Optiscan Imaging Limited
Appendix 4E
Preliminary final report

1. Company details

Name of entity:	Optiscan Imaging Limited
ABN:	81 077 771 987
Reporting period:	For the year ended 30 June 2018
Previous period:	For the year ended 30 June 2017

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2. Results for announcement to the market

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Revenues from ordinary activities	up	62.9%	to	2,197,548
Loss from ordinary activities after tax attributable to the owners of Optiscan Imaging Limited	down	30.8%	to	(2,035,328)
Loss for the year attributable to the owners of Optiscan Imaging Limited	down	30.8%	to	(2,035,328)

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

Comments
The loss for the consolidated entity after providing for income tax amounted to $2,035,328 (30 June 2017: $2,942,925).

Financial performance

During the financial year, the consolidated entity generated ordinary revenue of $1,928,283 from the sale of systems and components to Carl Zeiss Meditech (CZM), compared to revenue for the year ended 30 June 2017 of $1,333,263. The total revenue from ordinary activities including the sale of ViewnVivo systems increased by 63% to $2,197,548. The consolidated entity also recorded research and development incentive income for the financial year of $781,758, a decrease of $198,499 from the previous financial year (2017: $980,257). The increase in expenses during the financial year was as a result of an increase in administration expenditure, including higher staff and marketing costs. Research and development costs decreased by $233,053 to $1,974,733 (2017: $2,207,786).

Financial Position

The net assets increased by $1,536,066 to $3,201,425 at 30 June 2018 (30 June 2017: $1,665,359). The working capital position of the consolidated entity as at 30 June 2018 was an excess of current assets over current liabilities of $2,806,936 (30 June 2017: $1,512,755).

The increase in the net asset position of the consolidated entity was a result of the capital raised during the financial year of $3,500,000 (before costs) plus $380,000 from the proceeds of the exercise of options less the Loss from Operating Activities.

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3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	0.74	0.44

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4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

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

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

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

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

Not applicable.

10. Audit qualification or review

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

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

11. Attachments

Details of attachments (if any):

The Annual Report of Optiscan Imaging Limited for the year ended 30 June 2018 is attached.

12. Signed

Signed ___________________________ Date: 31 August 2018
Darren Lurie
Executive Chair

Optiscan Imaging Limited

ABN 81 077 771 987

Annual Report - 30 June 2018

Optiscan Imaging Limited
Corporate directory
30 June 2018

Directors	Mr Darren Lurie (Executive Chair) Dr Philip Currie (Non-executive Director) Mr Graeme Mutton (Non-executive Director)
Company secretary	Mr Justin Mouchacca
Registered office	16 Miles Street Mulgrave, Victoria, 3170 Phone No.: (03) 9598 3333 Fax No.: (03) 9562 7742
Principal place of business	16 Miles Street Mulgrave, Victoria, 3170 Phone No.: (03) 9598 3333 Fax No.: (03) 9562 7742
Share register	Computershare Investor Registry Services Yarra Falls 452 Johnston Street Abbotsford, Victoria, 3067 Phone No.: (03) 9415 5000
Auditor	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

Optiscan Imaging Limited
Directors' report
30 June 2018

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 2018.

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

Mr Darren Lurie - Executive Chair (appointed as Director 20 April 2018, appointed Chair 8 May 2018, appointed Executive Chair 31 May 2018)
Dr Philip Currie - Non-executive Director (appointed 17 July 2017)
Mr Graeme Mutton - Non-executive Director (appointed 20 April 2018)
Mr Alan Hoffman - Non-executive and Executive Chair (appointed Executive Chair 16 February 2018, resigned 17 April 2018)
Mr Peter Francis - Non-executive Director (resigned 23 April 2018)
Dr Ian Griffiths - Non-executive Director (resigned 23 April 2018)
Mr Ian Mann - Non-executive Director (ceased 10 May 2018)

Principal activities
The principal activities of the consolidated entity during the year were the development and commercialisation of confocal microscopes. The consolidated entity carries out its principal activities through its collaboration with Carl Zeiss Meditech and the marketing of the ViewnVivo system in the pre-clinical market.

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 $2,035,328 (30 June 2017: $2,942,925).

Following determination of the composition of the board at the general meeting in May 2018, a review was conducted of the current activities and cost base of the company's operations. Following this review, the company's key objectives remain:

a) the continuation of the collaboration with Carl Zeiss Meditec AG (CZM);
b) initiatives for the growth in sales for ViewnVivo; and
c) the development of new applications for Optiscan products and services.

As part of the review and as announced in June 2018, recurring costs were reduced by in excess of $500,000 per annum. Costs have subsequently been further reduced by in excess of $500,000 per annum, as noted in the 'Matters subsequent to the end of the financial year' section of this report, with total savings now exceeding $1,000,000 per annum. Despite the necessary tightening in expenditure the company will continue to invest in sales and marketing, customer support initiatives and improved manufacturing processes.

CZM Agreement

The collaboration with CZM remains a key pillar of the Optiscan business. During the 2018 financial year (FY18), the supply of systems and components generated revenue of $1.93m. Revenue for FY19 pursuant to the CZM Agreement is expected to be in the order of A$1.5m, comprising sales of systems, probes, research and development support and other services. Optiscan has been informed by CZM that the regulatory pathway is progressing. Further details regarding the CZM regulatory pathway will be released as authorised by CZM.

ViewnVivo (FIVE 2)– Preclinical market

During FY18, the Company entered into an exclusive distribution agreement with China based China Gate Scientific (Shanghai) Co Ltd for the distribution of the ViewnVivo in China which followed the appointment of Scintica Instrumentation Inc as the North American distributor for ViewnVivo in June 2017. The company has continued to actively engage with our North American and Chinese distributors in order to develop the sales pipeline in both markets.

The company is working closely with a Melbourne based University in order to increase its sales support and applications resources for distributors and potential customers. A number of Chinese, North American and European institutions have submitted or expressed their intention to submit funding applications for the purchase of ViewnVivo systems. The marketing of ViewnVivo will incorporate the name FIVE2 reflecting its development as the next generation of the FIVE1 system.

As an enhancement to the ViewnVivo offering, the company is developing a sterilisable sheath option in order to support the undertaking of longitudinal studies in the pre-clinical market.

New Applications

Optiscan is pleased to advise that it has received in principle ethics approval from an Australian based hospital for a pilot study of ex-vivo specimens specific to women's health, being initiated and led by director, Dr Philip Currie. The company looks forward to providing further details as the study progresses.

Optiscan continues to explore additional applications and markets.

Other

Optiscan has completed its assessment of its research and development tax incentive for FY18 for approximately $780,000 and expects to lodge its claim for this incentive within the next 60 days.

Financial position

The net assets increased by $1,536,066 to $3,201,425 at 30 June 2018 (30 June 2017: $1,665,359). The working capital position of the consolidated entity as at 30 June 2018, was an excess of current assets over current liabilities of $2,806,936 (30 June 2017: $1,512,755).

