132 |

Movements in ordinary share capital

| Details | Date | Shares | Issue price | \$ |
|---|------------------|--------------------|-------------|-------------------|
| Balance | 1 July 2017 | 376,078,800 | | 53,870,454 |
| Shares issued on exercise of options | 10 August 2017 | 1,000,000 | \$0.025 | 25,000 |
| Issue of Share Purchase Plan shares | 4 October 2017 | 31,250,000 | \$0.08 | 2,500,000 |
| Issue of Placement shares to professional investors | 4 October 2017 | 12,500,000 | \$0.08 | 1,000,000 |
| Shares issued on exercise of options | 18 October 2017 | 1,300,000 | \$0.025 | 32,500 |
| Shares issued on exercise of options | 24 October 2017 | 2,500,000 | \$0.025 | 62,500 |
| Shares issued on exercise of options | 24 October 2017 | 850,000 | \$0.05 | 42,500 |
| Shares issued on exercise of options | 24 November 2017 | 500,000 | \$0.025 | 12,500 |
| Shares issued on exercise of options | 29 January 2018 | 3,700,000 | \$0.025 | 92,500 |
| Shares issued on exercise of options | 29 January 2018 | 1,500,000 | \$0.05 | 75,000 |
| Shares issued on exercise of options | 7 June 2018 | 760,000 | \$0.025 | 19,000 |
| Shares issued on exercise of options | 28 June 2018 | 740,000 | \$0.025 | 18,500 |
| Transfer from share based payments reserve on exercise of options | Various | - | - | 535,410 |
| Transaction costs of share issue | | - | - | (298,732) |
| Balance | 30 June 2018 | 432,678,800 | | 57,987,132 |
| Placement | 20 June 2019 | 37,500,000 | \$0.04 | 1,500,000 |
| Transaction costs of share issue | | - | - | (94,750) |
| Balance | 30 June 2019 | <u>470,178,800</u> | | <u>59,392,382</u> |

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

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.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Note 19. Equity - issued capital (continued)

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing operations in order to maximise synergies.

The capital risk management policy remains unchanged from the 30 June 2018 Annual Report.

Note 20. Equity - reserves

| | Consolidated | |
|------------------------------|---------------------|------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Foreign currency reserve | (4,435) | (4,435) |
| Share-based payments reserve | 2,214,116 | 1,884,369 |
| | <u>2,209,681</u> | <u>1,879,934</u> |

Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

| Consolidated | Foreign currency transaction reserve \$ | Share based payments reserve \$ | Total \$ |
|---|---|--|------------------|
| Balance at 1 July 2017 | (4,435) | 2,429,653 | 2,425,218 |
| Share based payments expense | - | 60,126 | 60,126 |
| Transfer from share based payments reserve on exercise of options | - | (535,410) | (535,410) |
| Forfeiture of options | - | (70,000) | (70,000) |
| | <u>(4,435)</u> | <u>1,884,369</u> | <u>1,879,934</u> |
| Balance at 30 June 2018 | (4,435) | 1,884,369 | 1,879,934 |
| Share based payments expense | - | 561,247 | 561,247 |
| Lapse of options | - | (231,500) | (231,500) |
| | <u>(4,435)</u> | <u>2,214,116</u> | <u>2,209,681</u> |
| Balance at 30 June 2019 | <u>(4,435)</u> | <u>2,214,116</u> | <u>2,209,681</u> |

Note 21. Equity - accumulated losses

| | Consolidated | |
|--|----------------------------|----------------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Accumulated losses at the beginning of the financial year - restated | (56,665,641) | (54,630,313) |
| Adjustment of lapse of options | 231,500 | - |
| Loss after income tax expense for the year | <u>(2,344,119)</u> | <u>(2,035,328)</u> |
| Accumulated losses at the end of the financial year | <u><u>(58,778,260)</u></u> | <u><u>(56,665,641)</u></u> |

Note 22. Equity - dividends

There were no dividends paid, recommended or declared during the current or previous financial year.

