**Optiscan Imaging Limited**
**Appendix 4D**
**Half-year report**

## 1. Company details

| | |
|---|---|
| Name of entity: | Optiscan Imaging Limited |
| ABN: | 81 077 771 987 |
| Reporting period: | For the half-year ended 31 December 2019 |
| Previous period: | For the half-year ended 31 December 2018 |

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## 2. Results for announcement to the market

| | | | | $ |
|---|---|---|---|---|
| Revenues from ordinary activities | down | 38.7% | to | 332,684 |
| Loss from ordinary activities after tax attributable to the owners of Optiscan Imaging Limited | up | 2.0% | to | (1,203,481) |
| Loss for the half-year attributable to the owners of Optiscan Imaging Limited | up | 2.0% | to | (1,203,481) |

*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 $1,203,481 (31 December 2018: $1,180,007).

**Financial performance**

In H1FY20, the consolidated entity generated ordinary revenue of $332,684 from sales, system rentals and the provision of services, compared to $542,627 in the previous corresponding period.

The consolidated entity also recorded research and development incentive income for H1FY20 amounting to $281,978, being an increase of $191,937 from the previous corresponding period (2018: $90,041).

Total expenses for H1FY20 were $1,821,962, a decrease of $37,262 from the corresponding period (2018: $1,859,224). These expenses included share based payment expenditure of $194,818 (2018: $191,831).

**Financial position**

The net assets reduced by $812,688 to $2,011,115 at 31 December 2019 (30 June 2019: $2,823,803) primarily as a consequence of the loss after income tax of $1,203,481 for the period. The conversion of the non-interest bearing loans granted to the Company by directors to equity, increased net assets by $200,000.

The working capital position of the consolidated entity as at 31 December 2019 resulted in an excess of current assets over current liabilities of $1,673,777 (30 June 2019: $2,545,505).

Cash used in operating activities was $1,010,547, an increase of $489,715 compared to the corresponding period (2018: operating cash outflows of $520,832). A reduction in receipts from research and development tax incentives during the period compared to the previous corresponding period accounted for $549,014 of this increase in cash used.

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## 3. Net tangible assets

| | Reporting period Cents | Previous period Cents |
|---|---|---|
| Net tangible assets per ordinary security | 0.25 | 0.60 |

The net tangible assets per ordinary security has been calculated excluding the Right of use asset amount.

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## 4. Control gained over entities

Not applicable.

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## 5. Loss of control over entities

Not applicable.

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## 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.

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## 7. Dividend reinvestment plans

Not applicable.

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## 8. Details of associates and joint venture entities

Not applicable.

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## 9. Foreign entities

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

Not applicable.

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## 10. Audit qualification or review

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

The financial statements were subject to a review by the auditors and the review report is attached as part of the Interim Report.

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## 11. Attachments

*Details of attachments (if any):*

The Interim Report of Optiscan Imaging Limited for the half-year ended 31 December 2019 is attached.

## 12. Signed

Signed ______________________________ Date: 28 February 2020

Darren Lurie
Executive Chairman

# Optiscan Imaging Limited

**ABN 81 077 771 987**

## Interim Report - 31 December 2019

**Optiscan Imaging Limited**
**Corporate directory**
**31 December 2019**

| | |
|---|---|
| Directors | Mr Darren Lurie (Executive Chairman)<br>Dr Philip Currie (Non-executive Director)<br>Mr Graeme Mutton (Non-executive Director) |
| Company secretary | Mr Justin Mouchacca |
| Registered office | 16 Miles Street<br>Mulgrave, Victoria, 3170<br>Phone No.: (03) 9598 3333<br>Fax No.: (03) 9562 7742 |
| Principal place of business | 16 Miles Street<br>Mulgrave, Victoria, 3170<br>Phone No.: (03) 9598 3333<br>Fax No.: (03) 9562 7742 |
| Share register | Computershare Investor Registry Services<br>Yarra Falls<br>452 Johnston Street<br>Abbotsford, Victoria, 3067<br>Phone No.: (03) 9415 5000 |
| Auditor | Grant Thornton Audit Pty Ltd<br>Collins Square, Tower 5,<br>727 Collins Street, Melbourne VIC 3008<br>Australia |
| Stock exchange listing | Optiscan Imaging Limited securities are listed on the Australian Securities Exchange (ASX code: OIL) |
| Website | www.optiscan.com |

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') 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 half-year ended 31 December 2019.

