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August 23, 2017

Dear Shareholder,

During the 2017 financial year we embarked on a growth strategy that we believe will add material value to Ellex.

After four successive years of profit growth to 30 June 2016, in 2017 we commenced a major effort to leverage the well-known Ellex brand and to increase our sales and marketing investment in the two business segments that offer transformational growth potential: Ellex iTrack™, our single-use microcatheter for treating glaucoma and Ellex Retinal Rejuvenation Therapy (Ellex 2RT®), our promising laser therapy for early/intermediate stage age-related macular degeneration. We underpinned the business with a capital injection of \$10 million to support this investment, and to secure new Company-owned premises.

The relocation of our main business premises, inclusive of our corporate headquarters, to a new state-of-the-art facility located in Mawson Lakes, South Australia, was a significant growth initiative achieved during the period. Ellex acquired buildings of 7400 m<sup>2</sup> area situated on 22,000 m<sup>2</sup> of land located approximately 15 km from the Adelaide CBD, located in an established technology park amidst a range of hi-tech businesses. We now own a cutting-edge laser and ultrasound manufacturing facility and precision machine shop, offering enhanced production capacity, improved operational efficiencies and long-term control over our manufacturing capability. A key milestone in connection with this relocation was the successful completion of a Therapeutic Goods of Australia (TGA) conformity assessment audit. Recognised across the globe, this is the defining audit that clears the facility to manufacture regulated medical devices for sale worldwide.

The decision to invest in these growth initiatives, despite the burden to the business of the appreciation of the Australian dollar against the US dollar and the Euro (our major sales currencies), resulted in a substantial fall in reported group profit in 2017. Along with the Management Team, the Board is confident that the investment in Ellex iTrack™ and Ellex 2RT® is critical in exploiting the Company's future value, thereby contributing to long-term shareholder value growth.

To better inform the market and facilitate shareholder understanding we increased our disclosures in 2017, outlining sales and expenses in each of the Company's three business segments, namely; Core laser and ultrasound, Ellex iTrack™ and Ellex 2RT®.

Going forward, the mission of the Core business is to profitably deliver best-in-class laser and ultrasound products to ophthalmologists globally. The Ellex iTrack™ business provides the Company with material revenue growth in 2018 and beyond as it exploits its leadership position in the fast-growing minimally invasive glaucoma surgery (MIGS) market. We believe that a continued investment in sales and marketing is required to support this. The Ellex 2RT® business has the potential to provide further revenue growth in 2019 and beyond, although the magnitude of this impact will depend critically on the outcome of a seminal clinical trial, the results of which are expected to be released in late 2018. In the interim, we are quietly pleased with the anecdotal feedback we are receiving from a select group of clinical partner doctors in Australia, Europe and New Zealand who are treating patients outside the trial with Ellex 2RT®.

Thank you for your ongoing support and we look forward to growing shareholder value.

Sincerely,

A handwritten signature in dark ink, appearing to read "V. Previn".

Victor Previn, Ellex Chairman

**Ellex  
Medical  
Lasers  
Limited**  
*Annual  
Report  
2017*





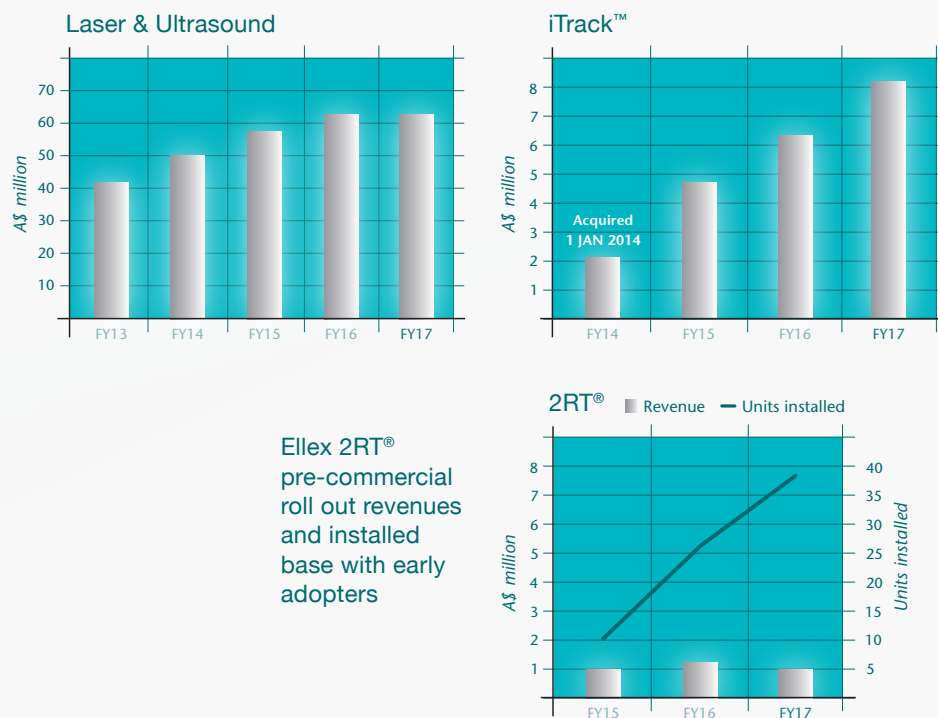


Set for growth

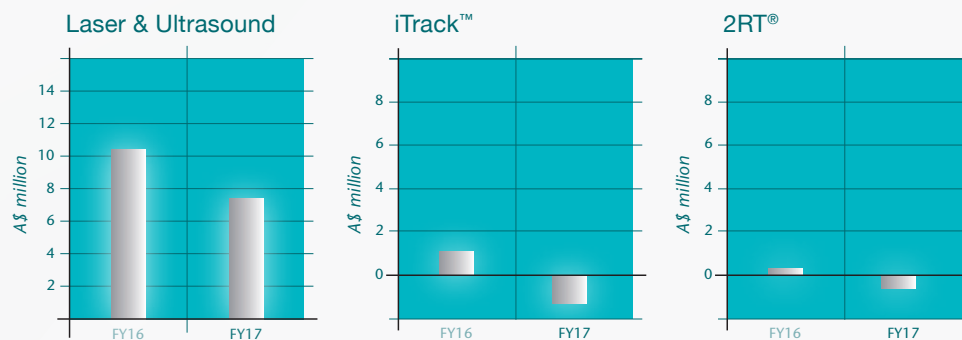
## Financial performance: Ellex business segments

Three business segments, one theme: Pioneering minimally invasive ophthalmic devices and technologies that provide physicians with comfortable financial return, reduced costs to the patient and the wider healthcare system, and improved patient care. Ellex's strong core laser and ultrasound business provides the opportunity to leverage the transformational growth opportunities offered by iTrack™ and 2RT®.

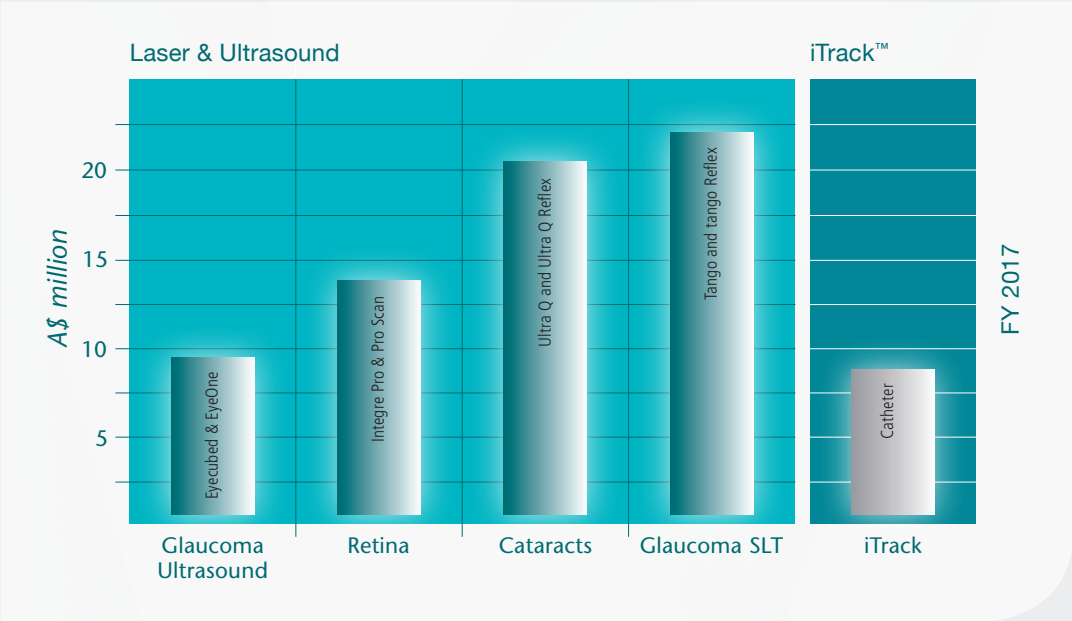
### Revenue



### EBITDA



**Sales  
by Eye  
Disease:  
Category/  
Product**



**Targeting  
a large &  
growing  
market**



## **The big move to Mawson Lakes**

A significant highlight for FY 2017 has been the much anticipated move to our purpose built facility at Mawson Lakes.

The attention to detail and depth of planning that went into the building's functionality and design was no less than would be expected from a company at the forefront of innovative ophthalmic technology.

Efficiency, productivity and cost controls were primary considerations, with logical workflows, and work areas designed to accommodate precision manufacturing.

A major feature is the Controlled Environment Room (CER), which is a state of the art, dust free space where our lasers are built to eliminate any risk of contamination, elevating the quality of our products to an exceptional standard.

Early indications have already shown measurable reductions in costs and manufacturing time per unit, without any risk of compromising the quality and reliability of our products.



## Sales and marketing

'The relationship with our customers is unique. They are not the primary beneficiary of what our product does - their customer is.'



Lisa Farquhar,  
Chief Marketing Officer

The emphasis on marketing at Ellex has changed significantly over the years, moving from an entirely engineering centric mindset of, 'how do we build it?', to a customer centric strategy of, 'what does the market need and want?'.

For many businesses, marketing is simply a process of actively promoting a brand and its products through strategic advertising and promotional activities. While these tactics work well in segments such as consumer products and services, for a business like Ellex, this approach simply doesn't work.

