

1. Company details

Name of entity:	Optiscan Imaging Limited
ABN:	81 077 771 987
Reporting period:	For the year ended 30 June 2020
Previous period:	For the year ended 30 June 2019

2. Results for announcement to the market

			\$
Revenues from ordinary activities	up	14.3% to	1,190,712
Loss from ordinary activities after tax attributable to the owners of Optiscan Imaging Limited	down	24.7% to	(1,765,353)
Loss for the year attributable to the owners of Optiscan Imaging Limited	down	24.7% to	(1,765,353)

Dividends

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

Comments

The loss for the consolidated entity after providing for income tax amounted to \$1,765,353 (30 June 2019: \$2,344,119).

Financial performance

During the financial year ending 30 June 2020 (FY20), the consolidated entity generated ordinary revenue of \$1,190,712 from sales, system rentals and the provision of services (2019: \$1,041,679).

The consolidated entity also recorded research and development incentive income of \$701,242, an increase of \$470,360 from the previous corresponding period (2019: \$230,882).

Total expenses for FY20 reduced to \$3,661,779, a decrease of \$14,277 from the corresponding period (2019: \$3,676,056). These expenses included share based payment expenditure of \$293,898 (2019: \$561,247). Excluding these non-cash based expenses and depreciation, total expenses increased by \$137,920 from the prior corresponding period with additional prototype and regulatory advisory expenses of \$215,506 being incurred during FY20.

The net operating cash outflow for the second half of FY20 was \$386,016 compared to \$1,010,547 for the first half of FY20. After financing of the Research and Development tax credit ("R&D Credit") for the first three quarters of FY20, the net cash outflow for the second half of FY20 was \$88,571.

Financial Position

The net assets decreased by \$1,275,480 to \$1,548,323 at 30 June 2020 (30 June 2019: \$2,823,803). The working capital position of the consolidated entity as at 30 June 2020 was an excess of current assets over current liabilities of \$1,264,761 (30 June 2019: \$2,545,505).

The decrease in the net asset position of the consolidated entity was primarily as a result of a reduction in cash and cash equivalents from Operating Activities including prototype development and design and regulatory advisory costs for the InVivage® device and Oral Cancer screening and surgical margin application.

During the financial year, the consolidated entity received approval for the financing of its anticipated R&D Credit for the first three quarters of FY20 by Radium Capital with \$359,546 being received. Interest of 15% per annum was payable on the first advance of \$210,731 and 14% per annum is payable on subsequent advances. The consolidated entity has provided collateral over its R&D Credit and any claims and books and records in respect of the R&D Credit.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>0.34</u>	<u>0.60</u>

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 2020 is attached.

12. Signed

Signed _____

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

Date: 31 August 2020

Darren Lurie
Executive Chairman

Optiscan Imaging Limited

ABN 81 077 771 987

Annual Report - 30 June 2020

Optiscan Imaging Limited
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30 June 2020



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Directors	Mr Darren Lurie (Executive Chairman) Dr Philip Currie (Non-executive Director) Mr Graeme Mutton (Non-executive Director)
Company secretary	Mr Justin Mouchacca
Notice of annual general meeting	The Company is proposing to hold its Annual General Meeting on Thursday 26 November 2020.
Registered office	16 Miles Street Mulgrave, Victoria, 3170 Phone No.: (03) 9598 3333 Fax No.: (03) 9562 7742
Principal place of business	16 Miles Street Mulgrave, Victoria, 3170 Phone No.: (03) 9598 3333 Fax No.: (03) 9562 7742
Share register	Computershare Investor Registry Services Yarra Falls 452 Johnston Street Abbotsford, Victoria, 3067 Phone No.: (03) 9415 5000
Auditor	Grant Thornton Audit Pty Ltd Collins Square, Tower 5 727 Collins Street, Melbourne, VIC 3008
Stock exchange listing	Optiscan Imaging Limited shares are listed on the Australian Securities Exchange (ASX code: OIL)
Website	www.optiscan.com
Corporate Governance Statement	The Company's Corporate Governance Statement has been released to ASX on this day and is available on the Company's website at the following link: https://www.optiscan.com/investors-media/corporate-governance/

Dear Shareholder,

On behalf of the board of Optiscan Imaging Ltd, it gives me great pleasure to present our 2020 Annual Report. The 2020 financial year (FY20) represents a year of substantial progress for Optiscan as we developed our own InVivage® clinical device with an initial application targeting human oral cancer screening and surgical margin determination, continued our co-operation with Carl Zeiss Meditec in neurosurgery, progressed our human breast cancer study and successfully made changes to the international distribution of our FIVE2 (ViewnVivo) device.

The development of the InVivage® clinical device and our focus on oral cancer followed feedback from leading doctors in the United States and Australia as to the potential applicability of our miniaturised confocal endomicroscope for this application and the significant limitations in the current standard of care. These doctors also provided important feedback in the useability of our device and some of the improved functionality we have developed. In addition to product development, we have also sought to commence and continue multiple clinical studies using our technology in this application and to register our intellectual property rights in this new device.

We have continued to work with leading cancer centres, including the Memorial Sloan Kettering Cancer Center (MSKCC) in New York, the Melbourne Dental School, the Royal Melbourne Hospital, the Peter MacCallum Cancer Centre and the Australian Centre for Oral Oncology Research and Education. During FY20, Optiscan submitted an application for funding of almost \$1 million from the Federal Government's BioMedTech Horizons Program, an initiative of the Medical Research Future Fund for a 150 patient study at the Melbourne Dental School. This application was successful and the study is expected to commence in September 2020.

We commenced the process to seek approval from the United States Food and Drug Administration (FDA) to market the InVivage® clinical device for use in the United States. In January of this year, we met with the FDA to discuss the content of and seek feedback for a proposed 510(k) submission. Following this meeting, we provided further information to the FDA and we expect to receive further feedback in September 2020 regarding our regulatory pathway to subsequent approval to market the InVivage® clinical device in the United States.

During FY20, we continued our collaboration in neurosurgery with Carl Zeiss Meditec and during the year Optiscan received the final milestone payment pursuant to our co-operation agreement, representing that the agreement has moved into the production phase.

We completed the imaging for Stage 2 of our 4 stage breast cancer clinical study at Western Australia's largest private hospital and progressed discussions regarding commencing Stage 3 of our study at a major public hospital in Melbourne.

Successful changes were made to the overseas distribution of our FIVE2 (ViewnVivo) pre-clinical system with a multi-distributor model implemented in China. Our new distributors were successful in 1 sale during FY20 and in 2 tenders following the end of the financial year.

We continued our tight focus on operating costs during the year and due to these low costs, sales and other revenue as well as financing of our R&D tax credit, our cash outflow for the second half of the financial year was reduced to \$89k.

Throughout the year, we have enhanced our understanding and obtained feedback from clinical thought leaders throughout the world of the enormous clinical opportunity for Optiscan's technology in oral cancer screening and surgery, breast cancer surgery and neurosurgery.

It has been a year of substantial progress for Optiscan with much more to achieve in the coming year and beyond. I would like to thank our management and staff for their commitment to achieving our key goals, my fellow board members for their leadership and guidance, our clinical partners for their advice and support and our shareholders for their commitment to the Company.

I am confident that we will continue our progress in 2021, and I look forward to sharing our success with you.

Yours sincerely,



Darren Lurie
Executive Chairman

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity' or 'the group') consisting of Optiscan Imaging Limited (referred to hereafter as the 'company', 'Optiscan' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2020.

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:

Mr Darren Lurie - Executive Chairman
Dr Philip Currie - Non-executive Director
Mr Graeme Mutton - Non-executive Director

Principal activities

The principal activities of the consolidated entity during the year were the development and commercialisation of confocal microscopes for clinical and pre-clinical applications. The consolidated entity carried out its principal activities through:

- Development of its own InVivage® device for clinical use in the oral cancer and other cancer applications;
- Commencement of seeking regulatory approval to market the InVivage® device in the United States for clinical use in oral cancer screening and surgery;
- Continuation of its collaboration with Carl Zeiss Meditech;
- Marketing of the FIVE2 (ViewnVivo) system in pre-clinical and translational research markets;
- Progressing clinical studies with researchers and medical institutions; and
- Continuing development of new pre-clinical applications for Optiscan's products and services.

Dividends

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

Operating and Financial Review

The loss for the consolidated entity after providing for income tax amounted to \$1,765,353 (30 June 2019: \$2,344,119).