## Directors

The following persons were directors of Optiscan Imaging Limited during the whole of the financial half-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 activity of the consolidated entity during the year was the development and commercialisation of confocal microscopes. The consolidated entity carries out its principal activity through the development of the “InVivage”, Optiscan’s own clinical device, Optiscan’s collaboration with Carl Zeiss Meditech (CZM) and developing new pre-clinical applications for Optiscan products and services.

## Review of operations

The loss for the consolidated entity after providing for income tax amounted to $1,203,481 (31 December 2018: $1,180,007).

### “InVivage” Oral Cancer Screening and Surgical Margin

Optiscan has developed the “InVivage” clinical device as its own hand-held confocal endomicroscope. The initial intended use for the InVivage device is Oral Cancer Screening and Surgical Margin determination. The same device is also intended to be used for other clinical applications.

The InVivage device has many of the technical components and features which exist in the “Convivo” (the device that is the basis for the collaboration with Carl Zeiss Meditec AG). Optiscan has developed further features for the “InVivage” device including button controls located on the probe to enable single-handed operation of the device. The “InVivage” device will also include Optiscan’s own graphic user interface (GUI) software, DICOM compliant imaging storage for integration with hospital picture archive communications systems (PACS), trolley and medical grade PC.

Three Oral Cancer studies and trials are either underway or awaiting ethics approval in Australia and the United States for the use of Optiscan technology in Oral Cancer Screening and the visualisation of the cellular architecture of the Oral Cavity. These studies are being conducted by world-leading hospitals and researchers including at Memorial Sloan Kettering Cancer Centre in New York, Melbourne Dental School, Peter MacCallum Cancer Centre, Royal Melbourne Hospital in Melbourne and the Australian Centre for Oral Oncology Research and Education in Perth.

During the 6 month period to 31 December 2019 (H1FY20), Optiscan provided a submission to the United States Food and Drug Administration (FDA) requesting a pre-submission meeting. This meeting sought feedback on a proposed 510(k) submission (i.e. a premarket submission made to the FDA to demonstrate that the device to be marketed is at least as safe and effective, that is, substantially equivalent, to a legally marketed device) for approval to market the InVivage device in the United States. The results of the meeting with the FDA is referred to in the matters subsequent to the end of the financial half year as part of this Directors report.

### Carl Zeiss Meditec AG (CZM) Collaboration Agreement

In H1FY20, the supply of products and other services by Optiscan to CZM generated $269k of Revenue. Prior to the end of the period, Optiscan received commitments from CZM for orders of approximately $300k and orders for a further $150k were received subsequent to the end of the financial half year forming part of this Directors report. These orders for $450k are to be delivered prior to the end of the current financial year. Discussions are ongoing regarding orders for the provision of further products, software services and the payment of the final Milestone payment which may be received prior to the end of this financial year.

### Breast Cancer Surgical Margin Assessment Trial

In H1FY20, Optiscan progressed towards the completion of stage 2 of its 4 stage breast cancer surgical margin assessment trial. As part of this stage of the trial, Optiscan in conjunction with Dr Peter Willsher (Breast Surgeon with the Breast Cancer Research Centre – Western Australia) and Dr Jespal Gill (Consultant Anatomical Pathologist of Western Diagnostic Pathology) examined ex vivo excised breast tissue specimens by both confocal laser endomicroscopy (CLE) and standard histopathology to determine patterns of normal, non-malignant and malignant tissue without impacting the ability to undertake standard histopathology of the same specimens. During H1FY20, Optiscan undertook the digitisation of all of the histopathological slides relating to each imaged “lumpectomy”and “mastectomy” specimen forming part of Stage 1 and Stage 2 of the trial to assist the comparison of the CLE and histopathology images. Discussions regarding the possibility of conducting stage 3 of the trial in Melbourne took place with a number of surgeons in various hospitals during the period. A workshop with 6 Breast Surgeons and a Pathologist from 5 Leading Melbourne Hospitals took place in Melbourne in February 2020 and is referred to in the matters subsequent to the end of the financial half year as part of this Directors report.

