Optiscan Imaging Limited

ABN 81 077 771 987

Annual Report - 30 June 2017

Optiscan Imaging Limited
Contents
30 June 2017

Optiscan Imaging Limited
Corporate directory
30 June 2017

Directors	Mr Alan Hoffman (Non-executive Chairman) Mr Peter Francis (Non-executive Director) Mr Ian Mann (Non-executive Director) Dr Ian Griffiths (Non-executive Director) Dr Philip Currie (Non-executive Director)
Chief Executive Officer	Mr Archie Fraser
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	Ernst & Young 8 Exhibition Street Melbourne, Victoria, 3000
Stock exchange listing	Optiscan Imaging Limited shares are listed on the Australian Securities Exchange (ASX code: OIL)
Website	www.optiscan.com
Corporate Governance Statement	The Company's 2017 Corporate Governance Statement has been released to ASX on 28 September 2017 and is available on the Company's website.

Optiscan Imaging Limited
Review of operations
30 June 2017

As we outlined in the 2016 Annual Report, the new board and management undertook a review of the business and has established a clear direction and plan for the business as we moved into FY2017.

The Company identified three key pillars of success for its new business model:
- Commercialising the Carl Zeiss Meditec (CZM) collaboration;
- Sales of View*n*Vivo – our second-generation pre-clinical research product; and
- Exploring new market opportunities for related Optiscan products and services.

Carl Zeiss Meditec (CZM) collaboration

Our collaboration with CZM is the cornerstone of the Optiscan business. CZM is a major international Company with global coverage, based in Germany, is a long-term business partner and has a significant market share in our clinical medical application areas. The significance of this collaboration is that regulatory approvals that CZM are advancing are expected to be completed during FY2018, which will then allow the collaboration product to be taken to market and rolled out globally by CZM.

We have made good progress during H2 FY2016 and into FY2017 as we move into a production phase. Some of the key points include:

- Delivery of Production Equivalent Systems (PES) in December 2016. These units have been tested by CZM who have confirmed the collaboration project systems are now production ready;
- Delivery of additional Production Equivalent Systems (PES) in February 2017;
- Additional orders from CZM for systems were delivered during the second half of the 2017 financial year; and
- The Company is currently finalising the manufacture of additional Production Systems (PS), which were proposed to be delivered to CZM at the end of July 2017, and will now be delivered over the coming weeks. These systems will continue to be tested through to US Food & Drug Administration (FDA) approval and placed in the hands of key opinion leaders.

Sales of View*n*Vivo

View*n*Vivo is a miniaturised fluorescence endomicroscope platform that brings the next generation of Optiscan's imaging capability and flexibility to Preclinical Research.

Whilst CZM is a cornerstone project for Optiscan, View*n*Vivo offers improved capability in the preclinical space. We are confident that View*n*Vivo will secure a significant share of this global market and will provide Optiscan with an additional revenue source to complement our CZM collaboration project.

Some of the key points include:

- Relaunch of the product in late 2016 with a stand-alone website (www.viewnvivo.com).
- Optiscan was the Major Sponsor of the National Conference of Light Microscopy Australia (LMA) held in Melbourne on 1-3 February 2017. The event was attended by approx. 200 of Australia's leading Research Professors, Researcher leaders, Microscopy Facility Managers and Students, and represented Optiscan's re-entry into the Research market. As part of the conference agenda, Optiscan presented a system overview to the conference audience along with Cameron J Nowell of Monash Institute of Pharmaceutical Sciences. The Company also demonstrated the View*n*Vivo system to attendees throughout the 3 days of the conference.
- In addition to attending LMA, Optiscan sponsored the National Micrograph Imaging Award for the next 3 years - to be referred to as the "Optiscan Imaging Award". This represents continued reinforcement and engagement with the local Microscopy community.

View*n*Vivo marketing activity is progressing well with both local and overseas market engagement including, but not limited to, the following:

- Progress continues with a number of Australian research organisations looking to evaluate the system with a view to purchasing a View*n*Vivo.
- Meetings have taken place in Australia, USA and China with existing Optiscan 1st generation preclinical customers with a view to upgrading to View*n*Vivo.
- On 28 June 2017, the Company executed a Distribution Agreement with Scintica Instrumentation Inc. for the USA and North American market;
- Discussions are advanced with potential Distribution Partners for the View*n*Vivo product in both China and Europe;

Exploring new market opportunities

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

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

Corporate

During the financial year, the consolidated entity raised the following amounts through capital raisings:

- On 6 July 2016, the Company issued 29,980,000 new shares in respect of a capital placement, raising $749,500 from this placement;
- The Company issued 56,624,918 new shares through a fully-underwritten 2 for 9 rights issue. $1,415,623 before costs was raised from this rights issue.
- On 21 December 2016, the Company announced that it had received commitments for the placement of 38,650,000 fully paid ordinary shares at an issue price of $0.05 (5 cents) per share raising $1,932,500. The Company issued the new shares on 28 December 2016.

Conclusion

The board and management of Optiscan are confident that Optiscan remains on track on the commercialisation path established as we drive the business into the production phase for the CZM Collaboration and global sales and distribution of View*n*Vivo products. With significant anticipated demand for Optiscan products through Optiscan's global partner CZM and the recently launched ViewnVivo systems, the Optiscan board believes that the Company is on the verge of delivering a significantly improved performance for the 2017/18 period and beyond.

Events after the reporting period

On 10 August 2017, the consolidated entity issued 1,000,000 fully paid ordinary shares on exercise of 1,000,000 unlisted options, exercisable at $0.025 (2.5 cents) per option.

On 23 August 2017, the consolidated entity announced that a Share Purchase Plan (SPP) will be offered to eligible shareholders for the opportunity to apply for new fully paid ordinary shares in the Company at an issue price of $0.08 (8 cents) per share. The SPP is underwritten by Patersons Securities Limited up to the amount of $2,500,000 (31,250,000 shares). On completion of the SPP, the Company will offer a Placement of up to $2.5 million to sophisticated and professional investors at the same price as shares issued under the SPP.

On 26 September 2017, the consolidated entity announced that it had received applications for a total of $1,188,000 (14,850,000 shares at an issue price of $0.08 per share) from Eligible Shareholders. Pursuant to the terms of the underwriting, Patersons will place the shortfall of $1,312,000 (16,400,000 shares at an issue price of $0.08 per share), and it is envisaged that the Shares to be issued pursuant to the underwritten SPP will be allotted on 2 October 2017.

It was also announced that the Company has received commitments from professional and sophisticated investors for a total of $1,000,000 to participate in a placement at the same issue price as the SPP.

Optiscan Imaging Limited
Directors' report
30 June 2017

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 year ended 30 June 2017.

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

Mr Alan Hoffman (Non-executive Chairman) (appointed 2 May 2016)
Mr Peter Francis (Non-executive Director) (appointed 2 May 2016)
Mr Ian Mann (Non-executive Director) (appointed 9 December 2015)
Dr Ian Griffiths (Non-executive Director) (appointed 2 May 2016)
Dr Philip Currie (Non-executive Director) (appointed 17 July 2017)

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 Meditec.

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

Review of operations
The loss for the consolidated entity after providing for income tax amounted to $2,942,925 (30 June 2016: $1,337,056).

The net assets increased by $2,415,009 to $1,665,359 at 30 June 2017 (30 June 2016: deficit $749,650).

The working capital position as at 30 June 2017 of the consolidated entity results in an excess of current assets over current liabilities of $1,512,755 (30 June 2016 : deficit $766,500). The consolidated entity made a loss after tax of $2,942,925 during the financial year (2016 loss: $1,337,056) and had net operating cash outflows of $3,412,811 (2016: $509,246). The cash balance as at 30 June 2017 was $700,666 (30 June 2016: $954,805).

Refer to the detailed Review of Operations preceding this Directors' Report.

Significant changes in the state of affairs
On 6 July, 2016, the company issued 29,980,000 new shares in respect of a capital placement, raising $749,500 from this placement;

On 6 July 2016, 1,000,000 additional new shares were issued to cover the costs of the loan facility drawn down on 29 April 2016.

On 8 September 2016, the company issued 56,624,918 million new shares through a fully underwritten 2 for 9 rights issue. $1,415,623 before costs was raised from this rights issue.

On 22 July 2016, the company announced its intention, subject to shareholder approval, to convert a $600,000 loan from parties associated with director Mr Ian Mann to equity through the issuance of 24,000,000 shares at a price of $0.025 per share. Shareholder approval was granted at the Company's 2016 Annual General Meeting of shareholders and the Company issued the 24,000,000 shares on 22 December 2016.

On 22 December 2016 the company granted 12,000,000 unlisted options to Directors following shareholder approval granted at the 2016 Annual General Meeting.

