

1. Company details

Name of entity:	Optiscan Imaging Limited
ABN:	81 077 771 987
Reporting period:	For the half-year ended 31 December 2018
Previous period:	For the half-year ended 31 December 2017

2. Results for announcement to the market

			\$
Revenues from ordinary activities	down	40.4% to	542,627
Loss from ordinary activities after tax attributable to the owners of Optiscan Imaging Limited	up	17.4% to	(1,180,007)
Loss for the half-year attributable to the owners of Optiscan Imaging Limited	up	17.4% to	(1,180,007)

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 \$1,180,007 (31 December 2017: \$1,005,235).

Financial performance

During the 6 month period to 31 December 2018 (H1FY19), the consolidated entity generated ordinary revenue of \$542,627 from sales, system rentals and the provision of services, compared to \$910,441 in the previous corresponding period.

The consolidated entity also recorded research and development incentive income for H1FY19 amounting to \$90,041, being a decrease of \$296,356 from the previous corresponding period (2017: \$386,397). Export market development grant income of \$40,000 was recorded for the period.

Total expenses for H1FY19 reduced to \$1,859,224, a decrease of \$445,839 from the corresponding period (2017: \$2,305,063). These expenses included share based payment expenditure of \$191,831 (2017: \$60,126). Excluding these non-cash based expenses and depreciation, total expenses reduced by \$605,820 on the prior corresponding period. Administration costs for H1FY19 also included one-off costs of \$135,000 relating to redundancy costs and the development of the new Optiscan website.

Financial position

The net assets reduced by \$988,176 to \$2,213,249 at 31 December 2018 (30 June 2018: \$3,201,425) primarily as a consequence of the loss after income tax for the period.

The working capital position of the consolidated entity as at 31 December 2018 resulted in an excess of current assets over current liabilities of \$1,866,215 (30 June 2018: \$2,806,936).

Cash outflows from operating activities were \$520,832, a decrease of \$1,169,025 from the corresponding period (2017: operating cash outflows of \$1,689,857).

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	0.51	0.96

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

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

Previous period

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

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

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

Not applicable.

10. Audit qualification or review

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

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

11. Attachments

Details of attachments (if any):

The Interim Report of Optiscan Imaging Limited for the half-year ended 31 December 2018 is attached.

12. Signed

Signed _____

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

Date: 28 February 2019

Darren Lurie
Executive Chairman

Optiscan Imaging Limited

ABN 81 077 771 987

Interim Report - 31 December 2018

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

Optiscan Imaging Limited
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31 December 2018



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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 2018.

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 its collaboration with Carl Zeiss Meditech (CZM) and is also seeking to develop new clinical as well as pre-clinical applications for Optiscan products and services.

Review of operations

CZM Agreement

The collaboration with CZM remains a key pillar of the Optiscan business. During H1FY19, CZM achieved FDA 510(k) clearance for the CONVIVO and CZM has advised Optiscan that it continues to progress with full commercialisation of the CONVIVO. During H1FY19, the supply of products and other services by Optiscan to CZM generated \$539k of Revenue. Revenue for all of FY19 pursuant to the CZM Agreement is now expected to be in the order of \$1.0m which is a reduction of \$500k to the previous forecast of \$1.5m. CZM has advised Optiscan that it intends to acquire products and services of up to \$700k in the first few months of FY20.

Breast Cancer Surgical Margin Assessment Trial

During H1FY19, Optiscan commenced stage 1 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 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.

Other Clinical Applications

As referred to in the presentation provided at the 2018 Annual General Meeting, during 1HFY19, Optiscan commenced investigating other clinical applications with a leading cancer research and clinical organisation. Further developments relating to these activities were advised to the market on 26 February 2019 and are described in the matters subsequent to the end of the financial half year forming part of this Directors report.

FIVE2 (ViewnVivo) – FLUORESCENCE IN VIVO ENDOMICROSCOPY

During H1FY19, Optiscan undertook a multi-faceted re-branding of FIVE2 (ViewnVivo) presenting the system as the next generation technological advance on the FIVE1 system. The new website (www.optiscan.com) incorporating an updated publication list and image gallery with filtered search functions is the cornerstone of this re-branding.