The increase in the net asset position of the consolidated entity was a result of the capital raised during the financial year of $3,500,000 (before costs) plus $380,000 from the proceeds of the exercise of options less the Loss from Operating Activities.

Significant changes in the state of affairs

During the half-year ended 31 December 2017 a total of 5,300,000 fully paid ordinary shares were issued upon the exercise of 5,300,000 unlisted options, exercisable at $0.025 (2.5 cents) per option raising $132,500. A further 850,000 fully paid ordinary shares were issued upon the exercise of 850,000 unlisted options, exercisable at $0.05 (5 cents) per option raising $42,500.

On 23 August 2017, the consolidated entity announced that a Share Purchase Plan (SPP) was to 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 was underwritten by Patersons Securities Limited (Patersons) up to the amount of $2,500,000 (31,250,000 shares). The company also advised that it had received commitments from professional and sophisticated investors to participate in a Placement of $1 million.

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 placed the shortfall amount of $1,312,000 (16,400,000 shares at an issue price of $0.08 per share).

On 4 October 2017, the consolidated entity issued 31,250,000 fully paid ordinary shares pursuant to the underwritten Share Purchase Plan (SPP), which closed on 22 September 2017. The total amount raised through the Share Purchase Plan was $2,500,000. The consolidated entity also issued 12,500,000 pursuant to the commitments received from professional and sophisticated investors raising a total of $1,000,000.

On 22 January 2018, Archie Fraser resigned with immediate effect as Chief Executive Officer (CEO) of the company.

On 29 January 2018, the consolidated entity issued 3,700,000 fully paid ordinary shares upon the exercise of unlisted options at $0.025 (2.5 cents) per option raising $92,500. The consolidated entity also issued 1,500,000 fully paid ordinary shares upon the exercise of another class of unlisted options at $0.05 (5 cents) per option raising $75,000.

On 16 February 2018, the consolidated entity announced that Mr Alan Hoffman had been appointed as the Executive Chair for an interim period whilst the Board continued to search for a new CEO.

During April and May 2018, Mr Alan Hoffman, Mr Peter Francis, Mr Ian Mann and Dr Ian Griffiths left the Board. Mr Darren Lurie and Mr Graeme Mutton were appointed to the Board during April 2018.

Mr Lurie was appointed Chair on 8 May 2018 and was appointed interim Executive Chair on 31 May 2018.

During June 2018, the consolidated entity issued 1,500,000 fully paid ordinary shares upon the exercise of unlisted options at $0.025 (2.5 cents) per option raising $37,500.

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

During July and August 2018, a total of 6,650,000 remuneration-related options, held by former non-executive directors of the company, lapsed following the departures of those directors. The options lapsed three months after the former directors' respective cessation dates, in accordance with the terms and conditions of those options.

During August 2018, the company has reduced its recurring expenditure by in excess of $500,000 per annum through a reduction in employee numbers and alteration of third party arrangements.

No other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

The Directors have outlined in the Operating and Financial Review that they expect to continue to derive income from the CZM agreement over the next year, as well as achieving sales of ViewnVivo, the second-generation pre-clinical research product. The cost base of the company will reduce to reflect the completion of development work of the ViewnVivo system and anticipated production volumes given the current level of inventory.

Environmental regulation

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

Information on directors

Name:	Mr Darren Lurie
Title:	Executive Chair (appointed as director 20 April 2018, appointed Chair 8 May 2018, appointed Executive Chair 31 May 2018)
Qualifications:	B.Comm (Hons), B.LLB (Hons)
Experience and expertise:	Darren Lurie is an experienced leader of boards and management teams as Chair, CEO and CFO. He has experience working across a range of industries operating both domestically and internationally. Prior to joining Optiscan, Darren was the Group CFO and Head of Corporate Development for EduCo International Group, an investee company of Baring Private Equity Asia and a leading provider of education and related services with campuses in the USA, Australia, Canada and Ireland, across the Higher Education, Career and English sectors. Darren is a former chair and non-executive director of ASX listed Farm Pride Foods Ltd (ASX:FRM), one of Australia's leading agribusinesses. He has fifteen years' experience as a corporate advisor leading finance, strategy and merger and acquisition assignments across a range of industries.
Other current directorships:	None
Former directorships (last 3 years):	None
Interests in shares:	None

Name:	Dr Philip Currie
Title:	Non-executive Director (appointed 17 July 2017)
Qualifications:	MBBS (Hons), FRACP, MBA
Experience and expertise:	Dr Currie is a cardiologist with more than 35 years in cardiology both in the United States and in Australia with extensive experience in medical research, clinical cardiology and business. He has a medical degree, MBBS (Hons) from Monash University and an MBA from the University of Michigan.
Other current directorships:	None
Former directorships (last 3 years):	None
Interests in shares:	14,687,500 fully paid ordinary shares

Name:	Mr Graeme Mutton
Title:	Non-executive Director (appointed 20 April 2018)
Qualifications:	Certified Practicing Accountant (retired)
Experience and expertise:	After graduating in Accounting in 1968, Graeme managed a public accounting practice for CP Bird and Associates at Bruce Rock in Western Australia for approximately five years. During this time, he purchased City Plating Company, an electroplating business which he successfully managed for 30 years until it was sold in 2000. This background exposed him to many businesses and provided a practical knowledge of all aspects required to successfully operate a small to medium enterprise. Graeme is a long standing shareholder of Optiscan and has a deep understanding of Optiscan`s technology and applications.
Other current directorships:	None
Former directorships (last 3 years):	None
Interests in shares:	9,997,696 fully paid ordinary shares

Name:	Mr Alan Hoffman
Title:	Non-executive Chair, appointed Executive Chair 16 February 2018 (resigned 17 April 2018)
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:	None
Former directorships (last 3 years):	Rision Limited (ASX: RNL)
Interests in shares:	N/A - no longer a director of the company

Name:	Mr Peter Francis
Title:	Non-executive Director (resigned 23 April 2018)
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)
Former directorships (last 3 years):	Rision Limited (ASX: RNL)
Interests in shares:	N/A - no longer a director of the company

Name:	Mr Ian Mann
Title:	Non-executive Director (ceased 10 May 2018)
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
Interests in shares:	N/A - no longer a director of the company

Name:	Dr Ian Griffiths
Title:	Non-executive Director (resigned 23 April 3018)
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
Interests in shares:	N/A - no longer a director of the company

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

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

Company secretary
Mr Justin Mouchacca, CA

Mr Mouchacca holds a Bachelor of Business majoring in Accounting. Justin became a Chartered Accountant in 2011 and since July 2013 has been a principal of chartered accounting firm, Leydin Freyer Corp Pty Ltd, specialising in outsourced company secretarial and financial duties. Justin has over 11 years' experience in the accounting profession including 5 years in the Corporate Secretarial professions and is a company secretary and finance officer for a number of entities listed on the Australian Securities Exchange.