On 22 December 2016 the company modified 7,500,000 unlisted options granted to the CEO, Mr Archie Fraser, previously granted on 16 May 2016.

On 22 December 2016 the company also granted 5,000,000 unlisted options in relation to an underwriting fee for the company's rights issues conducted during the period following shareholder approval granted at the 2016 Annual General Meeting.

On 21 December 2016 the company announced that it had received commitments for the placement of 38,650,000 fully paid ordinary shares at an issue price of $0.05 (5 cents) per share raising $1,932,500. The company issued the new shares on 28 December 2016.

On 15 March 2017 the company issued 2,000,000 fully paid ordinary shares upon exercise of unlisted options in the Company at various issue prices raising $75,000.

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

Matters subsequent to the end of the financial year

On 10 August 2017, the consolidated entity issued 1,000,000 fully paid ordinary shares on exercise of 1,000,000 unlisted options, exercisable at $0.025 (2.5 cents) per option.

On 23 August 2017, the consolidated entity announced that a Share Purchase Plan (SPP) will be offered to eligible shareholders for the opportunity to apply for new fully paid ordinary shares in the Company at an issue price of $0.08 (8 cents) per share. The SPP is underwritten by Patersons Securities Limited up to the amount of $2,500,000 (31,250,000 shares). On completion of the SPP, the Company will offer a Placement of up to $2.5 million to sophisticated and professional investors at the same price as shares issued under the SPP.

On 26 September 2017, the consolidated entity announced that it had received applications for a total of $1,188,000 (14,850,000 shares at an issue price of $0.08 per share) from Eligible Shareholders. Pursuant to the terms of the underwriting, Patersons will place the shortfall of $1,312,000 (16,400,000 shares at an issue price of $0.08 per share), and it is envisaged that the Shares to be issued pursuant to the underwritten SPP will be allotted on 2 October 2017.

It was also announced that the Company has received commitments from professional and sophisticated investors for a total of $1,000,000 to participate in a placement at the same issue price as the SPP.

No other matter or circumstance has arisen since 30 June 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

The Directors have outlined in the Operating and Financial Review that they expect to derive additional income from the Zeiss collaboration over the next year, as well as achieving sales of the second-generation pre-clinical research product. The cost base of the company will increase to reflect the additional resource being employed to develop these activities. This investment is required to move the Company towards profitability.

Environmental regulation

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

Information on directors

Name:	Mr Alan Hoffman
Title:	Non-executive Chairman (appointed 2 May 2016)
Age:	59
Qualifications:	MAICD
Experience and expertise:	Mr Hoffman has more than twenty years' experience in executive management roles in organisations such as Shell Australia, the Wesfarmers Group and the Coventry Group.
Other current directorships:	Rision Limited (ASX: RNL)
Former directorships (last 3 years):	None
Special responsibilities:	Member of Audit & Risk Committee and Member of Remuneration and Nomination Committee
Interests in shares:	2,000,000 fully paid ordinary shares
Interests in options:	1,000,000 unlisted options

Name:	Mr Peter Francis
Title:	Non-executive Director (appointed 2 May 2016)
Age:	61
Qualifications:	B Juris, LLB, Grad Dip IP law
Experience and expertise:	Mr Francis is a partner of FAL Lawyers, a firm of commercial and technology lawyers based in Melbourne. He is one of Australia's pre-eminent lawyers in the field of technology commercialisation. Mr Francis is Chairman of Benitec Biopharma Limited and holds a number of other non-executive director roles.
Other current directorships:	Benitec Biopharma Limited (ASX: BLT), Rision Limited (ASX: RNL)
Former directorships (last 3 years):	None
Special responsibilities:	Chairman of Audit & Risk Committee and Member of Remuneration and Nomination Committee
Interests in shares:	Nil
Interests in options:	3,000,000 unlisted options

Name:	Mr Ian Mann
Title:	Non-executive Director (appointed 9 December 2015)
Age:	49
Qualifications:	B. Comm, GAICD
Experience and expertise:	Mr Mann has twenty years' experience as a private company director in industries including textiles, garments, investments, foodstuffs and construction materials. Through the shareholding of related entities, Mr Mann is a Substantial Shareholder in the Company.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of Audit & Risk Committee and member of Remuneration and Nomination Committee
Interests in shares:	41,668,445 fully paid ordinary shares
Interests in options:	3,000,000 unlisted options

Name:	Dr Ian Griffiths
Title:	Non-executive Director (appointed 2 May 2016)
Age:	47
Qualifications:	BSc, PhD
Experience and expertise:	Dr Griffiths is CEO of Wound Management Innovations CRC and has previously held a number of senior executive roles in innovative biotech companies. Dr Griffiths has an honours degree, a business degree, and a PhD from the University of Manchester with his thesis based on instrumentation physics and polymer chemistry.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of Audit & Risk Committee and Chairman of Remuneration and Nomination Committee
Interests in shares:	None
Interests in options:	3,000,000 unlisted options

Name:	Dr Philip Currie
Title:	Non-executive Director (appointed 17 July 2017)
Age:	63
Qualifications:	MBBS (Hons), FRACP, MBA
Experience and expertise:	Dr Currie is a cardiologist with more than 35 years in cardiology both in the United States and in Australia with extensive experience in medical research, clinical cardiology and business. He has a medical degree, MBBS (Hons) from Monash University and an MBA from the University of Michigan.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Nil
Interests in shares:	13,200,000 fully paid ordinary shares
Interests in options:	Nil

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

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

Company secretary
Mr Justin Mouchacca (appointed 22 December 2016)

Justin Mouchacca holds a Bachelor of Business majoring in Accounting. He graduated from RMIT University in 2008, became a Chartered Accountant in 2011 and since July 2013 has been a principal of chartered accounting firm, Leydin Freyer Corp Pty Ltd. Justin has over 10 years' experience in the accounting profession and has extensive experience in relation to public company responsibilities, including ASX and ASIC compliance, control and implementation of corporate governance, statutory financial reporting, reorganisation of Companies and shareholder relations.

Mr Michael Corry (appointed 13 June 2016 and resigned 30 December 2016)

Mr Corry is a Fellow of the Institute of Chartered Accountants in Australia and New Zealand and a qualified company secretary and is also a Fellow of the Governance Institute of Australia.

Meetings of directors
The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2017, and the number of meetings attended by each director were:

	Full Board		Remuneration and Nomination Committee	
	Attended	Held	Attended	Held
Alan Hoffman	14	14	1	1
Peter Francis	14	14	1	1
Ian Mann	14	14	1	1
Ian Griffiths	13	14	1	1

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

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

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

The remuneration report is set out under the following main headings:
- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

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

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

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

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

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

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

Non-executive directors remuneration

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

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

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

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

Executive remuneration

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

The executive remuneration and reward framework has four components:

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

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

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

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

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

Variable Remuneration - Short Term Incentive (STI)

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

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

The aggregate amount of annual STI payments available for key management personnel and other executives is subject to the approval of the Remuneration Committee. Payments made are usually delivered as a cash bonus.

Variable Remuneration - Long Term Incentive (LTI)

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

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

LTI grants to employees, including executives, are delivered in the form of options. The Remuneration Committee is responsible for the allocation of options, and determines the quantum of grants by reference to group and individual performance against targets.

Incentives and Company Performance

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

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

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

Incentive Payments and Performance Conditions 2016/2017

During the year ended 30 June 2017, an STI performance based bonus was awarded to the CEO.

In the prior financial year, an LTI incentive was granted to the CEO, Mr Archie Fraser. An options package comprising 4 tranches 875,000 options and 2 tranches of 2,000,000 share options (a total of 7,500,000 options) were issued pursuant to the terms of his employment contract.

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

Employment Contracts

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

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

- On resignation any unvested options are forfeited.