Optiscan is working closely with Monash University in order to increase its sales support and applications resources for distributors and potential customers. In addition, Optiscan is working with CSIRO in identifying new potential research applications in relation to organoids and cellular structures. A number of Australian, Chinese, North American and European institutions have submitted or expressed their intention to submit funding applications for the purchase of FIVE2 (ViewnVivo) systems.

Financial performance

During H1FY19, the consolidated entity generated ordinary revenue of \$542,627 from sales, system rentals and the provision of services, compared to \$910,441 in the previous corresponding period.

The consolidated entity also recorded research and development incentive income for H1FY19 amounting to \$90,041, being a decrease of \$296,356 from the previous corresponding period (2017: \$386,397). Export market development grant income of \$40,000 was recorded for the period.

Total expenses for H1FY19 reduced to \$1,859,224, a decrease of \$445,839 from the corresponding period (2017: \$2,305,063). These expenses included share based payment expenditure of \$191,831 (2017: 60,126). Excluding these non-cash based expenses and depreciation, total expenses reduced by \$605,820 on the prior corresponding period. Administration costs for H1FY19 also included one-off costs of \$135,000 relating to redundancy costs and the development of the new Optiscan website.

The loss for the consolidated entity after providing for income tax amounted to \$1,180,007 (31 December 2017: \$1,005,235).

Financial position

The net assets of the consolidated entity reduced by \$988,176 to \$2,213,249 at 31 December 2018 (30 June 2018: \$3,201,425) primarily as a consequence of the loss after income tax for the period.

The working capital position of the consolidated entity as at 31 December 2018 resulted in an excess of current assets over current liabilities of \$1,866,215 (30 June 2018: \$2,806,936).

Cash outflows from operating activities were (\$520,832), a decrease of \$1,169,025 from the corresponding period (\$1,689,857).

Significant changes in the state of affairs

The following occurred during the financial half-year:

- on 20 December 2018, the Company issued options to directors Mr Darren Lurie and Dr Philip Currie. Mr Lurie was issued 8,000,000 options in 4 tranches with exercise prices ranging from \$0.05 (5 cents) to \$0.08 (8 cents) and with varying expiry dates through to 30 November 2023. Each tranche will vest upon the Company's share price reaching specified levels after a specified date, provided that Mr Lurie remains continuously employed by the Company until vesting date. Dr Currie was issued 4,800,000 options in 4 tranches, with each tranche having the same respective share price and service conditions as the options issued to Mr Lurie.
- on 20 December 2018, the Company issued 12,800,000 options to other employees and consultants (Staff) of the Company. These options were issued in 4 tranches, with the same respective share price and service conditions as the options issued to directors, as described above.
- on 20 December 2018, the Company issued performance rights to directors Mr Darren Lurie (1,100,000 rights), Dr Phillip Currie (660,000 rights) and Mr Graeme Mutton (180,000 rights). These performance rights vested upon issue and there is no consideration payable to convert the rights to shares.
- on 20 December 2018, the Company issued 660,000 performance rights to Staff of the Company. These performance rights have the same conditions as the performance rights issued to directors, as described above.

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 have arisen since 31 December 2018 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.

Breast Cancer Tumour Margin Assessment Trial

As at the date of this report, Optiscan is nearing completion of stage 1 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) have examined 42 ex vivo excised breast tissue specimens by both confocal laser endomicroscopy 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. Optiscan is very pleased with the results of Stage 1 of the study and has now received Ethics approval from Hollywood Private Hospital Research Ethics Committee to examine fresh breast tissue specimens (prior to the application of formalin) which is hoped will enable higher resolution and enhanced depth imaging in conjunction with a new optical molecular fluorescent stain, PARPi-FI which has the potential for greater affinity for cancer cells (see below).

Other Clinical Applications

On 26 February 2019, Optiscan announced that Memorial Sloan Kettering Cancer Center (MSKCC) in New York City is using Optiscan technology in research efforts at the institution. MSK's use of this technology will help Optiscan develop novel tools for early detection, screening and intraoperative margin assessment in humans including oral, oesophageal and cervical dysplasias and carcinoma in situ.