Note 23. Financial instruments

Financial risk management objectives

The Group's principal financial instruments comprise receivables, payables, cash and short-term deposits, loans and, from time to time, convertible notes and derivatives.

In the context of the Group's overall risk profile, financial instruments do not represent the most significant exposure. Commercial risk associated with our business partnerships, technology risk around future development and market risk relating to adoption of the technology will have considerably more impact on our risk profile than the risks relating to financial instruments.

The Group monitors its exposure to key financial risks, principally currency and liquidity risk, with the objective of achieving the Group's financial targets whilst protecting future financial security.

The Group enters into derivative transactions from time to time, mainly forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations. These derivatives provide economic hedges, but do not qualify for hedge accounting and are based on limits set by the Board. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are foreign currency risk, liquidity risk, interest rate risk and credit risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest and foreign exchange rates. Liquidity risk is monitored through the development of future rolling cash flow forecasts and regular internal reporting. There is a lesser degree of risk management in relation to interest rate risk and credit risk, as these are considered to have less capacity to materially impact the Group's financial position at the present time.

The Board reviews and agrees policies for managing each of these risks as summarised below. Primary responsibility for identification and control of financial risks rests with the Board. It reviews and agrees policies for managing each of the risks, including the use of derivatives, hedging cover of foreign currency, credit allowances, and future cash flow forecast projections.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Market risk

Foreign currency risk

As nearly all of the Group's sales revenue and accounts receivable, as well as some expenses and inventory purchases, are denominated in United States Dollars and Euro, the Group's statement of financial position can be affected by significant movements in these exchange rates. At 30 June 2019, there were no economic hedges in place in respect of net foreign currency exposures, as there were no bank facilities in place.

Note 23. Financial instruments (continued)

At 30 June 2019, had the Australian Dollar moved by the same amount illustrated in the table below, with all other variables held constant, post tax loss and equity would have been affected as follows:

| Consolidated - 2019 | % change | AUD strengthened | | % change | AUD weakened | |
|---------------------|----------|-----------------------------|------------------|----------|-----------------------------|------------------|
| | | Effect on profit before tax | Effect on equity | | Effect on profit before tax | Effect on equity |
| Trade debtors | 10% | <u>(15,035)</u> | <u>(15,035)</u> | 10% | <u>15,035</u> | <u>15,035</u> |

Price risk

The consolidated entity is not exposed to any significant price risk.

Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's cash and cash equivalents. The impact of movements in interest rates is not material in the context of the Group's operations or trading results.

Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents and trade and other receivables. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note. The Group does not hold any credit derivatives to offset its credit exposure. The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer, and are regularly monitored. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from the possibility of default of the counter party. This is considered unlikely as the Group places cash and cash equivalents only with recognised Australian trading banks.

The consolidated entity has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the consolidated entity based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

Liquidity risk

The Group's objective is to maintain adequate funding of its activities. Capital management is a process of monitoring cash reserves and forecast cash requirements, and there are no externally imposed capital requirements.

The contractual maturities of the Group's and parent entity's financial assets and liabilities set out in the table are equivalent to the maturity analysis of financial assets and liability based on management's expectation. The amounts disclosed in the financial statements reflect the expected maturity of assets and liabilities.

Trade payables and other financial liabilities mainly originate from investments in working capital, principally inventories. These liabilities and relevant assets are considered in the Group's overall liquidity risk, which is monitored through review of forecasts of liquidity reserves on the basis of expected cash flow.

The Group's activities are funded from its cash reserves.

Fair value of financial assets and liabilities

The methods for estimating fair value are outlined in the relevant notes to the financial statements, and unless specifically stated, carrying value approximates fair value for all financial instruments.

Note 23. Financial instruments (continued)

The fair value of financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation transaction. Management has assessed that the fair value of cash and short term deposits, trade receivables, and trade payables approximate their carrying amount due to the short term nature of the instruments.

Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

| Consolidated - 2019 | Weighted average interest rate % | 1 year or less \$ | Between 1 and 2 years \$ | Between 2 and 5 years \$ | Over 5 years \$ | Remaining contractual maturities \$ |
|-----------------------------|---|----------------------|--------------------------------|--------------------------------|--------------------|--|
| Non-derivatives | | | | | | |
| <i>Non-interest bearing</i> | | | | | | |
| Trade payables | - | 224,375 | - | - | - | 224,375 |
| Accruals | - | 72,835 | - | - | - | 72,835 |
| Other payables | - | 96,085 | - | - | - | 96,085 |
| Total non-derivatives | | <u>393,295</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>393,295</u> |

| Consolidated - 2018 | Weighted average interest rate % | 1 year or less \$ | Between 1 and 2 years \$ | Between 2 and 5 years \$ | Over 5 years \$ | Remaining contractual maturities \$ |
|-----------------------------|---|----------------------|--------------------------------|--------------------------------|--------------------|--|
| Non-derivatives | | | | | | |
| <i>Non-interest bearing</i> | | | | | | |
| Trade payables | - | 326,748 | - | - | - | 326,748 |
| Accruals | - | 109,172 | - | - | - | 109,172 |
| Other payables | - | 213,869 | - | - | - | 213,869 |
| Total non-derivatives | | <u>649,789</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>649,789</u> |

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Note 24. Key management personnel disclosures

Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

| | Consolidated | |
|------------------------------|-----------------------|-----------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Short-term employee benefits | 347,304 | 588,906 |
| Post-employment benefits | 32,993 | 47,000 |
| Long-term benefits | - | 1,080 |
| Termination benefits | - | 257,280 |
| Share-based payments | <u>362,415</u> | <u>(9,874)</u> |
| | <u><u>742,712</u></u> | <u><u>884,392</u></u> |

Note 25. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Grant Thornton Audit Pty Ltd, the auditor of the company, and its network firms:

| | Consolidated | |
|---|---------------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| <i>Audit services - Grant Thornton Audit Pty Ltd</i> Audit or review of the financial statements | 55,000 | - |
| <i>Other services - Grant Thornton Audit Pty Ltd</i> R&D tax services | 10,000 | - |
| | <u>65,000</u> | <u>-</u> |
| <i>Audit services - Ernst & Young</i> Audit or review of the financial statements | - | 92,000 |
| <i>Other services - Ernst & Young</i> R&D tax services | - | 12,500 |
| | <u>-</u> | <u>104,500</u> |

Note 26. Contingent liabilities

The group has contingent liabilities in relation to bank guarantees on issue at balance date amounting to \$52,625 (2018: \$62,625).

Note 27. Commitments

At 30 June 2019 there were no material capital commitments outstanding (2018: Nil).

| | Consolidated | |
|---|---------------------|----------------|
| | 2019 | 2018 |
| | \$ | \$ |
| <i>Lease commitments - operating</i> Committed at the reporting date but not recognised as liabilities, payable: | | |
| Within one year | 165,076 | 160,268 |
| One to five years | 147,518 | 312,594 |
| | <u>312,594</u> | <u>472,862</u> |

Operating lease commitments includes contracted amounts for offices and plant and equipment under non-cancellable operating leases expiring within 3 years with an option to extend. The lease has an escalation clause. On renewal, the terms of the lease are expected to be renegotiated.

Note 28. Related party transactions

Parent entity

Optiscan Imaging Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 30.

Note 28. Related party transactions (continued)

Key management personnel

Disclosures relating to key management personnel are set out in note 24 and the remuneration report included in the directors' report.

Transactions with Subsidiaries

Inter-company transactions during the financial year between the parent entity, Optiscan Imaging Limited and subsidiary, Optiscan Pty Ltd amounted to \$1,438,513 (2018: \$2,249,626). Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash. The balances are classified current by the parent entity.