Meetings of directors
The number of meetings of the company's Board of Directors ('the Board') held during the year ended 30 June 2018, and the number of meetings attended by each director were:

	Full Board		Remuneration and Nomination Committee	
	Attended	Held	Attended	Held
Peter Francis	13	13	-	-
Alan Hoffman	13	13	-	-
Ian Mann	12	13	-	-
Ian Griffiths	12	13	-	-
Phil Currie	14	14	-	-
Darren Lurie	2	2	-	-
Graeme Mutton	2	2	-	-

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

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

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

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

Principles used to determine the nature and amount of remuneration
The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:
- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency

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

The reward framework is designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:
- having profit as a core component of plan design
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- attracting and retaining high calibre executives

Additionally, the reward framework should seek to enhance executives' interests by:
- rewarding capability and experience
- reflecting competitive reward for contribution to growth in shareholder wealth
- providing a clear structure for earning rewards

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

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

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

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

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

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

The executive remuneration and reward framework has four components:
- base pay and non-monetary benefits
- short-term performance incentives
- share-based payments
- other remuneration such as superannuation and long service leave

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

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

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

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

Variable Remuneration - Short Term Incentive (STI)

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

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

The aggregate amount of annual STI payments available for key management personnel and other executives is subject to the approval of the Remuneration Committee. Payments made are usually delivered as a cash bonus. No cash bonuses were paid during the year ended 30 June 2018.

Variable Remuneration - Long Term Incentive (LTI)

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

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

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

Incentives and Company Performance

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

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

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

Employment Contracts

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

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

- On resignation any unvested options are forfeited.

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

Voting and comments made at the company's 24 November 2017 Annual General Meeting ('AGM')
At the 2017 AGM, 98.35% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2017. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

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

The key management personnel of the consolidated entity consisted of the following directors of Optiscan Imaging Limited:
- Mr Darren Lurie - Executive Chair
- Dr Philip Currie - Non-executive Director
- Mr Graeme Mutton - Non-executive Director
- Mr Alan Hoffman - Non-executive and Executive Chair
- Mr Peter Francis - Non-executive Director
- Dr Ian Griffiths - Non-executive Director
- Mr Ian Mann - Non-executive Director

And the following persons:
- Mr Archibald Fraser - Chief Executive Officer
- Mr Peter Delaney – Chief Technology Officer
- Mr Justin Mouchacca - Company Secretary/Chief Financial Officer

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

(1) Appointed director 20 April 2018. Served as Executive Chair from 31 May 2018. All remuneration for the year included under Executive Directors.
(2) Appointed 17 July 2017.
(3) Appointed 20 April 2018.
(4) Served as Executive Chair from 16 February 2018 to 17 April 2018. All remuneration for the year included under Non-Executive Directors. Resigned 17 April 2018.
(5) Resigned 23 April 2018.
(6) Ceased 10 May 2018.
(7) Resigned 23 April 2018.
(8) Resigned 22 January 2018. The negative share based payment amount comprises executive options amortisation expense of $60,126 relating to Mr Fraser's options, offset by a reversal of executive options amortisation expense of $70,000 arising on the forfeiture of his executive options upon which expenses had previously been recognised. Refer Note 33.
(9) Fees paid to Leydin Freyer Corp Pty Ltd, of which Justin Mouchacca is a director, in respect of Company Secretarial, Chief Financial Officer and Accounting services.
(10) Upon his resignation on 22 January 2018, Archie Fraser received a cessation payment of $257,280 comprising: Salary (6 months' notice) of $100,000 and a further agreed payment of $157,280.
(11) Relates to repayment of other allowances received in the current and prior period.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
2017	Cash salary and fees $	Cash bonus $	Annual leave expense* $	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	20,852	16,625	286	211,922	509,685
Michael Corry	71,615	-	-	-	-	-	71,615
Peter Delaney	150,000	-	13,310	14,250	818	-	178,378
Justin Mouchacca	30,500	-	-	-	-	-	30,500
	682,115	25,000	34,162	49,400	1,104	664,682	1,456,463

* Annual leave was presented in 2017 as the movement in accrual during the year; however, has been updated to disclose the annual leave expense for the period.

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

	Fixed remuneration		At risk - STI		At risk - LTI	
Name	2018	2017	2018	2017	2018	2017
Non-Executive Directors:						
Darren Lurie	100%	-	-	-	-	-
Philip Currie	100%	-	-	-	-	-
Graeme Mutton	100%	-	-	-	-	-
Alan Hoffman	100%	42%	-	-	-	58%
Peter Francis	100%	28%	-	-	-	72%
Ian Mann	100%	28%	-	-	-	72%
Ian Griffiths	100%	28%	-	-	-	72%
Other Key Management Personnel:						
Archie Fraser	103%	53%	-	5%	(3%)	42%
Peter Delaney	100%	100%	-	-	-	-
Justin Mouchacca	100%	100%	-	-	-	-
Michael Corry	-	100%	-	-	-	-

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

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

Name:	Allan Hoffman
Title:	Executive Chair
Agreement commenced:	16 February 2018, resigned 17 April 2018
Term of agreement:	No fixed term.
Details:	Mr Hoffman was appointed as Executive Chair for an interim period. His remuneration for the executive role was at a rate of $125 per hour/$250,000 per annum on a pro-rata basis, based on the amount of time spent on the day to day activities of the company. There was no performance-related payment as part of the employment contract. There was no provision for a specific termination payment.

Name:	Archie Fraser
Title:	Chief Executive Officer
Agreement commenced:	16 May 2016 (resigned 22 January 2018)
Term of agreement:	No fixed term
Details:	Base salary of $200,000 per annum with a 3 month notice period. Contractual entitlement to termination payment of 6 months' salary.

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 2018 (2017: Nil).

Options

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

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

Name	Number of options granted	Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
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 2018 are set out below:

Name	Number of options granted during the year 2018	Number of options granted during the year 2017	Number of options vested during the year 2018	Number of options vested during the year 2017
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	1,500,000	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 2018 are set out below:

Name	Value of options granted during the year $	Value of options exercised during the year $	Value of options forfeited during the year $	Remuneration consisting of options for the year %
Archie Fraser	-	200,010	128,820	-

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

Name	Grant date	Vesting date	Number of options granted	Value of options granted $	Value of options vested $	Number of options forfeited	Value of options forfeited $
Archie Fraser	28-Nov-16	28-Nov-17	-	-	67,125	-	-
Archie Fraser	28-Nov-16	28-May-18	-	-	-	1,500,000	63,390
Archie Fraser	28-Nov-16	28-Nov-19	-	-	-	1,500,000	65,430

Additional information

The earnings of the consolidated entity for the five years to 30 June 2018 are summarised below:

