

**Optiscan Imaging Limited
ABN 81 077 771 987**

Appendix 4D

Report for the Half Year ended

31 Dec 2015

Previous Corresponding Period: 31 Dec 2014

Contents

1. APPENDIX 4D INFORMATION	II
1.1 DETAILS OF THE REPORTING PERIOD AND THE PREVIOUS CORRESPONDING PERIOD	II
1.2 RESULTS FOR ANNOUNCEMENT TO THE MARKET	II
1.2.1 REVENUE FROM ORDINARY ACTIVITIES	II
1.2.2 LOSS FROM ORDINARY ACTIVITIES AFTER TAX	II
1.2.3 NET LOSS FROM ORDINARY ACTIVITIES	II
1.2.4 DIVIDEND PAYMENTS	II
1.2.5 DATE FOR DETERMINING DIVIDEND ENTITLEMENTS	II
1.2.6 BRIEF EXPLANATION OF FINANCIAL RESULTS	II
1.3 REVIEW OF OPERATIONS	III
1.4 OTHER INFORMATION	IV
1.4.1 NET TANGIBLE ASSETS PER SECURITY	IV
1.4.2 LOSS PER ORDINARY SHARE (CENTS/SHARE)	IV
1.4.3 SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES	IV
1.4.4 DIVIDEND PAYMENTS	IV
1.5 STATUS OF REVIEW OF ACCOUNTS	IV
1.6 STATUS AUDIT REPORT EMPHASIS: MATTER REGARDING GOING CONCERN	IV
1.7 FINANCIAL INFORMATION	V
2. INTERIM FINANCIAL REPORT FOR HALF YEAR END 31 DEC 2015	PAGES 1-25

1. Appendix 4D Information

1.1 Details of the reporting period and the previous corresponding period

Reporting Period	The half-year ended 31 Dec 2015 (1 July 2015 to 31 Dec 2015)
Previous Corresponding Period	The half-year ended 31 Dec 2014 (1 July 2014 to 31 Dec 2014)

1.2 Results for Announcement to the Market

	Half-year ended 31 Dec 2015		Half-year ended 31 Dec 2014
	\$	% change	\$
1.2.1 Revenue from ordinary activities	11,985	-202%	36,255
1.2.2 Loss from ordinary activities after tax	748,391	12%	850,063
1.2.3 Net loss from ordinary activities	748,359	12%	850,045
1.2.4 Dividend payments	No dividends paid or declared		No dividends paid or declared
1.2.5 Date for determining dividend entitlements	Not applicable		Not applicable

1.2.6 Brief explanation of financial results

Optiscan recorded a net loss after tax of \$748,391 for the half year ended 31 December 2015. This was \$101,672, or 12% lower than the loss of \$850,063 in the previous corresponding period

The main reason for the lower loss was higher income from the R&D Tax Incentive recognised in the current period. In prior years this has not been accrued at the December half year as the criteria for recognition was not met, but in the period to 31 December 2015, \$361,047 of income in respect of the half year was recognised as the recognition criteria was met.

There were several other movements affecting the comparison with the previous corresponding period. Gross margins from sales were \$10,988 lower than last year, and expenses were \$164,823 higher, mainly due to additional software resources in R&D and higher finance facility costs.

During the period, the group successfully completed a share issue and raised \$0.7m net of transaction costs.

1.3 Review of Operations

Whilst the review of operations would normally focus on the 6 months to 31 Dec 2015, it is relevant to note that the outlook for the Company changed significantly upon the appointment of a new Chairman and board on 2 May 2016. The intention of the new board is to undertake a complete review of the strategic direction of the Company with a view to a significantly improved performance.

As highlighted by the Chairman's letter released on 3 May 2016, the items of significance include:

- A new board was appointed on 2 May 2016: A.A. Hoffman (Chairman), P.D. Francis, I.M. Griffiths, I.D. Mann
- A new CEO was appointed on 12 May 2016: A. Fraser
- The board established a new Mission for the Company: "To create shareholder wealth through the profitable delivery of microscopic imaging and related technologies into the global market"
- The board has commissioned an independent report to:
 - carry out a strategic review of Optiscan and its technology
 - provide written recommendations to Optiscan on strategies it should adopt to rebuild shareholder value
- The board will develop a strategic plan for the Company. This plan will establish an action plan for the CEO to deliver on the measurables within the strategic plan and drive the business forward.
- A capital raise will take place to be completed by 30 June 2016 in order to provide sufficient working capital facilities going forward.
- The Company's goal is that the strategic plan and capital raise will pave the way for Optiscan to be removed from suspension on the ASX before 30th June 2016.

A new co-operation agreement was reached with Carl Zeiss Meditec (CZM) in September 2015. As disclosed in note 9 to the interim financial statements, an update is provided as follows:

Execution of our key responsibilities under the co-operation agreements with Carl Zeiss Meditec (CZM) continues to be an area of focus for the Company. Zeiss are the pre-eminent market force in the microsurgical visualisation market and their engagement with Optiscan is therefore a significant endorsement of Optiscan's technology.