The relationship with our customers is unique. They are not the primary beneficiary of what our product does - their customer is. We literally need to create two value propositions to help our customers make an informed buying decision; the commercial case for capital investment in the product, while defining the value the technology adds to their patients' lives. The most effective way to communicate both is through customer education.

### **An education based approach to marketing**

Creating awareness and demand for our products is almost entirely dependent on constant engagement with those within the ophthalmic community. At the heart of this engagement is a range of educational activities including;

- *Trade shows*
- *Wet lab pseudo surgery*
- *Educational seminars*
- *Medical Advisory Board (Made up of industry professionals)*
- *Live surgery events which are broadcast to a global audience*
- *Hosting webinars with live Q&A sessions*
- *Writing and publishing White Papers*
- *Assisting ophthalmic professionals to publish their research in medical journals*

Educating professionals within the ophthalmic industry helps them to easily understand how our products can add value to their business, and the lives of their patients, whether it is through quicker and safer procedures, or by offering a solution that never previously existed.



### **iTrack shines in glaucoma MIGS treatment**

One of our greatest marketing success stories for 2017 is iTrack™, a patented microcatheter used in the treatment of glaucoma. Less invasive than traditional glaucoma surgery, iTrack™ delivers significantly improved surgical outcomes combined with reduced risk and discomfort to the patient.

Our marketing team have done an outstanding job educating the ophthalmic community about this industry leading product, resulting in month-on-month sales growth in the US, with strong growth in other key markets also achieved.

## Manufacturing

‘Without exception, one of the most compelling influences on operational performance has been the move to our new facility at Mawson Lakes. The ability to logically design an entire complex around our manufacturing processes has created a significant boost in productivity’.



David Giorgio,  
Manufacturing Manager

From humble origins in 1985 as a single product business, Ellex has evolved into an industry leading manufacturer of ophthalmic lasers and ultrasound, which are respected throughout the globe for their innovative functionality, superior quality and outstanding reliability.

Unlike a traditional manufacturing plant, Ellex is more hi-tech facility than production line, and in the place of factory workers is a team of incredibly skilled technicians - artisans with the unique ability to build precision ophthalmic lasers.

Embedded within the Ellex culture is an absolute passion for what we do, which carries through to the uncompromising standards of workmanship.

### Introduction of Lean Manufacturing & Continuous Improvement

The operational objectives of every manufacturer are to maximise productivity and efficiency, while minimising waste and defective products, and Ellex is no exception. We have recently introduced Lean Manufacturing initiatives in conjunction with existing operational management tools, to gain better control over our manufacturing processes.

An unrelenting approach to Continuous Improvement also ensures that we are constantly measuring and reviewing what we do and how we do it.

### Management Information: *Better decisions, faster*

As with any expanding business, the volume of information and the ability to control it becomes exponentially more complex to not only manage, but to leverage as a tool in effective decision making across the entire enterprise.

Part of our strategy to improve how we use and manage information has been the commencement of software based management tools, including Enterprise Resource Planning (ERP) for production process management, Material Requirements Planning (MRP) for production planning, scheduling and inventory management, and Production Lifecycle Management (PLM) for managing a project from development through to production.



### **Productivity boost: *The move to Mawson Lakes***

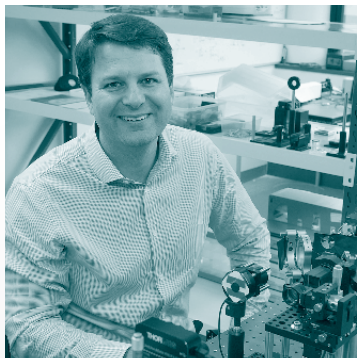
Without exception, one of the most significant influences on operational performance has been the move to our new facility at Mawson Lakes. The ability to logically design an entire complex around our manufacturing processes has created a boost in productivity.

### **Committed to manufacturing in Australia**

Ellex has always been committed to retaining manufacturing in Australia, and while many manufacturing businesses move their facilities offshore to reduce costs, we believe that controlling the incredibly high standards of workmanship and quality that our brand is renowned for can only be maintained within the confines of our own operations.

## Engineering

'We are, first and foremost, a business that needs to get products to market efficiently and profitably'.



*David Haarhoff,  
Engineering Manager*

The DNA of Ellex is deeply etched with a rich engineering history - it's fundamental to everything we do. As a company, we have successfully harnessed a composite of engineering disciplines to create some of the most complex medical devices on the planet.

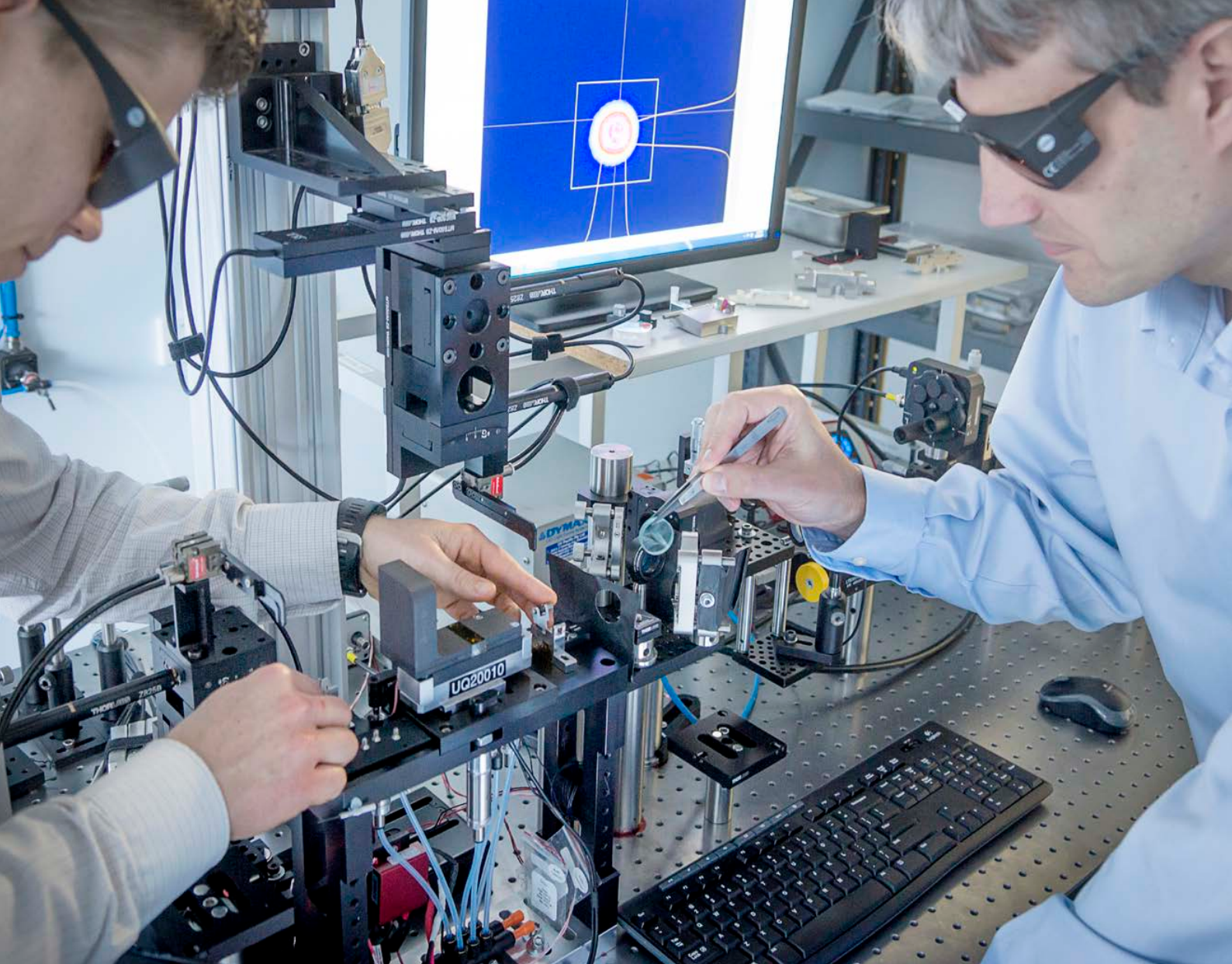
While our origins were spawned from the defense industry, we have evolved to become masters of the finite, refining the control of laser and ultrasound technologies to such a degree, that ophthalmic surgeons can use these tools to gently manipulate and heal the most sensitive organ of all - the human eye.

### **Masters of innovation**

As serial innovators, we are constantly working on development projects to enhance the products we already manufacture, and the evolution of new products through combining technologies to conceive ideas that are entirely new to the world.

In ophthalmic laser terms, Ellex is recognised as a prolific innovator and developer of new products. Our success rate is high, our quality standards, even higher. At the heart of our success is the ability to leverage our enormous knowledge base and experience.

Ellex is blessed with an abundant engineering brains trust. The years of experience and knowledge within the ophthalmic industry is in itself a powerful engineering resource that is impossible to replicate. Our invaluable relationships with various universities also enables us to tap into new research, test our products and ideas, conduct clinical evaluations, or simply work together on concepts and ideas. And perhaps most important of all, is the unique relationship we have with so many stakeholders within the ophthalmic industry, whose insight so often guides our innovation towards success.



### **From concept to commercial reality**

The role of engineering within Ellex is so much more than innovation and product design; it is also about the realities of commercialising a product. We are, first and foremost, a business that needs to get products to market efficiently and profitably. There are engineering challenges to overcome, and clinical trials which must deliver or the development phase will have been all for nought.

There is also the challenge of creating products that are efficient to produce and maximise existing resources throughout the

organisation. We achieve this by leveraging the architecture and software for both our laser and ultrasound products. The inherent efficiencies reduce the need for individual engineering teams for each product category, while also simplifying our customer support services.

As history has proven time-and-time again, our engineers truly are masters of their profession. The Ellex brand irrefutably stands as a symbol of innovation, quality and engineering excellence right across the globe.

## Product Management

‘Eye disease isn’t a nuisance;  
it’s life changing.’



Jennifer Hall,  
Product and Marketing Manager

The Product Management team has been tasked with not only identifying new sales and marketing opportunities, but also identifying unfulfilled product needs in the market, both domestic and across the globe.

### **2RT® for Age-Related Macular Degeneration (AMD)**

A product that has captured the ophthalmic world’s imagination is our Retinal Rejuvenation Therapy laser, 2RT®. Currently in the final stages of clinical trials, 2RT® shows promise as an early interventional treatment for macular degeneration.