	2018 $	2017 $	2016 $	2015 $	2014 $
Revenue	2,197,548	1,348,964	313,399	58,122	88,516
Net profit/(loss) before tax	(2,035,328)	(2,942,925)	(1,337,056)	(1,395,399)	(1,417,712)
Net profit/(loss) after tax	(2,035,328)	(2,942,925)	(1,337,056)	(1,395,399)	(1,417,712)

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

	2018	2017	2016	2015	2014
Share price at financial year start ($)	0.10	0.02	0.05	0.03	0.07
Share price at financial year end ($)	0.06	0.10	0.02	0.05	0.03
Basic earnings per share (cents per share)	(0.61)	(0.88)	(0.61)	(0.72)	(0.87)

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	Holdings at date of appointment as KMP*	Additions – shares received on exercise of options	Additions - other	Disposals/ Holdings at date of cessation as KMP**	Balance at the end of the year
Ordinary shares						
Phillip Currie	-	13,200,000	-	1,487,500	-	14,687,500
Graeme Mutton	-	9,997,696	-	-	-	9,997,696
Allan Hoffman	2,000,000	-	-	187,500	(2,187,500)	-
Peter Francis	-	-	750,000	-	(750,000)	-
Ian Mann	41,668,445	-	1,600,000	187,500	(43,455,945)	-
Ian Griffiths	-	-	1,000,000	-	(1,000,000)	-
Archie Fraser	-	-	4,500,000	-	(4,500,000)	
	43,668,445	23,197,696	7,850,000	1,862,500	(51,893,445)	24,685,196

* Holdings as at date of appointment as a member of key management personnel.
** Holdings as at date of cessation as a member of key management personnel, except for the amount of 1,000,000 shares for Ian Griffiths, which was a disposal of his shareholding prior to his cessation date.

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

	Balance at the start of the year	Granted	Exercised	Holdings at date of cessation as KMP*	Balance at the end of the year
Options over ordinary shares					
Alan Hoffman	1,000,000	-	-	(1,000,000)	-
Peter Francis	3,000,000	-	(750,000)	(2,250,000)	-
Ian Mann	3,000,000	-	(1,600,000)	(1,400,000)	-
Ian Griffiths	3,000,000	-	(1,000,000)	(2,000,000)	-
Archie Fraser	7,500,000	-	(4,500,000)	(3,000,000)	-
	17,500,000	-	(7,850,000)	(9,650,000)	-

* Unexercised options held at date of cessation as a member of key management personnel. The 3,000,000 unexercised options held by Mr Fraser were forfeited during the year ended 30 June 2018. The other unexercised options lapsed during July and August 2018, as noted in the 'Matters subsequent to the end of the financial year' section of the accompanying Directors' report.

Other transactions with key management personnel and their related parties
Information about transactions with key management personnel and their related parties is disclosed in Note 27 Related party transactions. There were no transactions with non-director key management personnel and their related entities during the years ended 30 June 2018 and 30 June 2017, with the exception of remuneration-related transactions disclosed in this remuneration report.

This concludes the remuneration report, which has been audited.

Shares under option
There were no unissued ordinary shares of Optiscan Imaging Limited under option outstanding at the date of this report.

Shares issued on the exercise of options
The following ordinary shares of Optiscan Imaging Limited were issued during the year ended 30 June 2018 and up to the date of this report on the exercise of options granted:

Date options granted	Exercise price	Number of shares issued
28/11/16	$0.025	10,500,000
28/11/16	$0.050	2,350,000
		12,850,000

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 24 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 24 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.

Optiscan Imaging Limited
Directors' report
30 June 2018

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.

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

Darren Lurie
Executive Chair

31 August 2018

Ernst & Young
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Sydney NSW 2000 Australia
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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 2018, 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
31 August 2018

Optiscan Imaging Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2018

	Note	Consolidated 2018 $	2017 $
Revenue			
Sales revenue		2,185,579	1,333,263
Interest revenue		11,969	15,701
		2,197,548	1,348,964
Cost of sales		(591,883)	(506,456)
Gross profit		1,605,665	842,508
Other income	5	781,758	992,361
Expenses			
Research & development expenses		(1,974,733)	(2,207,786)
Share-based payment expenses	6	9,874	(859,482)
Depreciation expense	6	(88,640)	(41,773)
Other expenses		(35,743)	(95,713)
Administration		(2,291,009)	(1,500,509)
Finance costs	6	(42,500)	(72,531)
Loss before income tax expense		(2,035,328)	(2,942,925)
Income tax expense	7	-	-
Loss after income tax expense for the year attributable to the owners of Optiscan Imaging Limited	20	(2,035,328)	(2,942,925)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		-	(9,223)
Other comprehensive income for the year, net of tax		-	(9,223)
Total comprehensive income for the year attributable to the owners of Optiscan Imaging Limited		(2,035,328)	(2,952,148)
		Cents	**Cents**
Basic earnings per share	32	(0.49)	(0.88)
Diluted earnings per share	32	(0.49)	(0.88)

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 2018

	Note	Consolidated 2018 $	Consolidated 2017 $
Assets			
Current assets			
Cash and cash equivalents	8	1,562,494	700,666
Trade and other receivables	9	1,247,329	1,285,944
Inventories	10	885,579	495,910
Other	11	26,690	25,078
Total current assets		3,722,092	2,507,598
Non-current assets			
Property, plant and equipment	12	345,402	159,120
Other	13	62,625	-
Total non-current assets		408,027	159,120
Total assets		4,130,119	2,666,718
Liabilities			
Current liabilities			
Trade and other payables	14	649,789	771,679
Provisions	16	265,367	223,164
Total current liabilities		915,156	994,843
Non-current liabilities			
Provisions	17	13,538	6,516
Total non-current liabilities		13,538	6,516
Total liabilities		928,694	1,001,359
Net assets		3,201,425	1,665,359
Equity			
Issued capital	18	57,987,132	53,870,454
Reserves	19	1,879,934	2,425,218
Accumulated losses	20	(56,665,641)	(54,630,313)
Total equity		3,201,425	1,665,359

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 2018

Consolidated	Issued capital $	Foreign currency translation reserve $	Share based payments reserve $	Accumulated losses $	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:					
Contributions of equity (note 18)	4,172,623	-	-	-	4,172,623
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
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

Consolidated	Issued capital $	Foreign currency translation reserve $	Share based payments reserve $	Accumulated losses $	Total equity $
Balance at 1 July 2017	53,870,454	(4,435)	2,429,653	(54,630,313)	1,665,359
Loss after income tax expense for the year	-	-	-	(2,035,328)	(2,035,328)
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive income for the year	-	-	-	(2,035,328)	(2,035,328)
Transactions with owners in their capacity as owners:					
Contributions of equity (note 18)	3,880,000	-	-	-	3,880,000
Share-based payments (note 33)	-	-	60,126	-	60,126
Transaction costs of share issues (Note 18)	(298,732)	-	-	-	(298,732)
Exercise of options (Note 18)	535,410	-	(535,410)	-	-
Forfeit of options (Note 33)	-	-	(70,000)	-	(70,000)
Balance at 30 June 2018	57,987,132	(4,435)	1,884,369	(56,665,641)	3,201,425