### FIVE2 (ViewnVivo) – FLUORESCENCE IN VIVO ENDOMICROSCOPY LABORATORY DEVICE

During H1FY20, Optiscan adopted a multi-distributor model for the China market and appointed exclusive distributors in each of (1) Southern and Western China, and (2) Eastern China (including Shanghai). Optiscan received an order from the Eastern China distributor during H1FY20 initially scheduled for delivery in February 2020 (which has been delayed due to travel restrictions associated with the COVID 19 coronavirus). Multiple other prospects have been identified and demonstrations proposed once it is safe to travel in China. A review is currently underway regarding the on-going strategy for distribution into the North American market. In Australia, Optiscan is continuing its collaboration with Monash University and separately with the CSIRO for the application of the Five2 (ViewnVivo) in 3D tissue culture, biosafety environments and organoid research which is continuing with positive initial signs.

### Financial performance

In H1FY20, the consolidated entity generated ordinary revenue of $332,684 from sales, system rentals and the provision of services, compared to $542,627 in the previous corresponding period.

The consolidated entity also recorded research and development incentive income for H1FY20 amounting to $281,978, being an increase of $191,937 from the previous corresponding period (2018: $90,041).

Total expenses for H1FY20 were $1,821,962, a decrease of $37,262 from the corresponding period (2018: $1,859,224). These expenses included share based payment expenditure of $194,818 (2018: $191,831).

### Financial position

The net assets reduced by $812,688 to $2,011,115 at 31 December 2019 (30 June 2019: $2,823,803) primarily as a consequence of the loss after income tax of $1,203,481 for the period. The conversion of the non-interest bearing loans granted to the Company by directors to equity, increased net assets by $200,000.

The working capital position of the consolidated entity as at 31 December 2019 resulted in an excess of current assets over current liabilities of $1,673,777 (30 June 2019: $2,545,505).

Cash used in operating activities was $1,010,547, an increase of $489,715 compared to the corresponding period (2018: operating cash outflows of $520,832). A reduction in receipts from research and development tax incentives during the period compared to the previous corresponding period accounted for $549,014 of this increase in cash used.

### Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial half-year other than the items noted below:

- on 12 December 2019, the Company issued 5,000,000 fully paid ordinary shares, with an issue price of $0.04 (4 cents) per share, to Directors of the Company to settle loans previously provided to the Company following receipt of shareholder approval at the Company's 2019 Annual General Meeting of shareholders.
- on 12 December 2019, the Company issued 2,600,000 fully paid ordinary shares in relation to the conversion of performance rights previously issued.

There were no other significant changes in the state of affairs of the consolidated entity during the financial half-year.

**Matters subsequent to the end of the financial half-year**

The following matters or circumstances have arisen since 31 December 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.

- The Company met in in January 2020 in Washington D.C. with the Centre for Devices and Radiological Health of the Food and Drug Administration (FDA) and obtained feedback on the proposed content and format to support its 510(k) submission in Oral Cancer Surgery and/or Oral Cancer Screening in humans;

- The Company received product orders for a further $150k from Carl Zeiss Meditec;

- The Company conducted a Breast Cancer workshop in February 2020 as part of the Medical Device Partnering Program (https://mdpp.org.au) in relation to Stage 3 and Stage 4 of the Company's clinical trial. 6 Breast Surgeons and a Pathologist from 5 Leading Melbourne Hospitals and private practice attended the workshop. There was strong interest to arrange Stage 3 of the Breast Cancer Trial in Melbourne as a next step in the trial.

- The Company has received approval for the financing of its anticipated Research and Development tax credit for H1FY20 by Radium Capital for $211k. Interest of 15% per annum is payable on the funds advanced and the Company has provided collateral over its Research and Development tax credit ("R&D Credit") and any claims and books and records in respect of the R&D Credit.