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

Voting and comments made at the company's 25 November 2016 Annual General Meeting ('AGM')
At the 2016 AGM, 94.99% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2016. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

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

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
2017	Cash salary and fees $	Cash bonus $	Non-monetary $	Super-annuation $	Long service leave $	Equity-settled $	Total $
Non-Executive Directors:							
Alan Hoffman	75,000	-	-	7,125	-	113,190	195,315
Peter Francis	40,000	-	-	3,800	-	113,190	156,990
Ian Mann	40,000	-	-	3,800	-	113,190	156,990
Ian Griffiths	40,000	-	-	3,800	-	113,190	156,990
Other Key Management Personnel:							
Archie Fraser	235,000	25,000	18,630	16,625	286	211,922	507,463
Michael Corry	71,615	-	-	-	-	-	71,615
Peter Delaney	150,000	-	(16,997)	14,250	818	-	148,071
Justin Mouchacca	30,500	-	-	-	-	-	30,500
	682,115	25,000	1,633	49,400	1,104	664,682	1,423,934

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
2016	Cash salary and fees $	Cash bonus $	Termination $	Super-annuation $	Long service leave $	Equity-settled $	Total $
Non-Executive Directors:							
Alan Hoffman	12,500	-	-	1,188	-	-	13,688
George Cameron-Dow	8,054	-	-	765	-	-	8,819
Ian Griffiths	11,212	-	-	-	-	-	11,212
Peter Francis	6,667	-	-	-	-	-	6,667
Ian Mann	6,667	-	-	633	-	-	7,300
Patrick O'Connor	29,723	-	-	-	-	-	29,723
Angus Holt	32,284	-	-	732	-	-	33,016
Other Key Management Personnel:							
Bruce Andrew	89,000	-	32,418	8,787	-	-	130,205
Peter Delaney	150,000	-	-	14,250	-	-	164,250
Archie Fraser	22,030	-	-	1,539	-	7,571	31,140
Michael Corry	12,500	-	-	-	-	-	12,500
	380,637	-	32,418	27,894	-	7,571	448,520

The proportion of remuneration linked to performance and the fixed proportion are as follows:

	Fixed remuneration		At risk - STI		At risk - LTI	
Name	2017	2016	2017	2016	2017	2016
Non-Executive Directors:						
Alan Hoffman	42%	100%	-	-	58%	-
Peter Francis	28%	100%	-	-	72%	-
Ian Mann	28%	100%	-	-	72%	-
Ian Griffiths	28%	100%	-	-	72%	-
George Cameron-Dow	-	100%	-	-	-	-
Patrick O'Connor	-	100%	-	-	-	-
Angus Holt	-	100%	-	-	-	-
Other Key Management Personnel:						
Archie Fraser	53%	76%	5%	-	42%	24%
Michael Corry	100%	100%	-	-	-	-
Peter Delaney	100%	100%	-	-	-	-
Justin Mouchacca	100%	-	-	-	-	-
Bruce Andrew	-	100%	-	-	-	-

Service agreements

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

Name:	Archie Fraser
Title:	Chief Executive Officer
Agreement commenced:	16 May 2016
Term of agreement:	No fixed term
Details:	Base salary of $200,000 per annum with a 3 month notice period.

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

Share-based compensation

Issue of shares
There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2017.

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

Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
28 Nov 2016	28 Nov 2016	28 Nov 2019	$0.025	$0.043
28 Nov 2016	28 Nov 2016	28 Nov 2019	$0.050	$0.037
28 Nov 2016	28 Nov 2016	28 Nov 2019	$0.075	$0.032
28 Nov 2016	28 Nov 2016	28 Nov 2019	$0.025	$0.043
28 Nov 2016	28 May 2017	28 May 2020	$0.025	$0.044
28 Nov 2016	28 Nov 2017	28 Nov 2020	$0.050	$0.044
28 Nov 2016	28 May 2018	28 May 2021	$0.050	$0.042
28 Nov 2016	28 Nov 2018	28 Nov 2021	$0.050	$0.043

Name	Number of options granted	Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
Alan Hoffman	1,000,000	28 Nov 2016	28 Nov 2016	28 Nov 2019	$0.025	$0.043
Alan Hoffman	1,000,000	28 Nov 2016	28 Nov 2016	28 Nov 2019	$0.050	$0.037
Alan Hoffman	1,000,000	28 Nov 2016	28 Nov 2016	28 Nov 2019	$0.075	$0.032
Peter Francis	1,000,000	28 Nov 2016	28 Nov 2016	28 Nov 2019	$0.025	$0.043
Peter Francis	1,000,000	28 Nov 2016	28 Nov 2016	28 Nov 2019	$0.050	$0.037
Peter Francis	1,000,000	28 Nov 2016	28 Nov 2016	28 Nov 2019	$0.075	$0.032
Ian Mann	1,000,000	28 Nov 2016	28 Nov 2016	28 Nov 2019	$0.025	$0.043
Ian Mann	1,000,000	28 Nov 2016	28 Nov 2016	28 Nov 2019	$0.050	$0.037
Ian Mann	1,000,000	28 Nov 2016	28 Nov 2016	28 Nov 2019	$0.075	$0.032
Ian Griffiths	1,000,000	28 Nov 2016	28 Nov 2016	28 Nov 2019	$0.025	$0.043
Ian Griffiths	1,000,000	28 Nov 2016	28 Nov 2016	28 Nov 2019	$0.050	$0.037
Ian Griffiths	1,000,000	28 Nov 2016	28 Nov 2016	28 Nov 2019	$0.075	$0.032
Archie Fraser	1,500,000	28 Nov 2016	28 Nov 2016	28 Nov 2019	$0.025	$0.043
Archie Fraser	1,500,000	28 Nov 2016	28 May 2017	28 May 2020	$0.025	$0.044
Archie Fraser	1,500,000	28 Nov 2016	28 Nov 2017	28 Nov 2020	$0.050	$0.044
Archie Fraser	1,500,000	28 Nov 2016	28 May 2018	28 May 2021	$0.050	$0.042
Archie Fraser	1,500,000	28 Nov 2016	28 Nov 2019	28 Nov 2021	$0.050	$0.043

Options granted carry no dividend or voting rights.

The number of options over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 30 June 2017 are set out below:

Name	Number of options granted during the year 2017	Number of options granted during the year 2016	Number of options vested during the year 2017	Number of options vested during the year 2016
Alan Hoffman	3,000,000	-	3,000,000	-
Peter Francis	3,000,000	-	3,000,000	-
Ian Mann	3,000,000	-	3,000,000	-
Ian Griffiths	3,000,000	-	3,000,000	-
Archie Fraser	-	7,500,000	3,000,000	-

Values of options over ordinary shares granted, exercised and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2017 are set out below:

Name	Value of options granted during the year $	Value of options exercised during the year $	Value of options lapsed during the year $	Remuneration consisting of options for the year %
Alan Hoffman	113,190	80,660	-	1%
Peter Francis	113,190	-	-	1%
Ian Mann	113,190	-	-	1%
Ian Griffiths	113,190	-	-	1%
Archie Fraser *	209,872	-	-	1%

* This expense has been modified as a result of the modification to the original share option commitment as approved by shareholders at the Company's Annual General Meeting held on 25 November 2016. The incremental fair value granted as a result of the modification was $6,996 based on the revised grant date of 28 November 2016.

Additional information

The earnings of the consolidated entity for the five years to 30 June 2017 are summarised below:

	2017 $	2016 $	2015 $	2014 $	2013 $
Revenue	1,348,964	313,399	58,122	88,516	984,726
Net profit/(loss) before tax	(2,942,925)	(1,337,056)	(1,395,399)	(1,417,712)	(643,950)
Net profit/(loss) after tax	(2,942,925)	(1,337,056)	(1,395,399)	(1,417,712)	(643,950)

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

	2017	2016	2015	2014	2013
Share price at financial year start ($)	0.02	0.05	0.03	0.07	0.07
Share price at financial year end ($)	0.10	0.02	0.05	0.03	0.07
Basic earnings per share (cents per share)	(0.88)	(0.61)	(0.72)	(0.87)	(0.40)

Additional disclosures relating to key management personnel

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

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Ordinary shares					
Alan Hoffman	-	-	2,000,000	-	2,000,000
Ian Mann	15,000,000	-	26,668,445	-	41,668,445
	15,000,000	-	28,668,445	-	43,668,445

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

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
Options over ordinary shares					
Alan Hoffman	-	3,000,000	(2,000,000)	-	1,000,000
Peter Francis	-	3,000,000	-	-	3,000,000
Ian Mann	-	3,000,000	-	-	3,000,000
Ian Griffiths	-	3,000,000	-	-	3,000,000
Archie Fraser	7,500,000	-	-	-	7,500,000
	7,500,000	12,000,000	(2,000,000)	-	17,500,000

Other transactions with key management personnel and their related parties
During the financial year, the Company was loaned $600,000 to parties associated with a director of the entity, Mr Ian Mann. Directors received shareholder approval to convert this loan to equity at the company's Annual General Meeting on 25 November 2016 and this was executed during the period. Mr Ian Mann received 24,000,000 shares at $0.025 (2.5 cents) per share on conversion of the loan. The final interest payable of $26,315 was paid in February 2017. Please refer to note 25 Related Party Transactions.

This concludes the remuneration report, which has been audited.