Transactions with Directors

There were no transactions with related parties of Directors during the financial year.

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related entities at the current and previous reporting period.

Loans to/from related parties

During the financial year the Company was granted loans from Directors, or their related entities, amounting to \$200,000. These loans were provided on an interest free basis. Refer to Note 16 for further information.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at commercial rates.

Note 29. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

| | 2019 | 2018 |
|----------------------------|--------------------|--------------------|
| | \$ | \$ |
| Loss after income tax | <u>(2,098,123)</u> | <u>(2,035,328)</u> |
| Total comprehensive income | <u>(553,122)</u> | <u>(2,035,328)</u> |

Statement of financial position

| | 2019 | 2018 |
|------------------------------|-------------------------|-------------------------|
| | \$ | \$ |
| Total current assets | <u>1,660,544</u> | <u>1,460,681</u> |
| Total assets | <u>3,063,309</u> | <u>3,201,425</u> |
| Total current liabilities | <u>(200,000)</u> | <u>-</u> |
| Total liabilities | <u>(200,000)</u> | <u>-</u> |
| Equity | | |
| Issued capital | 59,392,382 | 57,987,132 |
| Share-based payments reserve | 2,239,129 | 1,954,369 |
| Accumulated losses | <u>(58,768,199)</u> | <u>(56,670,076)</u> |
| Total equity | <u><u>2,863,312</u></u> | <u><u>3,201,425</u></u> |

Note 29. Parent entity information (continued)

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2019 and 30 June 2018.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2019 and 30 June 2018.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2019 and 30 June 2018.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 2, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 30. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

| Name | Principal place of business / Country of incorporation | Ownership interest | |
|------------------|---|--------------------|-----------|
| | | 2019 % | 2018 % |
| Optiscan Pty Ltd | Australia | 100.00% | 100.00% |
| Optiscan Inc* | United States | - | 100.00% |

* This entity was deregistered during the financial year.

Note 31. Events after the reporting period

The following matters or circumstances have arisen since 30 June 2019 that have significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years:

- approval from the Institutional Review Board of Memorial Sloan Kettering Cancer Centre (MSKCC) and the United States Food and Drug Administration (FDA) for the use of an Optiscan system in an oral cancer human clinical trial. An Optiscan system has been sent to MSKCC for use in this clinical trial;
- receipt of independent third party validation of the re-sterilisability of the sheath developed and manufactured by Optiscan during FY19. The testing has confirmed the re-sterilisability of the sheath for up to 10 cycles in an autoclave machine.

No other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 32. Reconciliation of loss after income tax to net cash used in operating activities

| | Consolidated | |
|--|---------------------|--------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Loss after income tax expense for the year | (2,344,119) | (2,035,328) |
| Adjustments for: | | |
| Depreciation and amortisation | 122,055 | 88,640 |
| Share-based payments | 561,247 | (9,874) |
| Finance costs classified as financing cash outflow | - | 42,500 |
| Change in operating assets and liabilities: | | |
| Decrease in trade and other receivables | 822,921 | 38,615 |
| Increase in inventories | (269,629) | (374,068) |
| Increase in prepayments | (5,219) | (1,612) |
| Decrease in trade and other payables | (256,495) | (121,890) |
| Increase/(decrease) in other provisions | (51,558) | 49,225 |
| Net cash used in operating activities | <u>(1,420,797)</u> | <u>(2,323,792)</u> |

Note 33. Earnings per share

| | Consolidated | |
|---|---------------------|--------------------|
| | 2019 | 2018 |
| | \$ | \$ |
| Loss after income tax attributable to the owners of Optiscan Imaging Limited | <u>(2,344,119)</u> | <u>(2,035,328)</u> |
| | Number | Number |
| Weighted average number of ordinary shares used in calculating basic earnings per share | <u>433,706,197</u> | <u>414,919,238</u> |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | <u>433,706,197</u> | <u>414,919,238</u> |
| | Cents | Cents |
| Basic earnings per share | (0.54) | (0.49) |
| Diluted earnings per share | (0.54) | (0.49) |

Note 34. Share-based payments

Employee Share-Based Payment Plans

The Company provides benefits to nominated employees and non-executive directors in the form of share-based payment transactions, whereby employees and non-executive directors render services in exchange for shares or rights over shares.