Financial performance

During the financial year ending 30 June 2020 (FY20), the consolidated entity generated ordinary revenue of \$1,190,712 from sales, system rentals and the provision of services (2019: \$1,041,679).

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During the financial year, the company received approval for the financing of its anticipated R&D Credit for the first three quarters of FY20 by Radium Capital with \$359,546 being received. Interest of 15% per annum was payable on the first advance of \$210,731 and 14% per annum is payable on subsequent advances. The company has provided collateral over its R&D Credit and any claims and books and records in respect of the R&D Credit.

“InVivage” Oral Cancer Screening and Surgical Margin Determination

The company has developed the InVivage® clinical device as its own hand-held in human clinical confocal endomicroscope. The initial intended application for the InVivage® device is Oral Cancer Screening and/or Surgical Margin determination. The same device is also intended to be used for other clinical applications. Optiscan has registered or is seeking registration of the InVivage® trade mark in multiple jurisdictions including the United States, Europe, China and Australia.

The InVivage® device has many of the technical components and features that exist in the “CONVIVO®” (the device that is the basis for the co-operation agreement with Carl Zeiss Meditec AG). The company has developed many further features for the InVivage® device, including button controls located on the probe to enable single-handed operation of the device. Patent protection is being sought for these new features. The InVivage® device will also include the company’s own graphic user interface (GUI) software, Digital Imaging and Communications in Medicine (DICOM) compliant imaging storage for integration with hospital picture archive communications systems (PACS), trolley and medical grade PC.

Oral Cancer Trials and Studies

During the year, Optiscan continued its Oral Cancer Trials and Studies at Memorial Sloan Kettering Cancer Center (MSKCC), one of the leading cancer centres in the United States and at the Australian Centre for Oral Oncology Research and Education (ACOORE).

Ethics Committee approval for the Oral Cancer Screening Trial at the Melbourne Dental School (including collaborators - Royal Melbourne Hospital, Peter MacCallum Cancer Centre, MSKCC and ACOORE) was received during the year and site specific approval is being sought with the trial intended to commence in September 2020.

During FY20, Optiscan submitted an application for funding of almost \$1 million from the Federal Government’s BioMedTech Horizons Program, an initiative of the Medical Research Future Fund, operated by MTPConnect. Subsequent to the end of FY20, the company was advised that it was successful in this application and funding of \$971,000 will be provided. The grant will enable the University of Melbourne’s Melbourne Dental School to undertake a trial with approximately 150 patients over a 12-month period. Funds of \$260k are to be retained by Optiscan for product development and further research and development.

FDA 510(k) Submission

During the year, Optiscan provided comprehensive supplementary information to the Center for Devices and Radiological Health of the United States Food and Drug Administration (FDA) in relation to the proposed content to support a 510(k) submission in Oral Cancer Surgery and/or Oral Cancer Screening in humans. Further feedback from the FDA is expected to be received during September 2020.

A 510(k) submission is a premarket submission made to the FDA to demonstrate that the device to be marketed is at least as safe and effective, that is, substantially equivalent, to an existing legally marketed device.

Carl Zeiss Meditec AG (CZM) Co-operation Agreement

Optiscan achieved a significant milestone during FY20 with the receipt of the final milestone payment of €100,000 (approximately AUD\$170k) pursuant to its Co-operation Agreement with CZM. The achievement of this milestone reflected that the parties agreed that the CONVIVO® project had moved to the production phase of the agreement.

In June 2020, as part of its commercial roll-out of the CONVIVO®, CZM held a well-attended international virtual launch of its new software pathology platform for “CONVIVO®” including online discussions and Q&A with leading specialists in the United States and Europe.

During the financial year, Optiscan recorded revenue of \$937,849 from CZM. Optiscan is in on-going discussions with CZM regarding future orders for products and research and development services.

Breast Cancer Surgical Margin Assessment Trial

During FY20, Optiscan completed the imaging for stages 1 and 2 of its 4 stage breast cancer surgical margin assessment trial. As part of this stage of the trial, Optiscan in conjunction with Dr Peter Willsher (Breast Surgeon with the Breast Cancer Research Centre – Western Australia) and Dr Jespal Gill (Consultant Anatomical Pathologist of Western Diagnostic Pathology) examined ex vivo excised breast tissue specimens by both confocal laser endomicroscopy (CLE) and standard histopathology to determine patterns of normal, non-malignant and malignant tissue without impacting the ability to undertake standard histopathology of the same specimens.

During FY20, Optiscan undertook the digitisation of all of the histopathological slides relating to each imaged “lumpectomy” and “mastectomy” specimen forming part of Stage 1 and Stage 2 of the trial to assist the comparison of the CLE and histopathology images. Following a Medical Device Partnering Program (MDPP) Workshop with 6 Breast Surgeons and a Pathologist from 5 leading Melbourne Hospitals, the company has been working closely with one of these surgeons to establish a 20 patient study at one or more leading Melbourne Hospitals. Funding from the MDPP is being sought for this study.

FIVE2 (ViewnVivo) – FLUORESCENCE IN VIVO ENDOMICROSCOPY LABORATORY DEVICE

During FY20, the consolidated entity adopted a multi-distributor model for the China market and appointed exclusive distributors in each of (1) Southern and Western China, and (2) Eastern China (including Shanghai). Optiscan is very pleased with the results of the new model, with three orders now having been placed, comprising one system during FY20 to a customer in Shanghai and subsequent to the year end, two systems to customers in Beijing and Tianjin. Deposits for these two orders have been received with plans to deliver the systems in September 2020. Both distributors have a pipeline of future sales, with demonstrations now able to re-commence in many areas of China.

In Australia, Optiscan is continuing its collaboration with Monash University and separately with the CSIRO for the application of the FIVE2 (ViewnVivo) in 3D tissue culture, biosafety environments and organoid research.

Subsequent to the end of FY20, Optiscan has:

- Initiated a strategy to engage with potential customers and distributors in both Japan and South East Asia with the engagement of a highly experienced in vivo imaging expert in the Asia Pacific region; and
- Changed its North American distribution arrangements for the FIVE2 (ViewnVivo) and has entered into an agreement with Advanced Microscopy Consultancy Services Inc to provide technical, marketing and sales services to the Company in the United States and Canada.

During the year, the consolidated entity and its distributors adapted to a customer environment impacted by COVID-19 with increased online engagement with prospective customers whilst restrictions exist for physical visits and demonstrations. These activities included a webinar conducted by the company with approximately 40 participants in conjunction with both of its Chinese distributors. Subsequent to the end of the financial year end, further webinars are being planned.

In July 2020, Executive Chair Darren Lurie also presented as part of the Zhejiang International Technology Business Matching Webinar with an estimated 60,000 online viewers and to approximately 100 leading Chinese and other investment companies, research and Government institutions as part of a virtual conference delivered by Austrade in partnership with biopharmaceutical giant AstraZeneca, Wuxi iCampus and CSIRO.

Coronavirus (COVID-19) Pandemic

The company has maintained its COVID-19 working arrangements during the financial year with company staff working both remotely and from the company premises. Due to the nature of their activities, the majority of staff were able to work remotely from the company premises and many activities, particularly those in relation to preparations for the submission to the FDA, were able to continue during the year. The layout of the company premises is well-suited to the continuation of production during periods of restriction as production staff can be isolated from other staff.

Overall financial impact on business

The impact of the Coronavirus (COVID-19) pandemic up to 30 June 2020 has limited the consolidated entity in its ability to market its products through on-site demonstrations both in Australia and overseas and due to budget constraints of some prospective customers to purchase these products. With people working from home, the ability to travel and meet potential customers has been limited to video conferencing. In some overseas countries, restrictions have been at least partially lifted, allowing some demonstrations to take place.

Business continuity

The consolidated entity has individuals who are able to progress the manufacture of products in preparation for the commencement of clinical trials, undertaking of regulatory testing and customer orders being received. In line with government advice, staff who can work from home are encouraged to do so.

Well-being of employees

We remain committed to keeping our employees and families safe and ensuring ongoing health and well-being during this trying time. We have implemented a COVID-19 safe plan at our premises and provided additional supplies of face masks, antibacterial wipes and hand sanitiser in our workplace.

Funding structure

The board continues to regularly review the consolidated entity's funding requirements during this pandemic as circumstances change daily and actively investigate government funding and other programs to support the consolidated entity.