Zeiss believes that CNEM (confocal neuro endomicroscopy) is a significant development enabling new applications in neurosurgery and related disciplines such as spine and ENT that may become an important tool for diagnostic visualization in the operating room.

As announced September 2015, extensive review of the longstanding collaboration between Optiscan and CZM resulted in a new agreement. This featured substantial anticipated revenues and cash flows from milestone payments being achieved, additional engineering works and supply of further systems and components.

Steady progress has already been made under the new agreement, involving priority allocation of the majority of company resources. To date, cash flows received under the September 2015 agreement total EUR 500,237 (AUD 756,474) comprised of an upfront payment, completion of key engineering works and payment for supply of components.

There has also been a minor extension and upfront shift of interim engineering services and supply of components. These bring forward anticipated cash flows of EUR 60,200 (AUD 88,000) in the short term.

Further cash flows of EUR 298,400 (AUD 459,000) are anticipated to end calendar 2016 associated with further engineering services and delivery of components.

Subject to successful completion of key project milestones, cash flows in the second half FY 2017 are anticipated to be approximately EUD 450,000 (AUD 662,000) for further supply of components.

In summary, it is the view of the directors that the review of operations and subsequent actions will result in the Group anticipating to have sufficient cash facilities being available to meet the group's obligations and liabilities as they fall due.

1.4 Other Information

	Half-year ended 31 Dec 2015	Half-year ended 31 Dec 2014
1.4.1 Net tangible assets per security	Deficiency of net assets of \$185,997	Net assets of \$39,784 \$0.0002 per share
1.4.2 Loss per ordinary share (cents/share)	0.34	0.47
1.4.3 Subsidiaries, Associates and Joint Ventures	No change	No change
1.4.4 Dividend payments	No dividends paid or declared	No dividends paid or declared

1.5 Status of Review of Accounts

This report is based on the accounts which have been the subject of review by our auditors.

1.6 Status Audit Report Emphasis: Matter regarding going concern

As has occurred over previous periods, the auditors have reported that there is material uncertainty whether the consolidated entity will be able to continue as a going concern. This statement is unchanged from previous periods.

It is the view of the directors that the review of operations and subsequent actions will result in the Group anticipating to have sufficient cash facilities being available to meet the group's obligations and liabilities as they fall due.

1.7 Financial Information

The Interim Financial Report for the half year ending 31 December 2015 is set out on the following pages (pages 1 to 25)

Signed:

A handwritten signature in dark red ink, appearing to be "AA" followed by a horizontal stroke.

Alan Hoffman
Chairman
Optiscan Imaging Limited
30 May 2016

Optiscan Imaging Limited
ABN 81 077 771 987

Interim Financial Report

for the half year ended 31 December 2015

Contents

CORPORATE INFORMATION	3
DIRECTORS' REPORT	4
DIRECTORS.....	4
PRINCIPAL ACTIVITIES	4
FINANCIAL RESULTS.....	4
DIRECTORS' REPORT (CONTINUED)	5
REVIEW OF OPERATIONS	5
DIRECTORS' REPORT	6
REVIEW OF OPERATIONS (CONTINUED)	6
LOAN WITH RELATED PARTY	6
EVENTS AFTER THE BALANCE SHEET DATE	6
AUDITOR INDEPENDENCE	7
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	8
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME.....	9
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	10
CONSOLIDATED STATEMENT OF CASH FLOWS	11
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	12
1 CORPORATE INFORMATION.....	12
2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.....	12
3 SEGMENT INFORMATION.....	14
4 REVENUES AND EXPENSES	17
5 CASH AND CASH EQUIVALENTS	18
6 TRADE AND OTHER RECEIVABLES.....	18
7 INTEREST BEARING LOANS AND BORROWINGS.....	19
8 CONTRIBUTED EQUITY AND RESERVES	20
9 EVENTS AFTER BALANCE DATE	21
10 COMMITMENTS AND CONTINGENCIES	22
11 LOANS WITH RELATED PARTIES	22
DIRECTORS' DECLARATION	23
INDEPENDENT REVIEW REPORT	24

Corporate Information

ABN 81 077 771 987

This interim report covers the consolidated entity comprising Optiscan Imaging Limited and its subsidiaries. The Group's presentation currency is Australian Dollars AUD (\$).

A description of the Group's operations and of its principal activities is included in the review of operations in the Directors' Report on pages 4-6. The Directors' Report is not part of the financial report.

Directors

A.A. Hoffman (Chairman)
P.D. Francis
I.M. Griffiths
I.D. Mann

Company Secretary

B.R. Andrew

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Notting Hill Vic 3168
Australia

Principal place of business

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T 61 3 9415 5000

Solicitors

HWL Ebsworth Lawyers
530 Collins Street
Melbourne VIC 3000

Auditors

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000

Bankers

National Australia Bank

Directors' Report

The Board of Directors of Optiscan Imaging Limited has pleasure in submitting its report in respect of the half year ended 31 December 2015.