Shares under option

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

Grant date	Expiry date	Exercise price	Number under option
28 November 2016	30 June 2018	$0.025	4,000,000
28 November 2016	28 November 2019	$0.050	3,000,000
28 November 2016	28 November 2019	$0.075	4,000,000
28 November 2016	28 May 2020	$0.020	1,500,000
28 November 2016	28 November 2020	$0.050	1,500,000
28 November 2016	28 May 2021	$0.050	1,500,000
28 November 2016	28 November 2021	$0.050	1,500,000
28 November 2016	28 November 2019	$0.025	4,500,000
			21,500,000

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

Shares issued on the exercise of options

The following ordinary shares of Optiscan Imaging Limited were issued during the year ended 30 June 2017 and up to the date of this report on the exercise of options granted:

Date options granted	Exercise price	Number of shares issued
28 November 2016	$0.025	2,000,000
28 November 2016	$0.050	1,000,000
		3,000,000

Indemnity and insurance of officers

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

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

Indemnity and insurance of auditor

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

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

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 22 to the financial statements.

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

The directors are of the opinion that the services as disclosed in note 22 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

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

Officers of the company who are former partners of Ernst & Young

There are no officers of the company who are former partners of Ernst & Young.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Auditor

Ernst & Young continues in office in accordance with section 327 of the Corporations Act 2001.

Optiscan Imaging Limited
Directors' report
30 June 2017

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

On behalf of the directors

Alan Hoffman
Non-executive Chairman

28 September 2017

Building a better working world

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

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

As lead auditor for the audit of Optiscan Imaging Limited for the financial year ended 30 June 2017, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

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

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

Ernst & Young

Ernst & Young

Paul Gower

Paul Gower
Partner
28 September 2017

Optiscan Imaging Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2017

	Note	Consolidated 2017 $	2016 $
Revenue			
Sales revenue		1,333,263	309,697
Interest revenue		15,701	3,702
		1,348,964	313,399
Cost of sales		(506,456)	(94,826)
Gross profit		842,508	218,573
Other income	5	992,361	1,054,716
Expenses			
Research & development expenses		(2,207,786)	(1,265,884)
Share-based payment expenses		(859,482)	-
Depreciation and amortisation expense		(41,773)	(10,025)
Other expenses		(95,713)	(13,104)
Administration		(1,500,509)	(1,152,616)
Finance costs		(72,531)	(168,716)
Loss before income tax expense		(2,942,925)	(1,337,056)
Income tax expense	6	-	-
Loss after income tax expense for the year attributable to the owners of Optiscan Imaging Limited	18	(2,942,925)	(1,337,056)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		(9,223)	44
Other comprehensive income for the year, net of tax		(9,223)	44
Total comprehensive income for the year attributable to the owners of Optiscan Imaging Limited		(2,952,148)	(1,337,012)
		Cents	**Cents**
Basic earnings per share	30	(0.88)	(0.61)
Diluted earnings per share	30	(0.88)	(0.61)

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

Optiscan Imaging Limited
Statement of financial position
As at 30 June 2017

	Note	Consolidated 2017 $	Consolidated 2016 $
Assets			
Current assets			
Cash and cash equivalents	7	700,666	954,805
Trade and other receivables	8	1,285,944	780,792
Inventories	9	495,910	28,500
Other	10	25,078	37,048
Total current assets		2,507,598	1,801,145
Non-current assets			
Property, plant and equipment	11	159,120	19,691
Total non-current assets		159,120	19,691
Total assets		2,666,718	1,820,836
Liabilities			
Current liabilities			
Trade and other payables	12	771,679	1,211,810
Borrowings	13	-	1,124,358
Provisions	14	223,164	231,477
Total current liabilities		994,843	2,567,645
Non-current liabilities			
Provisions	15	6,516	2,841
Total non-current liabilities		6,516	2,841
Total liabilities		1,001,359	2,570,486
Net assets/(liabilities)		1,665,359	(749,650)
Equity			
Issued capital	16	53,870,454	49,362,779
Reserves	17	2,425,218	1,574,959
Accumulated losses	18	(54,630,313)	(51,687,388)
Total equity/(deficiency)		1,665,359	(749,650)

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

Optiscan Imaging Limited
Statement of changes in equity
For the year ended 30 June 2017

Consolidated	Issued capital $	Foreign currency translation reserve $	Share based payments reserve $	Retained profits $	Total deficiency in equity $
Balance at 1 July 2015	48,684,716	4,744	1,485,661	(50,350,332)	(175,211)
Loss after income tax expense for the year	-	-	-	(1,337,056)	(1,337,056)
Other comprehensive income for the year, net of tax	-	44	-	-	44
Total comprehensive income for the year	-	44	-	(1,337,056)	(1,337,012)
Transactions with owners in their capacity as owners:					
Loan facility fee settled by issue of shares	111,000	-	-	-	111,000
Shares issued for cash	690,073	-	-	-	690,073
Underwriting fee settled by issue of options	(84,510)	-	84,510	-	-
Transaction costs of share issues	(38,500)	-	-	-	(38,500)
Balance at 30 June 2016	49,362,779	4,788	1,570,171	(51,687,388)	(749,650)

Consolidated	Issued capital $	Foreign currency translation reserve $	Share based payments reserve $	Retained profits $	Total equity $
Balance at 1 July 2016	49,362,779	4,788	1,570,171	(51,687,388)	(749,650)
Loss after income tax expense for the year	-	-	-	(2,942,925)	(2,942,925)
Other comprehensive income for the year, net of tax	-	(9,223)	-	-	(9,223)
Total comprehensive income for the year	-	(9,223)	-	(2,942,925)	(2,952,148)
Transactions with owners in their capacity as owners:					
Loan settled by share issue	600,000	-	-	-	600,000
Share options expense	-	-	859,482	-	859,482
Shares issued for finance facility fee	25,000	-	-	-	25,000
Shares issued for cash	4,172,623	-	-	-	4,172,623
Transaction costs of share issues	(289,948)	-	-	-	(289,948)
Balance at 30 June 2017	53,870,454	(4,435)	2,429,653	(54,630,313)	1,665,359

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

Optiscan Imaging Limited
Statement of cash flows
For the year ended 30 June 2017

	Note	Consolidated 2017 $	Consolidated 2016 $
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		1,132,811	604,375
Payments to suppliers and employees (inclusive of GST)		(5,287,827)	(1,801,308)
Interest received		15,701	3,918
Royalties received		-	4,094
Receipt of research and development tax incentive		726,504	679,675
Net cash used in operating activities	29	(3,412,811)	(509,246)
Cash flows from investing activities			
Payments for property, plant and equipment	11	(181,202)	(2,757)
Net cash used in investing activities		(181,202)	(2,757)
Cash flows from financing activities			
Proceeds from issue of shares	16	4,172,623	690,074
Proceeds received for options yet to be converted		25,000	-
Proceeds from short term loan		-	1,100,000
Share issue transaction costs		(289,948)	(38,500)
Repayment of short term loan and interest		(567,801)	(553,539)
Net cash from financing activities		3,339,874	1,198,035
Net increase/(decrease) in cash and cash equivalents		(254,139)	686,032
Cash and cash equivalents at the beginning of the financial year		954,805	268,893
Effects of exchange rate changes on cash and cash equivalents		-	(120)
Cash and cash equivalents at the end of the financial year	7	700,666	954,805

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 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 September 2017. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

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

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

Going concern

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

The working capital position as at 30 June 2017 of the consolidated entity results in an excess of current assets over current liabilities of $1,512,755 (30 June 2016: $766,500 deficit). The consolidated entity made a loss after tax of $2,942,925 during the financial year (2016: loss of $1,337,056 from continuing operations) and the net operating cash outflow was $3,412,811 (2016: $509,246 net outflow). The cash balance as at 30 June 2017 was $700,666 (30 June 2016: $954,805).

The Directors are of the opinion that the existing cash reserves together with the recent capital raising will provide the Company with adequate funds to ensure its continued viability and operate as a going concern. The Directors are confident based on forecast operating cash flows together with funds raised from recent equity raisings that the Company can continue to monitor the ongoing funding requirements of the consolidated entity. The Directors are confident that sufficient funds can be secured if required by a combination of capital raising to continue as a going concern and as such are of the opinion that the financial report has been appropriately prepared on a going concern basis.

Subsequent to financial year end the Company announced that it proposed to offer eligible shareholders the opportunity to apply for new fully paid ordinary shares through a Share Purchase Plan (SPP). The SPP was underwritten by Patersons Securities up to an amount of $2,500,000. On completion of the SPP, the Company offered a Placement of up to $2.5 million to sophisticated and professional investors at the same price as shares issued under the SPP. The Company also received commitments from professional and sophisticated investors.

The Company announced on 26 September 2017 that it had received applications for a total of $1,188,000 (14,850,000 shares at an issue price of $0.08 per share) from Eligible Shareholders. Pursuant to the terms of the underwriting, Patersons will place the shortfall of $1,312,000 (16,400,000 shares at an issue price of $0.08 per share), and it is envisaged that the Shares to be issued pursuant to the underwritten SPP will be allotted on 2 October 2017.