MSKCC is the largest and oldest private cancer center in the world.

Modification of FIVE2 (ViewnVivo) for Human Clinical Applications

Optiscan has identified the necessary modifications and external validation testing that it believes are required to enable the FIVE2 (ViewnVivo) to be utilised for the oral and cervical clinical applications referred to above that require a rigid endomicroscope. Optiscan also has a prototype flexible endomicroscope (third party endoscope with Optiscan scanning technology incorporated) that it intends to use for the oesophageal application. In addition, Optiscan has developed prototype reusable sterilisable sheaths for the FIVE2 (ViewnVivo) probes for the applications in human oral and cervical cancer, which it believes will enable the application of the FIVE2 (ViewnVivo) in humans in the future in these and other organ systems. These sheaths will undergo third party validation testing.

Collaboration Agreement with Summit Biomedical Imaging LLC (SBI)

On 26 February 2019, Optiscan announced that it has entered into a collaboration agreement with SBI for the purposes of discussions regarding commercialization of a drug/device combination for various clinical applications involving SBI's PARPi-FL imaging agent and Optiscan's FIVE2 (ViewnVivo) confocal endomicroscope. These applications include using PARPi-FL in the breast cancer surgical margin assessment trial currently being conducted by Optiscan.

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

Preliminary research suggests this has the potential to significantly augment cancer imaging at a cellular level.

No other matter or circumstance has arisen since 31 December 2018 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.

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

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

Darren Lurie
Executive Chairman

28 February 2019

Auditor's Independence Declaration

To the Directors of Optiscan Imaging Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Optiscan Imaging Limited for the period ended 31 December 2018, 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 2019

Optiscan Imaging Limited
Statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2018



		Consolidated	
	Note	31 December 2018	31 December 2017
		\$	\$
Revenue	4	542,627	910,441
Other income	5	130,041	386,397
Interest revenue calculated using the effective interest method		6,549	2,990
Expenses			
Research & development and intellectual property expenses		(308,044)	(776,319)
Share-based payment expenses		(191,831)	(60,126)
Operations expenses		(821,600)	(388,149)
Other expenses		1,294	(2,855)
Finance costs		-	(42,500)
Administration		(539,043)	(1,035,114)
Loss before income tax expense		(1,180,007)	(1,005,235)
Income tax expense		-	-
Loss after income tax expense for the half-year attributable to the owners of Optiscan Imaging Limited		(1,180,007)	(1,005,235)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		-	2
Other comprehensive income for the half-year, net of tax		-	2
Total comprehensive income for the half-year attributable to the owners of Optiscan Imaging Limited		(1,180,007)	(1,005,233)
		Cents	Cents
Basic earnings per share	9	(0.27)	(0.25)
Diluted earnings per share	9	(0.27)	(0.25)

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 2018



	Consolidated	
	31 December	
Note	2018	30 June 2018
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	1,037,155	1,562,494
Trade and other receivables	369,598	1,247,329
Inventories	949,636	885,579
Other	56,605	26,690
Total current assets	<u>2,412,994</u>	<u>3,722,092</u>
Non-current assets		
Property, plant and equipment	285,857	345,402
Other	62,625	62,625
Total non-current assets	<u>348,482</u>	<u>408,027</u>
Total assets	<u>2,761,476</u>	<u>4,130,119</u>
Liabilities		
Current liabilities		
Trade and other payables	320,091	649,789
Provisions	226,688	265,367
Total current liabilities	<u>546,779</u>	<u>915,156</u>
Non-current liabilities		
Provisions	1,448	13,538
Total non-current liabilities	<u>1,448</u>	<u>13,538</u>
Total liabilities	<u>548,227</u>	<u>928,694</u>
Net assets	<u>2,213,249</u>	<u>3,201,425</u>
Equity		
Issued capital	7 57,987,132	57,987,132
Reserves	1,840,265	1,879,934
Accumulated losses	(57,614,148)	(56,665,641)
Total equity	<u>2,213,249</u>	<u>3,201,425</u>

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

Optiscan Imaging Limited
Statement of changes in equity
For the half-year ended 31 December 2018