Directors

The names of the directors in office during or since the end of the half year are:

Mr Angus Holt, Executive Chairman (resigned 21 July 2015)
Mr Patrick O'Connor, Chairman (appointed 20 July 2015, resigned 12 April 2016)
Mr Peter Delaney, Director of Technology (resigned 2 May 2016)
Mr Bruce Andrew, Executive Director (resigned 9 December 2015)
Mr George Cameron-Dow, Non-executive Director (appointed 20 July 2015, resigned 16 September)
Mr Ian Mann, Non-executive Director (appointed 9 December 2015)
Mr Alan Hoffman, Chairman (appointed 2 May 2016)
Mr Peter Francis, Non-executive Director (appointed 2 May 2016)
Dr Ian Griffiths, Non-executive Director (appointed 2 May 2016)

Principal Activities

The principal activity of the consolidated entity during the half year was the development and commercialisation of confocal microscopes. There was no change in the nature of this activity during the half year.

Financial Results

Optiscan recorded a net loss after tax of \$748,391 for the half year ended 31 December 2015. This was \$101,672, or 12% lower than the loss of \$850,063 in the previous corresponding period.

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Directors' Report (continued)

Review of Operations

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P.D. Francis, I.M. Griffiths, I.D. Mann
- A new CEO was appointed on 12 May 2016: A. Fraser
- The board established a new Mission for the Company: "**To create shareholder wealth** through the profitable delivery of microscopic imaging and related technologies into the global market"
- The board has commissioned an independent report to:
 - carry out a strategic review of Optiscan and its technology
 - provide written recommendations to Optiscan on strategies it should adopt to rebuild shareholder value
- The board will develop a strategic plan for the Company. This plan will establish an action plan for the CEO to deliver on the measurables within the strategic plan and drive the business forward.
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Directors' Report

Review of Operations (continued)

Further cash flows of EUR 298,400 (AUD 459,000) are anticipated to end calendar 2016 associated with further engineering services and delivery of components.

Subject to successful completion of key project milestones, cash flows in the second half FY 2017 are anticipated to be approximately EUD 450,000 (AUD 662,000) for further supply of components.

In summary, it is the view of the directors that the review of operations and subsequent actions will result in the Group anticipating to have sufficient cash facilities being available to meet the group's obligations and liabilities as they fall due.

Loan with related party

With regard to the loan referenced as Short Term Loan 2 in Note 7e, an entity associated with Non-executive Director, Mr Ian Mann, provided, in December 2015, a loan of \$300,000 having a first charge over the company and interest charge of 15%, which was subsequently repaid on 29 February 2016. Another entity, also associated with Mr Ian Mann, refinanced that loan at 10% on 29th February 2016, injected an additional \$200,000 on that date with a further \$100,000 advanced on 27 April 2016. The first charge over the company of the second facility was made sub-ordinate to the 29 April 2016 R&D facility (refer Note 9). No establishment, penalty or any other kind of fees were charged on either related party loan.

Events after the balance sheet date

As disclosed in the Review of Operations and in note 9 to the interim financial statements, the group has received funding to meet financial commitments as they fall due in addition to entering milestone arrangements with customers. Please refer to note 9 accompanying these interim statements for full disclosure of relevant events after the balance sheet date.

Auditor independence

The directors have obtained a declaration of independence from Ernst & Young, the group's auditors, which is set out below.

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

As lead auditor for the review of Optiscan Imaging Limited for the half-year ended 31 December 2015, I declare to the best of my knowledge and belief, there have been:

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

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

Ernst & Young

Joanne Lonergan
Partner
May 2016

This report has been made in accordance with a resolution of directors on 23 May 2016.

A handwritten signature in dark ink, appearing to be 'A. Hoffman', written in a cursive style.

Alan Hoffman
Chairman
25 May 2016

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2015

	Notes	CONSOLIDATED	
		December	June
		2015	2015
		\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents	5	915,874	268,893
Trade and other receivables	6	455,787	693,004
Inventories		28,500	28,500
Prepayments		674	829
Total Current Assets		1,400,835	991,226
Non-current Assets			
Plant and equipment		22,731	26,985
Total Non current Assets		22,731	26,985
TOTAL ASSETS		1,423,566	1,018,211
LIABILITIES			
Current Liabilities			
Trade and other payables		517,346	420,553
Interest bearing loans and borrowings	7	846,976	510,533
Provisions		228,290	242,824
Total Current Liabilities		1,592,612	1,173,910
Non-current Liabilities			
Provisions		16,951	19,512
Total Non-current Liabilities		16,951	19,512
TOTAL LIABILITIES		1,609,563	1,193,422
NET (LIABILITIES)		(185,997)	(175,211)
EQUITY			
Contributed equity	8	49,337,779	48,684,716
Retained earnings		(51,098,723)	(50,350,332)
Reserves	8	1,574,947	1,490,405
TOTAL (DEFICIENCY)		(185,997)	(175,211)
TOTAL EQUITY AND LIABILITIES		1,423,566	1,018,211