It was also announced that the Company has received commitments from professional and sophisticated investors for a total of $1,000,000 to participate in a placement at the same issue price as the SPP.

Note 2. Significant accounting policies (continued)

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

Historical cost convention
The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Critical accounting estimates
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

Parent entity information
In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 26.

Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Optiscan Imaging Limited ('company' or 'parent entity') as at 30 June 2017 and the results of all subsidiaries for the year then ended. Optiscan Imaging Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

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

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

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

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

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

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

Note 2. Significant accounting policies (continued)

Foreign currency transactions
Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

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

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

Revenue recognition
Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable.

Sale of goods
Sale of goods revenue is recognised at the point of sale, which is where the customer has taken delivery of the goods, the risks and rewards are transferred to the customer and there is a valid sales contract. Amounts disclosed as revenue are net of sales returns and trade discounts.

Rendering of services
Rendering of services revenue from computer maintenance fees is recognised by reference to the stage of completion of the contracts.

Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. Where the contract outcome cannot be reliably estimated, revenue is only recognised to the extent of the recoverable costs incurred to date.

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

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

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

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

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

Note 2. Significant accounting policies (continued)

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

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

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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

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

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

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

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

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

Cash and cash equivalents
Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

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

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

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

Note 2. Significant accounting policies (continued)

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

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

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

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

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

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

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

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

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

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

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

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

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

Trade and other payables
These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Note 2. Significant accounting policies (continued)

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

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

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

Employee benefits

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

Other long-term employee benefits
The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Share-based payments
Equity-settled and cash-settled share-based compensation benefits are provided to employees.

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

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

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

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:
- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Note 2. Significant accounting policies (continued)

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

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

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

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

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

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

Issued capital
Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Earnings per share

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

Diluted earnings per share
Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes
Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Note 2. Significant accounting policies (continued)

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

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

New Accounting Standards and Interpretations not yet mandatory or early adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2017. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard replaces all previous versions of AASB 9 and completes the project to replace IAS 39 'Financial Instruments: Recognition and Measurement'. AASB 9 introduces new classification and measurement models for financial assets. A financial asset shall be 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 solely principal and interest. All other financial instrument assets are to be classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income ('OCI'). For financial liabilities, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements will use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment will be measured under 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. The standard introduces additional new disclosures. The consolidated entity will adopt this standard from 1 July 2019 but the consolidated entity does not expect that it will have a material impact on implementation.

AASB 15 Revenue from Contracts with Customers
This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's 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. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2019 but the consolidated entity does not expect that it will have a material impact on implementation.

Note 2. Significant accounting policies (continued)

AASB 16 Leases
This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (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 will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 July 2020. The entity is yet to undertake a detailed assessment of the impact of AASB 16. However, based on the entity's preliminary assessment, the likely impact on the first time adoption of the Standard for the year ending 30 June 2021 includes:
- there will be an increase in lease assets and financial liabilities recognised on the balance sheet.
- the reported equity will reduce as the carrying amount of lease assets will reduce more quickly than the carrying amount of lease liabilities.
- EBIT in the statement of profit or loss and other comprehensive income will be higher as the implicit interest in lease payments for former off balance sheet leases will be presented as part of finance costs rather than being included in operating expenses.
- operating cash outflows will be lower and financing cash flows will be higher in the statement of cash flows as principal repayments on all lease liabilities will now be included in financing activities rather than operating activities. Interest can also be included within financing activities.

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 Binomial 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.

Provision for impairment of receivables
The provision for impairment of receivables assessment requires a degree of estimation and judgement. The level of provision is assessed by taking into account the recent sales experience, the ageing of receivables, historical collection rates and specific knowledge of the individual debtor's financial position.

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

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

Fair value measurement hierarchy
The consolidated entity is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

The fair value of assets and liabilities classified as level 3 is determined by the use of valuation models. These include discounted cash flow analysis or the use of observable inputs that require significant adjustments based on unobservable inputs.

Estimation of useful lives of assets
The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Income tax
The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

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.

Accounting for debt for equity transactions
A judgement has been made for the applicable accounting treatment with respect to current period debt for equity transactions with a significant shareholder. The judgement applied was based on facts and circumstances of the transaction, resulting in the accounting at cost of equity issued as opposed to fair value.

Note 4. Operating segments

Identification of reportable operating segments
The Company operated predominately 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. The majority of sales revenues are attributed to Germany, being 98.4%, and Australia 1.6%. There is one customer that contributes revenues greater than 10%, which totalled $1.312 million during the financial year.

Note 5. Other income

	Consolidated 2017 $	Consolidated 2016 $
Government grants - R&D tax incentive	980,257	742,379
Design and development income	-	312,337
Other income	12,104	-
Other income	992,361	1,054,716

Note 6. Income tax expense

	Consolidated 2017 $	Consolidated 2016 $
Numerical reconciliation of income tax expense and tax at the statutory rate		
Loss before income tax expense	(2,942,925)	(1,337,056)
Tax at the statutory tax rate of 30%	(882,878)	(401,117)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	257,845	5,625
Non assessable gains	(294,077)	(222,714)
R&D Tax Incentive deductions foregone for tax offset	676,040	484,336
Expenditure not allowable for income tax purposes	2,248	23,171
Other deductible expenditure	-	4,589
Deferred tax assets recognised/(not recognised)	240,822	106,110
Income tax expense	-	-

	Consolidated 2017 $	Consolidated 2016 $
Deferred tax assets not recognised		
Deferred tax assets not recognised comprises temporary differences attributable to:		
Undeducted patent costs	243,153	223,979
Employee benefit & warranty provisions	68,904	70,295
Expenses not yet deductible	16,500	9,930
Inventory impairment provision	468,296	468,296
Tax losses available	12,529,813	12,313,343
Total deferred tax assets not recognised	13,326,666	13,085,843

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

Note 7. Current assets - cash and cash equivalents

	Consolidated 2017 $	Consolidated 2016 $
Cash on hand	592,541	889,305
Cash on deposit	108,125	65,500
	700,666	954,805

Note 8. Current assets - trade and other receivables

	Consolidated 2017 $	Consolidated 2016 $
Trade receivables	230,449	17,893
R&D Tax incentive grant receivable	980,257	726,504
GST refund receivable	75,238	28,895
	1,055,495	755,399
Other receivables	-	7,500
	1,285,944	780,792

Note 9. Current assets - inventories

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

	Consolidated 2017 $	Consolidated 2016 $
Raw materials and work in progress	279,951	28,500
Finished goods	140,096	-
Stock in transit	75,863	-
	495,910	28,500

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

Note 10. Current assets - other

	Consolidated 2017 $	Consolidated 2016 $
Prepayments	25,078	37,048

Note 11. Non-current assets - property, plant and equipment

	Consolidated 2017 $	Consolidated 2016 $
Plant and equipment - at cost	882,488	701,593
Less: Accumulated depreciation	(723,368)	(681,902)
	159,120	19,691
Production equipment - at cost	258,483	258,483
Less: Accumulated depreciation	(258,483)	(258,483)
	-	-
R&D Equipment - at cost	364,905	364,905
Less: Accumulated depreciation	(364,905)	(364,905)
	-	-
	159,120	19,691

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

Consolidated	Plant and equipment $	Total $
Balance at 1 July 2015	26,985	26,985
Additions	2,758	2,758
Depreciation expense	(10,052)	(10,052)
Balance at 30 June 2016	19,691	19,691
Additions	181,202	181,202
Depreciation expense	(41,773)	(41,773)
Balance at 30 June 2017	159,120	159,120

Note 12. Current liabilities - trade and other payables

	Consolidated 2017 $	Consolidated 2016 $
Trade payables	566,772	252,405
Accrued expenses	74,475	129,818
Share subscriptions received in advance	-	662,000
Deferred income	-	166,786
Other creditors	130,432	801
	771,679	1,211,810

Refer to note 20 for further information on financial instruments.

Note 13. Current liabilities - borrowings

	Consolidated 2017 $	Consolidated 2016 $
Short term loans	-	1,124,358

Refer to note 20 for further information on financial instruments.

During the financial year the consolidated entity repaid an external loan amounting to $500,000 on time and in full upon receipt of the annual R&D Tax Incentive government rebate and no late payment penalties were incurred.