**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.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors

Darren Lurie
Executive Chairman

28 February 2020

Grant Thornton

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# 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 review of Optiscan Imaging Limited for the period ended 31 December 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 review; and

b no contraventions of any applicable code of professional conduct in relation to the review.

Grant Thornton Audit Pty Ltd
Chartered Accountants

M A Cunningham
Partner – Audit & Assurance

Melbourne, 28 February 2020

**Optiscan Imaging Limited**
**Statement of profit or loss and other comprehensive income**
**For the half-year ended 31 December 2019**

| | Note | Consolidated 31 December 2019 $ | Consolidated 31 December 2018 $ |
|---|---|---|---|
| **Revenue** | 5 | 332,684 | 542,627 |
| Other income | 6 | 285,797 | 136,590 |
| **Expenses** | | | |
| Research & development and intellectual property expenses | | (503,247) | (306,044) |
| Share-based payment expenses | | (194,818) | (191,831) |
| Depreciation and amortisation expense | 7 | (133,569) | (64,052) |
| Operations expenses | | (630,386) | (795,840) |
| Other expenses | | (10,471) | 1,294 |
| Administration | | (322,458) | (502,751) |
| Finance costs | | (27,013) | - |
| **Loss before income tax expense** | | (1,203,481) | (1,180,007) |
| Income tax expense | | - | - |
| **Loss after income tax expense for the half-year attributable to the owners of Optiscan Imaging Limited** | | (1,203,481) | (1,180,007) |
| Other comprehensive income for the half-year, net of tax | | - | - |
| **Total comprehensive income for the half-year attributable to the owners of Optiscan Imaging Limited** | | (1,203,481) | (1,180,007) |
| | | **Cents** | **Cents** |
| Basic earnings per share | 14 | (0.26) | (0.27) |
| Diluted earnings per share | 14 | (0.26) | (0.27) |

*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 31 December 2019**

| | Note | Consolidated 31 December 2019 $ | 30 June 2019 $ |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | | 614,932 | 1,752,440 |
| Trade and other receivables | | 571,160 | 424,373 |
| Inventories | | 1,277,269 | 1,155,208 |
| Other | | 115,791 | 31,909 |
| Total current assets | | 2,579,152 | 3,363,930 |
| **Non-current assets** | | | |
| Property, plant and equipment | | 181,899 | 227,890 |
| Right-of-use assets | 8 | 813,227 | - |
| Other | | 52,625 | 52,625 |
| Total non-current assets | | 1,047,751 | 280,515 |
| **Total assets** | | 3,626,903 | 3,644,445 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | | 543,931 | 393,295 |
| Borrowings | 9 | - | 200,000 |
| Lease liabilities | 10 | 126,441 | - |
| Provisions | | 235,003 | 225,130 |
| Total current liabilities | | 905,375 | 818,425 |
| **Non-current liabilities** | | | |
| Lease liabilities | 11 | 706,245 | - |
| Provisions | | 4,168 | 2,217 |
| Total non-current liabilities | | 710,413 | 2,217 |
| **Total liabilities** | | 1,615,788 | 820,642 |
| **Net assets** | | 2,011,115 | 2,823,803 |
| **Equity** | | | |
| Issued capital | 12 | 59,730,577 | 59,392,382 |
| Reserves | | 2,262,279 | 2,209,681 |
| Accumulated losses | | (59,981,741) | (58,778,260) |
| **Total equity** | | 2,011,115 | 2,823,803 |