Consolidated	Issued capital \$	Foreign currency translation reserve \$	Share based payments reserve \$	Retained profits \$	Total equity \$
Balance at 1 July 2017	53,870,454	(4,435)	2,429,653	(54,630,313)	1,665,359
Loss after income tax expense for the half-year	-	-	-	(1,005,235)	(1,005,235)
Other comprehensive income for the half-year, net of tax	-	2	-	-	2
Total comprehensive income for the half-year	-	2	-	(1,005,235)	(1,005,233)
<i>Transactions with owners in their capacity as owners:</i>					
Share-based payments (note 10)	-	-	60,126	-	60,126
Shares issued for cash	3,675,000	-	-	-	3,675,000
Transaction costs of share issues	(298,191)	-	-	-	(298,191)
Balance at 31 December 2017	57,247,263	(4,433)	2,489,779	(55,635,548)	4,097,061

Consolidated	Issued capital \$	Foreign currency translation reserve \$	Share based payments reserve \$	Retained profits \$	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)
<i>Transactions with owners in their capacity as owners:</i>					
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

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 2018



Note	Consolidated	
	31 December 2018	31 December 2017
	\$	\$
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	661,457	1,128,821
Payments to suppliers and employees (inclusive of GST)	(2,004,358)	(2,821,668)
Interest received	6,549	2,990
Receipt of research and development tax incentive	775,520	-
Receipt of other grants	40,000	-
	<u> </u>	<u> </u>
Net cash used in operating activities	(520,832)	(1,689,857)
Cash flows from investing activities		
Payments for property, plant and equipment	(4,507)	(71,088)
	<u> </u>	<u> </u>
Net cash used in investing activities	(4,507)	(71,088)
Cash flows from financing activities		
Proceeds from issue of shares	7	3,675,000
Proceeds from short term loan	-	300,000
Share issue transaction costs	-	(298,191)
Repayment of short term loan and interest	-	(342,500)
	<u> </u>	<u> </u>
Net cash from financing activities	-	3,334,309
Net increase/(decrease) in cash and cash equivalents	(525,339)	1,573,364
Cash and cash equivalents at the beginning of the financial half-year	1,562,494	700,666
	<u> </u>	<u> </u>
Cash and cash equivalents at the end of the financial half-year	<u>1,037,155</u>	<u>2,274,030</u>

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 2019.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2018 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 2018 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, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

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

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

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

Note 2. Significant accounting policies (continued)

AASB 9 Financial Instruments

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

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

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

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

The revised accounting policy is as follows:

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

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

AASB 15 Revenue from Contracts with Customers

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

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

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

The revised accounting policy is as follows:

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

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 2018 of the consolidated entity results in an excess of current assets over current liabilities of \$1,866,215 (30 June 2018: \$2,806,936). The consolidated entity made a loss after tax of \$1,180,007 during H1FY19 (2017: loss of \$1,005,235) and the net operating cash outflow was \$520,832 (2017: \$1,689,857 net outflow).

The cash balance as at 31 December 2018 was \$1,037,155 (30 June 2018: \$1,562,494). The consolidated entity has recorded a receivable amount in relation to its R&D tax incentive grant for H1FY19 of \$90,041.

The Directors are of the opinion that the existing cash reserves and forecast sales will provide the consolidated entity with adequate funds to ensure its continued viability and to operate as a going concern for a period of at least 12 months from the date of approval of the financial statements. During H1FY19, the Company has launched a new website which forms a key part of the re-branding of its FIVE2 (ViewnVivo) pre-clinical product. The Company has increased its profile in Australian translational and pre-clinical research markets, including collaborating with CSIRO to identify new applications including organoid and cellular structures and locating a system at Monash Micro Imaging to assist development of research applications. A number of Australian, Chinese, North American and European institutions have submitted or expressed their intention to submit funding applications for the purchase of FIVE2 (ViewnVivo) systems and while the original expected timing of some of these purchases has been delayed, the sales process is on-going. The Directors continue to monitor the ongoing funding requirements of the consolidated entity, and believe that sufficient funds can be secured if required and are of the opinion that the financial report has been appropriately prepared on a going concern basis.