With one in seven Australians over the age of 50 affected by Age-Related Macular Degeneration (AMD), the scale of the market is enormous, especially when set in a global context.

The proprietary, patented laser technology of 2RT® has the potential to slow the progression of AMD and initiate the healing process, potentially revolutionising the treatment of AMD.

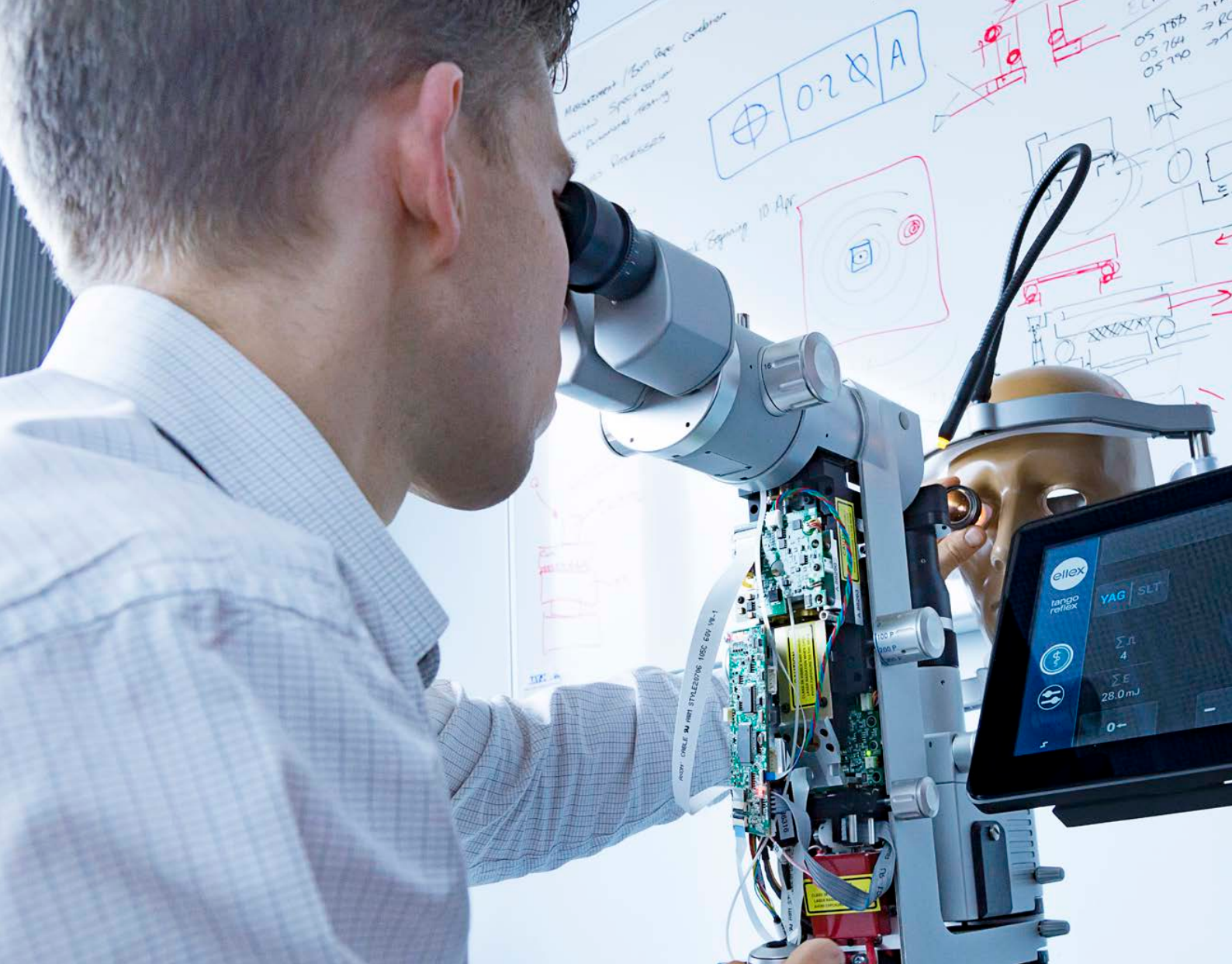
### **Combating eye disease across the globe**

The role of the Product Management team has a distinctly global view, with a particular focus on entry into the BRIC nations (Brazil, Russia, India and China). While these populations are vast, what is less understood is the willingness and capacity of governments to fund reimbursement of eye treatment in these regions.

According to the World Health Organization (WHO) Eye Care Report, eye disease is a global problem. 285 million people are visually impaired, with 90% of impairment due to chronic eye diseases.

The economic benefit to governments that address eye disease is significant. The WHO report went on to say that \$102 billion could be saved globally with appropriate eye care. While this global view of eye disease illustrates the scale, it is important to also understand the impact from an individual perspective.

A study that looked into the negative effect of floaters on the lives of patients is a case in point. On average, patients were willing to give up 1.1 out of every 10 years of their remaining life if the symptoms of floaters were removed. They were also willing to accept an 11% risk of death and a 7% risk of blindness.



Eye disease isn't a nuisance; it's life changing. Livelihoods and careers are destroyed by failing eyesight. Lifestyles are adversely affected, while many also carry the psychological scars of depression, anxiety and crippled self-esteem due to vision impairment or blindness.

Our goal is to identify the specific treatment needs that exist across the entire spectrum of eye diseases, the technologies that exist - or are lacking and need to be provided - and how we can leverage the Ellex products into these markets.

For the strategy to succeed, it requires detailed research and engagement with stakeholders at every level, from the ophthalmic community to government and non-government organisations (NGO's).

Major marketing initiatives have the scope to not only generate significant revenue, but also contribute to the innovation process through product development integration with our engineering department.



## Chairman's Letter

## Chairman's Letter



*Victor Previn,  
Chairman*

Dear Shareholder,

During the 2017 financial year we commenced a growth strategy that we believe will add materially to the value of Ellex.

First, we have invested in the establishment, and move to, a state-of-the-art laser and ultrasound manufacturing facility and precision machine shop at Mawson Lakes in South Australia. This provides Ellex with additional production capacity, improved operational efficiencies and long-term control over our manufacturing capability. The core laser and ultrasound business provides a strong base for the Company and ensures that the 'Ellex' brand name is known to every ophthalmologist worldwide.

Second, after four successive years of profit growth to 30 June 2016 we commenced a major effort in 2017 to leverage the Ellex brand and to increase our sales and marketing investment in the two business segments that have transformational growth potential; Ellex iTrack™, our single-use micro-catheter for glaucoma, and Ellex 2RT®, our promising laser therapy for early/intermediate stage age-related macular degeneration (AMD). This decision, along with the impact of the material appreciation of the Australian dollar against the US dollar and the Euro (our major sales currencies), has resulted in a substantial fall in reported group profit in 2017.

Despite the fall in earnings in 2017, we are of the firm view that investment in Ellex iTrack™ and Ellex 2RT®, along with sound management for the core business, will lead to long-term shareholder value growth. To facilitate shareholder understanding we have increased our disclosures in 2017 to describe our sales and expenses in each of our three business segments; core laser and ultrasound, Ellex iTrack™ and Ellex 2RT®.

Going forward, the mission of the core business is to profitably deliver best-in-class laser and ultrasound products to ophthalmologists globally. Ellex iTrack™ provides us with material revenue growth in 2018 and beyond as it exploits its leadership position in the fast-growing minimally invasive glaucoma surgery (MIGS) market. We believe that a continued investment in sales and marketing is required to support this. Ellex 2RT® has the potential to provide further revenue



growth in 2019 and beyond, but this will depend critically on the outcome of a seminal clinical trial, the results of which are expected to be known around mid-2018. In the meantime, we are quietly pleased with the anecdotal feedback we are receiving from our early adopter doctors who are using 2RT in Australia, Europe and New Zealand in patients with early AMD.

Thank you for your patience in 2017 and we look forward to driving up shareholder value in 2018.

V Previn

Chairman

Adelaide, 23 August 2017

## Corporate Governance

The company has adopted and substantially complies with ASX Corporate Governance and Principles and Recommendations, *3<sup>rd</sup> Edition ASX Corporate Governance Council*.

The Corporate Governance Statement which was approved by Board of Directors on 26 July, 2017 is available for viewing on our website

[www.ellex.com](http://www.ellex.com)

## Directors' Report

## Directors' Report

The directors of Ellex Medical Lasers Limited submit herewith the annual financial report of the Company for the financial year ended 30 June 2017. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

The names and particulars of the directors of the Company during or since the end of the financial year are:



**Victor Previn, Chairman**

Victor Previn was appointed a director on 16 July 2001 after the acquisition of Ellex Laser Systems. Victor Previn is a professional engineer and one of the original founders of Ellex. His career spans more than 30 years in the laser industry. Mr Previn was responsible for developing and commercializing the technology platform that is now the core of Ellex's current production. He has spent more than 29 years in the ophthalmic laser industry travelling widely throughout Asia, Europe and the USA in a business development capacity.

Mr Previn held the position of Managing Director from 2003 to 2005. In July of 2005, Mr Previn was elected Chairman of the Ellex board of directors. He is also a member of the Audit & Risk Committee and the Remuneration Committee.

Mr Previn beneficially holds shares of 9,316,031 as at 23<sup>rd</sup> August, 2017.



**Alex Sundich**

Alex Sundich was appointed a non-executive director on 22 July 2005. Alex is currently a director of Bridge Street Capital Partners, a corporate advisory and principal investment firm. From 2002 to 2008, Alex was a senior executive in the funds management industry. Prior to this, he was an investment banker with Goldman Sachs and CSFB, involved in mergers and acquisitions and capital raisings. Alex is currently the Chairman of Petrel Energy Limited and Cleveland Mining Limited. He is currently chairman of the Audit & Risk Committee.

Mr Sundich beneficially holds shares of 6,300,000 as at 23<sup>rd</sup> August, 2017.



Giuseppe Canala was appointed an Independent Director on 17 October 2008. His tenure of 9 years as a director is now a non-Executive Director. Giuseppe is an experienced company director with a range of laser-related companies. He has a professional engineering and economics background. As an original co-founder of Ellex, he has served the Company in a broad range of management roles, including Director of Engineering, Operations Manager, Managing Director and Company Secretary. He was the Chairman from 1990 to 2001. He is currently a member of the Audit & Risk Committee and Remuneration Committee.