Significant changes in the state of affairs

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

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

Matters subsequent to the end of the financial year

The following matters or circumstances have arisen since 30 June 2020 that have significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years:

- On 21 July 2020, the consolidated entity announced that it has been awarded a grant of \$971,000 from the BioMedTech Horizons Program, an initiative of the Medical Research Future Fund, operated by MTPConnect to undertake a 150 patient study in oral cancer screening at the Melbourne Dental School with Optiscan's InVivage® device;
- Received orders for the sale of two FIVE2 (ViewnVivo) systems to customers in Beijing and Tianjin;
- Engaged Dr Joseph Jiafu as a consultant to establish distribution arrangements for the FIVE2 (ViewnVivo) in both Japan and South East Asia;
- Changed its North American distribution arrangements for the FIVE2 (ViewnVivo) and has entered into an agreement with Advanced Microscopy Consultancy Services Inc to provide technical, marketing and sales services to the Company in the United States and Canada.

No other matter or circumstance has arisen since 30 June 2020 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 above that they expect to continue to derive income from the CZM collaboration over the next year, as well as achieving sales of FIVE2 (ViewnVivo) systems, the second-generation pre-clinical and translational research product. The consolidated entity expects to further develop its own (InVivage®) device suitable for in human clinical use and to seek regulatory approval for the clinical use of this system in oral cancer screening and/or surgical margin determination. The consolidated entity also expects to complete Stage 2 of its breast cancer trial and commence Stage 3 of the trial in one or more Australian medical centres.

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 Chairman
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:	1,725,000 fully paid ordinary shares
Interests in options:	8,000,000 unlisted options

Name:	Dr Philip Currie
Title:	Non-executive Director
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:	18,257,500 fully paid ordinary shares,
Interests in options:	4,800,000 unlisted options

Name: Mr Graeme Mutton
Title: Non-executive Director
Qualifications: Certified Practising 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: 11,409,404 fully paid ordinary shares

'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 from July 2013 to June 2019 was a Director of chartered accounting firm, Leydin Freyer Corp Pty Ltd. Since July 2019, Mr Mouchacca has been principal of JM Corporate Services Pty Ltd, a firm specialising in outsourced company secretarial services and financial duties. Justin has over 13 years' experience in the accounting profession including 8 years in the corporate secretarial services 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 2020, and the number of meetings attended by each director were:

	Full Board	
	Attended	Held
Darren Lurie	11	11
Philip Currie	11	11
Graeme Mutton	11	11

Held: represents the number of meetings held during the year that 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 2020.

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.
- 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.
- On resignation, any unvested options are forfeited.

Voting and comments made at the company's 28 November 2019 Annual General Meeting ('AGM')

At the 2019 AGM, 92.97% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2019. 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

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments		Total
	Cash salary and fees	Other Allowances	Annual leave expense	Super-annuation	Long service leave	Equity-settled performance rights	Equity-settled options	
2020	\$	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>								
Philip Currie	40,000	-	-	3,800	-	-	63,552	107,352
Graeme Mutton	26,000	-	-	2,280	-	-	-	28,280
<i>Executive Directors:</i>								
Darren Lurie	287,826	-	-	27,343	-	-	105,921	421,090
	<u>353,826</u>	<u>-</u>	<u>-</u>	<u>33,423</u>	<u>-</u>	<u>-</u>	<u>169,473</u>	<u>556,722</u>

2019	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments		Total
	Cash salary and fees	Other Allowances	Annual leave expense	Super-annuation	Long service leave	Equity-settled performance rights	Equity-settled options	
	\$	\$	\$	\$	\$	\$	\$	\$
<i>Non-Executive Directors:</i>								
Philip Currie	40,000	-	-	3,800	-	38,280	94,048	176,128
Graeme Mutton	35,500	-	-	3,372	-	10,440	-	49,312
<i>Executive Directors:</i>								
Darren Lurie (1)	271,804	-	-	25,821	-	63,800	155,847	517,272
	347,304	-	-	32,993	-	112,520	249,895	742,712

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

Name	Fixed remuneration		At risk – STI		At risk - LTI	
	2020	2019	2020	2019	2020	2019
<i>Non-Executive Directors:</i>						
Philip Currie	41%	25%	-	-	59%	75%
Graeme Mutton	100%	79%	-	-	-	21%
<i>Executive Directors:</i>						
Darren Lurie	75%	58%	-	-	25%	42%

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 chairman's fee. There is no performance-related payment as part of the employment contract. There is no provision for a specific termination payment.

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 2020 (2019: Nil).

During the financial year, a total of 1,940,000 fully paid ordinary shares were issued for the conversion of unlisted performance rights held by directors.

Options

During the previous financial year, the company granted 12,800,000 unlisted options to key management personnel, with various vesting and exercise dates and, to directors following receipt of shareholder approval at the company's 2018 Annual General Meeting of shareholders. Each of the options issued have market based performance conditions, as noted below, and the relevant share price hurdles need to be achieved before the options can be exercised before the expiry date.

There were no options issued to directors and other key management personnel as part of compensation during the year ended 30 June 2020.

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

Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
30 November 2018	31 May 2019	31 May 2022	\$0.05	\$0.034
30 November 2018	30 November 2019	30 November 2022	\$0.05	\$0.036
30 November 2018	31 May 2020	31 May 2023	\$0.065	\$0.034
30 November 2018	30 November 2020	30 November 2023	\$0.08	\$0.034

Name	Number of options granted	Grant date	Vesting date, Vesting Price and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
Darren Lurie	2,000,000	30-Nov-18	31-May-19 - \$0.08	31-May-22	\$0.05	\$0.034
Darren Lurie	2,000,000	30-Nov-18	30-Nov-19 - \$0.08	30-Nov-22	\$0.05	\$0.036
Darren Lurie	2,000,000	30-Nov-18	31-May-20 - \$0.08	31-May-23	\$0.065	\$0.034
Darren Lurie	2,000,000	30-Nov-18	30-Nov-20 - \$0.10	30-Nov-23	\$0.08	\$0.034
Philip Currie	1,200,000	30-Nov-18	31-May-19 - \$0.08	31-May-22	\$0.05	\$0.034
Philip Currie	1,200,000	30-Nov-18	30-Nov-19 - \$0.08	30-Nov-22	\$0.05	\$0.036
Philip Currie	1,200,000	30-Nov-18	31-May-20 - \$0.08	31-May-23	\$0.065	\$0.034
Philip Currie	1,200,000	30-Nov-18	30-Nov-20 - \$0.10	30-Nov-23	\$0.08	\$0.034

Options granted carry no dividend or voting rights.

Details of options over ordinary shares granted, vested and lapsed for directors and other key management personnel as part of compensation during the years ended 30 June 2020 and 30 June 2019 are set out below:

Name	Grant date	Vesting date	Number of options granted	Value of options granted \$	Value of options vested \$	Number of options lapsed	Value of Options Lapsed \$
Darren Lurie	30-Nov-18	31-May-19*	2,000,000	68,000	-	-	-
Darren Lurie	30-Nov-18	30-Nov-19*	2,000,000	72,000	-	-	-
Darren Lurie	30-Nov-18	31-May-20*	2,000,000	68,000	-	-	-
Darren Lurie	30-Nov-18	30-Nov-20	2,000,000	68,000	-	-	-
Philip Currie	30-Nov-18	31-May-19*	1,200,000	40,800	-	-	-
Philip Currie	30-Nov-18	30-Nov-19*	1,200,000	43,200	-	-	-
Philip Currie	30-Nov-18	31-May-20*	1,200,000	40,800	-	-	-
Philip Currie	30-Nov-18	30-Nov-20	1,200,000	40,800	-	-	-

* All options noted above vest upon the Company's Volume Weighted Average Price (VWAP) equating to \$0.08 (8 cents) for any period of 14 days after the vesting date. As at the date of this report, no options have vested.

Performance Rights

During the previous financial year, the Company granted 1,940,000 performance rights to Directors of the Company following receipt of shareholder approval at the Company's 2018 Annual General Meeting of shareholders.

The terms and conditions of each grant of performance rights affecting remuneration of Directors in the previous financial year are as follows:

Name	Number of performance rights	Grant Date	Fair value per right at grant date
Darren Lurie	1,100,000	30/11/2018	0.058
Graeme Mutton	180,000	30/11/2018	0.058
Philip Currie	660,000	30/11/2018	0.058

As at the date of this report all performance rights vested and were exercised during the year.