Note 3. Operating segments

Identification of reportable operating segments

The Company operated predominantly in the confocal microscopes industry within Australia. AASB 8 requires operating segments to be identified on the basis of internal reports about the components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The board reviews the Company as a whole in the business segment of confocal microscopes within Australia.

Note 4. Revenue

	Consolidated	
	31 December 2018	31 December 2017
	\$	\$
Sales revenue	542,627	910,441

Note 4. Revenue (continued)

Disaggregation of revenue

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

	Consolidated	Consolidated
	31 December	31 December
	2018	2017
	\$	\$
<i>Major product lines</i>		
Sale of goods (goods transferred at a point in time)	142,928	910,232
Services provided (services transferred at a point in time)	396,157	-
Other	3,542	209
	<u>542,627</u>	<u>910,441</u>
<i>Geographical regions</i>		
Australia	-	209
Germany	539,085	653,146
China	-	257,086
United States of America	3,542	-
	<u>542,627</u>	<u>910,441</u>

Note 5. Other income

	Consolidated	Consolidated
	31 December	31 December
	2018	2017
	\$	\$
Government grants - R&D tax incentive	90,041	386,397
Subsidies and grants	40,000	-
Other income	<u>130,041</u>	<u>386,397</u>

Note 6. Expenses

	Consolidated	Consolidated
	31 December	31 December
	2018	2017
	\$	\$
Loss before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Plant and equipment	<u>64,052</u>	<u>35,776</u>
<i>Employee benefits expense</i>		
Employee benefits expense	<u>824,787</u>	<u>1,098,854</u>

Note 7. Equity - issued capital

	Consolidated			
	31 December 2018 Shares	30 June 2018 Shares	31 December 2018 \$	30 June 2018 \$
Ordinary shares - fully paid	432,678,800	432,678,800	57,987,132	57,987,132

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 8. Events after the reporting period

The following matters have arisen since 31 December 2018 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.

Breast Cancer Tumour Margin Assessment Trial

As at the date of this report, Optiscan is nearing completion of stage 1 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) have examined 42 ex vivo excised breast tissue specimens by both confocal laser endomicroscopy 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. Optiscan is very pleased with the results of Stage 1 of the study and has now received Ethics approval from Hollywood Private Hospital Research Ethics Committee to examine fresh breast tissue specimens (prior to the application of formalin) which is hoped will enable higher resolution and enhanced depth imaging in conjunction with a new optical molecular fluorescent stain, PARPi-FI which has the potential for greater affinity for cancer cells (see below).

Other Clinical Applications

On 26 February 2019, Optiscan announced that Memorial Sloan Kettering Cancer Center (MSKCC) in New York City is using Optiscan technology in research efforts at the institution. MSK's use of this technology will help Optiscan develop novel tools for early detection, screening and intraoperative margin assessment in humans including oral, oesophageal and cervical dysplasias and carcinoma in situ.

MSKCC is the largest and oldest private cancer center in the world.

Modification of FIVE2 (ViewnVivo) for Human Clinical Applications

Optiscan has identified the necessary modifications and external validation testing that it believes are required to enable the FIVE2 (ViewnVivo) to be utilised for the oral and cervical clinical applications referred to above that require a rigid endomicroscope. Optiscan also has a prototype flexible endomicroscope (third party endoscope with Optiscan scanning technology incorporated) that it intends to use for the oesophageal application. In addition, Optiscan has developed prototype reusable sterilisable sheaths for the FIVE2 (ViewnVivo) probes for the applications in human oral and cervical cancer, which it believes will enable the application of the FIVE2 (ViewnVivo) in humans in the future in these and other organ systems. These sheaths will undergo third party validation testing.

Note 8. Events after the reporting period (continued)

Collaboration Agreement with Summit Biomedical Imaging LLC (SBI)

On 26 February 2019, Optiscan announced that it has entered into a collaboration agreement with SBI for the purposes of discussions regarding commercialization of a drug/device combination for various clinical applications involving SBI's PARPi-FL imaging agent and Optiscan's FIVE2 (Viewvivo) confocal endomicroscope. These applications include using PARPi-FL in the breast cancer surgical margin assessment trial currently being conducted by Optiscan.