Mr Canala holds a Bachelor of Technology Degree in Electrical Engineering from the University of Adelaide and a Bachelor of Arts Degree in Sociology and Economics from La Trobe University. He is a fellow of Australian Institute of Company Directors.

Mr Canala beneficially holds shares of 3,061,788 as at 23<sup>rd</sup> August, 2017.

### Giuseppe Canala

*The above named directors held office during and since the end of the financial year unless otherwise stated.*



**Rahmon Coupe**

Rahmon Coupe was appointed an Independent Director on 15 May 2013. Mr Coupe is Chief Executive Officer and Director of YourAmigo Limited, an organic search engine solutions company. Mr Coupe has more than 28 years' experience in the areas of corporate management, intellectual property management, contract negotiation, business development and engineering and has worked across a diverse range of industries, including information technology and the internet, life sciences and public broadcasting. Mr Coupe has held various project and engineering management roles for government research-based organisations, including the Defence Science and Technology Organisation (DSTO).

Mr Coupe holds an Honours Degree in Electrical and Electronic Engineering from the University of Adelaide and was awarded the Ernst & Young Entrepreneur of the Year in Technology and Emerging Industries for the Central Region of Australia in 2009.

Mr Coupe beneficially holds shares of 874,400 as at 23<sup>rd</sup> August, 2017.



**Meera Verma**

Meera Verma was appointed an Independent Director on 15 May 2013. Dr Verma is a professional executive with expertise spanning the global healthcare, product development and biotechnology delivery industries. She is the principal of Headland Vision, a strategic product development advisory and consultancy company, and previously served as Site Director for the Adelaide-based R&D and manufacturing facility of Hospira Inc, a global speciality pharmaceutical and medication company, now part of Pfizer. Dr Verma is a Fellow of both the Australian Academy of Technological Sciences and Engineering (ATSE) and the Australian Institute of Company Directors.

Dr Verma holds a Doctoral Degree in Biochemistry from the University of Adelaide and is a Non-Executive Director of Biosensis Pty Ltd and (not-for-profit) Trees for Life. She is currently a member of the Remuneration Committee.

Dr Verma beneficially holds shares of 49,000 as at 23<sup>rd</sup> August, 2017.

**Group Chief  
Executive Officer**



**Tom Spurling**

Tom Spurling was appointed Group Chief Executive Officer in March 2011. Mr Spurling has nearly 30 years of senior management experience across the defence, mining and manufacturing sectors, both domestically and internationally. He was formerly Managing Director and General Manager of Tenix LADS Corporation, technology originally licensed by Tenix from the Australian Department of Defence.

Mr Spurling holds a Bachelor degree in Economics from the University of Adelaide and is a Chartered Accountant.

**CFO & Company  
Secretary**



**Maria Maieli**

Maria Maieli was appointed Company Secretary on 1 January 2013. Ms Maieli joined Ellex as Chief Financial Officer in May 2011. She has over 25 years of senior financial management experience in public and private companies, specialising in international tax and reporting, and corporate compliance and governance. Ms Maieli was formerly Finance Manager of Penrice Soda Holdings Limited, an ASX-listed company that owns and operates the largest marble and limestone mine in Australia.

Ms Maieli holds a Master's Degree in Professional Accounting from the Southern Cross University and is a Certified Practising Accountant (CPA) and a member of the Governance Institute of Australia after completing her Applied Diploma in Corporate Governance.

## Directors' Report

### Principal activities

During the year, the principal activities of entities within the Group were:

- global leader in design and manufacture of lasers and ultrasound systems
- distribution and service of medical devices to ophthalmologists to diagnose and treat eye disease
- manufacture and distribution of iTrack glaucoma surgical devices.

There have been no significant changes in the nature of these activities during the year.

### Review of operations

During the 2017 financial year we commenced reporting our business in three segments; the core lasers and ultrasound business, the Ellex iTrack minimally invasive glaucoma surgery (MIGS) business and 2RT for early/intermediate age related macular degeneration. In reporting on these business segments separately, we are recognising that each of the business segments are at different stages in the growth cycle and require different levels of investment and different management emphasis.

Concurrent with the decision to report in segments, a program of investment in sales and marketing primarily in the USA for the Ellex iTrack business was commenced during the second half of the 2017 financial year. This gave rise to a significant increase in sales for iTrack in the second half, in particular the last quarter. This sales growth is expected to accelerate in the 2018 financial year as the investment in commercial infrastructure continues. Ellex iTrack is uniquely positioned in the burgeoning global market for MIGS devices.

Sales for iTrack were \$8.2m which was 35% up on 2016. The net loss before tax for the year for the iTrack business segment was \$1.3m. This compares with a profit before tax of \$1.1m in 2016 financial year.

The core laser and ultrasound business reported sales of \$62.4m. This was a 1% fall in sales compared with 2016 after adjusting for the negative impact on the business of the appreciation of the Australian dollar against the Euro and the USA dollar. This business segment reported good sales growth in lasers for secondary cataracts, vitreous opacities and glaucoma primarily as a result of the release of the Tango Reflex laser during November 2016. This sales growth was offset by a fall in revenue for lasers for treating the retina due to competition from pharmaceuticals and, to a lesser extent, other laser manufacturers. Revenue

from ultrasound line also fell a little as a result of technical delays in the first half in the launch of a new ultrasound product that were not recovered in the second half. Profit before tax for the laser and ultrasound segment, after adjusting for the impact of currency changes was \$9.0m (14.4% of sales) compared with \$10.3m (15.8% of sales) in 2016.

The 2RT segment, an emerging, promising potential laser treatment for patients with early to intermediate macular degeneration incurred a loss before tax of \$0.6m on sales of \$1.0m. This compares with a profit of \$0.3m on sales of \$1.4m. This represents a net additional investment of \$0.9m in marketing and clinical. Sales for this segment are not expected to materially change until the results of the clinical trial 'Laser intervention in Early Age related macular degeneration (LEAD)' are known. This clinical trial will read out at the end of the 2018 financial year.

As a result of the investments in iTrack and 2RT and the impact of the appreciation of the Australian dollar on sales, a loss before tax of \$2.0m was reported in 2017. This compares with a profit before tax of \$4.2m in 2016.

Of particular importance in 2017 was the finalisation of the move of laser and ultrasound production facilities from the CBD of Adelaide to Mawson Lakes, 15km north of Adelaide. The new facility at Mawson Lakes provides considerable production expansion capability and enables the co-location of laser & ultrasound assembly with precision parts machining.

Cash flow from operations fell with the increase in spending on sales and marketing for iTrack and as a result of increase in inventories. The high inventory had two causes; inventory build required to support the move of lasers and ultrasound production facilities and; lower than planned sales, particularly of retinal lasers. This inventory will reduce during the 2018 financial year.

Net cash used for investing activities increased as a result of investments in new production site (\$6.0m, compared with \$3.7m in 2016) and product development expenditure (\$3.1m compared with \$2.7m in 2016).

Cash to support the operating activities and the investment activities was provided by the issue of shares (\$10.2m) and increase in borrowings (\$6.0m).

### Financial position

As at 30 June 2017, the net assets of the consolidated group increased by \$8.6 million from 30 June 2016 to \$56.9 million.

The Board's goal is to continue to foster improved operational and profit performance whilst investing in future growth of the Ellex business.

### Environmental regulations

The group holds licences to operate the manufacturing processes required to produce its products. It is not subject to significant environmental regulation or reporting requirements. There have been no known significant breaches of the group's licence conditions.

### Future developments

The Company will continue to focus on the further development of its business being the development, manufacture, service and distribution of ophthalmic medical equipment for use in ophthalmic procedures worldwide and business related to these capabilities.

The market in which the business operates is very competitive. Therefore further disclosure of information regarding likely developments in the operations of the consolidated group in future financial years and the expected results of those operations is likely to prejudice the competitive position of the consolidated group. Accordingly, this information has not been disclosed in this report.

### Dividends

No dividend has been declared with respect to the year ended 30 June 2017 (2016: Nil).

### Share options

At the date of this report there are no shares under option.

There were no shares or interests issued during the financial year to directors, executives and staff as a result of exercise of an option.

### Indemnification of officers and auditors

During the financial year, the Company paid a premium in respect of a contract insuring the directors of the Company (as named above), the Company Secretary, and all executive officers of the Company and of any related body corporate against a liability incurred as such a director, secretary or executive officer 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.

The Company has not otherwise, during or since the end of financial year indemnified or agreed to indemnify an officer or auditor of the Company or of any related body corporate, against a liability incurred as such an officer or auditor.

### Diversity

The gender quality indicators in accordance with WGEA report for the financial year 30 June 2017 are:

|              | Total | Production | Others | Middle Management | Senior Management | Board |
|--------------|-------|------------|--------|-------------------|-------------------|-------|
| All Staff    | 317   | 87         | 181    | 19                | 25                | 5     |
| Female Staff | 100   | 24         | 63     | 4                 | 8                 | 1     |
| % of total   | 32%   | 28%        | 35%    | 21%               | 32%               | 20%   |

Portion of Female Employees of Ellex Medical Lasers Limited as at 30 June 2017.

The WGEA report is available on our website [www.ellex.com](http://www.ellex.com)

### Directors' meetings

The following table sets out the number of directors' meetings (including meetings of committees of directors) held during the financial year and the number of meetings attended by each director (while they were a director or committee member).

| Directors | Board of Directors |          | Audit & Risk Committee |          | Remuneration Committee |          |
|-----------|--------------------|----------|------------------------|----------|------------------------|----------|
|           | Held               | Attended | Held                   | Attended | Held                   | Attended |
| V Previn  | 13                 | 13       | 3                      | 3        | 4                      | 4        |
| A Sundich | 13                 | 12       | 3                      | 3        | -                      | -        |
| G Canala  | 13                 | 13       | 3                      | 3        | 4                      | 4        |
| R Coupe   | 13                 | 12       | -                      | -        | -                      | -        |
| M Verma   | 13                 | 13       | -                      | -        | 4                      | 4        |

### Remuneration report - Audited

This remuneration report, which forms part of the director's report, sets out information about the remuneration of the directors and executives for the financial year ended 30 June 2017 in accordance with the Corporations Act 2001 and the Corporations Regulations 2001. The prescribed details for each person covered by this report are detailed below under the following headings:

- director and executive details
- remuneration policy for directors and executives
- relationship between the remuneration policy and company performance
- key terms of employment contracts
- remuneration of directors and executives

### Director and executive details

The directors of Ellex Medical Lasers Limited during the year were:

- Victor Previn – Chairman
- Alex Sundich – Non-executive Director
- Giuseppe Canala – Non-executive Director
- Rahmon Coupe – Independent Director
- Meera Verma – Independent Director

The group executives of Ellex Medical Lasers Limited during the year were:

- Tom Spurling – Chief Executive Officer
- Victor Previn

### Remuneration policy for directors and executives

The Board reviews the remuneration packages of all directors and executives on an annual basis. Remuneration packages are reviewed with due regard to performance and other relevant factors.