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

The total secured current liabilities are as follows:

	Consolidated 2017 $	Consolidated 2016 $
Opening balance	1,124,358	510,533
Payment of loan principal and capitalised interest	(543,006)	(510,533)
Settlement of loans through the issue of shares	(600,000)	-
Proceeds from short term loans	-	1,100,000
Amortised cost adjustment	18,648	24,358
	-	1,124,358

Note 14. Current liabilities - provisions

	Consolidated 2017 $	Consolidated 2016 $
Annual leave	84,985	82,091
Long service leave	138,179	149,386
	223,164	231,477

Note 15. Non-current liabilities - provisions

	Consolidated 2017 $	Consolidated 2016 $
Long service leave	6,516	2,841

Note 16. Equity - issued capital

	Consolidated 2017 Shares	Consolidated 2016 Shares	Consolidated 2017 $	Consolidated 2016 $
Ordinary shares - fully paid	376,078,800	223,823,882	53,870,454	49,362,779

Note 16. Equity - issued capital (continued)

Movements in ordinary share capital

Details	Date	Shares	Issue price	$
Balance	1 July 2015	207,022,389		48,684,716
Issued for cash in placement		13,801,493	$0.000	690,073
Loan facility fees settled by issue of shares*		3,000,000	$0.000	111,000
Underwriting fee settled by issue of options		-	$0.000	(84,510)
Transaction costs of share issue		-		(38,500)
Balance	30 June 2016	223,823,882		49,362,779
Share placement	6 July 2016	29,980,000	$0.025	749,500
Share issued for loan facility fee*	6 July 2016	1,000,000	$0.025	25,000
Shares issued for 2 for 9 rights issue	19 August 2016	22,078,044	$0.025	551,951
Shares issued for 2 for 9 rights issue shortfall	8 September 2016	34,546,874	$0.025	863,672
Shares issued upon conversion of loan*	22 December 2016	24,000,000	$0.025	600,000
Share placement	28 December 2016	38,650,000	$0.050	1,932,500
Exercise of options	15 March 2017	1,000,000	$0.025	25,000
Exercise of options	15 March 2017	1,000,000	$0.050	50,000
Transaction costs of share issue		-		(289,948)
Balance	30 June 2017	376,078,800		53,870,454

** Transactions relate to non-cash debt to equity transactions issued to satisfy outstanding liabilities.*

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

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

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

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

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

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

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

The consolidated entity is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy remains unchanged from the 30 June 2016 Annual Report.

Note 17. Equity - reserves

	Consolidated 2017 $	Consolidated 2016 $
Foreign currency reserve	(4,435)	4,788
Share-based payments reserve	2,429,653	1,570,171
	2,425,218	1,574,959

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

Consolidated	Foreign currency transaction reserve $	Share based payments reserve $	Total $
Balance at 1 July 2015	4,744	1,485,661	1,490,405
Foreign currency translation	44	-	44
Underwriting fee settled by issue of option	-	84,510	84,510
Balance at 30 June 2016	4,788	1,570,171	1,574,959
Foreign currency translation	(9,223)	-	(9,223)
Share based payments expense	-	859,482	859,482
Balance at 30 June 2017	(4,435)	2,429,653	2,425,218

Note 18. Equity - accumulated losses

	Consolidated 2017 $	Consolidated 2016 $
Accumulated losses at the beginning of the financial year	(51,687,388)	(50,350,332)
Loss after income tax expense for the year	(2,942,925)	(1,337,056)
Accumulated losses at the end of the financial year	(54,630,313)	(51,687,388)

Note 19. Equity - dividends

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

Note 20. Financial instruments

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

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

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

Note 20. Financial instruments (continued)

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

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

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

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

Market risk

Foreign currency risk
As nearly all of the Group's sales revenue, as well as some expenses and inventory purchases, are denominated in United States Dollars and Euro, the Group's statement of financial position can be affected by significant movements in these exchange rates. At 30 June 2017, there were no economic hedges in place in respect of net foreign currency exposures, as there were no bank facilities in place.

The carrying amount of the consolidated entity's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

	Assets		**Liabilities**	
Consolidated	**2017 $**	**2016 $**	**2017 $**	**2016 $**
US dollars	1,561	6,274	-	-
Euros	1,898	10	-	-
Other	401	-	-	-
	3,860	6,284	-	-

The following sensitivity is based on the foreign currency risk exposures in existence at balance date:

At 30 June 2017, had the Australian Dollar moved by the same amount illustrated in the table below, with all other variables held constant, post tax loss and equity would have been affected as follows:

	AUD strengthened			**AUD weakened**		
Consolidated - 2017	**% change**	**Effect on profit before tax**	**Effect on equity**	**% change**	**Effect on profit before tax**	**Effect on equity**
Cash and cash equivalents	10%	(386)	-	(10%)	386	-

Note 20. Financial instruments (continued)

	AUD strengthened			AUD weakened		
Consolidated - 2016	**% change**	**Effect on profit before tax**	**Effect on equity**	**% change**	**Effect on profit before tax**	**Effect on equity**
Cash and cash equivalents	10%	(627)	-	(10%)	627	-

Management believe the balance date risk exposures are representative of the risk exposure inherent in the financial instruments.

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

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

As at the reporting date, the consolidated entity had the following variable rate borrowings and interest rate swap contracts outstanding:

	2017		2016	
Consolidated	**Weighted average interest rate %**	**Balance $**	**Weighted average interest rate %**	**Balance $**
Cash and cash equivalents	-	700,666	-	954,805
Net exposure to cash flow interest rate risk		700,666		954,805

An analysis by remaining contractual maturities in shown in 'liquidity and interest rate risk management' below.

	Basis points increase			Basis points decrease		
Consolidated - 2017	**Basis points change**	**Effect on profit before tax**	**Effect on equity**	**Basis points change**	**Effect on profit before tax**	**Effect on equity**
Cash and cash equivalents	50	3,503	3,503	(25)	(1,752)	(1,752)

	Basis points increase			Basis points decrease		
Consolidated - 2016	**Basis points change**	**Effect on profit before tax**	**Effect on equity**	**Basis points change**	**Effect on profit before tax**	**Effect on equity**
Cash and cash equivalents	50	4,774	4,774	(25)	(2,387)	(2,387)

Interest rates during 2016/2017 continued a downward trend, with official rates remaining at historical lows at year end. At balance date, the economic outlook in Australia is similarly steady, with sentiment on future interest rates remaining flat, suggesting the prospect of modest increases in the medium term. On this basis, a possible movement in rates from -0.25% to +0.50% has been adopted as a reasonably possible movement in rates. The movements in net loss are due to higher and lower amounts of interest received from interest bearing cash balances. There is no movement in other comprehensive income as there are no derivative instruments designated as cash flow hedges.

Note 20. Financial instruments (continued)

Credit risk
Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables and derivative instruments. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note. The Group does not hold any credit derivatives to offset its credit exposure. The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer, and are regularly monitored. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. There is no significant concentration of credit risk in the Group’s current trading position. With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the Group’s exposure to credit risk arises from the possibility of default of the counter party. This is considered unlikely as the Group places cash and cash equivalents only with recognised Australian trading banks.

Liquidity risk
The Group's objective is to maintain adequate funding of its activities. Prior to May 2009, all capital financing has been derived from issues of equity. Since May 2009, the Group has from time to time, issued convertible notes, introducing debt finance to the funding mix. Capital management is a process of monitoring cash reserves and forecast cash requirements, and there are no externally imposed capital requirements.

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

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

The cash and cash equivalent balance classified as being capable of settlement within 90 days includes term deposits which are secured by the bank (refer note 7). These amounts could be released within six months upon cancellation of the underlying bank facilities, or upon a re-negotiation of the security arrangements, for example, by providing a charge over assets other than cash.

The Group’s activities are funded from its cash reserves and convertible notes. There are no unused credit facilities. Bank facilities are non credit lines, details of which are disclosed in note 15.

Fair value of financial assets and liabilities

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

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

Note 20. Financial instruments (continued)

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

Consolidated - 2017	Weighted average interest rate %	1 year or less $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Remaining contractual maturities $
Non-derivatives						
Non-interest bearing						
Trade payables	-	771,679	-	-	-	771,679
Total non-derivatives		771,679	-	-	-	771,679

Consolidated - 2016	Weighted average interest rate %	1 year or less $	Between 1 and 2 years $	Between 2 and 5 years $	Over 5 years $	Remaining contractual maturities $
Non-derivatives						
Non-interest bearing						
Trade payables	-	1,211,810	-	-	-	1,211,810
Total non-derivatives		1,211,810	-	-	-	1,211,810

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

Fair value of financial instruments
Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Note 21. Key management personnel disclosures

Directors
The following persons were directors of Optiscan Imaging Limited during the financial year:

Mr Alan Hoffman
Mr Peter Francis
Mr Ian Mann
Dr Ian Griffiths

Other key management personnel
The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity, directly or indirectly, during the financial year:

Mr Archie Fraser
Mr Michael Corry
Mr Peter Delaney
Mr Justin Mouchacca

Note 21. Key management personnel disclosures (continued)

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

	Consolidated	
	2017	**2016**
	$	**$**
Short-term employee benefits	708,748	380,637
Post-employment benefits	49,400	27,894
Long-term benefits	1,104	-
Termination benefits	-	32,418
Share-based payments	664,682	7,571
	1,423,934	448,520

Note 22. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Ernst & Young, the auditor of the company:

	Consolidated	
	2017	**2016**
	$	**$**
Audit services - Ernst & Young		
Audit or review of the financial statements	78,575	63,051
Other services - Ernst & Young		
R&D tax services	12,500	12,500
Other professional services	7,635	-
	20,135	12,500
	98,710	75,551

Note 23. Contingent liabilities

The group has contingent liabilities in relation to bank guarantees on issue at balance date amounting to $108,125 (2016: $45,500).