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 2018

	Note	Consolidated 2018 $	Consolidated 2017 $
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		2,069,495	1,132,811
Payments to suppliers and employees (inclusive of GST)		(5,386,179)	(5,287,827)
Interest received		11,969	15,701
Receipt of research and development tax incentive		980,923	726,504
Net cash used in operating activities	31	(2,323,792)	(3,412,811)
Cash flows from investing activities			
Payments for property, plant and equipment	12	(290,523)	(181,202)
Payments for security deposits		(62,625)	-
Net cash used in investing activities		(353,148)	(181,202)
Cash flows from financing activities			
Proceeds from issue of shares	18	3,880,000	4,172,623
Proceeds received for options yet to be converted		-	25,000
Proceeds from short term loan		300,000	-
Repayment of short term loan		(300,000)	(506,486)
Share issue transaction costs		(298,732)	(289,948)
Payment of finance costs		(42,500)	(61,315)
Net cash from financing activities		3,538,768	3,339,874
Net increase/(decrease) in cash and cash equivalents		861,828	(254,139)
Cash and cash equivalents at the beginning of the financial year		700,666	954,805
Cash and cash equivalents at the end of the financial year	8	1,562,494	700,666

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, rounded to the nearest dollar, which is Optiscan Imaging Limited's functional and presentation currency.

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

16 Miles Street
Mulgrave, Victoria, 3170

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 31 August 2018. 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 including the following as of 1 July 2017:

• AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle
• AASB 2016-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 107
• AASB 2016-1 Amendments to Australian Accounting Standards – Recognition of Deferred Tax Assets for Unrealised Losses

The above new and amended Australian Accounting Standards and AASB Interpretation did not have any material impact on the accounting policies, financial position or performance of the Group.

It is noted that AASB 107 Statement of Cash Flows requires a new disclosure on changes in liabilities arising from financing activities. However, such a note has not been prepared in these financial statements since there were no opening and closing balances for such liabilities and all cash flows arising from financing activities are clearly presented in the Statement of Cash Flows.

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 2018 of the consolidated entity results in an excess of current assets over current liabilities of $2,806,936 (30 June 2017: $1,512,755). The consolidated entity made a loss after tax of $2,035,328 during the financial year (2017: $2,942,925) and the net operating cash outflow was $2,323,792 (2017: $3,412,811 net outflow). The cash balance as at 30 June 2018 was $1,562,494 (30 June 2017: $700,666).

The Directors are of the opinion that the existing cash reserves will provide the company with adequate funds to ensure its continued viability and operate as a going concern.

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.

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 28.

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 2018 and the results of all subsidiaries for the year then ended. Optiscan Imaging Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity' or 'Group'.

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

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

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

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

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

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

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

Note 2. Significant accounting policies (continued)

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.

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

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

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

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

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

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

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.

Note 2. Significant accounting policies (continued)

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.

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

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises 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.

Note 2. Significant accounting policies (continued)

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

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

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

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

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

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

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

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

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.

Employee benefits

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

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

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

Note 2. Significant accounting policies (continued)

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

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

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the 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.

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.

Note 2. Significant accounting policies (continued)

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.

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 2018. 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
AASB 9 replaces AASB 139 Financial Instruments: Recognition and Measurement.

This standard modifies the classification and measurement of financial assets. It includes:
• A single, principle-based approach for the classification of financial assets, which is driven by cash flow characteristics and the business model in which an asset is held
• A new expected credit loss impairment model requiring expected losses to be recognised when financial assets are first recognised;
• A modification of hedge accounting to align the accounting treatment with risk management practices of an entity.

The consolidated entity will adopt this standard from its application date of 1 July 2018. Initial assessment of existing financial instruments by the consolidated entity has commenced, however we have not fully determined the impact on recognition and measurement of financial instruments as our analysis is still ongoing.

AASB 15 Revenue from Contracts with Customers
The core principle of AASB 15 is that an entity recognises revenue related to the transfer of promised goods or services when control of the goods or services passes to the customer. The amount of revenue recognised should reflect the consideration to which the entity expects to be entitled in exchange for those goods or services.

Assessment of the new standard has focused on identifying the components of the Group's contractual arrangements to which AASB 15 would be applicable and understanding the nature of those arrangements, in particular, key terms and conditions that may impact revenue recognition.

The consolidated entity will adopt this standard from its application date of 1 July 2018. Initial assessment of existing contracts by the consolidated entity has commenced, however we have not fully determined the revenue recognition impact as our analysis is still ongoing.

Note 2. Significant accounting policies (continued)

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

The consolidated entity will adopt this standard from its application date of 1 July 2019. The consolidated entity is yet to finalise its assessment and has not quantified any impact.

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. Refer Note 33.

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

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

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

Note 4. Operating segments

Identification of reportable operating segments
The Group operated predominately in the confocal microscope industry. The Group's sales comprise sales of goods within that segment. AASB 8 requires operating segments to be identified on the basis of internal reports about the components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance. The board reviews the Group as a whole in the business segment of confocal microscopes within Australia. The majority of sales revenues are attributed to Germany, being 88.2% (2017: 98.4%), and other overseas markets 11.8% (2017: Nil%). There are 2 customers that contributed revenues greater than 10%, which totalled all sales during the financial year. In the year ended 30 June 2017 there was one customer that contributed revenues greater than 10%, which totalled $1.312 million during that year.

All non-current assets are located in Australia.

Note 5. Other income

	Consolidated 2018 $	Consolidated 2017 $
Government grants - R&D tax incentive	781,758	980,257
Other income	-	12,104
Other income	781,758	992,361

Note 6. Expenses

	Consolidated 2018 $	Consolidated 2017 $
Loss before income tax includes the following specific expenses:		
Depreciation		
Plant and equipment	88,640	41,773
Finance costs		
Interest and finance charges paid/payable	42,500	72,531
Rental expense relating to operating leases		
Minimum lease payments	151,107	133,946
Superannuation expense		
Defined contribution superannuation expense	158,564	132,256
Share-based payments expense		
Share-based payments expense (Note 33)	(9,874)	859,482
Employee benefits expense excluding superannuation		
Employee benefits expense excluding superannuation	2,022,787	1,579,201

Note 7. Income tax expense

	Consolidated 2018 $	Consolidated 2017 $
Numerical reconciliation of income tax expense and tax at the statutory rate		
Loss before income tax expense	(2,035,328)	(2,942,925)
Tax at the statutory tax rate of 27.5% (2017: 30%)	(559,715)	(882,878)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	(2,715)	257,845
Non assessable gains	(214,983)	(294,077)
R&D Tax Incentive deductions foregone for tax offset	494,215	676,040
Expenditure not allowable for income tax purposes	6,485	2,248
Deferred tax assets recognised/(not recognised)	276,713	240,822
Income tax expense	-	-