*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 half-year ended 31 December 2019**

| 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 half-year | - | - | - | (1,180,007) | (1,180,007) |
| Other comprehensive income for the half-year, net of tax | - | - | - | - | - |
| Total comprehensive income for the half-year | - | - | - | (1,180,007) | (1,180,007) |
| *Transactions with owners in their capacity as owners:* | | | | | |
| Share options expense | - | - | 191,831 | - | 191,831 |
| Lapse of options | - | - | (231,500) | 231,500 | - |
| Balance at 31 December 2018 | 57,987,132 | (4,435) | 1,844,700 | (57,614,148) | 2,213,249 |

| Consolidated | Issued capital $ | Foreign currency translation reserve $ | Share based payments reserve $ | Accumulated losses $ | Total equity $ |
|---|---|---|---|---|---|
| Balance at 1 July 2019 | 59,392,382 | (4,435) | 2,214,116 | (58,778,260) | 2,823,803 |
| Loss after income tax expense for the half-year | - | - | - | (1,203,481) | (1,203,481) |
| Other comprehensive income for the half-year, net of tax | - | - | - | - | - |
| Total comprehensive income for the half-year | - | - | - | (1,203,481) | (1,203,481) |
| *Transactions with owners in their capacity as owners:* | | | | | |
| Contributions of equity, net of transaction costs (note 12) | 338,195 | - | (142,220) | - | 195,975 |
| Share options expense | - | - | 194,818 | - | 194,818 |
| Balance at 31 December 2019 | 59,730,577 | (4,435) | 2,266,714 | (59,981,741) | 2,011,115 |

*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 half-year ended 31 December 2019**

| | Consolidated | |
|---|---|---|
| | 31 December 2019 $ | 31 December 2018 $ |
| **Cash flows from operating activities** | | |
| Receipts from customers (inclusive of GST) | 231,557 | 661,457 |
| Payments to suppliers and employees (inclusive of GST) | (1,471,532) | (2,004,358) |
| Interest received | 2,922 | 6,549 |
| Receipt of research and development tax incentive | 226,506 | 775,520 |
| Receipt of other grants | - | 40,000 |
| Net cash used in operating activities | (1,010,547) | (520,832) |
| **Cash flows from investing activities** | | |
| Payments for property, plant and equipment | - | (4,507) |
| Net cash used in investing activities | - | (4,507) |
| **Cash flows from financing activities** | | |
| Share issue transaction costs | (4,025) | - |
| Interest and other finance costs paid | (27,013) | - |
| Repayment of lease liabilities | (95,923) | - |
| Net cash used in financing activities | (126,961) | - |
| Net decrease in cash and cash equivalents | (1,137,508) | (525,339) |
| Cash and cash equivalents at the beginning of the financial half-year | 1,752,440 | 1,562,494 |
| Cash and cash equivalents at the end of the financial half-year | 614,932 | 1,037,155 |

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

## Note 1. General information

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 half-year. The financial statements are presented in Australian dollars, 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 28 February 2020.

## Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the policies stated below.

### Right of use assets
A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

### Lease Liabilities
A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

**Note 2. Significant accounting policies (continued)**

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

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

*AASB 16 Leases*
The consolidated entity has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use assets (included in operating costs) and an interest expense on the recognised lease liabilities (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion and the principal portion of the lease payments are disclosed in financing activities. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.

*Impact on application of AASB 16*
The Company entered into a lease agreement for its Mulgrave premises with an initial contract period beginning in May 2017 of 4 years with an additional 4 year option period.

The Company has adopted AASB 16 from 1 July 2019 and has accounted for the right of use asset and lease liabilities values during the current half-year.

AASB 16 was adopted using the modified retrospective approach and as such the comparatives have not been restated.

The impact of the adoption of this standard as at 1 July 2019 was as follows:

| | $ |
|---|---|
| **Assets** | |
| Right of use assets (AASB 16) | 900,805 |
| | |
| **Liabilities** | |
| Lease Liabilities - current (AASB 16) | 119,854 |
| Lease Liabilities - non-current (AASB 16) | 780,951 |
| | 900,805 |

## Note 2. Significant accounting policies (continued)

### 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 31 December 2019 of the consolidated entity results in an excess of current assets over current liabilities of $1,673,777 (30 June 2019: $2,545,505). The consolidated entity made a loss after tax of $1,203,481 during H1FY20 (2018: loss of $1,180,007) and the net operating cash outflow was $1,010,547 (2018: $520,832 net outflow).

The cash balance as at 31 December 2019 was $614,932 (30 June 2019: $1,752,440). The consolidated entity has recorded a receivable amount in relation to its R&D tax incentive grant for H1FY20 of $281,978.