Consolidated Statement of Comprehensive Income

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

	Notes	CONSOLIDATED	
		December 2015	December 2014
		\$	\$
Continuing operations			
Sales		9,573	26,181
Other revenue	4(a)	2,412	10,074
Revenue		11,985	36,255
Cost of sales		-	(13,282)
Gross Profit		11,985	22,973
Other income	4(b)	597,400	319,917
Administrative expenses		(480,538)	(603,227)
Research & development expenses		(685,333)	(486,966)
Finance expenses	4(d)	(123,710)	(89,551)
Other expenses		(68,195)	(13,209)
Profit (loss) before income tax		(748,391)	(850,063)
Income tax expense		-	-
Profit (loss) for the period		(748,391)	(850,063)
Other comprehensive income			
Items that may be subsequently recycled through profit and loss:			
Foreign currency translation		32	18
Other comprehensive income for the period net of tax		32	18
TOTAL COMPREHENSIVE INCOME (LOSS) FOR PERIOD		(748,359)	(850,045)
Earnings (loss) per share (cents per share)			
- basic earnings (loss) per share for the period		(0.34)	(0.47)
- diluted earnings (loss) per share for the period		(0.34)	(0.47)

Consolidated Statement of Changes in Equity

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

	CONSOLIDATED				Total Equity
	Ordinary Shares	Accumulated Losses	Share Based Payments Reserve	Foreign Currency Translation Reserve	
	\$	\$	\$	\$	\$
At 1 July 2015	48,684,716	(50,350,332)	1,485,661	4,744	(175,211)
Loss for the half year	-	(748,391)	-	-	(748,391)
Other comprehensive income	-	-	-	32	32
Total comprehensive income for the half year	-	(748,391)	-	32	(748,359)
Transactions with owners in their capacity as owners:					
Loan facility fees settled by share issue	86,000	-	-	-	86,000
Underwriting fee settled by issue of options	-	-	84,510	-	84,510
Shares issued for cash in entitlements issue	690,074	-	-	-	690,074
Transaction costs of share issues	(123,011)	-	-	-	(123,011)
At 31 December 2015	49,337,779	(51,098,723)	1,570,171	4,776	(185,997)
At 1 July 2014	47,279,893	(48,954,933)	1,485,661	4,717	(184,662)
Loss for the half year	-	(850,063)	-	-	(850,063)
Other comprehensive income	-	-	-	18	18
Total comprehensive income for the half year	-	(850,063)	-	18	(850,045)
Transactions with owners in their capacity as owners:					
Convertible note facility fee settled by share issue	37,500	-	-	-	37,500
Shares issued for cash in placement	574,500	-	-	-	574,500
Shares issued upon conversion of notes	460,250	-	-	-	460,250
Equity component of convertible notes	2,241	-	-	-	2,241
At 31 December 2014	48,354,384	(49,804,996)	1,485,661	4,735	39,784

Consolidated Statement of Cash Flows

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

	Note	CONSOLIDATED	
		December	December
		2015	2014
		\$	\$
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		222,001	267,681
Payments to suppliers and employees (inclusive of GST)		(1,207,654)	(1,400,871)
Royalties received		-	6,500
Interest received		2,412	3,579
Receipt of government grants		679,675	711,690
Net cash flows used in operating activities	5	<u>(303,566)</u>	<u>(411,421)</u>
Cash flows from investing activities			
Purchase of plant and equipment		<u>(771)</u>	<u>(1,715)</u>
Net cash flows used in investing activities		<u>(771)</u>	<u>(1,715)</u>
Cash flows from financing activities			
Proceeds from issue of convertible notes and loans		300,000	800,000
Proceeds from issue of shares		690,074	574,500
Transaction costs of share issues		(38,500)	-
Repayment of notes		-	(126,466)
Net cash flows from financing activities		<u>951,574</u>	<u>1,248,034</u>
Net (decrease) increase in cash and cash equivalents		647,237	834,898
Net foreign exchange differences		(256)	(240)
Cash and cash equivalents at beginning of period		<u>268,893</u>	<u>74,942</u>
Cash and cash equivalents at end of period	5	<u><u>915,874</u></u>	<u><u>909,600</u></u>

Notes to the Consolidated Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

1 CORPORATE INFORMATION

The financial report of Optiscan Imaging Limited (“the Company”) for the half year ended 31 December 2015 was authorised for issue in accordance with a resolution of the directors on 13 May 2016.