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

Preliminary research suggests this has the potential to significantly augment cancer imaging at a cellular level.

No other matter or circumstance has arisen since 31 December 2018 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 9. Earnings per share

	Consolidated	
	31 December	31 December
	2018	2017
	\$	\$
Loss after income tax attributable to the owners of Optiscan Imaging Limited	<u>(1,180,007)</u>	<u>(1,005,235)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>432,678,800</u>	<u>399,641,300</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>432,678,800</u>	<u>399,641,300</u>
	Cents	Cents
Basic earnings per share	(0.27)	(0.25)
Diluted earnings per share	(0.27)	(0.25)

Note 10. Share-based payments

Employee Share-Based Payment Plans

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

Note 10. Share-based payments (continued)

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

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

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

31 December 2018

Grant date	Expiry date	Exercise price	Balance at the start of the half-year	Granted	Exercised	Forfeited	Balance at the end of the half-year
28/11/2016	31/05/2022	\$0.050	2,150,000	-	-	(2,150,000)	-
28/11/2016	30/11/2022	\$0.075	4,000,000	-	-	(4,000,000)	-
28/11/2016	31/05/2023	\$0.025	500,000	-	-	(500,000)	-
30/11/2018	30/11/2023	\$0.050	-	3,200,000	-	-	3,200,000
30/11/2018	31/05/2022	\$0.050	-	3,200,000	-	-	3,200,000
30/11/2018	30/11/2022	\$0.065	-	3,200,000	-	-	3,200,000
30/11/2018	31/05/2023	\$0.080	-	3,200,000	-	-	3,200,000
20/12/2018	31/05/2022	\$0.050	-	3,200,000	-	-	3,200,000
20/12/2018	30/11/2022	\$0.050	-	3,200,000	-	-	3,200,000
20/12/2018	31/05/2023	\$0.065	-	3,200,000	-	-	3,200,000
20/12/2018	30/11/2023	\$0.080	-	3,200,000	-	-	3,200,000
			<u>6,650,000</u>	<u>25,600,000</u>	<u>-</u>	<u>(6,650,000)</u>	<u>25,600,000</u>
Weighted average exercise price			\$0.063	\$0.061	\$0.000	\$0.063	\$0.061

The weighted average remaining contractual life of options outstanding at the end of the financial year was 4.2 years (2017: 3 years).

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

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

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

31 December 2018

Grant date	Expiry date	Exercise price	Balance at the start of the half-year	Granted	Exercised	Expired/forfeited/other	Balance at the end of the half-year
30/11/2018		\$0.000	-	1,940,000	-	-	1,940,000
20/12/2018		\$0.000	-	660,000	-	-	660,000
			<u>-</u>	<u>2,600,000</u>	<u>-</u>	<u>-</u>	<u>2,600,000</u>

Note 10. Share-based payments (continued)

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

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
30/11/2018	31/05/2022	\$0.058	\$0.050	0.79%	-	2.08%	\$0.034
30/11/2018	30/11/2022	\$0.058	\$0.050	0.79%	-	2.17%	\$0.036
30/11/2018	31/05/2023	\$0.058	\$0.065	0.79%	-	2.17%	\$0.034
30/11/2018	30/11/2023	\$0.058	\$0.080	0.79%	-	2.17%	\$0.034
20/12/2018	31/05/2022	\$0.045	\$0.050	0.79%	-	2.08%	\$0.024
20/12/2018	30/11/2022	\$0.045	\$0.050	0.79%	-	2.17%	\$0.025
20/12/2018	31/05/2023	\$0.045	\$0.065	0.79%	-	2.17%	\$0.024
20/12/2018	30/11/2023	\$0.045	\$0.080	0.79%	-	2.17%	\$0.024

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

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
30/11/2018		\$0.058	\$0.000	-	-	-	\$0.058
20/12/2018		\$0.045	\$0.000	-	-	-	\$0.045

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 2018 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 2019

Independent Auditor's Review 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 2018, 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 2018, 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*.

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.

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 2018 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*.



Grant Thornton Audit Pty Ltd
Chartered Accountants



M.A Cunningham
Partner – Audit & Assurance

Melbourne, 28 February 2019