The Directors are of the opinion that the existing cash reserves, financing of the R&D Credit and forecast sales and rentals 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. Cash inflows from Carl Zeiss Meditec and other customers as well as the financing of the R&D Credit for a minimum of $700k are expected in the 60 days following the date of approval of the financial statements. During H1FY20, the Company made changes to its distribution arrangements for the FIVE2 (ViewnVivo) in China and appointed new distributors for both Southern and Western China and Eastern China. The Company has already received an order for a system from one of these new distributors. A number of 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 Company is in discussions with Carl Zeiss Meditec regarding expected orders for the next 12 months as well as requests for further software services and the making of the final milestone payment. 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.

## 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.

*Lease term*

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the consolidated entity's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The consolidated entity reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

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

*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 Company operated predominantly in the confocal endomicroscope industry within Australia. AASB 8 requires operating segments to be identified on the basis of internal reports about the components of the consolidated entity 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 Company as a whole in the business segment of confocal endomicroscopes within Australia.

## Note 5. Revenue

| | Consolidated | |
|---|---|---|
| | 31 December 2019 $ | 31 December 2018 $ |
| Sales revenue | 332,684 | 542,627 |

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

| | Consolidated | |
|---|---|---|
| | 31 December 2019 $ | 31 December 2018 $ |
| *Major product lines* | | |
| Sale of goods (goods transferred at a point in time) | 168,149 | 142,928 |
| Services provided (services transferred at a point in time) | 164,535 | 396,157 |
| Other | - | 3,542 |
| | 332,684 | 542,627 |
| *Geographical regions* | | |
| Germany | 269,004 | 539,085 |
| United States of America | 63,680 | 3,542 |
| | 332,684 | 542,627 |

## Note 6. Other income

| | Consolidated 31 December 2019 $ | 31 December 2018 $ |
|---|---|---|
| Government grants - R&D tax incentive | 281,978 | 90,041 |
| Subsidies and grants | - | 40,000 |
| Interest income | 3,819 | 6,549 |
| Other income | 285,797 | 136,590 |

## Note 7. Expenses

| | Consolidated 31 December 2019 $ | 31 December 2018 $ |
|---|---|---|
| Loss before income tax includes the following specific expenses: | | |
| *Depreciation* | | |
| Plant and equipment | 45,991 | 64,052 |
| Buildings right-of-use assets | 87,578 | - |
| Total depreciation | 133,569 | 64,052 |
| *Employee benefits expense* | | |
| Employee benefits expense | 751,690 | 824,787 |

## Note 8. Non-current assets - right-of-use assets

| | Consolidated 31 December 2019 $ | 30 June 2019 $ |
|---|---|---|
| Land and buildings - right-of-use | 813,227 | - |

Additions to the right-of-use assets during the half-year were $900,805.

The consolidated entity leases land and buildings for its offices and manufacturing under agreements of between 1 to 5 years with, an option to extend. The lease has various escalation clauses. On renewal, the terms of the lease will be renegotiated.

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

| Consolidated | 31 December 2019 $ |
|---|---|
| Balance at 1 July 2019 | 900,805 |
| Depreciation expense | (87,578) |
| Balance at 31 December 2019 | 813,227 |

## Note 9. Current liabilities - Borrowings

| | Consolidated | |
|---|---|---|
| | 31 December 2019 $ | 30 June 2019 $ |
| Loans from Directors | - | 200,000 |

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 application funds through a non-interest bearing loan.

On 12 December 2019, the Company issued 5,000,000 fully paid ordinary shares to the Directors of the Company, at an issue price of $0.04 (4 cents) per share settling the outstanding loans, following receipt of shareholder approval at the Company's 2019 Annual General Meeting of shareholders.