### Relationship between the remuneration policy and company performance

#### *Non-executive and Independent directors*

Total remuneration for all non-executive directors, last voted on by shareholders at the 2001 AGM, is not to exceed \$200,000 (exclusive of superannuation) per annum and is set based upon advice from external advisors with reference to fees paid to other non-executive directors of comparable companies. Non-executive and independent directors' base fees are presently \$30,000 per annum.

The Chairman receives a director's fee of \$20,000 plus \$10,000 chairman's fee per annum. Director's fees cover all main Board functions but exclude membership of the Audit & Risk Committee. A fee of \$5,000 per annum is payable for membership of the Audit & Risk Committee. In addition, the Company pays compulsory superannuation. The Company does not have a formal Board Retirement scheme. Non-executive directors do not receive any performance related remuneration.

### *Executive directors and executive management*

Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the consolidated group's diverse operations, recognising the Company's size, industry and location.

Remuneration and other terms of employment for executives are reviewed annually by the Board having regard to the individual's performance against goals and business plans, relevant comparative data and employment market conditions and independent expert advice.

Remuneration packages of executives incorporate a base salary (which can be taken as cash or fringe benefits), superannuation and performance-related short and long term incentives. The fixed component of remuneration is set to provide a base that is both appropriate to the position and is competitive in the market.

Short-term incentive payments are discretionary and take into account the extent to which specific operating targets set at the start of the financial year have been achieved. The operational targets consist of a number of key performance indicators (KPIs) covering both financial and non-financial measures of performance, the primary measure being the performance against profit targets.

Long-term incentives are linked to the improvement in the market value of the Company. The long term incentive is intended to reward efforts and results that promote long term growth in shareholder value.

The remuneration of key management personnel is based on an annual assessment of the individual's performance with reference to external data pertaining to executive remuneration. There is no link between the Company's performance and the setting of remuneration except as discussed previously.

Targets are defined as either Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) or Earnings Before Tax (EBT) or Regional Contribution margin, or sales growth depending on the business segment and the role of the employee involved. These have been chosen as the key measures by the Board as the

most reflective performance indicators for the organisation at this point in its life cycle.

The tables below set out summary information about the consolidated group's earnings and movements in shareholder wealth for the five years to June 2017.

|                              | 30 June 2017 | 30 June 2016 | 30 June 2015 | 30 June 2014 | 30 June 2013 |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
|                              | \$'000       | \$'000       | \$'000       | \$'000       | \$'000       |
| Revenue <sup>(i)</sup>       | 71,635       | 72,913       | 62,679       | 54,378       | 42,805       |
| EBITDA                       | 1,579        | 7,876        | 5,605        | 2,987        | 1,726        |
| Net (loss)/profit before tax | (1,959)      | 4,190        | 2,631        | 1,311        | 140          |
| Net (loss)/profit after tax  | (894)        | 3,027        | 1,680        | 788          | (816)        |

<sup>(i)</sup> Revenue includes revenue from sale of goods on ongoing operations as per note 2 in the accounts.

|                              | 30 June 2017 | 30 June 2016 | 30 June 2015 | 30 June 2014 | 30 June 2013 |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
|                              | \$           | \$           | \$           | \$           | \$           |
| Share price at start of year | 0.960        | 0.310        | 0.375        | 0.200        | 0.115        |
| Share price at end of year   | 1.090        | 0.960        | 0.310        | 0.375        | 0.200        |
| Interim dividend             | -            | -            | -            | -            | -            |
| Final dividend               | -            | -            | -            | -            | -            |
| Basic earnings per share     | (0.76)cps    | 2.77cps      | 1.56 cps     | 0.73 cps     | (1.0) cps    |
| Diluted earnings per share   | (0.76)cps    | 2.77cps      | 1.56 cps     | 0.73 cps     | (1.0) cps    |

### Key terms of employment contracts

Remuneration and other terms of employment of the Chief Executive Officer and senior executives are formalised in service agreements.

The payment of bonuses and other incentive payments are reviewed by the Remuneration Committee annually as part of the review of executive remuneration and a recommendation is put to the Board.

#### Tom Spurling – Chief Executive Officer

- Total remuneration package of \$360,677 inclusive of superannuation to be reviewed annually.
- Employer or employee may terminate employment on giving of 90 days' notice and in the event of early termination at the option of the employer, by payment of a termination benefit equal to the base salary for the unexpired period of notice. The termination benefit may be reduced by any amounts due to the Company under the long-term incentive arrangement.
- A short-term incentive payable at time of annual review, incentive will be at the

discretion of the Board and based on overall performance of previous financial year. Range of incentive is \$25,000 to \$50,000.

- A long-term incentive in an interest-free loan of \$49,990 was granted on 28 February 2017 of which 39,125 shares at \$1.28 were purchased. The principle amount of this loan is only repayable from proceeds of the sale. On 30 September 2016, \$17,236 was repaid to the company from previous shares granted.
- There are no share options outstanding at the end of the year. There are no vesting conditions attached to the shares granted.

#### Victor Previn – Senior Executive

- Salary package of \$100,000 exclusive of superannuation to be reviewed annually.
- Employer or employee may terminate employment on giving of 90 days' notice and in the event of early termination at the option of the employer, by payment of a termination benefit equal to the base salary for the unexpired period of notice.

## Remuneration of directors and executives

### Elements of director and executive compensation

The remuneration structure that has been adopted by the Group consists of the following components:

- Fixed salary/fees
- Benefits – including the provision of motor vehicle, superannuation and health benefits

- Short term incentive (STI) – the performance measures are set annually after consultation with the directors and executives and are specifically tailored to the areas where each executive has a level of control.

The Board may, at its discretion, award bonuses for exceptional performance in relation to each person's pre-agreed KPI's.

| 2017                      | Short-term employee benefits |                |          |                       | Post employment Benefits    |          | Share-based payment |          |          | Other long-term benefits | Total          |
|---------------------------|------------------------------|----------------|----------|-----------------------|-----------------------------|----------|---------------------|----------|----------|--------------------------|----------------|
|                           | Salary & fees                | Director fees  | Bonus    | Non-monetary benefits | Pension and super-annuation | Other    | Shares              | Options  | Rights   |                          |                |
| Directors                 | \$                           | \$             | \$       | \$                    | \$                          | \$       | \$                  | \$       | \$       | \$                       | \$             |
| V Previn                  | 100,000                      | 35,000         | -        | -                     | 12,825                      | -        | -                   | -        | -        | -                        | 147,825        |
| G Canala *                | 36,530                       | 35,000         | -        | -                     | 6,795                       | -        | -                   | -        | -        | -                        | 78,325         |
| A Sundich                 | -                            | 35,000         | -        | -                     | 3,325                       | -        | -                   | -        | -        | -                        | 38,325         |
| R Coupe                   | -                            | 30,000         | -        | -                     | 2,850                       | -        | -                   | -        | -        | -                        | 32,850         |
| M Verma                   | -                            | 30,000         | -        | -                     | 2,850                       | -        | -                   | -        | -        | -                        | 32,850         |
| <b>Executives</b>         |                              |                |          |                       |                             |          |                     |          |          |                          |                |
| T Spurling <sup>(i)</sup> | 300,000                      | -              | -        | -                     | 27,923                      | -        | 32,754              | -        | -        | -                        | 360,677        |
| <b>Total</b>              | <b>436,530</b>               | <b>165,000</b> | <b>-</b> | <b>-</b>              | <b>56,568</b>               | <b>-</b> | <b>32,754</b>       | <b>-</b> | <b>-</b> | <b>-</b>                 | <b>690,852</b> |

\* G Canala received \$36,530 in consulting fees in his capacity as a consultant.

| 2016                      | Short-term employee benefits |                |          |                       | Post employment Benefits    |          | Share-based payment |          |          | Other long-term benefits | Total          |
|---------------------------|------------------------------|----------------|----------|-----------------------|-----------------------------|----------|---------------------|----------|----------|--------------------------|----------------|
|                           | Salary & fees                | Director fees  | Bonus    | Non-monetary benefits | Pension and super-annuation | Other    | Shares              | Options  | Rights   |                          |                |
| Directors                 | \$                           | \$             | \$       | \$                    | \$                          | \$       | \$                  | \$       | \$       | \$                       | \$             |
| V Previn                  | 100,000                      | 35,000         | -        | -                     | 12,825                      | -        | -                   | -        | -        | -                        | 147,825        |
| G Canala                  | -                            | 35,000         | -        | -                     | 3,325                       | -        | -                   | -        | -        | -                        | 38,325         |
| A Sundich                 | -                            | 35,000         | -        | -                     | 3,325                       | -        | -                   | -        | -        | -                        | 38,325         |
| R Coupe                   | -                            | 30,000         | -        | -                     | 2,850                       | -        | -                   | -        | -        | -                        | 32,850         |
| M Verma                   | -                            | 30,000         | -        | -                     | 2,850                       | -        | -                   | -        | -        | -                        | 32,850         |
| <b>Executives</b>         |                              |                |          |                       |                             |          |                     |          |          |                          |                |
| T Spurling <sup>(i)</sup> | 297,801                      | -              | -        | -                     | 25,734                      | -        | 49,954              | -        | -        | -                        | 373,489        |
| <b>Total</b>              | <b>397,801</b>               | <b>165,000</b> | <b>-</b> | <b>-</b>              | <b>50,909</b>               | <b>-</b> | <b>49,954</b>       | <b>-</b> | <b>-</b> | <b>-</b>                 | <b>663,664</b> |

## Bonuses granted as compensation and additional comments – 2017 and 2016

<sup>(i)</sup> T Spurling Interest-free loan to purchase shares, refer to section 'Key terms of employment contracts'.