Name	Grant date	Vesting date	Number of performance rights granted	Value of performance rights granted \$	Value of performance rights vested \$
Darren Lurie	30/11/2018	01/12/2018	1,100,000	63,800	63,800
Graeme Mutton	30/11/2018	01/12/2018	180,000	10,440	10,440
Philip Currie	30/11/2018	01/12/2018	660,000	38,280	38,280

Additional information

The earnings of the consolidated entity for the five years to 30 June 2020 are summarised below:

	2020 \$	2019 \$	2018 \$	2017 \$	2016 \$
Revenue	1,190,712	1,041,679	2,185,579	1,348,964	313,399
Net profit/(loss) before tax	(1,765,353)	(2,344,119)	(2,035,328)	(2,942,925)	(1,337,056)
Net profit/(loss) after tax	(1,765,353)	(2,344,119)	(2,035,328)	(2,942,925)	(1,337,056)

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

	2020	2019	2018	2017	2016
Share price at financial year start (\$)	0.06	0.06	0.10	0.02	0.05
Share price at financial year end (\$)	0.03	0.06	0.06	0.10	0.02
Basic earnings per share (cents per share)	(0.37)	(0.54)	(0.61)	(0.88)	(0.61)

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	Disposals/ Holdings at date of cessation as KMP	Balance at the end of the year
<i>Ordinary shares</i>					
Darren Lurie	-	-	1,725,000	-	1,725,000
Philip Currie	15,097,500	-	3,160,000	-	18,257,500
Graeme Mutton	10,097,696	-	2,798,292	(1,486,584)	11,409,404
	<u>25,195,196</u>	<u>-</u>	<u>7,683,292</u>	<u>(1,486,584)</u>	<u>31,391,904</u>

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/ of KMP*	Balance at the end of the year
<i>Options over ordinary shares</i>					
Darren Lurie	8,000,000	-	-	-	8,000,000
Philip Currie	4,800,000	-	-	-	4,800,000
	<u>12,800,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,800,000</u>

		Vested and exercisable	Vested and unexercisable	Balance at the end of the year
<i>Options over ordinary shares</i>				
Darren Lurie		-	-	-
Philip Currie		-	-	-
		<u>-</u>	<u>-</u>	<u>-</u>

Performance Rights

The number of performance rights 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	Balance at the end of the year
<i>Performance rights</i>				
Darren Lurie	1,100,000	-	(1,100,000)	-
Graeme Mutton	180,000	-	(180,000)	-
Philip Currie	660,000	-	(660,000)	-
	<u>1,940,000</u>	<u>-</u>	<u>(1,940,000)</u>	<u>-</u>

Other transactions with key management personnel and their related parties

During the 2019 financial year, each of the directors provided interest free loans to the company totalling \$200,000. Each of the loans were proposed to be repaid through the issue of fully paid ordinary shares with an issue price of \$0.04 (4 cents) per share, following receipt of shareholder approval. Shareholder approval was sought at the company's 2019 Annual General Meeting of shareholders and the loans were converted to equity.

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 31 Related party transactions. There were no transactions with non-director key management personnel and their related entities during the years ended 30 June 2020 and 30 June 2019, with the exception of remuneration-related transactions disclosed in this remuneration report.

This concludes the remuneration report, which has been audited.

Shares under option

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

Grant date	Expiry date	Exercise price	Number under option
30-Nov-18	31-May-22	\$0.050	6,400,000
30-Nov-18	30-Nov-22	\$0.050	6,400,000
30-Nov-18	31-May-23	\$0.065	6,400,000
30-Nov-18	30-Nov-23	\$0.080	6,400,000
			25,600,000

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

Shares issued on the exercise of options

There were no ordinary shares of Optiscan Imaging Limited issued on the exercise of options during the year ended 30 June 2020 and up to the date of this report.

Indemnity and insurance of officers

The consolidated entity has indemnified the directors and executives of the consolidated entity 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 consolidated entity paid a premium in respect of a contract to insure the directors and executives of the consolidated entity 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 consolidated entity has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the consolidated entity or any related entity against a liability incurred by the auditor.

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

Proceedings on behalf of the consolidated entity

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the consolidated entity, or to intervene in any proceedings to which the consolidated entity is a party for the purpose of taking responsibility on behalf of the consolidated entity 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 28 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 28 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 consolidated entity, acting as advocate for the consolidated entity or jointly sharing economic risks and rewards.

Officers of the consolidated entity who are former partners of Grant Thornton Audit Pty Ltd

There are no officers of the consolidated entity who are former partners of Grant Thornton Audit Pty Ltd.

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

Grant Thornton Audit Pty Ltd 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 Chairman

31 August 2020

Auditor's Independence Declaration

To the Directors of Optiscan Imaging Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Optiscan Imaging Limited for the year ended 30 June 2020, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.



Grant Thornton Audit Pty Ltd
Chartered Accountants



M A Cunningham
Partner - Audit & Assurance

Melbourne, 31 August 2020

Optiscan Imaging Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2020



	Note	Consolidated 2020 \$	2019 \$
Revenue	5	1,190,712	1,041,679
Other income	6	705,714	290,258
Expenses			
Research & development and intellectual property expenses		(1,612,052)	(703,784)
Share-based payment expenses	7	(293,898)	(561,247)
Depreciation expense	7	(237,207)	(122,055)
Operational expenses		(403,398)	(1,105,881)
Other expenses		(22,512)	(23,331)
Finance costs		(63,892)	-
Administration costs		(1,028,820)	(1,159,758)
Loss before income tax expense		(1,765,353)	(2,344,119)
Income tax expense	8	-	-
Loss after income tax expense for the year attributable to the owners of Optiscan Imaging Limited	24	(1,765,353)	(2,344,119)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year attributable to the owners of Optiscan Imaging Limited		<u>(1,765,353)</u>	<u>(2,344,119)</u>
		Cents	Cents
Basic earnings per share	36	(0.37)	(0.54)
Diluted earnings per share	36	(0.37)	(0.54)

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 2020



	Note	Consolidated 2020 \$	2019 \$
Assets			
Current assets			
Cash and cash equivalents	9	526,361	1,752,440
Trade and other receivables	10	758,434	424,373
Inventories	11	1,154,240	1,155,208
Other	12	70,639	31,909
Total current assets		<u>2,509,674</u>	<u>3,363,930</u>
Non-current assets			
Property, plant and equipment	13	158,202	227,890
Right-of-use assets	14	724,386	-
Other	15	52,625	52,625
Total non-current assets		<u>935,213</u>	<u>280,515</u>
Total assets		<u>3,444,887</u>	<u>3,644,445</u>
Liabilities			
Current liabilities			
Trade and other payables	16	481,286	393,295
Borrowings	17	375,797	200,000
Lease liabilities	18	133,516	-
Provisions	19	254,314	225,130
Total current liabilities		<u>1,244,913</u>	<u>818,425</u>
Non-current liabilities			
Lease liabilities	20	646,767	-
Provisions	21	4,884	2,217
Total non-current liabilities		<u>651,651</u>	<u>2,217</u>
Total liabilities		<u>1,896,564</u>	<u>820,642</u>
Net assets		<u>1,548,323</u>	<u>2,823,803</u>
Equity			
Issued capital	22	59,730,577	59,392,382
Reserves	23	2,361,359	2,209,681
Accumulated losses	24	<u>(60,543,613)</u>	<u>(58,778,260)</u>
Total equity		<u>1,548,323</u>	<u>2,823,803</u>

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

Optiscan Imaging Limited
Statement of changes in equity
For the year ended 30 June 2020



Consolidated	Issued capital \$	Foreign currency translation reserve \$	Share based payments reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2018	57,987,132	(4,435)	1,884,369	(56,665,641)	3,201,425
Loss after income tax expense for the year	-	-	-	(2,344,119)	(2,344,119)
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive income for the year	-	-	-	(2,344,119)	(2,344,119)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (note 22)	1,405,250	-	-	-	1,405,250
Share-based payments (note 37)	-	-	561,247	-	561,247
Lapse of options (Note 34)	-	-	(231,500)	231,500	-
Balance at 30 June 2019	<u>59,392,382</u>	<u>(4,435)</u>	<u>2,214,116</u>	<u>(58,778,260)</u>	<u>2,823,803</u>