Optiscan Imaging Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian stock exchange. The nature of the operations and principal activities of Optiscan Imaging Limited and its controlled entities (“the Group”) are described in note 3.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The half year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

The half year financial report should be read in conjunction with the annual Financial Report of Optiscan Imaging Limited as at 30 June 2015, and considered together with any public announcements made by Optiscan Imaging Limited and its controlled entities during the half-year ended 31 December 2015 in accordance with the continuous disclosure obligations of the ASX listing rules.

a) Basis of preparation

This general purpose condensed financial report for the half year ended 31 December 2015 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

Going Concern (statement as at 31 December 2015 and updated as at 13 May 2016)

In common with many entities in the medical device sector, the Company’s operations are subject to an element of risk due to the nature of the development and commercialisation being undertaken. A part of this risk relates to funding of the Company’s activities, and related issues including the conditions prevailing in local and international financial markets. In the context of this operating environment, the Company will need to raise additional capital in order to execute its near term and medium term plans for expansion of its product portfolio.

To that end, a new board was appointed on 2 May 2016 bringing with it a significant level of expertise and a newfound confidence of the ability of the Company to trade its way into a positive profit and earning environment, with sufficient cash flows available to meet working capital requirements and the group’s obligations and liabilities as they fall due. This is summarised in the Review of Operations of this report.

As at 31 December 2015, the financial position of the consolidated entity as disclosed in the financial statements reflects a net asset deficiency position of \$185,997 (2014: net asset deficiency position of \$175,211). This balance has been determined after a consolidated net loss for the half year of \$748,391 (2014: \$850,063), and a net cash outflow from operations of \$303,566 (2014: \$411,421).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Going concern (continued)

The accounts have been prepared on a going concern basis, which includes the presumption that sufficient funds will be available to finance the operations of the consolidated entity. In adopting this position, the directors have had regard to:

- Cash on hand at 31 December 2015 is \$915,874, and after allowing for the loan repayment of \$545,505 on 7 January 2016 was \$370,369, (June 2015: \$268,893);
- Additional debt funding of \$300,000 was received in February 2016 and April 2016 through an entity associated with a director;
- Additional debt funding of \$500,000 was received in April 2016 secured against the R&D Tax Incentive Claim and a first charge against the Company
- Additional proposed fundraising in May 2016 /June 2016 as highlighted in Note 9;
- Cash has been received in the 2016 financial year under the agreement with Carl Zeiss;
- Revenue is expected to increase from the sale of CellLIVE systems;
- The directors believe the Company has the ability to raise additional capital from existing and new investors;
- The Company has a successful track record in raising capital to fund its operations;

The directors plan to continue the Company and the consolidated entity's operations on the basis outlined above, and believe there will be sufficient funds for the Group to meet its obligations and liabilities for at least twelve months from the date of this report.

b) Basis of consolidation

The half-year consolidated financial statements comprise the financial statements of Optiscan Imaging Limited and its subsidiaries as at and throughout the half year ended 31 December 2015.

c) Significant Accounting Policies

The accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

Other standards issued since 1 July 2015 do not have a significant impact on the consolidated financial report of Optiscan Imaging Limited. The Group has not elected to early adopt any other new standards, amendments of interpretations that are issued but not yet effective.

3 SEGMENT INFORMATION

Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by the executive management team (the chief operating decision makers) in assessing performance and in determining the allocation of resources.

The operating segments are identified by management based on the core activities carried out by the Group. Discrete financial information about each of these operating businesses is reported to executive management on a monthly basis.

Types of products and services

Trading

The trading activities of the Group include the manufacture and sale of optical imaging devices for medical and research applications.

Research and development

Research and development activities currently involve development of a new imaging platform, improved miniaturised scanners, and research into potential new applications for the Group's technology. An established facet of the business model of the Group is to generate income from these activities from collaboration partners.

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments are the same as those contained in Note 2 to the accounts and as those reported as at 30 June 2015.

There are no inter-segment transactions or balances.

Corporate charges

Corporate charges are allocated to each reportable segment on a proportionate basis linked to staffing numbers so as to determine a segmental result.

Income tax expense

Income tax expense relates only to withholding tax on royalties. There is no income tax expense applicable to reportable segments. It is the Group's policy that if items of revenue and expense are not allocated to operating segments then any associated assets and liabilities are also not allocated to segments. This is to avoid asymmetrical allocations within segments which management believe would be inconsistent.

Items not allocated to reportable segments

The following items and associated assets and liabilities are not allocated to operating segments as they are not considered part of the core operations of any segment:

- Finance revenue and costs, including fair value adjustments
- Royalty revenue and associated withholding tax
- Corporate overheads and expenses
- Cash balances are unallocated

Major customers

The major customer in research and development is Carl Zeiss, where income is received under the terms of a collaboration agreement.