## Bonuses granted as compensation and additional comments – 2017 and 2016 *continued*

| Name       | Performance based remuneration |           |           |           |           |           |           |           |
|------------|--------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
|            | Fixed remuneration             |           | Bonus     |           | LTI       |           | At risk   |           |
|            | 2017<br>%                      | 2016<br>% | 2017<br>% | 2016<br>% | 2017<br>% | 2016<br>% | 2017<br>% | 2016<br>% |
| V Previn   | 100                            | 100       | -         | -         | -         | -         | -         | -         |
| G Canala   | 100                            | 100       | -         | -         | -         | -         | -         | -         |
| A Sundich  | 100                            | 100       | -         | -         | -         | -         | -         | -         |
| R Coupe    | 100                            | 100       | -         | -         | -         | -         | -         | -         |
| M Verma    | 100                            | 100       | -         | -         | -         | -         | -         | -         |
| T Spurling | 87                             | 86        | -         | -         | 13        | 14        | 13        | 14        |

## Director and executive shareholdings

The following table sets out each director's relevant beneficiary interest in shares of the Company or a related body corporate as at the date of this report:

| Name       | Beneficiary holdings of Directors and Executives |                             |           |                 |
|------------|--------------------------------------------------|-----------------------------|-----------|-----------------|
|            | Opening balance<br>1 July 2017                   | Received as<br>compensation | Movements | Closing balance |
| V Previn   | 9,316,031                                        | -                           | -         | 9,316,031       |
| A Sundich  | 6,300,000                                        | -                           | -         | 6,300,000       |
| G Canala   | 3,061,788                                        | -                           | -         | 3,061,788       |
| R Coupe    | 989,000                                          | -                           | (114,600) | 874,400         |
| M Verma    | 49,000                                           | -                           | -         | 49,000          |
| T Spurling | 599,081                                          | 39,125                      | (50,000)  | 588,320         |

## Value of options issued to directors and executives

No options were granted or exercised during the year on behalf of the company.

## Voting of shareholders at last year's annual general meeting

Ellex Medical Lasers Limited received more than 91% of "yes" votes on its remuneration report for the 2016 financial year. The company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

## Other transactions with KMP

During the financial year ended 30 June 2017, the following transactions occurred between the Group and its other related parties:

- Rental and outgoing expenses of \$73,322 (2016: \$35,705) were incurred with YourAmigo Limited, Director related entity.
- Consulting fees of \$36,530 were incurred with Giuseppe Canala.

## End of remuneration report

### Proceedings on behalf of the Company

There are currently no pending proceedings on behalf of the Company. No persons have applied for leave of the court under Section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of these proceedings. No proceedings have been brought or intervened on behalf of the Group with leave of the court under Section 237 of the *Corporations Act 2001*.

### Non-audit services

The Board has considered the non-audit services provided during the year by the auditor and, in accordance with written advice provided by resolution of the Audit Committee, is satisfied that the provision of those non-audit services during the year is compatible with, and did not compromise, the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit Committee to ensure they do not impact upon the impartiality and objectivity of the auditor
- the non-audit services do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards

Details of the amounts paid to the auditors of the Company, Grant Thornton, and its related practices for audit and non-audit services provided during the year are set out in Note 31 to the financial statements.

### Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2017 is following this Directors' report.

### Rounding off of amounts

The Company is a company of the kind referred to in ASIC Legislative Instrument 2016/191 and in accordance with that Instrument amounts in the Directors' Report and the Financial Report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of the directors made pursuant to s298(2) of the *Corporations Act 2001*.

On behalf of the Directors.



V Previn

Chairman

Adelaide, 23 August 2017



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## Auditor's Independence Declaration To the Directors of Ellex Medical Lasers Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Ellex Medical Lasers Limited for the year ended 30 June 2017, 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*

GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants

S K Edwards  
Partner - Audit & Assurance

Adelaide, 23 August 2017

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**Financial  
Information**

## Consolidated Statement of Profit or Loss and Other Comprehensive Income for the financial year ended 30 June 2017

|                                                                                      | Note | Consolidated Group |                |
|--------------------------------------------------------------------------------------|------|--------------------|----------------|
|                                                                                      |      | 2017<br>\$'000     | 2016<br>\$'000 |
| Revenue                                                                              | 2    | 71,635             | 72,913         |
| Other income                                                                         | 4(a) | 328                | 229            |
| Changes in inventories of finished goods and work in progress                        |      | 2,762              | 1,355          |
| Raw materials and consumables used                                                   | 4(b) | (33,692)           | (32,408)       |
| Employee benefits expenses                                                           |      | (24,079)           | (21,036)       |
| Legal fees                                                                           | 4(b) | (201)              | (379)          |
| Depreciation and amortisation expense                                                | 4(b) | (3,134)            | (3,148)        |
| Impairment expense                                                                   | 4(b) | -                  | (355)          |
| Advertising and marketing                                                            |      | (3,050)            | (2,323)        |
| Congress expenses                                                                    |      | (1,222)            | (804)          |
| Facility and property expenses                                                       |      | (1,963)            | (1,876)        |
| Finance costs                                                                        | 3    | (336)              | (214)          |
| Implied interest for deferred consideration                                          |      | (68)               | (324)          |
| Product development expenses                                                         |      | (1,185)            | (1,192)        |
| Foreign exchange gain                                                                | 4(b) | (169)              | 75             |
| Other expenses                                                                       |      | (7,585)            | (6,323)        |
| <b>(Loss)/profit before income tax</b>                                               |      | <b>(1,959)</b>     | <b>4,190</b>   |
| Income tax benefit/(expense)                                                         | 5    | 1,065              | (1,163)        |
| <b>(Loss)/profit for the year attributable to members of the parent</b>              |      | <b>(894)</b>       | <b>3,027</b>   |
| <b>Other comprehensive income:</b>                                                   |      |                    |                |
| <i>Items that may be reclassified subsequently to profit and loss</i>                |      |                    |                |
| Exchange differences on translating foreign operations                               |      | (338)              | 624            |
| <b>Total comprehensive income for the year attributable to members of the parent</b> |      | <b>(1,232)</b>     | <b>3,651</b>   |
| Earnings per share:                                                                  |      |                    |                |
| Basic earnings per share (cents)                                                     | 21   | (0.76)             | 2.77           |
| Diluted earnings per share (cents)                                                   | 21   | (0.76)             | 2.77           |

Notes to the financial statements are included on pages 38 to 84.

## Consolidated Statement of Financial Position as at 30 June 2017

|                                      | Note | Consolidated Group |                |
|--------------------------------------|------|--------------------|----------------|
|                                      |      | 2017<br>\$'000     | 2016<br>\$'000 |
| <b>Current assets</b>                |      |                    |                |
| Cash and cash equivalents            | 28   | 9,244              | 7,283          |
| Trade and other receivables          | 7    | 15,121             | 15,399         |
| Inventories                          | 8    | 23,416             | 18,641         |
| Other current assets                 | 9    | 911                | 1,476          |
| Current tax receivable               |      | -                  | 26             |
| <b>Total current assets</b>          |      | <b>48,692</b>      | <b>42,825</b>  |
| <b>Non-current assets</b>            |      |                    |                |
| Trade and other receivables          | 7    | 236                | 338            |
| Inventories                          | 8    | 530                | 608            |
| Property, plant and equipment        | 10   | 13,452             | 7,771          |
| Intangible assets                    | 11   | 3,879              | 4,093          |
| Capitalised development expenditure  | 12   | 13,446             | 11,579         |
| Deferred tax assets                  | 5    | 6,307              | 4,776          |
| <b>Total non-current assets</b>      |      | <b>37,850</b>      | <b>29,165</b>  |
| <b>Total assets</b>                  |      | <b>86,542</b>      | <b>71,990</b>  |
| <b>Current liabilities</b>           |      |                    |                |
| Trade and other payables             | 14   | 9,016              | 9,063          |
| Borrowings                           | 15   | 15,536             | 5,779          |
| Provisions                           | 16   | 2,725              | 3,137          |
| Deferred income                      | 17   | 907                | 663            |
| Current tax liabilities              |      | 137                | -              |
| <b>Total current liabilities</b>     |      | <b>28,321</b>      | <b>18,642</b>  |
| <b>Non-current liabilities</b>       |      |                    |                |
| Trade and other payables             | 14   | -                  | 2,528          |
| Borrowings                           | 15   | 99                 | 2,390          |
| Provisions                           | 16   | 450                | 104            |
| Deferred income                      | 17   | 739                | 69             |
| <b>Total non-current liabilities</b> |      | <b>1,288</b>       | <b>5,091</b>   |
| <b>Total liabilities</b>             |      | <b>29,609</b>      | <b>23,733</b>  |
| <b>Net assets</b>                    |      | <b>56,933</b>      | <b>48,257</b>  |
| <b>Equity</b>                        |      |                    |                |
| Issued capital                       | 18   | 55,949             | 46,041         |
| Reserves                             | 19   | (681)              | (343)          |
| Accumulated profits                  | 20   | 1,665              | 2,559          |
| <b>Total Equity</b>                  |      | <b>56,933</b>      | <b>48,257</b>  |

Notes to the financial statements are included on pages 38 to 84.

## Consolidated Statement of Changes in Equity for the financial year ended 30 June 2017

|                                              | Issued capital<br>\$'000 | Other<br>reserves<br>\$'000 | Foreign<br>currency<br>reserve<br>\$'000 | Accumulated<br>(losses)/<br>profits<br>\$'000 | Total<br>\$'000 |
|----------------------------------------------|--------------------------|-----------------------------|------------------------------------------|-----------------------------------------------|-----------------|
| Balance at 1 July 2015                       | 41,229                   | 142                         | (1,109)                                  | (468)                                         | 39,794          |
| Issue of share capital                       | 5,005                    | -                           | -                                        | -                                             | 5,005           |
| Transaction costs                            | (193)                    | -                           | -                                        | -                                             | (193)           |
| <b>Total of transactions<br/>with owners</b> | <b>4,812</b>             | <b>-</b>                    | <b>-</b>                                 | <b>-</b>                                      | <b>4,812</b>    |
| Profit for the year                          | -                        | -                           | -                                        | 3,027                                         | 3,027           |
| Other comprehensive income                   | -                        | -                           | 624                                      | -                                             | 624             |
| <b>Total comprehensive income</b>            | <b>-</b>                 | <b>-</b>                    | <b>624</b>                               | <b>3,027</b>                                  | <b>3,651</b>    |
| <b>Balance at 30 June 2016</b>               | <b>46,041</b>            | <b>142</b>                  | <b>(485)</b>                             | <b>2,559</b>                                  | <b>48,257</b>   |
| Issue of share capital                       | 10,290                   | -                           | -                                        | -                                             | 10,290          |
| Transaction costs                            | (382)                    | -                           | -                                        | -                                             | (382)           |
| <b>Total of transactions<br/>with owners</b> | <b>9,908</b>             | <b>-</b>                    | <b>-</b>                                 | <b>-</b>                                      | <b>9,908</b>    |
| (Loss) for the year                          | -                        | -                           | -                                        | (894)                                         | (894)           |
| Other comprehensive income                   | -                        | -                           | (338)                                    | -                                             | (338)           |
| <b>Total comprehensive income</b>            | <b>-</b>                 | <b>-</b>                    | <b>(338)</b>                             | <b>(894)</b>                                  | <b>(1,232)</b>  |
| <b>Balance at 30 June 2017</b>               | <b>55,949</b>            | <b>142</b>                  | <b>(823)</b>                             | <b>1,665</b>                                  | <b>56,933</b>   |

Notes to the financial statements are included on pages 38 to 84.

