

## **OPTISCAN IMAGING LIMITED**

ABN : 81 077 771 987

### **APPENDIX 4D**

**Report for the Half Year ended**

**31 December 2016**

Previous corresponding period: half year ended 31 December 2015

**This half year report is to be read in conjunction with the company's 2016 Annual Report**

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## 1.1 Results for announcement to the market

The results of Optiscan Imaging Limited for the half year ended 31 December 2016 are as follows:

### Results

(Previous corresponding period: half year ended 31 December 2015)

- Total revenue from ordinary activities increased from \$11,985 to \$319,818 (2568% increase).
- Loss after tax attributable to members increased from \$748,391 to \$2,164,697 (189% increase).

### Dividends

No dividends have been paid or declared by the entity since the beginning of the reporting period. No dividends were paid or declared in the previous corresponding period.

## 2. Brief explanation of financial results

Increased revenue represents sales to Carl Zeiss as the collaboration relationship develops and enters production phase.

The largest component of the increased loss compared to 2015 comprises expenses relating to share based payments (non-cash) of \$738,243 in the current period, following the award of options which were approved at the 25 November 2016 AGM.

Operating expenses have also risen, from \$1,165,871 to \$1,720,679, as the company enters production phase and establishes an infrastructure to support this and consisting of additional research and development expenses, marketing expenses and employment of key required personnel.

## 3. Commentary on operations and outlook

As we outlined in the 2016 Annual Report, the new board and management undertook a review of the business and has established a clear direction for the business as we move into 2017.

The company has identified three key pillars of success for its new business model:

- Developing the Carl Zeiss Meditec (CZM) collaboration;
- Sales of ViewnVivo – our second-generation pre-clinical research product; and
- Exploring new market opportunities for related Optiscan products and services.

### **Carl Zeiss Meditec (CZM) collaboration**

Without doubt, our collaboration with CZM is the cornerstone of the Optiscan business. CZM is a major international conglomerate based in Germany, is a long-term business partner and has a significant market share in our partnered application areas. The significance of this is that regulatory approvals that CZM are advancing should be completed in 2017.

Revenue arising from the Carl Zeiss collaboration has been recognised in the half-year. Additional revenue will be received in the second half of the financial year following receipt of orders for additional systems to be delivered in 2017.

We are delighted with our progress in this area through the back end of 2016 and into 2017 as we move into a production phase. Some of the key points include:

- Delivery of Production Equivalent Systems (PES) in December 2016. These units have been tested fully by CZM who have confirmed that these units are now production ready;
- Delivery of additional Production Equivalent Systems (PES) in February 2017;
- We have also received orders from CZM for additional units scheduled for delivery later in the 2017 financial year; and
- In preparation for anticipated increased demand for the CZM Collaboration product, discussions have commenced with a Melbourne based high quality technical manufacturer who is able to provide the Company with the ability to assist Optiscan in meeting future production demands into 2017 and well beyond.

### **Sales of ViewnVivo**

ViewnVivo is a miniaturised fluorescence endomicroscope platform that brings the next generation of Optiscan's incredible imaging capability and flexibility to Preclinical Research.

Whilst CZM is a cornerstone project for Optiscan, ViewnVivo offers improved capability and a fresh new look. We are very confident that ViewnVivo will secure a significant share of the global market and will provide Optiscan with a revenue source to complement our Zeiss collaboration project.

Some of the key points include:

- Relaunch of the product in late 2016 with a stand-alone website ([www.viewnvivo.com](http://www.viewnvivo.com)). Traffic to the ViewnVivo website is increasing through both natural search results and an initial test Google AdWords campaign.
- Optiscan was the Major Sponsor of the prestigious National Conference of Light Microscopy Australia (LMA) held in Melbourne on 1-3 February 2017. The event was attended by approx. 200 of Australia's leading Research Professors, Researcher leads, Microscopy Facility Managers and Students, and represented Optiscan's re-entry into the Research market. As part of the conference agenda, Optiscan presented a system overview to the entire audience along with Cameron J Nowell of Monash Institute of Pharmaceutical Sciences. The company also demonstrated the ViewnVivo system to attendees throughout the entire conference.
- As an adjunct to the involvement in the above event, on an ongoing annual basis, Optiscan is sponsoring the National Micrograph Imaging Award for the next 3 years - to be referred to as the Optiscan Imaging Award. This represents continued reinforcement and engagement with the local Microscopy community.
- It is anticipated that approval will be received to allow revenue generation from ViewnVivo sales from April 2017 onwards.
- ViewnVivo marketing activity is progressing well with both local and overseas market engagement including, but not limited to, the following:
  - Progress continues with a number of very interested Australian research organisations looking to evaluate the system with a view to purchasing the ViewnVivo product.
  - Meetings have been established with existing Optiscan FIVE1 customers with a view to upgrading to ViewnVivo. Many of these meetings have already taken place in Australia.
  - Discussions have commenced with potential Distribution Partners for the ViewnVivo product including increased involvement from MR Solutions in 2017
  - In addition to the activity surrounding existing customers, the final steps are being put in place for the phased execution of Email Marketing campaign to 3,000 Research related positions and organisations, which is expected to start in March 2017.
- As with the CZM Collaboration product, in preparation for anticipated increased demand for the ViewnVivo product, discussions have commenced with a Melbourne based high quality technical manufacturer who is able to provide the Company with the ability to assist Optiscan in meeting future production demands into 2017 and well beyond.

### **Exploring new market opportunities**

Whilst the two pillars of CZM and ViewnVivo are pivotal to the future success of Optiscan, it is also essential that we future-proof the business. Therefore, Optiscan needs to continue its Product Development to explore new market opportunities.