Consolidated	Issued capital \$	Foreign currency translation reserve \$	Share based payments reserve \$	Accumulated losses \$	Total equity \$
Balance at 1 July 2019	59,392,382	(4,435)	2,214,116	(58,778,260)	2,823,803
Loss after income tax expense for the year	-	-	-	(1,765,353)	(1,765,353)
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive income for the year	-	-	-	(1,765,353)	(1,765,353)
<i>Transactions with owners in their capacity as owners:</i>					
Contributions of equity, net of transaction costs (note 22)	195,975	-	-	-	195,975
Share-based payments (note 37)	-	-	293,898	-	293,898
Exercise of performance rights	142,220	-	(142,220)	-	-
Balance at 30 June 2020	<u>59,730,577</u>	<u>(4,435)</u>	<u>2,365,794</u>	<u>(60,543,613)</u>	<u>1,548,323</u>

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 2020



	Note	Consolidated 2020 \$	2019 \$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		1,328,629	1,237,865
Payments to suppliers and employees (inclusive of GST)		(3,006,171)	(3,499,130)
Interest received		4,473	9,793
Receipt of research and development tax incentive		226,506	775,520
Receipt of other grants		50,000	55,155
		<hr/>	<hr/>
Net cash used in operating activities	35	(1,396,563)	(1,420,797)
Cash flows from investing activities			
Payments for property, plant and equipment	13	(20,186)	(4,507)
Proceeds from release of security deposits		-	10,000
		<hr/>	<hr/>
Net cash from/(used in) investing activities		(20,186)	5,493
Cash flows from financing activities			
Proceeds from issue of shares	22	-	1,500,000
Proceeds from short term loan		-	200,000
Share issue transaction costs		(4,025)	(94,750)
Repayment of lease liabilities		(164,851)	-
Proceeds from borrowings		359,546	-
		<hr/>	<hr/>
Net cash from financing activities		190,670	1,605,250
Net increase/(decrease) in cash and cash equivalents		(1,226,079)	189,946
Cash and cash equivalents at the beginning of the financial year		1,752,440	1,562,494
		<hr/>	<hr/>
Cash and cash equivalents at the end of the financial year	9	<u>526,361</u>	<u>1,752,440</u>

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

Note 1. General information

The consolidated general purpose financial statements of the Group have been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board (AASB). Compliance with Australian Accounting Standards results in full compliance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Optiscan Imaging Limited is a for-profit entity statements prepared on accruals basis under the historical cost convention except for the revaluation of properties, investments and derivatives.

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 2020. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

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

New or amended Accounting Standards and Interpretations adopted

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

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

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 16 Leases

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

Impact on application of AASB 16

The company entered into a lease agreement for its Mulgrave premises with an initial contract period beginning in May 2017 of 4 years with an additional 4 year option period. The incremental borrowing rate used at adoption was 5.04%.

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

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

Note 2. Significant accounting policies (continued)

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

	\$
Assets	
Right of use assets (AASB 16)	<u>871,719</u>
Liabilities	
Lease Liabilities - current (AASB 16)	122,154
Lease Liabilities - non-current (AASB 16)	<u>749,565</u>
	<u>871,719</u>

The following is a reconciliation of total operating lease commitments at 30 June 2019 (as disclosed in the financial statements to 30 June 2020) to the lease liabilities recognised at 1 July 2019:

	\$
Total operating lease commitments disclosed at 30 June 2019	<u>312,594</u>
Operating lease liabilities before discounting	320,109
Discounted using incremental borrowing rate	(76,209)
Reasonably certain extension options	315,225
Total lease liabilities recognised under IFRS 16 at 1 July 2019	<u><u>871,719</u></u>

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 2020 of the consolidated entity results in an excess of current assets over current liabilities of \$1,264,761 (30 June 2019: \$2,545,505). The consolidated entity made a loss after tax of \$1,765,353 during the financial year (2019: \$2,344,119) and the net operating cash outflow was \$1,396,563 (2019: \$1,420,797 net outflow). The net operating cash outflow for the second half of the financial year ending 30 June 2020 was \$386,016 compared to \$1,010,547 for the first half of the financial year ending 30 June 2020. The cash balance as at 30 June 2020 was \$526,361 (30 June 2019: \$1,752,440).

During the financial year, the consolidated entity has financed 80% of its expected Research and Development tax incentive credit for the three quarters to March 2020 amounting to \$359,546. Subsequent to the end of the financial year, the consolidated entity received an additional \$185,000 from the financing of the expected tax incentive credit for the remaining quarter of the 2020 financial year. The financing of this tax incentive will be repaid following receipt of the consolidated entity's claim to be completed over the coming months with the balance of the Research and Development tax incentive refund credit estimated to be received in the order of \$100,000. The consolidated entity also intends to finance its expected Research and Development tax incentive credit for the financial year ending 30 June 2021 on a quarterly basis. The consolidated entity has received deposits for the recent sale of two FIVE2 (ViewnVivo) systems into the China market and the balance of the proceeds from these two sales is expected before the end of September 2020.

Subsequent to the end of FY20, the consolidated entity was awarded a \$971,000 BioMedTech Horizons Program grant to support the University of Melbourne's Dental School to undertake a trial with approximately 150 patients over a 12-month period. \$260,000 of these funds will be retained by the company for product development and the balance provided to the Dental School for the conduct of the trial.

Note 2. Significant accounting policies (continued)

The directors are of the opinion that the existing cash reserves and forecast sales will provide the consolidated entity with adequate funds to ensure its continued viability and to operate as a going concern for a period of at least 12 months from the date of approval of the financial statements. The consolidated entity is in on-going discussions with Carl Zeiss Meditec (CZM) and CZM has indicated that it intends to place further orders for product and services from the consolidated entity during FY21. During FY20, the consolidated entity has increased its profile in Australian translational and pre-clinical research markets, including collaborating with CSIRO to identify new applications including 3D tissue cultures and continuing its engagement with Monash University regarding research applications. A number of Australian, Chinese and North American institutions have submitted or expressed their intention to submit funding applications for the purchase of FIVE2 (ViewnVivo) systems and while the original expected timing of some of these purchases has been delayed in part by the COVID-19 pandemic, the sales process is ongoing. The directors continue to monitor the ongoing funding requirements of the consolidated entity and believe that sufficient funds can be secured if required and are of the opinion that the financial report has been appropriately prepared on a going concern basis.

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 32.

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 2020 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.

Note 2. Significant accounting policies (continued)

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 the consolidated entity'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.

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

The consolidated entity recognises revenue as follows:

Revenue from contracts with customers

The consolidated entity predominantly derives revenue from the sale of goods and services to customers on normal credit terms. The performance obligations of these contracts are the delivery of the product or service, as the case may be, at which point revenue from the sale of goods or services is recognised. Provision of services is carried on an individual contract basis and relevant revenue is recognised at the point in time as and when the completed service is delivered.

The Group's future obligations to transfer goods or services to a customer for which the Group has received consideration from the customer is recognised as a contract liability, and reports these amounts as such in its statement of financial position, until such time as the performance obligations are satisfied. If the Group satisfies a performance obligation before it receives the consideration, the Group recognises either a contract asset or a receivable in its statement of financial position, depending on whether something other than the passage of time is required before the consideration is due.

Interest

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

Other revenue

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

Government grants

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

Income tax

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

Note 2. Significant accounting policies (continued)

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

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

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

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

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

Current and non-current classification

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

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

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

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

Cash and cash equivalents

Cash and cash equivalents include 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 allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

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

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.

Note 2. Significant accounting policies (continued)

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

Property, plant and equipment

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

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

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

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

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

Right-of-use assets

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

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

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

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.

Borrowings

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

Lease liabilities

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

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

Note 2. Significant accounting policies (continued)

Finance costs

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

Employee benefits

Short-term employee benefits

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

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on 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.

Share-based payments

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

Equity-settled transactions are awards of shares, or options over shares which 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 Barrier Pricing 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.

Note 2. Significant accounting policies (continued)

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.

Performance Shares are booked in the reserve and reallocated to issued capital upon vesting.

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 2020. The consolidated entity has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

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.

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the consolidated entity based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the consolidated entity operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the consolidated entity unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Barrier Pricing or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity. Refer Note 37.

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 estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

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 predominantly in the confocal microscope industry. The Group's sales comprise sales of goods and services 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 78.7% (2019: 94.1%), and other overseas markets 21.3% (2019: 5.9%). There were two customers that contributed revenues greater than 10%, which amounted to \$1,112,033 during the financial year (2019: \$980,636). In the year ended 30 June 2019 there were 2 customers that contributed revenues greater than 10%.

All non-current assets are located in Australia.