## Statement of Cash Flows for the financial year ended 30 June 2017

|                                                                                    | Note         | Consolidated Group |                |
|------------------------------------------------------------------------------------|--------------|--------------------|----------------|
|                                                                                    |              | 2017<br>\$'000     | 2016<br>\$'000 |
| <b>Cash flows from operating activities</b>                                        |              |                    |                |
| Receipts from customers                                                            |              | 78,973             | 71,414         |
| Grant income received                                                              |              | 783                | -              |
| Payments to suppliers and employees                                                |              | (82,884)           | (65,984)       |
| Interest and other costs of finance paid                                           |              | (336)              | (214)          |
| Income tax (paid)/received                                                         |              | (32)               | -              |
| <b>Net cash (used in)/provided by operating activities</b>                         | <b>28(c)</b> | <b>(3,496)</b>     | <b>5,216</b>   |
| <b>Cash flows from investing activities</b>                                        |              |                    |                |
| Interest received                                                                  |              | 95                 | 11             |
| Payment for earn out                                                               |              | (1,323)            | (672)          |
| Payment for building and fit-out                                                   |              | (6,094)            | (3,769)        |
| Payment for property, plant and equipment                                          |              | (965)              | (1,351)        |
| Proceeds from sale of plant and equipment                                          |              | 2                  | -              |
| Payment for intangible assets                                                      |              | (354)              | (181)          |
| Payments for capitalised development costs                                         |              | (3,126)            | (2,747)        |
| <b>Net cash used in investing activities</b>                                       |              | <b>(11,765)</b>    | <b>(8,709)</b> |
| <b>Cash flows from financing activities</b>                                        |              |                    |                |
| Proceeds from issues of share capital                                              |              | 10,290             | 5,005          |
| Payment of capital raising costs                                                   |              | (546)              | (273)          |
| Repayment of mortgage                                                              |              | (200)              | -              |
| Proceeds from borrowings                                                           |              | 2,848              | 353            |
| Repayment of borrowings                                                            |              | (160)              | (948)          |
| Repayment of leases (net)                                                          |              | (29)               | (165)          |
| Proceeds from mortgage/fit-out                                                     |              | 4,262              | 2,067          |
| <b>Net cash provided by financing activities</b>                                   |              | <b>16,465</b>      | <b>6,039</b>   |
| Net increase in cash and cash equivalents                                          |              | 1,204              | 2,546          |
| Cash and cash equivalents at the beginning of the financial year                   |              | 7,283              | 4,593          |
| Effects of exchange rate changes on the balance of cash held in foreign currencies |              | (31)               | 144            |
| <b>Cash and cash equivalents at the end of the financial year</b>                  | <b>28(a)</b> | <b>8,456</b>       | <b>7,283</b>   |

Notes to the financial statements are included on pages 38 to 84.

## Notes to the Financial Statements for the financial year ended 30 June 2017

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## Notes to the financial statements

## 1. Significant accounting policies

This financial report includes the consolidated financial statements and notes of Ellex Medical Lasers Limited and controlled entities "Consolidated Group".

### Statement of compliance

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. 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).

Ellex Medical Lasers Limited is the Group's Ultimate Parent Company. Ellex Medical Lasers Limited is a Public Company incorporated and domiciled in Australia. The address of its principal place of business is 3 Second Avenue, Mawson Lakes, South Australia, 5095.

The consolidated financial statements for the year ended 30 June 2017 were approved and authorised for issue by the Board of Directors on 23<sup>rd</sup> August 2017.

### Basis of preparation

The financial report has been prepared on the basis of historical cost. All amounts are presented in Australian Dollars unless otherwise stated.

The Company is a company of the kind referred to in ASIC Legislative Instrument 2016/191 and in accordance with that Instrument, amounts in the financial report are rounded to the nearest thousand dollars, unless otherwise indicated. Ellex Medical Lasers Limited is a for profit entity for the purpose of preparing financial statements.

### New and revised standards that are effective for these financial statements

A number of new and revised standards became effective for the first time to annual periods beginning on or after 1 July 2016. Information on the more significant standard(s) is presented below.

- AASB 2014-3 *Amendments to Australian Accounting Standards – Accounting for Acquisitions of Interests in Joint Operations*
- AASB 2014-4 *Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation*

- AASB 2014-6 *Amendments to Australian Accounting Standards – Agriculture: Bearer Plants*
- AASB 2014-9 *Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements*
- AASB 2015-2 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101*

### New standards and interpretations not yet adopted

#### AASB 9 Financial Instruments

AASB 9 introduces new requirements for the classification and measurement of financial assets and liabilities and includes a forward-looking 'expected loss' impairment model and a substantially-changed approach to hedge accounting.

These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are:

- a Financial assets that are debt instruments will be classified based on: (i) the objective of the entity's business model for managing the financial assets; and (ii) the characteristics of the contractual cash flows.
- b Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.
- c Introduces a 'fair value through other comprehensive income' measurement category for particular simple debt instruments.
- d Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.
- e Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:
  - the change attributable to changes in credit risk are presented in Other Comprehensive Income (OCI)
  - the remaining change is presented in profit or loss

## Notes to the financial statements

If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.

Otherwise, the following requirements have generally been carried forward unchanged from AASB 139 into AASB 9:

- classification and measurement of financial liabilities; and
- derecognition requirements for financial assets and liabilities.

AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that enable entities to better reflect their risk management activities in the financial statements.

Furthermore, AASB 9 introduces a new impairment model based on expected credit losses. This model makes use of more forward-looking information and applies to all financial instruments that are subject to impairment accounting.

The entity is yet to undertake a detailed assessment of the impact of AASB 9. However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.

#### **AASB 15 Revenue from Contracts with Customers** AASB 15:

- replaces AASB 118 Revenue, AASB 111 *Construction Contracts* and some revenue-related Interpretations:
  - establishes a new revenue recognition model
  - changes the basis for deciding whether revenue is to be recognised over time or at a point in time
  - provides new and more detailed guidance on specific topics (e.g. multiple element arrangements, variable pricing, rights of return, warranties and licensing)
  - expands and improves disclosures about revenue.

The entity is yet to undertake a detailed assessment of the impact of AASB 15. However, based on the entity's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.

#### **AASB 16 Leases**

AASB 16:

- replaces AASB 117 Leases and some lease-related Interpretations
- requires all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases
- provides new guidance on the application of the definition of lease and on sale and lease back accounting
- largely retains the existing lessor accounting requirements in AASB 117
- requires new and different disclosures about leases.

The entity is yet to undertake a detailed assessment of the impact of AASB 16. However, based on the entity's preliminary assessment, the likely impact on the first time adoption of the Standard for the year ending 30 June 2020 includes:

- there will be a significant increase in lease assets and financial liabilities recognised on the balance sheet
- the reported equity will reduce as the carrying amount of lease assets will reduce more quickly than the carrying amount of lease liabilities
- EBIT in the statement of profit or loss and other comprehensive income will be higher as the implicit interest in lease payments for former off balance sheet leases will be presented as part of finance costs rather than being included in operation expenses
- Operating cash outflows will be lower and financing cash flows will be higher in the statement of cash flows as principal repayments on all lease liabilities will now be included in financing activities rather than operating activities. Interest can also be included within financing activities

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

#### **Accounting Policies**

The accounting policies set out below have been applied in preparing the financial statements for the year ended 30 June 2017 and the comparative information presented in these financial statements for the year ended 30 June 2016.

## Notes to the financial statements

The following significant accounting policies have been adopted in the preparation and presentation of the financial report:

### (i) Financial assets

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned. They are initially measured at fair value, net of transaction costs except for those financial assets classified as fair value through profit or loss which are initially measured at fair value. Subsequent to initial recognition, investments in subsidiaries are measured at cost in the Company financial statements.

Other financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss', and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

#### Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest rate basis for debt instruments.

#### Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment. Interest income is recognised by applying the effective interest rate.

#### Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset the estimated future cash flows of the investment have been impacted.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

The carrying amount of financial assets including uncollectible trade receivables is reduced by the impairment loss through the use of an allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

### (ii) Financial instruments issued by the Company

#### Equity instruments

Equity instruments are classified as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the consolidated group are recorded at the proceeds received, net of direct issue costs.

#### Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

**(iii) Foreign currency**

For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of Ellex Medical Lasers Limited and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entities functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

On consolidation, the assets and liabilities of the Group's foreign operations are translated into Australian dollars at exchange rates prevailing on the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates the transactions are used. Exchange differences arising, if any, are classified as equity and transferred to the consolidated group's foreign currency translation reserve. Such differences are recognised in profit or loss in the period in which the foreign operation is disposed.

**(iv) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

**(v) Impairment of assets**

For impairment assessment purposes, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Cash-generating units (determined by the Group's management as equivalent to its operating segments) are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of future reorganisations and asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risks factors.

Impairment losses for cash-generating units reduce first the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit. All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually and whenever there is an indication that the asset may be impaired.

## Notes to the financial statements

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately, unless the relevant asset is carried at fair value, in which case the reversal of the impairment loss is treated as a revaluation increase.

### (vi) Principles of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated group, being the Company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 10 'Consolidated Financial Statements'. A list of subsidiaries appears in note 25 to the financial statements. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair values of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

The consolidated financial statements include the information and results of each subsidiary from the date on which the Company obtains control and until such time as the Company ceases to control such entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated group are eliminated in full.