Whilst our prime focus will be on Zeiss and ViewnVivo in the short-term, our development team will continue to investigate opportunities for Optiscan. The key point here is that we will ensure delivery of key projects and yet keep an eye on the future. We will do this via a separate department of Optiscan which will be responsible for development. As a consequence, we will ensure that Optiscan remains at the forefront of innovation and technological advancement well into the future.

#### **Conclusion**

The board and management of Optiscan are confident that Optiscan remains on track on the path established and advised in the 2016 Annual Report as we drive the business into the production phase for the CZM Collaboration and ViewnVivo products.

#### **4. Other information**

##### Net Tangible Assets per ordinary Security

Net tangible assets per ordinary security at 31 December 2016 are \$0.06 (6 cents), (31 December 2015: Nil).

##### Earnings per ordinary share

Basic loss per ordinary share, in cents per share, for the half year ended 31 December 2016 amount to \$0.01 (1 cent per share) (31 December 2015: \$0.0034 (0.34 cents per share)).

##### Subsidiaries, associates and joint ventures

There were no changes in subsidiaries, associates and joint ventures during the half year.

##### Status of review of accounts

This Appendix 4D is based on accounts which have been subject to review by our auditors.

##### Audit Report Emphasis of Matter regarding Going Concern

In common with previous years, the audit report notes that there is a material uncertainty regarding going concern. The opinion is unchanged in the current report.

#### **5. Financial information**

The Interim condensed Financial Report for the half year ended 31 December 2016 is set out on pages 1 to 27 of this report.

Signed:



Alan Hoffman,  
Chairman

28 February 2017

**Optiscan Imaging Limited**  
ABN 81 077 771 987

**Interim Financial Report**

**for the half year ended 31 December 2016**

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# Corporate Information

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ABN 81 077 771 987

This interim report covers the consolidated entity comprising Optiscan Imaging Limited and its subsidiaries. The Group's presentation currency is Australian Dollars AUD (\$).

A description of the Group's operations and of its principal activities is included in the review of operations in the Directors' Report on pages 4-7. The Directors' Report is not part of the financial report.

## Directors

Alan Hoffman (Chair)  
Ian Mann  
Peter Francis  
Ian Griffiths

## Company Secretary

Justin Mouchacca (appointed 16 December 2016)

## Registered office

15-17 Normanby Road  
Notting Hill Vic 3168  
Australia

## Principal place of business

15-17 Normanby Road  
Notting Hill Vic 3168  
Australia  
T 61 3 9538 3333  
F 61 3 9562 7742  
www.optiscan.com

## Share Register

Computershare Registry Services  
Yarra Falls  
452 Johnston Street  
Abbotsford Vic 3067  
Australia  
T 61 3 9415 5000

## Auditors

Ernst & Young  
8 Exhibition Street  
Melbourne VIC 3000

## Bankers

National Australia Bank

## Directors' Report

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The Board of Directors of Optiscan Imaging Limited has pleasure in submitting its report in respect of the half year ended 31 December 2016.

### Directors

The names of the directors in office during or since the end of the half year are:

Mr Alan Hoffman (Chair)  
Mr Ian Mann  
Mr Peter Francis  
Dr Ian Griffiths

### Principal Activities

The principal activity of the consolidated entity during the half year was the development and commercialisation of confocal microscopes. There was no change in the nature of this activity during the half year.

### Financial Results

Optiscan recorded a net loss after tax of \$2,164,697 for the half year ended 31 December 2016. This was \$1,416,306 or 189% higher than the loss of \$748,391 in the previous corresponding period.

The largest component of the increased loss compared to 2015 comprises expenses relating to share based payments (non-cash) of \$738,243 in the current period, following the award of options which were approved at the 25 November 2016 AGM.

Operating expenses have also risen, from \$1,165,871 to \$1,720,679, as the company enters production phase and establishes an infrastructure to support this and consisting of additional research and development expenses, marketing expenses and employment of key required personnel.

### Financial Position

During the period the group successfully completed capital raising activities and raised \$3,810,519 net of transaction costs of \$287,104, including \$662,000 received prior to 30 June 2016.

In addition to the capital raising activities, the company settled an outstanding director loan through the issue of fully paid ordinary shares, reducing liabilities by \$600,000. The final interest payable of \$26,315 in relation to the loan was paid by cash in February 2017.

A further external loan of \$500,000 was repaid in full by cash during the period.

## Directors' Report (continued)

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### Review of Operations

As we outlined in the 2016 Annual Report, the new board and management undertook a review of the business and has established a clear direction for the business as we move into 2017.

The company has identified three key pillars of success for its new business model:

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- As an adjunct to the involvement in the above event, on an ongoing annual basis, Optiscan is sponsoring the National Micrograph Imaging Award for the next 3 years - to be referred to as the Optiscan Imaging Award. This represents continued reinforcement and engagement with the local Microscopy community.

## Directors' Report (continued)

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  - Progress continues with a number of very interested Australian research organisations looking to evaluate the system with a view to purchasing the ViewnVivo product.
  - Meetings have been established with existing Optiscan FIVE1 customers with a view to upgrading to ViewnVivo. Many of these meetings have already taken place in Australia with others scheduled to take place in the USA in early March.
  - Discussions have commenced with potential Distribution Partners for the ViewnVivo product including increased involvement from MR Solutions in 2017
  - In addition to the activity surrounding existing customers, the final steps are being put in place for the phased execution of Email Marketing campaign to 3,000 Research related positions and organisations, which is expected to start in March 2017. This campaign will test the appeal of the ViewnVivo system to the market, within geographies collocated to existing customers and travel plans to maximise coverage.
- As with the CZM Collaboration product, in preparation for anticipated increased demand for the ViewnVivo product, discussions have commenced with a Melbourne based high quality technical manufacturer who is able to provide the Company with the ability to assist Optiscan in meeting future production demands into 2017 and well beyond.