## Note 10. Current liabilities - lease liabilities

| | Consolidated | |
|---|---|---|
| | 31 December 2019 $ | 30 June 2019 $ |
| Lease liability | 126,441 | - |

## Note 11. Non-current liabilities - lease liabilities

| | Consolidated | |
|---|---|---|
| | 31 December 2019 $ | 30 June 2019 $ |
| Lease liability | 706,245 | - |

## Note 12. Equity - issued capital

| | Consolidated | | | |
|---|---|---|---|---|
| | 31 December 2019 Shares | 30 June 2019 Shares | 31 December 2019 $ | 30 June 2019 $ |
| Ordinary shares - fully paid | 477,778,800 | 470,178,800 | 59,730,577 | 59,392,382 |

## Note 12. Equity - issued capital (continued)

*Movements in spare share capital*

| Details | Date | Shares | Issue price | $ |
|---|---|---|---|---|
| Balance | 1 July 2019 | 470,178,800 | | 59,392,382 |
| Issue of shares to settle loans provided | 12 December 2019 | 5,000,000 | $0.04 | 200,000 |
| Transfer from share based payments reserve following issue of shares for conversion of performance rights | 12 December 2019 | 2,600,000 | - | 142,220 |
| Share issue costs | | - | - | (4,025) |
| Balance | 31 December 2019 | 477,778,800 | | 59,730,577 |

*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.

## Note 13. Events after the reporting period

The following matters or circumstances have arisen since 31 December 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.

- The Company met in in January 2020 in Washington D.C. with the Centre for Devices and Radiological Health of the Food and Drug Administration (FDA) and obtained feedback on the proposed content and format to support its 510(k) submission in Oral Cancer Surgery and/or Oral Cancer Screening in humans;

- The Company received product orders for a further $150k from Carl Zeiss Meditec;

- The Company conducted a Breast Cancer workshop in February 2020 as part of the Medical Device Partnering Program (https://mdpp.org.au) in relation to Stage 3 and Stage 4 of the Company's clinical trial. 6 Breast Surgeons and a Pathologist from 5 Leading Melbourne Hospitals and private practice attended the workshop. There was strong interest to arrange Stage 3 of the Breast Cancer Trial in Melbourne as a next step in the trial.

- The Company has received approval for the financing of its anticipated R&D Credit for H1FY20 by Radium Capital for $211k. Interest of 15% per annum is payable on the funds advanced and the Company has provided collateral over its R&D Credit and any claims and books and records in respect of the R&D Credit.

No other matter or circumstance has arisen since 31 December 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 14. Earnings per share

| | Consolidated | |
|---|---|---|
| | **31 December 2019 $** | **31 December 2018 $** |
| Loss after income tax attributable to the owners of Optiscan Imaging Limited | (1,203,481) | (1,180,007) |
| | **Number** | **Number** |
| Weighted average number of ordinary shares used in calculating basic earnings per share | 470,963,583 | 432,678,800 |
| Weighted average number of ordinary shares used in calculating diluted earnings per share | 470,963,583 | 432,678,800 |
| | **Cents** | **Cents** |
| Basic earnings per share | (0.26) | (0.27) |
| Diluted earnings per share | (0.26) | (0.27) |

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the financial half-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.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors

Darren Lurie
Executive Chairman

28 February 2020

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# Independent Auditor's Report

## To the Members of Optiscan Imaging Limited

### Report on the review of the half year financial report

### Conclusion

We have reviewed the accompanying half year financial report of Optiscan Imaging Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 31 December 2019, and 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 half year ended on that date, a description of accounting policies, other selected explanatory notes, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half year financial report of Optiscan Imaging Limited does not give a true and fair view of the financial position of the Group as at 31 December 2019, and of its financial performance and its cash flows for the half year ended on that date, in accordance with the *Corporations Act 2001*, including complying with Accounting Standard AASB 134 *Interim Financial Reporting*.

### Material uncertainty related to going concern

We draw attention to Note 2 in the financial report, which indicates that the Group incurred a net loss of $1,203,481 during the half year ended 31 December 2019 and, as of that date, the Group's net operating cash outflow was $1,010,547. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

### 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 control as the Directors determine is necessary to enable the preparation of the half year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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### 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 half year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group’s financial position as at 31 December 2019 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, 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*.

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Grant Thornton Audit Pty Ltd
Chartered Accountants

M A Cunningham
Partner – Audit & Assurance

Melbourne, 28 February 2020