	Consolidated 2018 $	Consolidated 2017 $
Deferred tax assets not recognised		
Deferred tax assets not recognised comprises temporary differences attributable to:		
Undeducted patent costs	241,319	243,153
Employee benefit & warranty provisions	76,699	68,904
Expenses not yet deductible	43,266	16,500
Tax losses available	13,242,095	12,998,109
Total deferred tax assets not recognised	13,603,379	13,326,666

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 8. Current assets - cash and cash equivalents

	Consolidated 2018 $	Consolidated 2017 $
Cash on hand	1,562,494	592,541
Cash on deposit	-	108,125
	1,562,494	700,666

Note 9. Current assets - trade and other receivables

	Consolidated 2018 $	Consolidated 2017 $
Trade receivables	346,533	230,449
R&D Tax incentive grant receivable	781,092	980,257
GST refund receivable	119,704	75,238
	900,796	1,055,495
	1,247,329	1,285,944

Note 10. Current assets - inventories

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

	Consolidated 2018 $	Consolidated 2017 $
Raw materials and work in progress	507,363	279,951
Finished goods	378,216	140,096
Stock in transit	-	75,863
	885,579	495,910

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

No inventory items were impaired at 30 June 2018 (2017: Nil).

Note 11. Current assets - other

	Consolidated 2018 $	Consolidated 2017 $
Prepayments	26,690	25,078

Note 12. Non-current assets - property, plant and equipment

	Consolidated 2018 $	Consolidated 2017 $
Plant and equipment - at cost	1,153,535	882,488
Less: Accumulated depreciation	(810,152)	(723,368)
	343,383	159,120
Production equipment - at cost	260,537	258,483
Less: Accumulated depreciation	(258,518)	(258,483)
	2,019	-
R&D Equipment - at cost	364,905	364,905
Less: Accumulated depreciation	(364,905)	(364,905)
	-	-
	345,402	159,120

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

Consolidated	Plant and equipment $	Production equipment $	Total $
Balance at 1 July 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
Additions	288,470	2,053	290,523
Transfers to inventory	(15,601)	-	(15,601)
Depreciation expense	(88,606)	(34)	(88,640)
Balance at 30 June 2018	343,383	2,019	345,402

Note 13. Non-current assets - other

	Consolidated 2018 $	Consolidated 2017 $
Security deposits	62,625	-

The prior year comparatives for Cash and cash equivalents included a security deposit of $108,125. In the current year $45,500 was refunded to the consolidated entity and the remainder was transferred to the long term security deposit in place as at 30 June 2018.

Note 14. Current liabilities - trade and other payables

	Consolidated	
	2018 $	2017 $
Trade payables	326,748	566,772
Accrued expenses	109,172	74,475
Other creditors	213,869	130,432
	649,789	771,679

Refer to note 22 for further information on financial instruments.

Note 15. Current liabilities - borrowings

During the year ended 30 June 2018 the consolidated entity obtained $300,000 in short term loan funds, which was fully repaid during the year.

During the previous 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.

In relation to the previous financial year, 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.

The total secured current liabilities are as follows:

	Consolidated	
	2018 $	2017 $
Opening balance	-	1,124,358
Payment of loan principal and capitalised interest	-	(543,006)
Settlement of loans through the issue of shares	-	(600,000)
Amortised cost adjustment	-	18,648
	-	-

Note 16. Current liabilities - provisions

	Consolidated	
	2018 $	2017 $
Annual leave	94,680	84,985
Long service leave	170,687	138,179
	265,367	223,164

Note 17. Non-current liabilities - provisions

	Consolidated 2018 $	Consolidated 2017 $
Long service leave	13,538	6,516

Note 18. Equity - issued capital

	Consolidated 2018 Shares	2017 Shares	2018 $	2017 $
Ordinary shares - fully paid	432,678,800	376,078,800	57,987,132	53,870,454

Movements in ordinary share capital

Details	Date	Shares	Issue price	$
Balance	1 July 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		-	$0.000	(289,948)
Balance	30 June 2017	376,078,800		53,870,454
Shares issued on exercise of options	10 August 2017	1,000,000	$0.025	25,000
Issue of Share Purchase Plan shares	04 October 2017	31,250,000	$0.080	2,500,000
Issue of Placement shares to professional investors	04 October 2017	12,500,000	$0.080	1,000,000
Shares issued on exercise of options	18 October 2017	1,300,000	$0.025	32,500
Shares issued on exercise of options	24 October 2017	2,500,000	$0.025	62,500
Shares issued on exercise of options	24 October 2017	850,000	$0.050	42,500
Shares issued on exercise of options	24 November 2017	500,000	$0.025	12,500
Shares issued on exercise of options	29 January 2018	3,700,000	$0.025	92,500
Shares issued on exercise of options	29 January 2018	1,500,000	$0.050	75,000
Shares issued on exercise of options	07 June 2018	760,000	$0.025	19,000
Shares issued on exercise of options	28 June 2018	740,000	$0.025	18,500
Transfer from share based payments reserve on exercise of options	Various	-	$0.000	535,410
Transaction costs of share issue		-	$0.000	(298,732)
Balance	30 June 2018	432,678,800		57,987,132

** 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.

Note 18. Equity - issued capital (continued)

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 operations in order to maximise synergies.

The capital risk management policy remains unchanged from the 30 June 2017 Annual Report.

Note 19. Equity - reserves

	Consolidated	
	2018	**2017**
	$	**$**
Foreign currency reserve	(4,435)	(4,435)
Share-based payments reserve	1,884,369	2,429,653
	1,879,934	2,425,218

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

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

Note 19. Equity - reserves (continued)

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 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
Share based payments expense	-	60,126	60,126
Transfer from share based payments reserve on exercise of options	-	(535,410)	(535,410)
Forfeiture of options	-	(70,000)	(70,000)
Balance at 30 June 2018	(4,435)	1,884,369	1,879,934

Note 20. Equity - accumulated losses

	Consolidated	
	2018 $	**2017 $**
Accumulated losses at the beginning of the financial year	(54,630,313)	(51,687,388)
Loss after income tax expense for the year	(2,035,328)	(2,942,925)
Accumulated losses at the end of the financial year	(56,665,641)	(54,630,313)

Note 21. Equity - dividends

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

Note 22. Financial instruments

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

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

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

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

Note 22. Financial instruments (continued)

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

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

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

Market risk

Foreign currency risk
As nearly all of the Group’s sales revenue and accounts receivable, as well as some expenses and inventory purchases, are denominated in United States Dollars and Euro, the Group's statement of financial position can be affected by significant movements in these exchange rates. At 30 June 2018, there were no economic hedges in place in respect of net foreign currency exposures, as there were no bank facilities in place.
At 30 June 2018, 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 - 2018	**% change**	**Effect on profit before tax**	**Effect on equity**	**% change**	**Effect on profit before tax**	**Effect on equity**
Trade debtors	10%	(34,653)	(34,653)	10%	34,653	34,653