### **Exploring new market opportunities**

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### **Conclusion**

The board and management of Optiscan are confident that Optiscan remains on track on the path established and advised in the 2016 Annual Report as we drive the business into the production phase for the CZM Collaboration and ViewnVivo products.

## Directors' Report (continued)

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### Significant Changes in the state of affairs

The following significant changes to the state of affairs took place during the financial year:

- On 6 July, 2016, the company issued 29,980,000 new shares in respect of a capital placement, raising \$749,500 from this placement;
- On 6 July 2016, 1,000,000 additional new shares were issued to cover the costs of the loan facility drawn down on 29 April 2016.
- On 8 September 2016, the company issued 56,624,918 million new shares through a fully-underwritten 2 for 9 rights issue. \$1,415,623 before costs was raised from this rights issue.
- On 22 July 2016, the company announced its intention, subject to shareholder approval, to convert a \$600,000 loan from parties associated with director Mr Ian Mann to equity through the issuance of 24,000,000 shares at a price of \$0.025 per share. Shareholder approval was granted at the Company's 2016 Annual General Meeting of shareholders and the Company issued the 24,000,000 shares on 22 December 2016.
- On 22 December 2016 the company granted 12,000,000 unlisted options to Directors following shareholder approval granted at the 2016 Annual General Meeting.
- On 22 December 2016 the company modified 7,500,000 unlisted options granted to the CEO, Mr Archie Fraser, previously granted on 16 May 2016.
- On 22 December 2016 the company also granted 5,000,000 unlisted options in relation to an underwriting fee for the company's rights issues conducted during the period following shareholder approval granted at the 2016 Annual General Meeting.
- On 21 December 2016 the company announced that it had received commitments for the placement of 38,650,000 fully paid ordinary shares at an issue price of \$0.05 (5 cents) per share raising \$1,932,500. The company issued the new shares on 28 December 2016.

### Auditor independence

The directors have obtained a declaration of independence from Ernst & Young, the group's auditors, which is set out on the following page.

This report has been made in accordance with a resolution of directors.



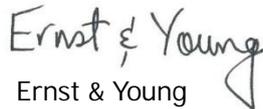
Alan Hoffman  
Director  
28 February 2017

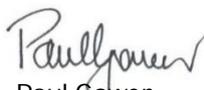
## Auditor's Independence Declaration to the Directors of Optiscan Imaging Limited

As lead auditor for the review of Optiscan Imaging Limited for the half-year ended 31 December 2016, I declare 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 review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Optiscan Imaging Limited and the entities it controlled during the financial period.

  
Ernst & Young

  
Paul Gower  
Partner

# Consolidated Statement of Financial Position

## AS AT 31 DECEMBER 2016

	Notes	CONSOLIDATED	
		December	June
		2016	2016
		\$	\$
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	4	2,491,310	954,805
Trade and other receivables		505,071	780,792
Inventories		28,500	28,500
Prepayments		77,173	37,048
<b>Total Current Assets</b>		<b>3,102,054</b>	<b>1,801,145</b>
<b>Non-current Assets</b>			
Plant and equipment		104,903	19,691
<b>Total Non-current Assets</b>		<b>104,903</b>	<b>19,691</b>
<b>TOTAL ASSETS</b>		<b>3,206,957</b>	<b>1,820,836</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>			
Trade and other payables		706,368	1,211,810
Interest bearing loans and borrowings	5	26,315	1,124,358
Provisions		209,245	231,477
<b>Total Current Liabilities</b>		<b>941,928</b>	<b>2,567,645</b>
<b>Non-current Liabilities</b>			
Provisions		5,614	2,841
<b>Total Non-current Liabilities</b>		<b>5,614</b>	<b>2,841</b>
<b>TOTAL LIABILITIES</b>		<b>947,542</b>	<b>2,570,486</b>
<b>NET ASSETS / (LIABILITIES)</b>		<b>2,259,415</b>	<b>(749,650)</b>
<b>EQUITY</b>			
Contributed equity	6	53,798,298	49,362,778
Retained earnings		(53,852,085)	(51,687,388)
Reserves	6	2,313,202	1,574,960
<b>TOTAL EQUITY / (DEFICIENCY)</b>		<b>2,259,415</b>	<b>(749,650)</b>

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

## Consolidated Statement of Comprehensive Income

### FOR THE HALF YEAR ENDED 31 DECEMBER 2016

	Notes	CONSOLIDATED	
		December	December
		2016	2015
		\$	\$
<b>Continuing operations</b>			
Sales		312,286	9,573
Other revenue		7,532	2,412
<b>Revenue</b>		<b>319,818</b>	<b>11,985</b>
Cost of sales		(311,033)	-
<b>Gross Profit</b>		<b>8,785</b>	<b>11,985</b>
Other income		433,763	597,400
Administrative expenses		(896,670)	(480,538)
Research & development expenses		(824,009)	(685,333)
Finance expenses		(70,833)	(123,710)
Share options expenses		(738,243)	-
Other expenses		(77,490)	(68,195)
<b>(Loss) before income tax</b>		<b>(2,164,697)</b>	<b>(748,391)</b>
Income tax expense		-	-
<b>(Loss) for the period</b>		<b>(2,164,697)</b>	<b>(748,391)</b>
<b>Other comprehensive income</b>			
Items that may be subsequently recycled through profit and loss:			
Foreign currency translation		-	32
<b>Other comprehensive income for the period net of tax</b>		<b>-</b>	<b>32</b>
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR PERIOD</b>		<b>(2,164,697)</b>	<b>(748,359)</b>
Earnings (loss) per share (cents per share)			
- basic earnings (loss) per share for the period		(0.01)	(0.34)
- diluted earnings (loss) per share for the period		(0.01)	(0.34)