Notes to the Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

3 SEGMENT INFORMATION (continued)

	Trading \$	R&D \$	Segment Total \$	Unallocated \$	Total \$
Half year ended 31 December 2015					
Assets and liabilities					
Segment assets*	42,229	361,047	403,276	1,020,290	1,423,566
Segment liabilities	-	(176,023)	(176,023)	(1,433,540)	(1,609,563)
Segment net assets	<u>42,229</u>	<u>185,024</u>	<u>227,253</u>	<u>(413,250)</u>	<u>(185,997)</u>
Revenue					
Sales to external customers	9,573	-	9,573	-	9,573
Other revenues	-	-	-	2,412	2,412
Total consolidated revenue	<u>9,573</u>	<u>-</u>	<u>9,573</u>	<u>2,412</u>	<u>11,985</u>
Result					
Net (loss) for the period by segment	(41,718)	(87,933)	(129,651)	-	(129,651)
Unallocated items	-	-	-	(618,740)	(618,740)
	<u>(41,718)</u>	<u>(87,933)</u>	<u>(129,651)</u>	<u>(618,740)</u>	<u>(748,391)</u>
Cash flow					
Segment net cash flow from /(used in) operating activities	(50,958)	213,083	162,125	(465,691)	(303,566)
Investing cash flows	-	-	-	(771)	(771)
Financing cash flows	-	-	-	951,574	951,574
Net cash flow for the period	<u>(50,958)</u>	<u>213,083</u>	<u>162,125</u>	<u>485,112</u>	<u>647,237</u>
Other Segment information					
Non cash expenses					
Depreciation and amortisation	-	-	-	5,025	5,025
Amortised cost adjustment of loans	-	-	-	36,443	122,443
Cost of issuing shares	-	-	-	86,000	86,000
Foreign exchange differences	-	-	-	287	287
Revenue by geographic segment (location of customer)					
Asia	3,392	-	3,392	-	3,392
Australia	4,725	-	4,725	-	4,725
Europe	1,456	-	1,456	-	1,456
USA & Canada	-	-	-	-	-
Total	<u>9,573</u>	<u>-</u>	<u>9,573</u>	<u>-</u>	<u>9,573</u>

* Unallocated segment assets include cash balances unrelated to the operating segments

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2015

3 SEGMENT INFORMATION (continued)

	<i>Trading</i>	<i>R&D</i>	<i>Segment</i>	<i>Unallocated</i>	<i>Total</i>
	\$	\$	\$	\$	\$
Half year ended 31 December 2014					
Assets and liabilities					
Segment assets*	59,061	1,730	60,791	976,745	1,037,536
Segment liabilities	(28,082)	(123,597)	(151,679)	(846,073)	(997,752)
Segment net assets	<u>30,979</u>	<u>(121,867)</u>	<u>(90,888)</u>	<u>130,672</u>	<u>39,784</u>
Revenue					
Sales to external customers	26,181	-	26,181	-	26,181
Other revenues	-	-	-	10,074	10,074
Total consolidated revenue	<u>26,181</u>	<u>-</u>	<u>26,181</u>	<u>10,074</u>	<u>36,255</u>
Result					
Net profit (loss) for the period by segment	<u>12,899</u>	<u>(167,048)</u>	<u>(154,149)</u>	<u>(695,914)</u>	<u>(850,063)</u>
Cash flow					
Segment net cash flow from (used in) operating activities	1,158	488,174	489,332	(900,753)	(411,421)
Investing cash flows	-	-	-	(1,715)	(1,715)
Financing cash flows	-	-	-	1,248,034	1,248,034
Net cash flow for the period	<u>1,158</u>	<u>488,174</u>	<u>489,332</u>	<u>345,566</u>	<u>834,898</u>
Other Segment information					
Non cash expenses					
Depreciation and amortisation	-	-	-	5,349	5,349
Amortised cost adjustment of loans & notes	-	-	-	47,945	47,945
Cost of issuing shares	-	-	-	37,500	37,500
Foreign exchange differences	-	-	-	259	259
Revenue by geographic segment (location of customer)					
Asia	-	-	-	6,500	6,500
Australia	12,009	-	12,009	3,574	15,583
Europe	1,433	-	1,433	-	1,433
USA & Canada	12,739	-	12,739	-	12,739
Total	<u>26,181</u>	<u>-</u>	<u>26,181</u>	<u>10,074</u>	<u>36,255</u>

* Unallocated segment assets include cash balances unrelated to the operating segments

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2015

4 REVENUES AND EXPENSES

	<i>CONSOLIDATED</i>	
	<i>December</i>	<i>December</i>
	<i>2015</i>	<i>2014</i>
	\$	\$
(a) Other revenue		
Finance income – interest received	2,412	3,574
Royalty revenue	-	6,500
	<u>2,412</u>	<u>10,074</u>
(b) Other income		
Design and development income	220,478	260,643
Government grants – R&D Tax Incentive	376,922	59,274
	<u>597,400</u>	<u>319,917</u>
(c) Depreciation		
Depreciation of plant and equipment	<u>5,025</u>	<u>5,349</u>
(d) Finance costs		
Loan amortisation cost expense	36,443	-
Finance facility costs expensed	86,000	37,500
Fair value adjustment on convertible notes	-	47,945
Other interest paid	1,267	4,106
	<u>123,710</u>	<u>89,551</u>
(e) Employee benefits expense		
Wages and salaries	516,850	489,055
Defined contribution plan expense	46,736	46,399
Annual leave provision	(17,644)	(15,836)
Long service leave provision	1,739	4,657
	<u>547,681</u>	<u>524,275</u>