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

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

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

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

Note 22. Financial instruments (continued)

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

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

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

Fair value of financial assets and liabilities

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

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

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

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

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	-	566,774	-	-	-	566,774
Accruals	-	74,475	-	-	-	74,475
Other payables	-	130,430	-	-	-	130,430
Total non-derivatives		771,679	-	-	-	771,679

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

Note 23. Key management personnel disclosures

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

	Consolidated	
	2018	**2017**
	$	**$**
Short-term employee benefits	588,906	741,277
Post-employment benefits	47,000	49,400
Long-term benefits	1,080	1,104
Termination benefits	257,280	-
Share-based payments	(9,874)	664,682
	884,392	1,456,463

Note 24. 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	
	2018	**2017**
	$	**$**
Audit services - Ernst & Young		
Audit or review of the financial statements	92,000	78,575
Other services - Ernst & Young		
R&D tax services	12,500	12,500
Other professional services	-	7,635
	12,500	20,135
	104,500	98,710

Note 25. Contingent liabilities

The group has contingent liabilities in relation to bank guarantees on issue at balance date amounting to $62,625 (2017: $108,125).

Note 26. Commitments

At 30 June 2018 there were no material capital commitments outstanding (2017: Nil).

	Consolidated	
	2018	**2017**
	$	**$**
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	160,268	155,000
One to five years	312,594	445,625
	472,862	600,625

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

Note 27. Related party transactions

Parent entity
Optiscan Imaging Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 29.

Key management personnel
Disclosures relating to remuneration of key management personnel are set out in note 23 and the remuneration report included in the directors' report.

Transactions with Subsidiaries

Inter-company transactions during the financial year between the parent entity, Optiscan Imaging Limited and subsidiary, Optiscan Pty Ltd amounted to $2,249,626 (2017: $3,305,357). Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash. The balances are classified current by the parent entity.

Transactions with Directors

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

FAL Lawyers, a law firm of which Director Mr. Peter Francis is a principal, received fees for the provision of legal services to the entity totalling $41,161 for the period (2017: $52,501). The underlying services were provided at commercial rates.

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 commercial rates.

Note 28. Parent entity information

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

Statement of profit or loss and other comprehensive income

	2018 $	2017 $
Loss after income tax	(2,035,328)	(2,940,876)
Total comprehensive income	(2,035,328)	(2,940,876)

Statement of financial position

	2018 $	2017 $
Total current assets	1,460,681	220,607
Total assets	3,201,425	1,690,359
Total current liabilities	-	(25,000)
Total liabilities	-	(25,000)
Equity		
Issued capital	57,987,132	53,870,453
Share-based payments reserve	1,884,369	2,429,654
Accumulated losses	(56,670,076)	(54,634,748)
Total equity	3,201,425	1,665,359

The 2017 comparative balances have been restated to present the correct closing balances of the parent entity as at 30 June 2017.

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 2018 and 30 June 2017.

Contingent liabilities
The parent entity had no contingent liabilities as at 30 June 2018 and 30 June 2017.

Capital commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment as at 30 June 2018 and 30 June 2017.

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

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

Note 29. 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:

		Ownership interest	
	Principal place of business /	2018	2017
Name	Country of incorporation	%	%
Optiscan Pty Ltd	Australia	100.00%	100.00%
Optiscan Inc	United States	100.00%	100.00%

Note 30. Events after the reporting period

During July and August 2018, a total of 6,650,000 remuneration-related options, held by former non-executive directors of the company, lapsed following the departures of those directors. The options lapsed three months after the former directors' respective cessation dates, in accordance with the terms and conditions of those options.

During August 2018, the company has reduced its recurring expenditure by in excess of $500,000 per annum through a reduction in employee numbers and alteration of third party arrangements.

No other matter or circumstance has arisen since 30 June 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 31. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	2018	2017
	$	$
Loss after income tax expense for the year	(2,035,328)	(2,942,925)
Adjustments for:		
Depreciation and amortisation	88,640	41,773
Share-based payments	(9,874)	859,482
FX movements through equity	-	(9,223)
Finance costs classified as financing cash outflow	42,500	-
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	38,615	(505,152)
Increase in inventories	(374,068)	(467,410)
Decrease/(increase) in prepayments	(1,612)	11,970
Decrease in trade and other payables	(121,890)	(396,688)
Increase/(decrease) in other provisions	49,225	(4,638)
Net cash used in operating activities	(2,323,792)	(3,412,811)

Note 32. Earnings per share

	Consolidated 2018 $	Consolidated 2017 $
Loss after income tax attributable to the owners of Optiscan Imaging Limited	(2,035,328)	(2,942,925)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	414,919,238	333,532,439
Weighted average number of ordinary shares used in calculating diluted earnings per share	414,919,238	333,532,439
	Cents	**Cents**
Basic earnings per share	(0.49)	(0.88)
Diluted earnings per share	(0.49)	(0.88)

Note 33. Share-based payments

The expense recognised in the Statement of Comprehensive Income for the financial year to 30 June 2018 is a negative expense of $9,874 (30 June 2017: expense of $859,482). This comprises executive options amortisation expense of $60,126, offset by a reversal of executive options amortisation expense of $70,000 arising on the forfeiture of executive options upon which expenses had previously been recognised.

During the previous 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. During that period the company also granted 7,500,000 unlisted options to the CEO, Mr Archie Fraser and granted 5,000,000 unlisted options in relation to an underwriting fee for the company rights issues conducted during the financial year.

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.

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

2018

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
28/11/2016	30/06/2018	$0.025	5,000,000	-	(5,000,000)	-	-
28/11/2016	28/11/2019	$0.050	3,000,000	-	(850,000)	-	2,150,000
28/11/2016	28/11/2019	$0.075	4,000,000	-	-	-	4,000,000
28/11/2016	28/05/2020	$0.025	1,500,000	-	(1,500,000)	-	-
28/11/2016	28/11/2020	$0.050	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	4,500,000	-	(4,000,000)	-	500,000
			22,500,000	-	(12,850,000)	(3,000,000)	6,650,000
Weighted average exercise price			$0.042	$0.000	$0.029	$0.050	$0.063

The options outstanding as at 30 June 2018 forfeited after year end and were not exercised.

Note 33. Share-based payments (continued)

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	$0.010	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

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

Grant date	Expiry date	2018 Number	2017 Number
28/11/2016	30/06/2018	-	5,000,000
28/11/2016	28/11/2019	2,150,000	3,000,000
28/11/2016	28/11/2019	4,000,000	4,000,000
28/11/2016	28/05/2020	-	1,500,000
28/11/2016	28/11/2020	-	1,500,000
28/11/2016	28/05/2021	-	1,500,000
28/11/2016	28/11/2021	-	1,500,000
28/11/2016	28/11/2019	500,000	4,500,000
		6,650,000	22,500,000

The weighted average share price during the financial year was $0.0859.