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

## Consolidated Statement of Changes in Equity

### FOR THE HALF YEAR ENDED 31 DECEMBER 2016

	CONSOLIDATED				
	Ordinary Shares	Accumulated Losses	Share Based Payment Reserve	Foreign Currency Translation Reserve	Total Equity
	\$	\$	\$	\$	\$
At 1 July 2016	49,362,779	(51,687,388)	1,570,171	4,788	(749,650)
Loss for the half year	-	(2,164,697)	-	-	(2,164,697)
Other comprehensive income	-	-	-	-	-
Total comprehensive income for the half year	-	(2,164,697)	-	-	(2,164,697)
Transactions with owners in their capacity as owners:					
Loan settled by share issue	600,000	-	-	-	600,000
Share options expense	-	-	738,243	-	738,243
Shares issued for cash in entitlements issue	4,097,623	-	-	-	4,097,623
Shares issued for finance facility fee	25,000	-	-	-	25,000
Transaction costs of share issues	(287,104)	-	-	-	(287,104)
At 31 December 2016	53,798,298	(53,852,085)	2,308,414	4,788	2,259,415
At 1 July 2015	48,684,716	(50,350,332)	1,485,661	4,744	(175,211)
Loss for the half year	-	(748,391)	-	-	(748,391)
Other comprehensive income	-	-	-	32	32
Total comprehensive income for the half year	-	(748,391)	-	32	(748,359)
Transactions with owners in their capacity as owners:					
Loan facility fees settled by share issue	86,000	-	-	-	86,000
Underwriting fee settled by issues of options	-	-	84,510	-	84,510
Shares issued for cash in entitlements issue	690,074	-	-	-	690,074
Transaction costs of shares issue	(123,011)	-	-	-	(123,011)
At 31 December 2015	49,337,779	(51,098,723)	1,570,171	4,776	(185,997)

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

## Consolidated Statement of Cash Flows

### FOR THE HALF YEAR ENDED 31 DECEMBER 2016

	Note	CONSOLIDATED	
		December	December
		2016	2015
		\$	\$
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		332,755	222,001
Payments to suppliers and employees (inclusive of GST)		(2,047,937)	(1,207,654)
Interest received		7,523	2,412
Receipt of R&D tax credit		726,504	679,675
<b>Net cash flows used in operating activities</b>	4	<u>(981,155)</u>	<u>(303,566)</u>
<b>Cash flows from investing activities</b>			
Purchase of plant and equipment		(95,859)	(771)
<b>Net cash flows used in investing activities</b>		<u>(95,859)</u>	<u>(771)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of convertible notes and loans		-	300,000
Proceeds from issue of shares		3,435,623	690,074
Transaction costs of share issues		(287,104)	(38,500)
Repayment of loan principal & interest		(535,000)	-
<b>Net cash flows from financing activities</b>		<u>2,613,519</u>	<u>951,574</u>
Net (decrease) increase in cash and cash equivalents		1,536,505	647,237
Net foreign exchange differences		-	(256)
Cash and cash equivalents at beginning of period		954,805	268,893
<b>Cash and cash equivalents at end of period</b>	4	<u><u>2,491,310</u></u>	<u><u>915,874</u></u>

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

# Notes to the Financial Statements

## FOR THE HALF YEAR ENDED 31 DECEMBER 2016

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### 1 CORPORATE INFORMATION

The financial report of Optiscan Imaging Limited (“the Company”) for the half year ended 31 December 2016 was authorised for issue in accordance with a resolution of the directors on 24 February 2017.

Optiscan Imaging Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian stock exchange. The nature of the operations and principal activities of Optiscan Imaging Limited and its controlled entities (“the Group”) was the development and commercialisation of confocal microscopes. There was no change in the nature of this activity during the half year.

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The half year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half year financial report should be read in conjunction with the annual Financial Report of Optiscan Imaging Limited as at 30 June 2016, and considered together with any public announcements made by Optiscan Imaging Limited and its controlled entities during the half-year ended 31 December 2016 in accordance with the continuous disclosure obligations of the ASX listing rules.

#### a) Basis of preparation

This general purpose condensed financial report for the half year ended 31 December 2016 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

#### Going Concern

In common with many entities in the medical technology sector, the company’s operations are subject to an element of risk due to the nature of the development and commercialisation being undertaken. A part of this risk relates to funding of the Company’s activities and related issues including the conditions prevailing in local and international financial markets. In the context of this operating environment, the company may need to raise additional capital in order to execute its near term and medium term plans for expansion of its product portfolio in the event that sufficient revenue is not generated in the normal course of business. Whilst there is an element of risk surrounding the Company’s ability to continue as a going concern, the directors believe the Company has the ability to carry out its objectives.

With the aim of improving the Company’s performance, a new board was appointed on 2 May 2016, bringing with it a significant level of expertise and a newfound confidence of the ability of the Company to trade its way into a positive profit and earnings environment, with sufficient cash flows available to meet working capital requirements and the group’s obligations and liabilities as they fall due.