At the company's Annual General Meeting held on 30 November 2018, shareholders approved grants of options to directors Mr Darren Lurie and Dr Philip Currie. Mr Lurie was issued 8,000,000 options in 4 tranches with exercise prices ranging from \$0.05 (5 cents) to \$0.08 (8 cents) and with varying expiry dates through to 30 November 2023. Each tranche will vest upon the Company's share price reaching specified levels after a specified date, provided that Mr Lurie remains continuously employed by the Company until vesting date. Dr Currie was issued 4,800,000 options in 4 tranches, with each tranche having the same respective share price and service conditions as the options issued to Mr Lurie. These options were issued during December 2018.

Note 34. Share-based payments (continued)

A further 12,800,000 options were issued to other employees and consultants (Staff) of the Company during December 2018. These options were issued in 4 tranches, with the same respective share price and service conditions as the options issued to directors, as described above.

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

2019

| Grant date | Expiry date | Exercise price | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|------------|-------------|----------------|----------------------------------|-------------------|-----------|---------------------------|--------------------------------|
| 28/11/2016 | 28/11/2019 | - | 2,150,000 | - | - | (2,150,000) | - |
| 28/11/2016 | 28/11/2019 | - | 4,000,000 | - | - | (4,000,000) | - |
| 28/11/2016 | 28/11/2019 | - | 500,000 | - | - | (500,000) | - |
| 30/11/2018 | 30/11/2022 | \$0.05 | - | 3,200,000 | - | - | 3,200,000 |
| 30/11/2018 | 31/05/2022 | \$0.05 | - | 3,200,000 | - | - | 3,200,000 |
| 30/11/2018 | 30/11/2023 | \$0.08 | - | 3,200,000 | - | - | 3,200,000 |
| 30/11/2018 | 31/05/2023 | \$0.065 | - | 3,200,000 | - | - | 3,200,000 |
| 20/12/2018 | 31/05/2022 | \$0.05 | - | 3,200,000 | - | - | 3,200,000 |
| 20/12/2018 | 30/11/2022 | \$0.05 | - | 3,200,000 | - | - | 3,200,000 |
| 20/12/2018 | 31/05/2023 | \$0.065 | - | 3,200,000 | - | - | 3,200,000 |
| 20/12/2018 | 30/11/2023 | \$0.08 | - | 3,200,000 | - | - | 3,200,000 |
| | | | <u>6,650,000</u> | <u>25,600,000</u> | <u>-</u> | <u>(6,650,000)</u> | <u>25,600,000</u> |

Weighted average exercise price \$0.063 \$0.061 - \$0.063 \$0.061

The weighted average remaining contractual life of options outstanding at the end of the financial year was 3.67 years (2018: 1.4 years).

2018

| Grant date | Expiry date | Exercise price | Balance at the start of the year | Granted | Exercised | Expired/ forfeited/ other | Balance at the end of the year |
|------------|-------------|----------------|----------------------------------|----------|---------------------|---------------------------|--------------------------------|
| 28/11/2016 | 30/06/2018 | \$0.025 | 5,000,000 | - | (5,000,000) | - | - |
| 28/11/2016 | 28/11/2019 | \$0.05 | 3,000,000 | - | (850,000) | - | 2,150,000 |
| 28/11/2016 | 28/11/2019 | \$0.075 | 4,000,000 | - | - | - | 4,000,000 |
| 28/11/2016 | 28/05/2020 | \$0.025 | 1,500,000 | - | (1,500,000) | - | - |
| 28/11/2016 | 28/11/2020 | \$0.05 | 1,500,000 | - | (1,500,000) | - | - |
| 28/11/2016 | 28/05/2021 | \$0.05 | 1,500,000 | - | - | (1,500,000) | - |
| 28/11/2016 | 28/11/2021 | \$0.05 | 1,500,000 | - | - | (1,500,000) | - |
| 28/11/2016 | 28/11/2019 | \$0.025 | 4,500,000 | - | (4,000,000) | - | 500,000 |
| | | | <u>22,500,000</u> | <u>-</u> | <u>(12,850,000)</u> | <u>(3,000,000)</u> | <u>6,650,000</u> |