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2015

5 CASH AND CASH EQUIVALENTS

Reconciliation to Statement of Cash Flows

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise the following at 31 December:

	<i>CONSOLIDATED</i>	
	<i>Dec 2015</i>	<i>Dec 2014</i>
	\$	\$
Cash at bank and in hand	850,374	844,100
Short terms deposits	65,500	65,500
	915,874	909,600

Reconciliation of net (loss) after tax to net cash flows from operations

	<i>Dec 2015</i>	<i>Dec 2014</i>
	\$	\$
Net (loss) after tax	(748,391)	(850,063)
<i>Adjustments for:</i>		
Depreciation	5,025	5,349
Net exchange differences	256	241
Cost of issuing shares	-	37,500
Foreign exchange movements through equity	31	18
Fair value adjustments on convertible notes	-	47,945
Amortised cost adjustment on short term loan	122,443	-
<i>Changes in assets and liabilities:</i>		
Decrease/(Increase) in trade and other receivables	237,217	587,431
Decrease/(Increase) in inventories	-	8,215
(Increase)/Decrease in prepayments	155	14,194
Increase/(Decrease) in trade and other payables	96,793	(251,072)
(Decrease)/Increase in provisions	(17,095)	(11,179)
Net cash flows (used in) operating activities	(303,566)	(411,421)

6 TRADE AND OTHER RECEIVABLES

	<i>CONSOLIDATED</i>	
	<i>Dec 2015</i>	<i>June 2015</i>
	\$	\$
CURRENT		
Trade receivables	13,729	5,679
GST refund receivable	66,609	23,310
Interest receivable	215	215
R&D Tax incentive grant receivable	361,047	663,800
Refundable deposit	13,687	-
Sundry debtor	500	-
Net carrying amount	455,787	693,004

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2015

7 INTEREST BEARING LOANS AND BORROWINGS

	<i>CONSOLIDATED</i>	
	<i>Dec 2015</i>	<i>June 2015</i>
	\$	\$
Current		
Short term loan	846,976	510,533
	<u>846,976</u>	<u>510,533</u>
Short term loan		
External loan facility (Loan 1)	544,163	510,533
Other short term loan (Loan 2)	302,724	-
	<u>846,976</u>	<u>510,533</u>

- (a) Fair value
Short term loans on issue are accounted for at fair value.
- (b) Interest rate
The interest rate on loans both 1 and 2 is 15% pa.
- (c) Assets pledged as security
Short term loan 1 is secured by a charge over the assets of Optiscan Imaging Ltd and by a first charge over the R&D Tax Incentive government rebate. Short term loan 2 is unsecured at balance date. After balance date, on 7 January 2016, Loan 1 was repaid and the security was released to be made available to secure Loan 2.
- (d) Terms and conditions of short term loan 1
The short term loan was drawn on 9 June 2015, and was repayable on 30 November 2015. A facility fee by way of the allotment of 1,000,000 shares was expensed in July 2015 for a value \$50,000. In the event of late repayment of the loan after 30 November 2015, Optiscan would incur a further monthly facility fee of 1,000,000 shares per month until repayment is made. The outstanding loan was repaid in full in January 2016 and an additional 1,000,000 shares for a value of \$36,000 was expensed in the period to 31 December 2015.
- (e) Terms and conditions of short term loan 2
The short term loan was drawn on 10 December 2015 and was provided by an associated company of a Director, and was repaid on 29 February 2016. The interest rate on the loan was 15%pa, and the loan was secured by a registered charge over Optiscan Imaging Limited. Refer Note 9.

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2015

8 CONTRIBUTED EQUITY AND RESERVES

	<i>CONSOLIDATED</i>	
	<i>Half Year Ended December 2015 \$</i>	<i>Year Ended June 2015 \$</i>
Ordinary share capital - Issued and fully paid	49,337,779	48,741,091
Fully paid ordinary shares carry one vote per share and carry the right to dividends.		
<i>Movement in issued capital</i>		
Opening Balance	48,684,716	47,279,893
Shares issued for cash in entitlements issue	690,074	-
Shares issued for cash in placement	-	574,500
Shares issued upon conversion of notes	-	849,199
Loan facility fees settled by issue of shares	86,000	37,500
Transaction costs of share issues	(123,011)	(56,376)
Closing Balance	49,337,779	48,684,716
<i>Movement in number of ordinary shares on issue</i>		
Opening Balance	207,022,389	167,225,501
Shares issued for cash in placement	13,801,493	19,991,938
Shares issued upon conversion of notes	-	18,554,950
Facility fees settled by issue of shares	2,000,000	1,250,000
Closing Balance	222,823,882	207,022,389
	\$	\$
<i>Movement in Share based payment reserve</i>		
Opening balance	1,485,661	1,485,661
Underwriting fee settled by issue of options (see note A)	84,510	-
Opening and Closing balance	1,570,171	1,485,661
<i>Movement in foreign currency translation reserve</i>		
Opening Balance	4,744	4,717
Foreign currency translation for the period	32	27
Closing Balance	4,776	4,744
Total Reserves	1,574,947	1,490,405

Note A

Following completion of the equity raising in July 2015, the underwriting fee was settled by issue of 3,000,000 options which have an exercise price of \$0.10 and will expire on 12 June 2017. As at 31 December 2015, the options have not been exercised.