Note 24. Commitments

At 30 June 2017 there were no material capital commitments outstanding (2016: Nil).

Note 25. Related party transactions

Parent entity
Optiscan Imaging Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 27.

Key management personnel
Disclosures relating to key management personnel are set out in note 21 and the remuneration report included in the directors' report.

Note 25. Related party transactions (continued)

Transactions with Subsidiaries

Inter-company transactions during the financial year between the parent entity, Optiscan Imaging Limited and subsidiary, Optiscan Pty Ltd amounted to $3,305,357 (2016: $1,554,388). Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash. The balances are classified current by the parent entity. An impairment assessment is undertaken each financial year by examining the financial position of the subsidiaries to determine whether there is objective evidence that a related party receivable is impaired. When such objective evidence exists, an impairment loss is recognised.

Transactions with Directors

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

In the prior financial year in December 2015, an entity associated with Non-executive Director, Mr. Ian Mann, provided a loan of $300,000 having a first charge over the company and interest charge of 15% which was subsequently restructured on 29 February 2016. Another entity, also associated with Mr Ian Mann, refinanced that loan at 10% on 29 February 2016, injected an additional $200,000 on that date with a further $100,000 advanced on 27 April 2016. The first charge over the company of the second facility was made subordinate to the 29 April 2016 R&D facility. No establishment, penalty or any other kind of fees were charged on either related party loan.

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

In the prior financial year, FAL Lawyers, a law firm of which Director Mr. Peter Francis is a principal, received fees for the provision of legal services to the entity totaling $2,700 for the period between Mr. Francis' appointment as a Director and the end of the reporting period. The underlying services were provided at arms' length terms.

Receivable from and payable to related parties
There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties
There were no loans to or from related parties at the current and previous reporting date.

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

Note 26. Parent entity information

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

Statement of profit or loss and other comprehensive income

	2017 $	2016 $
Loss after income tax	(2,890,659)	(1,344,585)
Total comprehensive income	(2,890,659)	(1,344,585)

Note 26. Parent entity information (continued)

Statement of financial position

	2017 $	2016 $
Total current assets	2,507,599	1,044,558
Total assets	2,666,719	1,044,558
Total current liabilities	942,577	1,794,208
Total liabilities	949,094	1,794,208
Equity		
Issued capital	53,870,454	49,362,780
Foreign currency reserve	(2,050)	(1)
Share-based payments reserve	2,425,218	1,574,959
Accumulated losses	(54,575,997)	(51,687,388)
Total equity/(deficiency)	1,717,625	(749,650)

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries
The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2017 and 30 June 2016.

Contingent liabilities
The parent entity had no contingent liabilities as at 30 June 2017 and 30 June 2016.

Capital commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment as at 30 June 2017 and 30 June 2016.

Significant accounting policies
The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 2, except for the following:
- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 27. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership interest 2017 %	Ownership interest 2016 %
Optiscan Pty Ltd	Australia	100.00%	100.00%
Optiscan Inc	United States	100.00%	100.00%

Note 28. Events after the reporting period

On 10 August 2017, the consolidated entity issued 1,000,000 fully paid ordinary shares on exercise of 1,000,000 unlisted options, exercisable at $0.025 (2.5 cents) per option.

Note 28. Events after the reporting period (continued)

On 23 August 2017, the consolidated entity announced that a Share Purchase Plan (SPP) will be offered to eligible shareholders for the opportunity to apply for new fully paid ordinary shares in the Company at an issue price of $0.08 (8 cents) per share. The SPP is underwritten by Patersons Securities Limited up to the amount of $2,500,000 (31,250,000 shares). On completion of the SPP, the Company will offer a Placement of up to $2.5 million to sophisticated and professional investors at the same price as shares issued under the SPP.

On 26 September 2017, the consolidated entity announced that it had received applications for a total of $1,188,000 (14,850,000 shares at an issue price of $0.08 per share) from Eligible Shareholders. Pursuant to the terms of the underwriting, Patersons will place the shortfall of $1,312,000 (16,400,000 shares at an issue price of $0.08 per share), and it is envisaged that the Shares to be issued pursuant to the underwritten SPP will be allotted on 2 October 2017.

It was also announced that the Company has received commitments from professional and sophisticated investors for a total of $1,000,000 to participate in a placement at the same issue price as the SPP.

No other matter or circumstance has arisen since 30 June 2017 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 29. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	2017 $	2016 $
Loss after income tax expense for the year	(2,942,925)	(1,337,056)
Adjustments for:		
Depreciation and amortisation	41,773	10,052
Share-based payments	859,482	92,352
Foreign exchange differences	-	116
Net fair value change	-	43,006
FX movements through equity	(9,223)	45
Change in operating assets and liabilities:		
Increase in trade and other receivables	(505,152)	(87,788)
Increase in inventories	(467,410)	-
Decrease/(increase) in prepayments	11,970	(36,219)
Increase/(decrease) in trade and other payables	(396,688)	834,264
Decrease in other provisions	(4,638)	(28,018)
Net cash used in operating activities	(3,412,811)	(509,246)

Note 30. Earnings per share

	Consolidated 2017 $	2016 $
Loss after income tax attributable to the owners of Optiscan Imaging Limited	(2,942,925)	(1,337,056)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	333,532,439	220,999,687
Weighted average number of ordinary shares used in calculating diluted earnings per share	333,532,439	220,999,687
	Cents	**Cents**
Basic earnings per share	(0.88)	(0.61)
Diluted earnings per share	(0.88)	(0.61)

Note 31. Share-based payments

The expense recognised in the Statement of Comprehensive Income for the financial year to 30 June 2017 is $859,482 (30 June 2016: $0).

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

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

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

Employee Share-Based Payment Plans

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

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

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

At the company's Annual General Meeting held on 25 November 2016 the shareholders approved a modification to the original share option commitment, although the total number of share options remained the same at 7,500,000. Options comprising 5 equal tranches of 1,500,000 options each (a total of 7,500,000) were granted to Mr Fraser. Of the options granted, 3,000,000 options are exercisable at $0.025 (2.5 cents) per option and the remaining 4,500,000 options are exercisable at $0.05 (5 cents) per option, with varying expiry dates through to November 2021. Vesting is subject to Mr Fraser's continued employment with the Company.

Note 31. Share-based payments (continued)

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

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

2017

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
28/11/2016	30/06/2018	$0.025	-	5,000,000	-	-	5,000,000
28/11/2016	28/11/2019	$0.050	-	4,000,000	(1,000,000)	-	3,000,000
28/11/2016	28/11/2019	$0.075	-	4,000,000	-	-	4,000,000
28/11/2016	28/05/2020	$0.020	1,500,000	-	-	-	1,500,000
28/11/2016	28/11/2020	$0.050	1,500,000	-	-	-	1,500,000
28/11/2016	28/05/2021	$0.050	1,500,000	-	-	-	1,500,000
28/11/2016	28/11/2021	$0.050	1,500,000	-	-	-	1,500,000
28/11/2016	28/11/2019	$0.025	1,500,000	4,000,000	(1,000,000)	-	4,500,000
13/07/2015	12/06/2017	$0.100	3,000,000	-	-	(3,000,000)	-
			10,500,000	17,000,000	(2,000,000)	(3,000,000)	22,500,000
Weighted average exercise price			$0.010	$0.042	$0.000	$0.021	$0.042

The weighted average remaining contractual life of options outstanding at the end of the financial year was 3 years (2016: 2 years).

For the options granted during the current financial 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
28/11/2016	28/11/2019	$0.057	$0.025	100.00%	-	1.89%	$0.043
28/11/2016	28/11/2019	$0.057	$0.050	100.00%	-	1.89%	$0.037
28/11/2016	28/11/2019	$0.057	$0.075	100.00%	-	1.89%	$0.033
28/11/2016	30/06/2018	$0.057	$0.025	100.00%	-	1.89%	$0.039
28/11/2016	28/11/2019	$0.057	$0.025	100.00%	-	1.89%	$0.044
28/11/2016	28/05/2020	$0.057	$0.025	100.00%	-	1.89%	$0.045
28/11/2016	28/11/2020	$0.057	$0.050	100.00%	-	1.89%	$0.045
28/11/2016	28/05/2021	$0.057	$0.050	100.00%	-	1.89%	$0.042
28/11/2016	28/11/2021	$0.057	$0.050	100.00%	-	1.89%	$0.044

Optiscan Imaging Limited
Directors' declaration
30 June 2017

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;

- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;

- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and

- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

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

On behalf of the directors

Alan Hoffman
Non-executive Chairman

28 September 2017

8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67
Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

Independent Auditor's Report to the Members of Optiscan Imaging Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Optiscan Imaging Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies and the Directors' Declaration.