Weighted average exercise price \$0.042 - \$0.029 \$0.050 \$0.063

Set out below are the options exercisable at the end of the financial year:

| Grant date | Expiry date | 2019 Number | 2018 Number |
|------------|-------------|-------------|------------------|
| 28/11/2016 | 28/11/2019 | - | 2,150,000 |
| 28/11/2016 | 28/11/2019 | - | 4,000,000 |
| 28/11/2016 | 28/11/2019 | - | 500,000 |
| | | <u>-</u> | <u>6,650,000</u> |

The weighted average share price during the financial year was \$0.0523.

Note 34. Share-based payments (continued)

The options granted during the current financial year were valued using a Barrier Pricing Model, with the barriers being the hurdle share prices for the respective tranches. The valuation model inputs used to determine the fair value at the grant date are as follows:

| Grant date | Expiry date | Share price at grant date | Exercise price | Expected volatility | Dividend yield | Risk-free interest rate | Fair value at grant date |
|------------|-------------|---------------------------|----------------|---------------------|----------------|-------------------------|--------------------------|
| 30/11/2018 | 31/05/2022 | \$0.058 | \$0.05 | 79.00% | - | 2.08% | \$0.034 |
| 30/11/2018 | 30/11/2022 | \$0.058 | \$0.05 | 79.00% | - | 2.17% | \$0.036 |
| 30/11/2018 | 31/05/2023 | \$0.058 | \$0.065 | 79.00% | - | 2.17% | \$0.034 |
| 30/11/2018 | 30/11/2023 | \$0.058 | \$0.08 | 79.00% | - | 2.17% | \$0.034 |
| 20/12/2018 | 31/05/2022 | \$0.045 | \$0.05 | 79.00% | - | 2.08% | \$0.024 |
| 20/12/2018 | 30/11/2022 | \$0.045 | \$0.05 | 79.00% | - | 2.17% | \$0.025 |
| 20/12/2018 | 31/05/2023 | \$0.045 | \$0.065 | 79.00% | - | 2.17% | \$0.024 |
| 20/12/2018 | 30/11/2023 | \$0.045 | \$0.08 | 79.00% | - | 2.17% | \$0.024 |

At the company's Annual General Meeting held on 30 November 2018, shareholders approved grants of performance rights to directors Mr Darren Lurie (1,100,000 rights), Dr Philip Currie (660,000 rights) and Mr Graeme Mutton (180,000 rights). These performance rights vested upon issue. There is no consideration payable to convert the rights to shares.

A further 660,000 performance rights were issued to Staff of the Company during December 2018. These performance rights have the same conditions as the performance rights issued to directors, as described above.

Set out below are summaries of performance rights granted under the plan:

| Grant Date | Exercise price | Balance at start of financial year | Granted | Exercised | Expired/ forfeited/ other | Balance at end of financial year |
|------------|----------------|------------------------------------|-----------|-----------|---------------------------|----------------------------------|
| 30/11/2018 | - | - | 1,940,000 | - | - | 1,940,000 |
| 20/12/2018 | - | - | 660,000 | - | - | 660,000 |

For the performance rights granted during the current financial half-year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

| Grant date | Expiry date | Share price at grant date | Exercise price | Expected volatility % | Dividend yield % | Risk-free interest rate % | Fair value at grant date |
|------------|-------------|---------------------------|----------------|-----------------------|------------------|---------------------------|--------------------------|
| 30/11/2018 | - | 0.058 | - | - | - | - | 0.058 |
| 20/12/2018 | - | 0.045 | - | - | - | - | 0.045 |

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the financial year ended on that date; and
- 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 directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors



Darren Lurie
Executive Chairman

30 August 2019

Independent Auditor's Report

To the Members of Optiscan Imaging Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Optiscan Imaging Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

In our opinion, the accompanying financial report of 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 2019 and of its performance for the year ended on that date; and
- b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

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 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.