Note 5. Revenue

	Consolidated	
	2020	2019
	\$	\$
Revenue	<u>1,190,712</u>	<u>1,041,679</u>

Disaggregation of revenue

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

	Consolidated	
	2020	2019
	\$	\$
<i>Major product lines</i>		
Sale of goods (goods transferred at a point in time)	942,541	142,928
Services provided (services transferred at a point in time)	78,679	898,751
Gateway payment	169,492	-
	<u>1,190,712</u>	<u>1,041,679</u>

Geographical regions

Germany	937,849	980,635
China	174,184	2,070
Other (Australia and United States)	78,679	58,974
	<u>1,190,712</u>	<u>1,041,679</u>

Note 6. Other income

	Consolidated	
	2020	2019
	\$	\$
Government grants - R&D tax incentive	701,242	230,882
Design and development income	1,141	-
Government grants – other	-	49,583
Interest revenue	3,331	9,793
Other income	<u>705,714</u>	<u>290,258</u>

Note 7. Expenses

	Consolidated	Consolidated
	2020	2019
	\$	\$
Loss before income tax includes the following specific expenses:		
<i>Cost of sales</i>		
Cost of sales	225,428	57,839
<i>Depreciation</i>		
Plant and equipment	89,874	122,019
Buildings right-of-use assets	147,333	-
Total depreciation	237,207	122,019
<i>Leases</i>		
Minimum lease payments	-	150,838
<i>Superannuation expense</i>		
Defined contribution superannuation expense	120,000	125,630
<i>Share-based payments expense</i>		
Share-based payments expense (Note 37)	293,898	561,247
<i>Employee benefits expense excluding superannuation</i>		
Employee benefits expense excluding superannuation	1,393,901	1,702,266

Note 8. Income tax expense

	Consolidated	Consolidated
	2020	2019
	\$	\$
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense	(1,765,353)	(2,344,119)
Tax at the statutory tax rate of 27.5%	(485,472)	(644,633)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	80,823	154,343
Non assessable gains	(206,592)	(61,960)
R&D Tax Incentive deductions foregone for tax offset	443,314	144,253
Expenditure not allowable for income tax purposes	586	941
Deferred tax assets recognised/(not recognised)	167,341	407,056
Income tax expense	-	-
<i>Deferred tax assets not recognised</i>		
Estimated unused tax losses for which no deferred tax asset has been recognised	46,225,491	45,646,978
Potential tax benefit at 27.5%	12,720,010	12,552,919

Note 8. Income tax expense (continued)

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

Note 9. Current assets - cash and cash equivalents

	Consolidated	
	2020	2019
	\$	\$
Cash on hand	526,361	1,752,440

Note 10. Current assets - trade and other receivables

	Consolidated	
	2020	2019
	\$	\$
Trade receivables	12,430	150,347
R&D Tax incentive grant receivable	701,242	230,882
GST refund receivable	44,762	43,144
	<u>746,004</u>	<u>274,026</u>
	<u>758,434</u>	<u>424,373</u>

Note 11. Current assets - inventories

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

	Consolidated	
	2020	2019
	\$	\$
Raw materials and work in progress	618,242	777,286
Finished goods	535,998	377,922
	<u>1,154,240</u>	<u>1,155,208</u>

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

No inventory items were impaired at 30 June 2020 (2019: Nil).

Note 12. Current assets - other

	Consolidated	
	2020	2019
	\$	\$
Prepayments	70,639	31,909

Note 13. Non-current assets - property, plant and equipment

	Consolidated	
	2020	2019
	\$	\$
Plant and equipment - at cost	1,178,228	1,158,042
Less: Accumulated depreciation	<u>(1,022,081)</u>	<u>(932,207)</u>
	<u>156,147</u>	<u>225,835</u>
Production equipment - at cost	260,537	260,537
Less: Accumulated depreciation	<u>(258,482)</u>	<u>(258,482)</u>
	<u>2,055</u>	<u>2,055</u>
R&D Equipment - at cost	364,905	364,905
Less: Accumulated depreciation	<u>(364,905)</u>	<u>(364,905)</u>
	<u>-</u>	<u>-</u>
	<u><u>158,202</u></u>	<u><u>227,890</u></u>

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 2018	343,383	2,019	345,402
Additions	4,507	36	4,543
Depreciation expense	<u>(122,055)</u>	<u>-</u>	<u>(122,055)</u>
Balance at 30 June 2019	225,835	2,055	227,890
Additions	20,186	-	20,186
Depreciation expense	<u>(89,874)</u>	<u>-</u>	<u>(89,874)</u>
Balance at 30 June 2020	<u><u>156,147</u></u>	<u><u>2,055</u></u>	<u><u>158,202</u></u>

Note 14. Non-current assets - right-of-use assets

	Consolidated	
	2020	2019
	\$	\$
Land and buildings - right-of-use	<u>724,386</u>	<u>-</u>

Additions to the right-of-use assets during the year were \$871,719.

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

Note 14. Non-current assets - right-of-use assets (continued)

Reconciliations

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

Consolidated	Land and buildings \$	Total \$
Balance at 1 July 2018	-	-
Balance at 30 June 2019	-	-
Additions	871,719	871,719
Depreciation expense	(147,333)	(147,333)
Balance at 30 June 2020	<u>724,386</u>	<u>724,386</u>

Note 15. Non-current assets - other

	Consolidated 2020 \$	2019 \$
Security deposits	<u>52,625</u>	<u>52,625</u>

Note 16. Current liabilities - trade and other payables

	Consolidated 2020 \$	2019 \$
Trade payables	336,811	224,375
Accrued expenses	66,266	72,835
Other creditors	<u>78,209</u>	<u>96,085</u>
	<u>481,286</u>	<u>393,295</u>

Refer to note 26 for further information on financial instruments.

Note 17. Current liabilities - borrowings

	Consolidated 2020 \$	2019 \$
R&D financing loan	375,797	-
Loans from Directors	<u>-</u>	<u>200,000</u>
	<u>375,797</u>	<u>200,000</u>

Refer to note 26 for further information on financial instruments.

Note 17. Current liabilities - borrowings (continued)

As announced on 14 June 2019, the company received binding commitments for a capital raising of \$1,700,000. Included in this amount were applications for shares from directors of the company amounting to \$200,000. The directors were required to seek shareholder approval for the issue of any shares to them or their nominees. The directors elected to loan the company their applications funds through a non-interest bearing loan. Shareholder approval was granted at the company's 2019 Annual General Meeting (AGM) and the loans were settled through the issue of 5,000,000 fully paid ordinary shares on 12 December 2019.

During the financial year, the consolidated entity entered into loan agreements with Radium Capital in relation to financing its Research and Development tax credit for FY20. Interest of 15% per annum is payable on \$210,731 and 14% is payable on \$148,815 on the funds advanced and the company has provided collateral over its R&D Credit and any claims and books and records in respect of the R&D Credit.

Note 18. Current liabilities - lease liabilities

	Consolidated	
	2020	2019
	\$	\$
Lease liability	133,516	-

Refer to note 26 for further information on financial instruments.

Note 19. Current liabilities - provisions

	Consolidated	
	2020	2019
	\$	\$
Annual leave	70,252	45,499
Long service leave	184,062	179,631
	<u>254,314</u>	<u>225,130</u>

Note 20. Non-current liabilities - lease liabilities

	Consolidated	
	2020	2019
	\$	\$
Lease liability	646,767	-

Refer to note 26 for further information on financial instruments.

Consolidated - 2020	Minimum lease payments due					Total
	Within 1 year	1-2 years	2-3 years	4-5 years	After 5 years	
	\$	\$	\$	\$		\$
Lease payments	169,796	174,890	180,137	185,541	174,778	885,142
Finance charges	(36,280)	(29,274)	(21,640)	(13,339)	(4,326)	(104,859)
Net present value	<u>133,516</u>	<u>145,616</u>	<u>158,497</u>	<u>172,202</u>	<u>170,452</u>	<u>780,283</u>

Note 21. Non-current liabilities - provisions

	Consolidated 2020 \$	2019 \$
Long service leave	<u>4,884</u>	<u>2,217</u>

Note 22. Equity - issued capital

	2020 Shares	2019 Shares	Consolidated 2020 \$	2019 \$
Ordinary shares - fully paid	<u>477,778,800</u>	<u>470,178,800</u>	<u>59,730,577</u>	<u>59,392,382</u>

Movements in ordinary share capital

Details	Date	Shares	Issue price	\$
Balance	1 July 2018	432,678,800		57,987,132
Placement	20 June 2019	37,500,000	\$0.04	1,500,000
Transaction costs of share issue		-	-	(94,750)
Balance	30 June 2019	470,178,800		59,392,382
Issue of shares to settle loans provided	12 December 2019	5,000,000	\$0.04	200,000
Transfer from share based payments reserve following issue of shares for conversion of performance rights	12 December 2019	2,600,000	-	142,220
Transaction costs of share issue		-	-	(4,025)
Balance	30 June 2020	<u>477,778,800</u>		<u>59,730,577</u>

Ordinary shares

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

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

Share buy-back

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

Capital risk management

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

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

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

Note 22. Equity - issued capital (continued)

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 2018 Annual Report.