Notes to the Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

9 EVENTS AFTER BALANCE DATE

Short term loan Number 1 was repaid on 7 January 2016 together with interest accrued on the loan, with a total repayment of \$545,506. A related facility fee was settled by allotment of 1,000,000 shares on 5 January 2016 (see note 7).

Short term loan Number 2 was repaid on 29 February 2016 together with interest accrued of \$10,279

A new short term loan of \$510,279 was advanced by the Substantial Shareholder at an interest rate of 10%pa on 29 February 2016. This was initially secured by a first charge over the Company which was subsequently made sub-ordinate to the below mentioned \$500,000 facility. An additional \$100,000 was advanced by the Substantial Shareholder on 27 April 2016.

A new \$500,000 debt facility was drawn down on 29 April 2016. This facility is secured by a first charge over the Company and in particular against the 2016 R&D Tax Incentive Claim receivable which is estimated at \$720,000 for the year to 30 June 2016. The interest rate is 15%pa and there is a facility fee of one million Optiscan shares with provision for penalty fees if loan not repaid by 30 December 2016.

Substantial board changes were made on 2 May 2016 as disclosed in the Directors' Report.

A Chief Executive Officer was appointed on 12 May 2016.

Update on co-operation agreements with Carl Zeiss Meditec (CZM):

Execution of our key responsibilities under the co-operation agreements with Carl Zeiss Meditec (CZM) continues to be an area of focus for the Company. Zeiss are the pre-eminent market force in the microsurgical visualisation market and their engagement with Optiscan is therefore a significant endorsement of Optiscan's technology.

Zeiss believes that CNEM (confocal neuro endomicroscopy) is a significant development enabling new applications in neurosurgery and related disciplines such as spine and ENT that may become an important tool for diagnostic visualization in the operating room.

As announced September 2015, extensive review of the longstanding collaboration between Optiscan and CZM resulted in a new agreement. This featured substantial anticipated revenues and cash flows from milestone payments being achieved, additional engineering works and supply of further systems and components.

Steady progress has already been made under the new agreement, involving priority allocation of the majority of company resources. To date, cash flows received under the September 2015 agreement total EUR 500,237 (AUD 756,474) comprised of an upfront payment, completion of key engineering works and payment for supply of components.

There has also been a minor extension and upfront shift of interim engineering services and supply of components. These bring forward anticipated cash flows of EUR 60,200 (AUD 88,000) in the short term.

Further cash flows of EUR 298,400 (AUD 459,000) are anticipated to end calendar 2016 associated with further engineering services and delivery of components.

Notes to the Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2015

9 EVENTS AFTER BALANCE DATE (continued)

Subject to successful completion of key project milestones, cash flows in the second half FY 2017 are anticipated to be approximately EUD 450,000 (AUD 662,000) for further supply of components.

10 COMMITMENTS AND CONTINGENCIES

Since the last annual reporting date, there have been no material changes in any commitments and contingencies.

11 LOANS WITH RELATED PARTIES

An entity associated with Non-executive Director, Mr Ian Mann, provided, in December 2015, a loan of \$300,000 having a first charge over the company and interest charge of 15% which was subsequently repaid on 29 February 2016. Another entity, also associated with Mr Ian Mann, refinanced that loan at 10% on 29th February 2016, injected an additional \$200,000 on that date with a further \$100,000 advanced on 27 April 2016. The first charge over the company of the second facility was made subordinate to the 29 April 2016 R&D facility (refer Note 9). No establishment, penalty or any other kind of fees were charged on either related party loan.

Directors' Declaration

In accordance with a resolution of the directors of Optiscan Imaging Limited, I state that:

1 In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:
 - i giving a true and fair view of the financial position as at 31 December 2015 and the performance for the half year ended on that date of the Group; and
 - ii comply with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board of Optiscan Imaging Limited



Alan Hoffman
Chairman
25 May 2016

Independent Review Report to the members of Optiscan Imaging Limited

Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Optiscan Imaging Limited, which comprises the statement of financial position as at 31 December 2015, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Optiscan Imaging Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Optiscan Imaging Limited is not in accordance with the *Corporations Act 2001*, including:

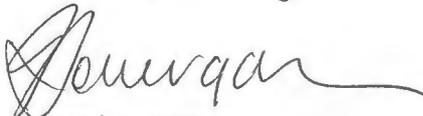
- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Material uncertainty regarding continuation as a going concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of matters described in Note 2 'Going Concern' to the financial report, there is material uncertainty whether the consolidated entity will be able to continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

Ernst + Young

Ernst & Young



Joanne Lonergan

Partner

Melbourne

26 May 2016