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

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 of the current period. These 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.

Key audit matter
How our audit addressed the key audit matter
Going Concern - Note 2

The Group is currently in its research and development phase and as such it has significant recurring losses and negative cash flows from operating activities. As a result, the Group is reliant on having sufficient cash reserves to fund its future operations.

For the year ended 30 June 2019, the Group has recorded a loss after income tax of \$2.3 million and a net cash outflow from operations of \$1.4 million. As at 30 June 2019 the Group had cash reserves of \$1.8 million as disclosed in Note 9.

Notwithstanding the above, the Group has prepared the financial report on the going concern basis which assumes continuity of normal operations into the foreseeable future.

In determining the appropriateness of the preparation of the financial report on a going concern basis, the Directors' have made a number of judgments, including the timing and quantification of revenue and expenditure cash inflows and outflows.

Our assessment of the Director's conclusion that the Group is a going concern is a key audit matter given the significant judgement involved in estimating future cash flows of the Group.

Our procedures included, amongst others:

- Obtaining the Group's going concern assessment and supporting cashflow forecasts, noting that these had been approved by the Board of Directors;
- Clerically checking the model for arithmetic accuracy;
- Assessing key assumptions against evidence and considering the historical reliability of the Group's cashflow forecasting process;
- Enquiring of key management personnel as to the pipeline of customer orders and current discussions with key prospective customers;
- Obtaining support for enforceable arrangements with commercial partners in order to evaluate the revenue expectations made by the Group;
- Enquiring as to the cost deferral/reduction opportunities and other options available to the Group should there be delays in the achievement of these anticipated commercial sales; and
- Assessing the adequacy of the financial statement disclosures made in the financial report.

R&D Tax Incentive – Note 10

The Group receives a 43.5% refundable tax offset of eligible expenditure under the Research and Development (R&D) Tax Incentive scheme if its turnover is less than \$20 million per annum, provided it is not controlled by income tax exempt entities.

An R&D plan is filed with AusIndustry in the following financial year, and based on this filing, the Group receives the incentive in cash. Management performed a detailed review of the Company's total research and development expenditure to determine the potential claim under the R&D tax incentive legislation. For the year ending 30 June 2019 the R&D amount being claimed is \$230,882.

This area is a key audit matter due to the degree of judgement and interpretation of the R&D tax legislation required by management to assess the eligibility of the R&D expenditure under the scheme.

Our procedures included, amongst others:

- Obtaining the FY19 R&D rebate calculations prepared by management's expert and performed the following audit procedures:
 - verifying that management's expert is qualified to perform the calculation;
 - developing an understanding of the model, identifying and assessing the key assumptions in the calculation;
 - reviewing included expenses for reasonableness; and
 - testing the mathematical accuracy of the accrual.
- Comparing the estimates made in previous years to the amount of cash actually received after lodgement of the R&D tax claim;
- Comparing the nature of the R&D expenditure included in the current year estimate to the prior year estimate;
- Considering the nature of the expenses against the eligibility criteria of the R&D tax incentive scheme to form a view about whether the expenses included in the estimate were likely to meet the eligibility criteria;
- Assessing the eligible expenditure used to calculate the estimate to the expenditure recorded in the general ledger;
- Inspecting copies of relevant correspondence with AusIndustry and the ATO related to the claims;
- Engaging with our R&D specialist to review the reasonableness of the calculation; and
- Assessing the adequacy of financial statement disclosures.