As at 31 December 2016, the financial position of the consolidated entity as disclosed in the financial statements reflects a net asset position of \$2,259,415 (30 June 2016: net asset deficiency position of \$749,650). This balance has been determined after a consolidated net loss for the half year of \$2,164,697 (31 December 2015: \$748,359), and a net cash outflow from operations of \$981,155 (31 December 2015: \$303,566).

## Notes to the Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2016

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The accounts have been prepared on a going concern basis, which includes the presumption that sufficient funds will be available to finance the operations of the consolidated entity. In adopting this position, the directors have had regard to:

- Cash on hand at 31 December 2016 is \$2,491,310 (30 June 2016: \$954,805);
- Additional cashflow is expected to be received in the 2017 financial year and beyond under the agreement with Carl Zeiss;
- Revenue is expected to increase from the sale of systems to Carl Zeiss and the sale of ViewnVivo systems through 2017 and beyond;
- The Company has the ability to raise additional income, reduce costs or accelerate forecasted cash flows if required;
- As the Company has a successful track record in raising capital, the directors believe the Company has the ability to raise additional capital from existing and new investors should it be required.

The directors plan to continue the Company and the consolidate entity's operations on the basis outlined above, and believe there will be sufficient funds for the Group to meet its obligations and liabilities for at least twelve months from the date of this report.

### Basis of consolidation

The half-year consolidated financial statements comprise the financial statements of Optiscan Imaging Limited and its subsidiaries as at and throughout the half year ended 31 December 2016.

#### b) Significant Accounting Policies

The accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

Other standards issued as of 1 July 2016, do not have a significant impact on the consolidated financial report of Optiscan Imaging Limited. The Group has not elected to early adopt any other new standards, amendments of interpretations that are issued but not yet effective.

## Notes to the Financial Statements (continued)

### FOR THE HALF YEAR ENDED 31 DECEMBER 2016

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### 3 SEGMENT INFORMATION

#### Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the core activities carried out by the Group. Discrete financial information about each of these operating businesses is reported to executive management on a monthly basis.

#### Types of products and services

##### *Trading*

The trading activities of the Group include the manufacture and sale of optical imaging devices for medical and research applications.

##### *Research and development*

Research and development activities currently involve development of a new imaging platform, improved miniaturised scanners, and research into potential new applications for the Group's technology. An established facet of the business model of the Group is to generate income from these activities from collaboration partners.

#### Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments are the same as those contained in Note 2 to the 30 June 2016 financial statements.

There are no inter-segment transactions or balances.

##### *Corporate charges*

Corporate charges are allocated to each reportable segment on a proportionate basis linked to staffing numbers so as to determine a segmental result.

##### *Income tax expense*

Income tax expense relates only to withholding tax on royalties. There is no income tax expense applicable to reportable segments. It is the Group's policy that if items of revenue and expense are not allocated to operating segments then any associated assets and liabilities are also not allocated to segments. This is to avoid asymmetrical allocations within segments which management believe would be inconsistent.

##### *Items not allocated to reportable segments*

The following items and associated assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Finance revenue and costs, including fair value adjustments
- Royalty revenue and associated withholding tax
- Corporate overheads and expenses
- Cash balances are unallocated

##### *Major customers*

There is no significant concentration of customers in the Group's trading activities. The major customer in research and development is Carl Zeiss, where income is received under the terms of a collaboration agreement.

## Notes to the Financial Statements (continued)

### FOR THE HALF YEAR ENDED 31 DECEMBER 2016

### 3 SEGMENT INFORMATION (continued)

	Trading \$	R&D \$	Segment Total \$	Unallocated \$	Total \$
<b>Half year ended 31 December 2016</b>					
<b>Assets and liabilities</b>					
Segment assets*	28,500	435,167	463,667	2,743,290	3,206,957
Segment liabilities	-	(171,887)	(171,887)	(775,655)	(947,542)
Segment net assets	28,500	263,280	291,780	1,967,635	2,259,415
<b>Revenue</b>					
Sales to external customers	312,286	-	312,286	-	312,286
Other income	-	433,763	433,763	7,532	441,295
Total consolidated revenue	312,286	433,763	746,049	7,532	753,581
<b>Result</b>					
Net (loss) for the period by segment	1,253	(388,842)	(387,589)	-	(387,589)
Unallocated items	-	-	-	(1,777,108)	(1,777,108)
	1,253	(388,842)	(387,589)	(1,769,536)	(2,164,697)
<b>Cash flow</b>					
Segment net cash flow from /(used in) operating activities	332,755	(97,505)	235,250	(1,216,405)	(981,155)
Investing cash flows	-	-	-	(95,859)	(95,859)
Financing cash flows	-	-	-	2,613,519	2,613,519
Net cash flow for the period	332,755	(97,505)	235,250	1,301,255	1,536,505
Other Segment information					
Non cash expenses					
Depreciation and amortisation	-	-	-	10,681	10,681
Amortised cost adjustment of loans	-	-	-	18,615	18,615
Share option expense	-	-	-	738,243	738,243
Revenue by geographic segment (location of customer)					
Asia	-	-	-	-	-
Australia	-	-	-	-	-
Europe	312,286	-	312,286	-	312,286
USA & Canada	-	-	-	-	-
Total	312,286	-	312,286	-	312,286

\* Unallocated segment assets include cash balances unrelated to the operating segments