Note 23. Equity - reserves

	Consolidated	
	2020	2019
	\$	\$
Foreign currency reserve	(4,435)	(4,435)
Share-based payments reserve	2,365,794	2,214,116
	<u>2,361,359</u>	<u>2,209,681</u>

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.

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 2018	(4,435)	1,884,369	1,879,934
Share based payments expense	-	561,247	561,247
Lapse of options	-	(231,500)	(231,500)
Balance at 30 June 2019	(4,435)	2,214,116	2,209,681
Share based payments expense	-	293,898	293,898
Transfer from share based payments reserve on exercise of options	-	(142,220)	(142,220)
Balance at 30 June 2020	<u>(4,435)</u>	<u>2,365,794</u>	<u>2,361,359</u>

Note 24. Equity - accumulated losses

	Consolidated	
	2020	2019
	\$	\$
Accumulated losses at the beginning of the financial year	(58,778,260)	(56,665,641)
Transfer of expired options from share based payments reserve	-	231,500
	<u> </u>	<u> </u>
Accumulated losses at the beginning of the financial year – restated	(58,778,260)	(56,434,141)
Loss after income tax expense for the year	(1,765,353)	(2,344,119)
	<u> </u>	<u> </u>
Accumulated losses at the end of the financial year	<u>(60,543,613)</u>	<u>(58,778,260)</u>

Note 25. Equity - dividends

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

Note 26. 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 the Group's 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.

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.

Note 26. Financial instruments (continued)

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 2020, 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 2020, 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:

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.

The consolidated entity has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the consolidated entity based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

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.

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

Note 26. Financial instruments (continued)

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 - 2020	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						
<i>Non-interest bearing</i>						
Trade payables	-	336,811	-	-	-	336,811
Accruals	-	66,266	-	-	-	66,266
Other payables	-	78,209	-	-	-	78,209
<i>Interest-bearing - fixed rate</i>						
Other loans	15.00%	394,587	-	-	-	394,587
Lease liabilities	-	780,283	-	-	-	780,283
Total non-derivatives		<u>1,656,156</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,656,156</u>

Consolidated - 2019	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						
<i>Non-interest bearing</i>						
Trade payables	-	224,375	-	-	-	224,375
Accruals	-	72,835	-	-	-	72,835
Other payables	-	96,085	-	-	-	96,085
Total non-derivatives		<u>393,295</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>393,295</u>

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

Note 27. Key management personnel disclosures

Directors

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

Mr Darren Lurie	Executive chairman
Dr Philip Currie	Non-executive director
Mr Graeme Mutton	Non-executive director

Note 27. Key management personnel disclosures (continued)

Compensation

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

	Consolidated	
	2020	2019
	\$	\$
Short-term employee benefits	353,826	347,304
Post-employment benefits	33,423	32,993
Share-based payments	169,473	362,415
	<u>556,722</u>	<u>742,712</u>

Note 28. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Grant Thornton Audit Pty Ltd, the auditor of the company:

	Consolidated	
	2020	2019
	\$	\$
<i>Audit services - Grant Thornton Audit Pty Ltd</i>		
Audit or review of the financial statements	<u>51,923</u>	<u>55,000</u>
<i>Other services - Grant Thornton Audit Pty Ltd</i>		
R&D tax services	<u>19,386</u>	<u>10,000</u>
	<u>71,309</u>	<u>65,000</u>

Note 29. Contingent liabilities

The group has contingent liabilities in relation to bank guarantees on issue at balance date amounting to \$52,625 (2019: \$62,625).

Note 30. Commitments

At 30 June 2020 there were no material capital commitments outstanding (2019: Nil).

Note 31. Related party transactions

Parent entity

Optiscan Imaging Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 33.

Key management personnel

Disclosures relating to key management personnel are set out in note 27 and the remuneration report included in the directors' report.

Note 31. Related party transactions (continued)

Transactions with Subsidiaries

Inter-company transactions during the financial year between the parent entity, Optiscan Imaging Limited and subsidiary, Optiscan Pty Ltd amounted to \$1,353,975 (2019: \$1,438,513). 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

There were no transactions with related parties of directors during the financial year.

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related entities at the current and previous reporting period.

Loans to/from related parties

During the previous financial year, the company was granted loans from directors, or their related entities, amounting to \$200,000. These loans were provided on an interest free basis. Refer to Note 17 for further information.

Terms and conditions

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

Note 32. Parent entity information

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

Statement of profit or loss and other comprehensive income

	2020	2019
	\$	\$
Loss after income tax	<u>(291,389)</u>	<u>(553,122)</u>
Total comprehensive income	<u>(291,389)</u>	<u>(553,122)</u>

Statement of financial position

	2020	2019
	\$	\$
Total current assets	<u>305,058</u>	<u>1,660,544</u>
Total assets	<u>305,058</u>	<u>3,063,309</u>
Total current liabilities	<u>-</u>	<u>(200,000)</u>
Total liabilities	<u>-</u>	<u>(200,000)</u>
Equity		
Issued capital	59,687,157	59,392,382
Share-based payments reserve	2,434,231	2,239,129
Accumulated losses	<u>(59,059,588)</u>	<u>(58,768,199)</u>
Total equity	<u><u>3,061,800</u></u>	<u><u>2,863,312</u></u>

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 2020 and 30 June 2019.

Note 32. Parent entity information (continued)

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2020 and 30 June 2019.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2020 and 30 June 2019.

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 33. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		2020 %	2019 %
Optiscan Pty Ltd	Australia	100.00%	100.00%
Optiscan Inc*	United States	-	-

* This entity was deregistered during the previous financial year.

Note 34. Events after the reporting period

The following matters or circumstances have arisen since 30 June 2020 that have significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years:

- On 21 July 2020, the consolidated entity announced that it has been awarded a grant of \$971,000 from the BioMedTech Horizons Program, an initiative of the Medical Research Future Fund, operated by MTPConnect to undertake a 150 patient study in oral cancer screening at the Melbourne Dental School with Optiscan's "InVivage" device;
- Received orders for the sale of two FIVE2 (ViewnVivo) systems to customers in Beijing and Tianjin;
- Engaged Dr Joseph Jiafu as a consultant to establish distribution arrangements for the FIVE2 (ViewnVivo) in both Japan and South East Asia;
- Changed its North American distribution arrangements for the FIVE2 (ViewnVivo) and has entered into an agreement with Advanced Microscopy Consultancy Services Inc to provide technical, marketing and sales services to the Company in the United States and Canada.

No other matter or circumstance has arisen since 30 June 2020 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 35. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated	
	2020	2019
	\$	\$
Loss after income tax expense for the year	(1,765,353)	(2,344,119)
Adjustments for:		
Depreciation and amortisation	237,207	122,019
Share-based payments	293,898	561,248
Finance costs	16,251	-
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(260,646)	822,956
Decrease/(increase) in inventories	968	(269,629)
Increase in prepayments	(38,730)	(5,219)
Increase/(decrease) in trade and other payables	87,991	(256,495)
Increase/(decrease) in other provisions	31,851	(51,558)
Net cash used in operating activities	<u>(1,396,563)</u>	<u>(1,420,797)</u>

Note 36. Earnings per share

	Consolidated	
	2020	2019
	\$	\$
Loss after income tax attributable to the owners of Optiscan Imaging Limited	<u>(1,765,353)</u>	<u>(2,344,119)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>474,352,570</u>	<u>433,706,197</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>474,352,570</u>	<u>433,706,197</u>
	Cents	Cents
Basic earnings per share	(0.37)	(0.54)
Diluted earnings per share	(0.37)	(0.54)

Note 37. Share-based payments

Employee Share-Based Payment Plans

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

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

Note 37. Share-based payments (continued)

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

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

2020

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
30/11/2018	31/05/2022	\$0.05	3,200,000	-	-	-	3,200,000
30/11/2018	30/11/2022	\$0.05	3,200,000	-	-	-	3,200,000
30/11/2018	31/05/2023	\$0.065	3,200,000	-	-	-	3,200,000
30/11/2018	30/11/2023	\$0.08	3,200,000	-	-	-	3,200,000
20/12/2018	31/05/2022	\$0.05	3,200,000	-	-	-	3,200,000
20/12/2018	30/11/2022	\$0.05	3,200,000	-	-	-	3,200,000
20/12/2018	31/05/2023	\$0.065	3,200,000	-	-	-	3,200,000
20/12/2018	30/11/2023	\$0.08	3,200,000	-	-	-	3,200,000
			<u>25,600,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,600,000</u>

The weighted average remaining contractual life of options outstanding at the end of the financial year was 2.67 years (2019: 3.67 years).