In our opinion the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the Corporations Act 2001 and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

Going concern

Why significant	How our audit addressed the key audit matter
For the year ended 30 June 2017, the Group recorded a loss of $2.9 million and a cash outflow from operations of $3.4 million. As at 30 June 2017 the Group had cash reserves of $0.7 million as disclosed in Note 7. Notwithstanding the above, the Group has prepared the financial report on the going concern basis which assumes continuity of normal operations into the foreseeable future. The Group prepared a cashflow forecast for the period to 30 September 2018 which underpins the assessment and has performed sensitivity analysis in respect of key assumptions. A key assumption supporting this forecast is completion of capital raisings and the continued generation of third party sales. Our assessment of the Group's conclusion that the Group is a going concern is a key audit matter given the significant judgement involved in estimating future cashflows of the Group. Note 2 of the financial report contain disclosures with respect to the going concern assumption.	We obtained the Group's going concern assessment and supporting cashflow forecasts and sensitivity analysis models, noting that these had been approved by the Board of Directors. We evaluated the Group's future cash flow forecasts and the process by which the cash flows were prepared. Our procedures included: • We confirmed funding received from capital transactions post year-end; • We assessed key assumptions against supporting evidence and considered the historical reliability of the Group's cashflow forecasting process; • We enquired with key management personnel as to the forecast revenue and the forecast expenditure; and • We evaluated the revenue expectations made by the Group by assessing whether these estimates were supported by enforceable arrangements with commercial partners. We performed additional sensitivity analysis adjusting key revenue and cost assumptions. We considered the adequacy of going concern related disclosures made in Note 2 of the financial report.

Recognition of revenue

Why significant	How our audit addressed the key audit matter
The Group has an existing collaboration contract for the development of and sale of prototype miniaturised confocal microscope systems. There is a risk of improper revenue recognition, particularly with cut-off at period end dates, given that revenue from the contract is recognised based on achieving specified contracted milestones. Note 2 of the financial report outlines the Group's accounting policy with respect to revenue recognition. Revenue recognition is a key audit matter due to the complexity of the contractual terms including the judgements applied in meeting milestone arrangements.	Our procedures included an assessment of the contract to understand the terms and conditions for the Group to deliver services under the contract and the timing of revenue recognition. We performed testing of the service deliverables as required by the contract and, on a sample basis, tested whether the revenue recognised was based on completion of services in the reporting period to support the cut-off of revenue recognised. We assessed a sample revenue transactions recognised by agreeing to third party delivery confirmations and agreed cash receipts to bank statements and customer milestone confirmations. We also assessed application of the Group's revenue recognition accounting policy as disclosed in Note 2 with respect to this contract.

Extinguishing financial liabilities with equity

Why significant	How our audit addressed the key audit matter
As disclosed in note 25, the Group held a financial liability with a related party of a Director for a total outstanding amount of \$0.6 million. The Director is a direct shareholder of the Group. During the year ended 30 June 2017, the Group completed a debt for equity swap for the outstanding financial liability with the Director's related party, resulting in a total of 24 million fully paid ordinary shares being issued in order to satisfy the outstanding liability of \$0.6 million, at an issue price of 2.5 cents per share. The financial liability was extinguished and equity instruments issued were recognised at the carrying amount of the financial liability. Accordingly no gain or loss was recognised on consolidated statement of comprehensive income. The matter was significant to our audit as the amount is material and the treatment, including the assessment of equity value and transaction with a significant shareholder, is complex.	As part of our procedures, we inspected the shareholders agreement relating to the debt to equity transaction and considered shareholder approval of the transaction at the 2016 Annual General Meeting. We assessed the equity value of the shares issued to other comparable equity market transactions the Group entered into during the period, and we assessed whether the treatment was in accordance with Australian Accounting Standards and accounting interpretations. We also assessed the adequacy of the disclosures in respect of this transaction as detailed in note 25 of the financial report.

Accounting for share based payment arrangements

Why significant	How our audit addressed the key audit matter
The Group issued options to directors and certain executive management under a share based compensation plan. Further to this, equity options were issued to a third party as compensation for services in relation to a capital transaction. These arrangements have differing terms and conditions that give rise to different accounting outcomes. In addition, modification to the Chief Executive Officer's existing share option agreement plans was approved during the period as disclosed in note 31. Share based payment arrangements require judgemental assumptions including volatility rate and expected life in determining the fair value of the arrangements and the expensing of that fair value over the estimated service period. In accounting for these transactions, the Group performed Black Scholes valuations to calculate the expense. Details of the share based payment arrangements offered to directors, certain executive management and the third party, as well modification to existing option plans, are disclosed in the Remuneration Report and Note 31 to the financial report. The audit of the share based payment arrangements and the associated expense is a key audit matter due to the judgements required in determining their fair value and the expensing of that fair value over the service period.	In performing our procedures we assessed the terms of the share based payment arrangements issued during the period including accounting for modifications to the existing arrangements for the Chief Executive Officer. We involved our valuation specialists to assess the key input assumptions such as volatility rates and vesting period included in the valuations. We assessed the methodology used by the Group in valuing the share based payment arrangements. We assessed the expense recorded on the consolidated statement of comprehensive income for the share based payment arrangements. We assessed whether the disclosure in note 31 in relation to the arrangements was adequate and whether the calculations complied with Australian Accounting Standards.

Information Other than the Financial Report and Auditor's Report

The Directors are responsible for the other information. The other information comprises the information in the Company's Annual Report for the year ended 30 June 2017, but does not include the financial report and the auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based upon the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 7 to 14 of the Directors' Report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Optiscan Imaging Limited for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

Paul Gower

Paul Gower
Partner
Melbourne
28 September 2017

Optiscan Imaging Limited
Shareholder information
30 June 2017

The shareholder information set out below was applicable as at 18 September 2017.

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

	Number of holders of ordinary shares	Number of holders of options over ordinary shares
1 to 1,000	758	-
1,001 to 5,000	1,027	-
5,001 to 10,000	371	-
10,001 to 100,000	919	-
100,001 and over	374	6
	3,449	6
Holding less than a marketable parcel	1,873	-

Equity security holders

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

	Ordinary shares	
	Number held	% of total shares issued
Ibsen Pty Ltd (Narula Family Set No3 A/C)	38,512,000	10.21
Peters Investments Pty Ltd	25,031,112	6.64
Harech Pty Ltd (Porter Superfund A/C)	12,042,805	3.19
Mr Chris Graham + Mrs Diane Graham (C & D Graham S/F A/C)	11,000,000	2.92
Lightstorm Pty Ltd (Hotspice A/C)	9,400,000	2.49
Opthea Limited	8,285,151	2.20
Dixson Trust Pty Limited	8,279,850	2.20
Sash Pty Ltd (Knezevic Super Fund A/C)	6,837,964	1.81
Project Management Pty Ltd (D & K Corps Family S/F A/C)	6,141,112	1.63
Mr Alfred Joseph Winkelmeier + Mrs Christine Edith Winkelmeier (The Winkelmeier S/F A/C)	6,060,000	1.61
Citycastle Pty Ltd	5,703,705	1.51
Mr Peter Maxwell Delaney	5,451,259	1.45
Kebin Nominees Pty Ltd	4,440,405	1.18
Dr Philip James Currie + Mrs Anne Jennifer Currie (Currie Family Superfund A/C)	3,800,000	1.01
It Is Consulting Pty Ltd (The Wymant Family A/C)	3,800,000	1.01
Mr Christopher John Martin	3,711,432	0.98
Miss Shirley Elkassaby	3,680,000	0.98
Mr Jubran William Toak + Mr Melhem William Toak	3,422,996	0.91
Semblance Pty Ltd (Graeme Mutton Retire S/Fund)	3,380,000	0.90
National Nominees Limited	3,330,000	0.68
	179,147,755	45.74

Optiscan Imaging Limited
Shareholder information
30 June 2017

Unquoted equity securities

	Number on issue	Number of holders
Options over ordinary shares issued	21,500,000	6

Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
Ibsen Pty Ltd (Narula Family Set No3 A/C)	38,512,000	10.21
Peters Investments Pty Ltd	25,031,112	6.64

Voting rights

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

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.