**Notes to the Financial Statements (continued)**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2016**

**3 SEGMENT INFORMATION (continued)**

	<i>Trading</i> \$	<i>R&amp;D</i> \$	<i>Segment Total</i> \$	<i>Unallocated</i> \$	<i>Total</i> \$
<b>Half year ended 31 December 2015</b>					
<b>Assets and liabilities</b>					
Segment assets*	42,229	361,047	403,276	1,020,290	1,423,566
Segment liabilities	-	(176,023)	(176,023)	(1,433,540)	(1,609,563)
Segment net assets	42,229	185,024	227,253	(413,250)	(185,997)
<b>Revenue</b>					
Sales to external customers	9,573	-	9,573	-	9,573
Other revenues	-	-	-	2,412	2,412
Total consolidated revenue	9,573	-	9,573	2,412	11,985
<b>Result</b>					
Net (loss) for the period by segment	(41,718)	(87,933)	(129,651)	-	(129,651)
Unallocated items	-	-	-	(618,740)	(618,740)
	(41,718)	(87,933)	(129,651)	(618,740)	(748,391)
<b>Cash flow</b>					
Segment net cash flow from /(used in) operating activities	(50,958)	213,083	162,125	(465,691)	(303,566)
Investing cash flows	-	-	-	(771)	(771)
Financing cash flows	-	-	-	951,574	951,574
Net cash flow for the period	(50,958)	213,083	162,125	485,112	647,237
Other Segment information					
Non cash expenses					
Depreciation and amortisation	-	-	-	5,025	5,025
Amortised cost adjustment of loans	-	-	-	36,443	36,443
Cost of issuing shares	-	-	-	86,000	86,000
Foreign exchange differences	-	-	-	287	287
Revenue by geographic segment (location of customer)					
Asia	3,392	-	3,392	-	3,392
Australia	4,725	-	4,725	-	4,725
Europe	1,456	-	1,456	-	1,456
USA & Canada	-	-	-	-	-
Total	9,573	-	9,573	-	9,573

\* Unallocated segment assets include cash balances unrelated to the operating segments

## Notes to the Financial Statements (continued)

### FOR THE HALF YEAR ENDED 31 DECEMBER 2015

#### 4 CASH AND CASH EQUIVALENTS

##### Reconciliation to Statement of Cash Flows

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise the following at 31 December:

	<i>CONSOLIDATED</i>	
	<i>Dec 2016</i>	<i>Dec 2015</i>
	\$	\$
Cash at bank and in hand	2,425,810	850,374
Short terms deposits	65,500	65,500
	2,491,310	915,874

##### Reconciliation of net (loss) after tax to net cash flows from operations

	<i>Dec 2016</i>	<i>Dec 2015</i>
	\$	\$
Net (loss) after tax	(2,164,697)	(748,391)
<i>Adjustments for:</i>		
Depreciation	10,681	5,025
Net exchange differences	(33)	256
Share Option Expense	738,243	-
Foreign exchange movements through equity	-	31
Amortised cost adjustment on short term loan	18,648	122,443
<i>Changes in assets and liabilities:</i>		
Decrease/(Increase) in trade and other receivables	275,721	237,217
(Increase)/Decrease in prepayments	(40,125)	155
(Decrease)/Increase in trade and other payables	199,865	96,793
(Decrease)/Increase in provisions	(19,458)	(17,095)
Net cash flows (used in) operating activities	(981,155)	(303,566)

**Notes to the Financial Statements (continued)**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2016**

**5 INTEREST BEARING LOANS AND BORROWINGS**

	<i>CONSOLIDATED</i>	
	<i>December</i>	<i>June</i>
	<i>2016</i>	<i>2016</i>
	<i>\$</i>	<i>\$</i>
<b>Current</b>		
Short term loans	<u>26,315</u>	<u>1,124,358</u>
	26,315	1,124,358
Movement in interest bearing loans and borrowings was as follows:		
<b>Short term loan</b>		
Opening balance	1,124,358	510,533
Settlement of loan principal and capitalised interest	(516,691)	(510,533)
Settlement of loans through the issue of shares	(600,000)	-
Proceeds from short term loans	-	1,100,000
Amortised cost adjustment	<u>18,648</u>	<u>24,358</u>
Closing balance	<u>26,315</u>	<u>1,124,358</u>

Two short term loans existed at the beginning of the period and both were settled during the half year.

The external loan for the amount of \$500,000 was repaid on time and in full upon receipt of the annual R&D Tax Incentive government rebate and no late payment penalties were incurred.

The other short term loan for the amount of \$600,000 and was payable to parties associated with a director of the entity, Mr Ian Mann. Directors received shareholder approval to convert this loan to equity at the company's Annual General Meeting on 25 November 2016 and this was executed during the period. Mr Ian Mann received 24,000,000 shares at \$0.025 (2.5 cents) per share on conversion of the loan. The final interest payable of \$26,315 was paid in February 2017. Please refer to note 8 Related Party Transactions.

**Notes to the Financial Statements (continued)**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2016**

**6 CONTRIBUTED EQUITY AND RESERVES**

*CONSOLIDATED*

	No of Shares	\$
Movement in ordinary shares on issue		
At 1 July 2016	223,823,882	49,362,778
Issued for cash in placement	68,630,000	2,682,000
Shares issued for loan facility fee	1,000,000	25,000
Shares issued upon conversion of loan	24,000,000	600,000
Shares issued for 2 for 9 rights issue	56,624,918	1,415,623
Transaction costs of share issues	-	(287,104)
At 31 December 2016	<u>374,078,800</u>	<u>53,798,298</u>

*Ordinary shares*

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

*Share options*

The company has a share based payment option plan under which options to subscribe for the company's shares have been granted to employees. Please refer to note 7 Share Based Payments.