The weighted average remaining contractual life of options outstanding at the end of the financial year was 1.4 years (2017: 3 years).

Optiscan Imaging Limited
Directors' declaration
30 June 2018

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 2018 and of its performance for the financial year ended on that date; and

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

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

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

On behalf of the directors

Darren Lurie
Executive Chair

31 August 2018

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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 2018, 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:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the year ended on that date; and

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

Basis for Opinion

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current 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 report. 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 2018, the Group has recorded a loss after income tax of $2 million and a net cash outflow from operations of $2.3 million. As at 30 June 2018 the Group had cash reserves of $1.6 million as disclosed in Note 9. Notwithstanding the above, the Group has prepared the financial report on the going concern basis which assumes continuity of normal operations into the foreseeable future. The Group has prepared a cash flow forecast for the 12 month period to 31 August 2019 which underpins the Director's going concern assessment, including the performance of sensitivity analysis in respect of key assumptions. A key assumption underpinning this forecast is continued recognition of third party sales and a reduction in operating expenditure. Our assessment of the Director's conclusion that the Group is a going concern is a key audit matter given the significant judgement involved in estimating future cash flows of the Group. Note 2 of the financial report contain disclosures with respect to the going concern assumption.	We determined whether the Group's going concern assessment and supporting cash flow forecasts had been approved by the Board of Directors. We evaluated the Company's future cash flow forecasts and the process by which the cash flows were prepared. Our procedures included the following: • We considered the historical reliability of the Group's cash flow forecasting process in assessing the appropriateness of management's key cash flow assumptions; • We enquired of key management personnel regarding the forecast revenue and the forecast expenditure and considered the support provided by management for key revenue and cost assumptions. • We evaluated the revenue expectations made by the Group by assessing whether these estimates were supported by enforceable arrangements with commercial partners. Support provided by management to support the revenue forecasts included customer confirmations of sales orders, and associated purchase orders. • We evaluated and challenged the expenditure savings expected by the Group by assessing whether these estimates were supported by appropriate rationale with a more than probable likelihood of occurrence. Support provided by management to evidence the expenditure forecasts included redundancy notification to specific employees, revised contractual arrangements with contractors and consultants, and agreed upon policy changes with reference to other operational expenditures. • 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.

Building a better working world

Recognition of Revenue

Why significant	How our audit addressed the key audit matter
The Company 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 in relation to revenue recognition at period end, given that revenue from the contract is recognised based on achieving specified contracted milestones. Note 2 of the financial statements outlines the Company's accounting policy with respect to revenue recognition. Revenue recognition was a key audit matter due to the complexity of the contractual terms.	Our audit procedures included an assessment of the collaboration contract to understand the terms and conditions for the Company to deliver services under the contract and the timing of revenue recognition. We performed testing to assess whether the Company had met the performance milestones as required by the contract and, on a sample basis, determined whether the revenue was correctly recognised based on the services delivered as at 30 June 2018. For the sample selected, we assessed agreed revenue related cash receipts to bank statements and customer milestone confirmations. We assessed whether the Company's revenue recognition accounting policy as disclosed in Note 2 has been correctly applied with respect to this contract and met the requirements of Australian Accounting Standards.

Inventory existence and valuation

Why significant	How our audit addressed the key audit matter
At 30 June 2018, the Group held inventory of $0.9 million, which comprised raw materials, work in progress and finished product. This inventory is held at a central warehouse. The existence and valuation of inventory was a key audit matter given the significance of the inventory balance at 30 June 2018 and the judgement required in determining the initial cost of the inventory and whether it is recorded at the lower of cost and net realisable value.	We assessed the effectiveness of the inventory stock takes that occurred at year end. We selected a sample of inventory items to assess whether cost, including allocations of labour, was appropriately calculated. We analysed inventory gross margins in assessing whether inventory was carried at the lower of cost and net realisable value. We assessed the Group's consideration of the level of inventory and associated inventory provisioning.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2018 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

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

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

Responsibilities of the Directors for the Financial Report

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

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

Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement 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 the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 7 to 15 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Optiscan Imaging Limited for the year ended 30 June 2018, 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
31 August 2018

Optiscan Imaging Limited
Shareholder information
30 June 2018

The shareholder information set out below was applicable as at 28 August 2018.

Corporate Governance Statement

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

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

	Number of holders of ordinary shares
1 to 1,000	753
1,001 to 5,000	987
5,001 to 10,000	393
10,001 to 100,000	911
100,001 and over	453
	3,497
Holding less than a marketable parcel	1,933

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
PETERS INVESTMENTS PTY LTD	43,431,112	10.04
IBSEN PTY LTD (NARULA FAMILY SET NO3 A/C)	38,699,500	8.94
HARECH PTY LTD (PORTER SUPER FUND A/C)	12,042,805	2.78
MR CHRIS GRAHAM + MRS DIANE GRAHAM (C & D GRAHAM S/F A/C)	11,000,000	2.54
LIGHTSTORM PTY LTD (HOTSPICE A/C)	10,000,000	2.31
DIXSON TRUST PTY LIMITED	8,467,350	1.96
OPTHEA LIMITED	8,285,151	1.91
SASH PTY LTD (KNEZEVIC SUPER FUND A/C)	6,837,964	1.58
PROJECT MANAGEMENT PTY LTD (D & K CORPS FAMILY S/F A/C)	6,141,112	1.42
MR ALFRED JOSEPH WINKELMEIER + MRS CHRISTINE EDITH WINKELMEIER (THE WINKELMEIER S/F A/C)	6,060,000	1.40
MR PETER MAXWELL DELANEY	5,451,259	1.26
DR PHILIP JAMES CURRIE + MRS ANNE JENNIFER CURRIE (CURRIE FAMILY SUPERFUND A/C)	4,687,500	1.08
KEBIN NOMINEES PTY LTD	4,545,405	1.05
IT IS CONSULTING PTY LTD (THE WYMANT FAMILY A/C)	4,505,000	1.04
IBSEN PTY LTD (IBSEN SUPERFUND A/C)	4,256,445	0.98
MR CHRISTOPHER JOHN MARTIN	4,209,448	0.97
MISS SHIRLEY ELKASSABY	3,680,000	0.85
MR JUBRAN WILLIAM TOAK + MR MELHEM WILLIAM TOAK	3,422,996	0.79
NATIONAL NOMINEES LIMITED	3,330,000	0.77
SEMBLANCE PTY LTD (GRAEME MUTTON RETIRE S/FUND)	3,300,000	0.76
	192,353,047	44.43

Unquoted equity securities
There are no unquoted equity securities.

Optiscan Imaging Limited
Shareholder information
30 June 2018

Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
Peters Investments Pty Ltd	43,431,112	10.04
Ibsen Pty Ltd (Narula Family Set No3 A/C)	41,855,945	9.67

Voting rights

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

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

There are no other classes of equity securities.

On-market buy-back

There is no current on-market buy-back.