2019

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	28/11/2019	-	2,150,000	-	-	(2,150,000)	-
28/11/2016	28/11/2019	-	4,000,000	-	-	(4,000,000)	-
28/11/2016	28/11/2019	-	500,000	-	-	(500,000)	-
30/11/2018	31/05/2022	\$0.05	-	3,200,000	-	-	3,200,000
30/11/2018	30/11/2022	\$0.05	-	3,200,000	-	-	3,200,000
30/11/2018	31/05/2023	\$0.065	-	3,200,000	-	-	3,200,000
30/11/2018	30/11/2023	\$0.08	-	3,200,000	-	-	3,200,000
20/12/2018	31/05/2022	\$0.05	-	3,200,000	-	-	3,200,000
20/12/2018	30/11/2022	\$0.05	-	3,200,000	-	-	3,200,000
20/12/2018	31/05/2023	\$0.065	-	3,200,000	-	-	3,200,000
20/12/2018	30/11/2023	\$0.08	-	3,200,000	-	-	3,200,000
			<u>6,650,000</u>	<u>25,600,000</u>	<u>-</u>	<u>(6,650,000)</u>	<u>25,600,000</u>

Weighted average exercise price	\$0.063	\$0.061	\$0.000	\$0.063	\$0.061
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The weighted average share price during the financial year was \$0.0523.

Note 37. Share-based payments (continued)

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

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility	Dividend yield	Risk-free interest rate	Fair value at grant date
30/11/2018	31/05/2022	\$0.058	\$0.05	79.00%	-	2.08%	\$0.034
30/11/2018	30/11/2022	\$0.058	\$0.05	79.00%	-	2.17%	\$0.036
30/11/2018	31/05/2023	\$0.058	\$0.065	79.00%	-	2.17%	\$0.034
30/11/2018	30/11/2023	\$0.058	\$0.08	79.00%	-	2.17%	\$0.034
20/12/2018	31/05/2022	\$0.045	\$0.05	79.00%	-	2.08%	\$0.024
20/12/2018	30/11/2022	\$0.045	\$0.05	79.00%	-	2.17%	\$0.025
20/12/2018	31/05/2023	\$0.045	\$0.065	79.00%	-	2.17%	\$0.024
20/12/2018	30/11/2023	\$0.045	\$0.08	79.00%	-	2.17%	\$0.024

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

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

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

Grant Date	Exercise price	Balance at start of financial year	Granted	Exercised	Expired/ forfeited/ other	Balance at end of financial year
30/11/2018	-	1,940,000	-	(1,940,000)	-	-
20/12/2018	-	660,000	-	(660,000)	-	-

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

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

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 2020 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 Chairman

31 August 2020

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 (the Group), which comprises the consolidated statement of financial position as at 30 June 2020, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated 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 Group's financial position as at 30 June 2020 and of its 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.

Material Uncertainty related to Going Concern

We draw attention to Note 2 in the financial statements, which indicates that the Group made a loss after tax of \$1,765,353 during the year ended 30 June 2020, and as of that date, the Group's net operating cash outflow was \$1,396,563. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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 period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the *Material Uncertainty Related to Going Concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
<p>R&D Tax Incentive – Notes 6 & 10</p> <p>The Group receives a 43.5% refundable tax offset of eligible expenditure under the Research and Development (R&D) Tax Incentive scheme if its turnover is less than \$20 million per annum, provided it is not controlled by income tax exempt entities.</p> <p>An R&D plan is filed with AusIndustry in the following financial year, and based on this filing, the Group receives the incentive in cash. Management performed a detailed review of the Company's total research and development expenditure to determine the potential claim under the R&D tax incentive legislation. For the year ending 30 June 2020 the R&D amount being claimed is \$701,000.</p> <p>This area is a key audit matter due to the degree of judgement and interpretation of the R&D tax legislation required by management to assess the eligibility of the R&D expenditure under the scheme.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> • Obtaining the FY20 R&D rebate calculations prepared by management's expert and performed the following audit procedures: <ul style="list-style-type: none"> - Assessing the qualifications of management's expert and ability to perform the calculation; - Developing an understanding of the model, identifying and assessing the key assumptions in the calculation; and - Testing the mathematical accuracy of the accrual. • Comparing the estimates made in previous years to the amount of cash actually received after lodgement of the R&D tax claim; • Comparing the nature of the R&D expenditure included in the current year estimate to the prior year estimate; • Considering the nature of the expenses against the eligibility criteria of the R&D tax incentive scheme to form a view about whether the expenses included in the estimate were likely to meet the eligibility criteria; • Assessing the eligible expenditure used to calculate the estimate to the expenditure recorded in the general ledger; • Inspecting copies of relevant correspondence with AusIndustry and the ATO related to the claims; • Engaging with our R&D specialist to review the reasonableness of the calculation; and • Assessing the adequacy of financial statement disclosures.

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 Group's annual report for the year ended 30 June 2020, 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 we do not express any form of assurance conclusion thereon.

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

If, based 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 related 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.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/auditors_responsibilities/ar1_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in pages 9 to 17 of the Directors' report for the year ended 30 June 2020.

In our opinion, the Remuneration Report of Optiscan Imaging Limited, for the year ended 30 June 2020 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.



Grant Thornton Audit Pty Ltd
Chartered Accountants



M A Cunningham
Partner – Audit & Assurance

Melbourne, 31 August 2020

The shareholder information set out below was applicable as at 7 August 2020.

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	Number of holders of unlisted options
1 to 1,000	753	-
1,001 to 5,000	961	-
5,001 to 10,000	352	-
10,001 to 100,000	892	-
100,001 and over	480	14
	<u>3,438</u>	<u>14</u>
Holding less than a marketable parcel	<u>2,080</u>	<u>-</u>

Equity security holders

Twenty largest quoted equity security holders

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

	Number held	Ordinary shares % of total shares issued
Peters Investment Pty Ltd	48,500,000	10.15
Ibsen Pty Ltd (Narula Family Set No.3 A/C)	37,199,500	7.79
Harech Pty Ltd (Porter Super Fund A/C)	15,167,805	3.17
Mr Chris Graham + Mrs Diane Graham (C & D Graham S/F A/C)	11,000,000	2.30
Lightstorm Pty Ltd (Hotspice A/C)	10,660,000	2.23
Opthea Limited	8,285,151	1.73
Dr Philip J Currie _ Mrs Anne J Currie (Currie Family Superfund A/C)	7,597,500	1.59
Mr Wally Knezevic	6,837,964	1.43
Dixson Trust Pty Limited	6,355,702	1.33
D &K Corps Retirement Pty Ltd (D & K Corps Family A/C)	6,161,112	1.29
Mr Peter M Delaney	5,451,259	1.14
Mr Alfred J Winkelmeier + Mrs Christine E Winkelmeier (The Winkelmeier S/F A/C)	5,130,000	1.07
Kebin Nominees Pty Ltd	5,070,479	1.06
Ibsen Pty Ltd (Ibsen Superfund A/C)	4,256,445	0.89
Mr Christopher J Martin	4,209,448	0.88
Citicorp Nominees Pty Limited	4,171,612	0.87
Mr Wally Knezevic	4,134,260	0.87
Miss Shirley Elkassaby	3,680,000	0.77
Mr Jubran W Toak + Mr Melhem W Toak	3,422,996	0.72
Mr Graeme L Mutton	3,398,292	0.71
	<u>200,689,525</u>	<u>41.99</u>

	Options over ordinary shares	
	Number held	% of total options issued
Unlisted options	25,600,000	100
<i>Unquoted equity securities</i>		
	Number on issue	Number of holders
Options over ordinary shares issued	25,600,000	14

Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
Peters Investments Pty Ltd	48,500,000	10.15
Ibsen Pty Ltd (Narula Family Set No3 A/C)	37,199,500	7.79

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.