*CONSOLIDATED*  
*December*  
*2016*      *June 2016*  
*\$*              *\$*

*Accumulated losses*

Movements in accumulated losses were as follows:

Balance Opening	(51,687,388)	(50,350,332)
Net loss for the period	<u>(2,164,697)</u>	<u>(1,337,056)</u>
Balance Closing	<u>(53,852,085)</u>	<u>(51,687,388)</u>

## Notes to the Financial Statements (continued)

### FOR THE YEAR ENDED 31 DECEMBER 2016

#### Reserves

Movements in reserves were as follows:

#### Share Based Payments Reserve

Balance 1 July 2016	1,570,171
Share Options Expense	<u>738,243</u>
Balance 31 December 2016	<u>2,308,414</u>

#### Foreign Currency Translation Reserve

Balance 1 July 2016	4,788
Foreign currency translation difference	<u>-</u>
Balance 31 December 2016	<u>4,788</u>

Total reserves	<u><u>2,313,202</u></u>
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#### Nature and purpose of reserves

##### *Share based payments reserve*

This reserve is used to record the value of equity benefits provided to employees and other parties in consideration for services rendered.

##### *Foreign currency translation reserve*

This reserve is used for foreign currency translation differences arising on the consolidation of the USA subsidiary, Optiscan Inc.

#### Types of share based payments

The following costs were settled by way of share based payments:

	<i>CONSOLIDATED</i>	
	<i>December 2016 \$</i>	<i>December 2015 \$</i>
<b>Current</b>		
Financing Facilities	-	111,000
Share Options Expenses	<u>738,243</u>	<u>-</u>
	<u>738,243</u>	<u>111,000</u>

## Notes to the Financial Statements (continued)

### FOR THE HALF YEAR ENDED 31 DECEMBER 2016

#### 7 SHARE BASED PAYMENTS

##### *Options issued*

The expense recognised in the Statement of Comprehensive Income for the half year to 31 December 2016 is \$738,243 (31 December 2015: \$0).

During the half year the company granted a total of 12,000,000 unlisted options to Directors and management following approval at the Company's 2016 Annual General Meeting.

The company also granted 5,000,000 unlisted options in relation to an underwriting fee for the company rights issues conducted during the period.

The company had previously issued 7,500,000 unlisted options to the CEO, Mr Archie Fraser, and 3,000,000 options in relation to an underwriting fee for capital raising costs.

Set out below is a summary of options granted during the half-year period:

Description	Grant Date	Exercise Price	Vesting Dates	Expiry Dates	# of Options	Expected Volatility	Dividend Yield	Risk-free interest rate	Fair value at grant date
<b>Opening Balance as at 1 July 2016</b>					<b>10,500,000</b>				
<i>Issued During the Period:</i>									
Alan Hoffman	28-Nov-16	\$0.025	28-Nov-16	28-Nov-19	1,000,000	100%	0%	1.89%	\$0.043
	28-Nov-16	\$0.050	28-Nov-16	28-Nov-19	1,000,000	100%	0%	1.89%	\$0.037
	28-Nov-16	\$0.075	28-Nov-16	28-Nov-19	1,000,000	100%	0%	1.89%	\$0.033
Ian Mann	28-Nov-16	\$0.025	28-Nov-16	28-Nov-19	1,000,000	100%	0%	1.89%	\$0.043
	28-Nov-16	\$0.050	28-Nov-16	28-Nov-19	1,000,000	100%	0%	1.89%	\$0.037
	28-Nov-16	\$0.075	28-Nov-16	28-Nov-19	1,000,000	100%	0%	1.89%	\$0.033
Peter Francis	28-Nov-16	\$0.025	28-Nov-16	28-Nov-19	500,000	100%	0%	1.89%	\$0.043
	28-Nov-16	\$0.050	28-Nov-16	28-Nov-19	500,000	100%	0%	1.89%	\$0.037
	28-Nov-16	\$0.075	28-Nov-16	28-Nov-19	500,000	100%	0%	1.89%	\$0.033
	28-Nov-16	\$0.025	28-Nov-16	28-Nov-19	500,000	100%	0%	1.89%	\$0.043
	28-Nov-16	\$0.050	28-Nov-16	28-Nov-19	500,000	100%	0%	1.89%	\$0.037
	28-Nov-16	\$0.075	28-Nov-16	28-Nov-19	500,000	100%	0%	1.89%	\$0.033

## Notes to the Financial Statements (continued)

### FOR THE HALF YEAR ENDED 31 DECEMBER 2016

Description	Grant Date	Exercise Price	Vesting Dates	Expiry Dates	# of Options	Expected Volatility	Dividend Yield	Risk-free interest rate	Fair value at grant date
<b>Opening Balance as at 1 July 2016</b>					<b>10,500,000</b>				
<i>Issued During the Period:</i>									
Ian Griffiths	28-Nov-16	\$0.025	28-Nov-16	28-Nov-19	1,000,000	100%	0%	1.89%	\$0.043
	28-Nov-16	\$0.050	28-Nov-16	28-Nov-19	1,000,000	100%	0%	1.89%	\$0.037
	28-Nov-16	\$0.075	28-Nov-16	28-Nov-19	1,000,000	100%	0%	1.89%	\$0.033
Life Sciences	28-Nov-16	\$0.025	28-Nov-16	30-Jun-18	5,000,000	100%	0%	1.89%	\$0.039
<b>Closing Balance as at 31 December 2016</b>					<b>27,500,000</b>				

The valuation of the options has been calculated using the Black Scholes model. The options issued during the period do not have any market or performance vesting conditions.