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2019, 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 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 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 the *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 Group's ability 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 this 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. This description forms part of our auditor's report.

Report on the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in pages 8 to 17 of the Directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Optiscan Imaging Limited, for the year ended 30 June 2019 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.



Grant Thornton Audit Pty Ltd
Chartered Accountants



M A Cunningham
Partner – Audit & Assurance

Melbourne, 30 August 2019

The shareholder information set out below was applicable as at 26 July 2019.

Corporate Governance Statement

Refer to the Company's Corporate Governance statement at: www.optiscan.com/investors/corporate-governance/.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

| | Number of holders of ordinary shares |
|---------------------------------------|---|
| 1 to 1,000 | 748 |
| 1,001 to 5,000 | 975 |
| 5,001 to 10,000 | 367 |
| 10,001 to 100,000 | 860 |
| 100,001 and over | 473 |
| | <hr/> |
| | 3,423 |
| | <hr/> <hr/> |
| Holding less than a marketable parcel | 2,121 |
| | <hr/> <hr/> |

Equity security holders

Twenty largest quoted equity security holders

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

| | Number held | Ordinary shares % of total shares issued |
|---|--------------------|---|
| Peters Investment Pty Ltd | 48,500,000 | 10.32 |
| Ibsen Pty Ltd (Narula Family Set No.3 A/C) | 38,699,500 | 8.23 |
| Harech Pty Ltd (Porter Super Fund A/C) | 15,167,805 | 3.23 |
| Mr Chris Graham + Mrs Diane Graham (C & D Graham S/F A/C) | 11,000,000 | 2.34 |
| Lightstorm Pty Ltd (Hotspice A/C) | 10,000,000 | 2.13 |
| Dixson Trust Pty Limited | 8,467,350 | 1.80 |
| Opthea Limited | 8,285,151 | 1.76 |
| Project Management Pty Ltd (D & K Corps Family S/F A/C) | 6,161,112 | 1.31 |
| Kebin Nominees Pty Ltd | 6,086,261 | 1.29 |
| Mr Alfred J Winkelmeier + Mrs Christine E Winkelmeier (The Winkelmeier S/F A/C) | 5,700,000 | 1.21 |
| Mr Peter M Delaney | 5,451,259 | 1.16 |
| Dr Philip J Currie _ Mrs Anne J Currie (Currie Family Superfund A/C) | 5,097,500 | 1.08 |
| Ibsen Pty Ltd (Ibsen Superfund A/C) | 4,256,445 | 0.91 |
| Mr Christopher J Martin | 4,209,448 | 0.90 |
| Mr Wally Knezevic | 4,134,260 | 0.88 |
| Mrs Susy Munro | 3,788,056 | 0.81 |
| Miss Shirley Elkassaby | 3,680,000 | 0.78 |
| Mr Jubran W Toak + Mr Melhem W Toak | 3,422,996 | 0.73 |
| Sash Pty Ltd (Knezevic Super Fund A/C) | 6,837,964 | 1.45 |
| National Nominees Limited | 3,330,000 | 0.71 |
| | <hr/> | |
| | 202,275,107 | 43.03 |
| | <hr/> <hr/> | |

Unquoted equity securities

| | Number on issue | Number of holders |
|-------------------------------------|----------------------------|------------------------------|
| Options over ordinary shares issued | 25,600,000 | 14 |
| Performance Rights | 2,600,000 | 4 |

Substantial holders

Substantial holders in the company are set out below:

| | Number held | Ordinary shares % of total shares issued |
|---|--------------------|---|
| Peters Investments Pty Ltd | 48,500,000 | 10.32 |
| Ibsen Pty Ltd (Narula Family Set No3 A/C) | 38,699,500 | 8.23 |

Voting rights

The voting rights attached to ordinary shares are set out below:

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.

There are no other classes of equity securities.

On-market buy-back

There is no current on-market buy-back.