#### *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.

On 13 May 2016, the company announced its commitment to issue 7,500,000 options over fully paid ordinary shares to incoming Chief Executive Officer, Mr Archie Fraser, at an exercise price to be determined.

At the company's Annual General Meeting held on 25 November 2016 the shareholders approved a modification to the original share option commitment, although the total number of share options remained the same at 7,500,000. Options comprising 5 equal tranches of 1,500,000 options each (a total of 7,500,000) were granted to Mr Fraser. Of the options granted, 3,000,000 options are exercisable at \$0.025 (2.5 cents) per option and the remaining 4,500,000 options are exercisable at \$0.025 (2.5 cents) per option, with varying expiry dates through to November 2021. Vesting is subject to Mr Fraser's continued employment with the Company.

The incremental fair value granted as a result of the modification was \$6,996 based on the revised grant date of 28 November 2016. The incremental fair value was measured using the Black Scholes model. The input assumptions applied for expected volatility, dividend yield and risk-free interest rate were consistent with other options granted on 28 November 2016. The fair value of each option was as follows:

Grant Date	Exercise Price	Vesting Dates	Expiry Dates	# of Options	Expected Volatility	Dividend Yield	Risk-free interest rate	Fair value at grant date
28 Nov 2016	\$0.025	28 Nov 2016	28 Nov 2019	1,500,000	100%	0%	1.89%	\$0.044
28 Nov 2016	\$0.025	28 May 2017	28 May 2020	1,500,000	100%	0%	1.89%	\$0.045
28 Nov 2016	\$0.025	28 Nov 2017	28 Nov 2020	1,500,000	100%	0%	1.89%	\$0.045
28 Nov 2016	\$0.05	28 May 2018	28 May 2021	1,500,000	100%	0%	1.89%	\$0.042
28 Nov 2016	\$0.05	28 Nov 2019	28 Nov 2021	1,500,000	100%	0%	1.89%	\$0.044

## Notes to the Financial Statements (continued)

### FOR THE HALF YEAR ENDED 31 DECEMBER 2016

#### Other share based payment arrangements

During the period to 30 June 2016, the company issued 3,000,000 options over fully paid ordinary shares at an exercise price of 0.10 (10 cents) per option with an expiry date of 12 June 2017 in part consideration of the underwriting of a rights issue. The expense of \$7,571 was recognised in the period 30 June 2016.

#### 31 December 2015

Grant date	Expiry date	Exercise price	Balance at the start of the period	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
13/07/2015	12/06/2017	\$0.10	-	3,000,000	-	-	3,000,000
			-	3,000,000	-	-	3,000,000

The expected volatility used was based on market based factors and stage of development of the Group. The risk-free rate was based on the yields available on High Quality Corporate Bonds with a similar life as the options.

## 8 RELATED PARTY TRANSACTIONS

The consolidated financial statements include the financial statements of Optiscan Imaging Limited and the subsidiaries listed in the following table:

Name	Country of incorporation	% Equity interest		Investment \$	
		2016	2015	2016	2015
At cost:					
Optiscan Pty Ltd	Australia	100	100	6,605,396	6,605,396
Optiscan Inc	United States	100	100	2,002	2,002
Accumulated impairment				(6,607,398)	(6,607,398)
				-	-

Optiscan Imaging Limited is the ultimate Australian parent entity.

#### Transactions with Subsidiaries

Inter-company transactions during the period between the parent entity, Optiscan Imaging Limited and subsidiary, Optiscan Pty Ltd amounted to \$1,167,717 (2015: \$844,614). Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash. The balances are classified current by the parent entity. An impairment assessment is undertaken each financial year by examining the financial position of the subsidiaries to determine whether there is objective evidence that a related party receivable is impaired. When such objective evidence exists, an impairment loss is recognised.

#### Transactions with Directors

In December 2016, a loan of \$600,000 provided by an entity associated with non-executive Director, Mr. Ian Mann, was converted to share capital through the issuance of 24,000,000 shares. Interest of \$35,000 in respect of this loan was paid in August 2016 and the final interest payment of \$26,315 was paid in February 2017.

FAL Lawyers, a law firm of which Director Mr. Peter Francis is a principal, has received fees for the provision of legal services to the entity totaling \$52,501 for the period. The underlying services were provided at arms' length terms.

## 9 EVENTS AFTER BALANCE DATE

The directors are not aware of any events, matters or circumstances which have arisen after balance date that have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

**Notes to the Financial Statements (continued)**  
**FOR THE HALF YEAR ENDED 31 DECEMBER 2016**

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**10 COMMITMENTS AND CONTINGENCIES**

Since the last annual reporting date, there have been no new commitments and contingencies.

## Directors' Declaration

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In accordance with a resolution of the directors of Optiscan Imaging Limited, I state that:

1 In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
  - i giving a true and fair view of the financial position as at 31 December 2016 and the performance for the half year ended on that date of the Group; and
  - ii comply with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Alan Hoffman  
Chairman

28 February 2017

To the members of Optiscan Imaging Limited

## Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Optiscan Imaging Limited which comprises the condensed statement of financial position as at 31 December 2016, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

### Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of Optiscan Imaging Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Independence

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

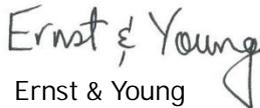
## Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Optiscan Imaging Limited is not in accordance with the Corporations Act 2001, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

## Material uncertainty regarding continuation as a going concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of matters described in Note 2 'Going Concern' to the financial report, there is material uncertainty whether the consolidated entity will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

  
Ernst & Young

  
Paul Gower  
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