### (vii) Significant management judgement in applying accounting policies

When preparing the financial statements, management undertakes a number of judgements, estimate and assumptions about the recognition and measurement of assets, liabilities, income and expenses.

#### Significant management judgement

The following are significant management judgements in applying the accounting policies of the Group that have the most significant effect on the financial statements.

#### Recognition of deferred tax assets

The extent to which deferred tax assets can be recognised is based on an assessment of the probability of the Group's future taxable income against which the deferred tax assets can be utilised. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions (see note 5).

#### Estimation uncertainty

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided below. Actual results may be substantially different.

#### Impairment

In assessing impairment, management estimate the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to discount them. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate. In 2017, the Group has recognised an impairment loss on capitalised development expenditure of nil (2016: \$266 thousand) and nil (2016: \$89 thousand) on patents and trademarks.

### (viii) Contingent consideration

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of the exchange. The discount rate used is the Group's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified as a financial liability. It is subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

## 2. Revenue

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts.

### Sale of goods

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer to the buyer the significant risks and rewards of ownership of the goods.

### Rendering of Services

The Group generates revenues from after-sale service and maintenance, and extended warranty contracts. Consideration received for those services is initially deferred, included in other liabilities and is recognised as revenue in the period the service is performed

|                                                 | Consolidated Group |                |
|-------------------------------------------------|--------------------|----------------|
|                                                 | 2017<br>\$'000     | 2016<br>\$'000 |
| Revenue from the sale of goods                  | 66,796             | 68,395         |
| Revenue from services                           | 4,839              | 4,518          |
| <b>Total revenue from continuing operations</b> | <b>71,635</b>      | <b>72,913</b>  |

### Interest revenue

Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

## 3. Finance costs

|                                              | Consolidated Group |                |
|----------------------------------------------|--------------------|----------------|
|                                              | 2017<br>\$'000     | 2016<br>\$'000 |
| Interest on bank overdrafts and loans        | 314                | 196            |
| Interest on obligations under finance leases | 22                 | 18             |
| <b>Total Finance Costs</b>                   | <b>336</b>         | <b>214</b>     |

## Notes to the financial statements

**4. (Loss)/profit for year**

(Loss)/profit for the year has been arrived at after crediting (charging) the following gains and losses from continuing operations:

**(a) Other income**

Government grants are assistance by the government in the form of transfers of resources to the consolidated group in return for past or future compliance with certain conditions relating to the operating activities of the entity. Government grants include government assistance where there are no conditions specifically relating to the operating activities of the consolidated group other than the requirement to operate in certain regions or industry sectors.

Government grants relating to income are recognised as income over the periods necessary to match them with the related costs. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the consolidated group with no future related costs are recognised as income in the period in which it becomes receivable.

Government grants relating to assets are treated as deferred income and recognised in profit and loss over the expected useful lives of the assets concerned. Grant funds received are to be spent in accordance with the contract. Monies not spent in accordance with the grant agreement may need to be refunded.

|                                                     | Consolidated Group |                |
|-----------------------------------------------------|--------------------|----------------|
|                                                     | 2017<br>\$'000     | 2016<br>\$'000 |
| (Loss) on disposal of property, plant and equipment | -                  | (35)           |
| Grants income                                       | 59                 | -              |
| D.O.R.C. patent infringement settlement income      | -                  | 150            |
| Interest                                            | 95                 | 12             |
| Other income                                        | 174                | 102            |
| <b>Total other income</b>                           | <b>328</b>         | <b>229</b>     |

## Notes to the financial statements

**4. (Loss)/profit for year** *continued***(b) Other expenses**

(Loss)/profit before income tax has been arrived at after charging the following expenses. The line items below are attributable to continuing operations:

|                                                    | Consolidated Group |                |
|----------------------------------------------------|--------------------|----------------|
|                                                    | 2017<br>\$'000     | 2016<br>\$'000 |
| Cost of goods sold                                 | 33,692             | 32,408         |
| Write-down of inventories to net realisable value  | (447)              | (567)          |
| Write-off of obsolete stock                        | 535                | 595            |
| <b>Total of movement in stock provision</b>        | <b>(88)</b>        | <b>(28)</b>    |
| Impairment of patents                              | -                  | 89             |
| Impairment of capitalised R&D                      | -                  | 266            |
| <b>Total impairment expense</b>                    | <b>-</b>           | <b>355</b>     |
| Depreciation of property, plant and equipment      | 1,219              | 1,057          |
| Amortisation of intangible assets                  | 1,522              | 1,674          |
| Amortisation of intellectual property              | 393                | 417            |
| <b>Total depreciation and amortisation expense</b> | <b>3,134</b>       | <b>3,148</b>   |
| Legal fees                                         | 201                | 379            |
| Foreign exchange losses/(gains)                    | 169                | (75)           |
| Minimum lease payments                             | 1,093              | 1,012          |
| Superannuation contributions                       | 1,292              | 1,121          |
| Research costs                                     | 461                | 466            |
| Loss on disposal of property, plant and equipment  | 178                | -              |

## 5. Income Tax

---

### Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Ellex is eligible for R&D tax credits which are used to reduce current year taxes payable. Any unused tax credits are carried forward and are recognised as a deferred tax asset.

### Deferred tax

Deferred tax is accounted for using the liability method. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the statement of financial position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient future taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the consolidated group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the consolidated group intends to settle its current tax assets and liabilities on a net basis.

### Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the statement of profit or loss and other comprehensive income, except when it relates to items credited or debited directly to equity, in which case the deferred tax is recognised directly in equity.

## 5. Income Tax *continued*

### Income tax recognised in profit or loss

|                                                                                                                                                              | Consolidated Group |                |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------|----------------|
|                                                                                                                                                              | 2017<br>\$'000     | 2016<br>\$'000 |
| <b>Tax (benefit)/expense comprises:</b>                                                                                                                      |                    |                |
| Current tax expense                                                                                                                                          | 308                | 53             |
| Deferred tax (benefit)/expense                                                                                                                               | (1,373)            | 1,110          |
| <b>Total tax (benefit)/expense</b>                                                                                                                           | <b>(1,065)</b>     | <b>1,163</b>   |
| The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows: |                    |                |
| <b>(Loss)/profit from operations</b>                                                                                                                         | <b>(1,959)</b>     | <b>4,190</b>   |
| Income tax (benefit)/expense                                                                                                                                 | (588)              | 1,257          |
| Non-deductible expenses                                                                                                                                      | 23                 | 226            |
| Effect of higher tax rates of tax on overseas income                                                                                                         | (81)               | 22             |
| Other – Research and Development Tax Concession                                                                                                              | (322)              | (275)          |
| Other                                                                                                                                                        | 60                 | 378            |
| (Over)/under provision of income tax in previous year                                                                                                        | (157)              | (445)          |
| <b>Total income tax (benefit)/expense</b>                                                                                                                    | <b>(1,065)</b>     | <b>1,163</b>   |

The tax rate used in the above reconciliation is the corporate tax rate of 30% payable by Australian corporate entities on taxable profits under Australian tax law. There has been no change in the corporate tax rate in Australia when compared with the previous reporting period.

## 5. Income Tax *continued*

### (a) Deferred tax balances

Deferred tax assets/(liabilities) arising from the following:

| 2017                                                    | Consolidated Group |                                |                                |                    |
|---------------------------------------------------------|--------------------|--------------------------------|--------------------------------|--------------------|
|                                                         | 1/07/16<br>\$'000  | Charged<br>to Income<br>\$'000 | Charged<br>to Equity<br>\$'000 | 30/06/17<br>\$'000 |
| <b>Assets</b>                                           |                    |                                |                                |                    |
| Property, plant and equipment                           | 56                 | (46)                           | -                              | 10                 |
| Intangibles                                             | 2,263              | (249)                          | -                              | 2,014              |
| Capitalised Development costs                           | (3,641)            | (527)                          | -                              | (4,168)            |
| Section 40-880 deductions                               | 145                | (6)                            | 164                            | 303                |
| Provisions                                              | 1,005              | (226)                          | -                              | 779                |
| Temporary difference on unrealised intercompany profits | 447                | (340)                          | -                              | 107                |
| Other                                                   | 314                | 476                            | -                              | 794                |
| <b>Liabilities</b>                                      |                    |                                |                                |                    |
| Other                                                   | -                  | (32)                           | -                              | (32)               |
|                                                         | <b>589</b>         | <b>(942)</b>                   | <b>164</b>                     | <b>(189)</b>       |
| <b>Unused tax losses and credits</b>                    |                    |                                |                                |                    |
| Tax losses (Japan)                                      | 803                | (67)                           | -                              | 736                |
| Tax losses (USA)                                        | 63                 | (54)                           | -                              | 9                  |
| Tax losses (Germany)                                    | 116                | (52)                           | -                              | 64                 |
| Tax losses (USA Ellex iScience)                         | 168                | 1,073                          | -                              | 1,241              |
| Unused Research and Development tax offset              | 3,037              | 1,409                          | -                              | 4,446              |
|                                                         | <b>4,187</b>       | <b>2,309</b>                   | <b>-</b>                       | <b>6,496</b>       |
|                                                         | <b>4,776</b>       | <b>1,367</b>                   | <b>164</b>                     | <b>6,307</b>       |

## 5. Income Tax *continued*

### (a) Deferred tax balances *continued*

| 2016                                                       | Consolidated Group |                                |                                |                    |
|------------------------------------------------------------|--------------------|--------------------------------|--------------------------------|--------------------|
|                                                            | 1/07/15<br>\$'000  | Charged<br>to Income<br>\$'000 | Charged<br>to Equity<br>\$'000 | 30/06/16<br>\$'000 |
| <b>Assets</b>                                              |                    |                                |                                |                    |
| Property, plant and equipment                              | (144)              | 200                            | -                              | 56                 |
| Intangibles                                                | 2,262              | 1                              | -                              | 2,263              |
| Capitalised Development costs                              | (3,380)            | (261)                          | -                              | (3,641)            |
| Section 40-880 deductions                                  | 121                | (58)                           | 82                             | 145                |
| Provisions                                                 | 972                | 33                             | -                              | 1,005              |
| Doubtful debts                                             | 5                  | (5)                            | -                              | -                  |
| Temporary difference on unrealised<br>intercompany profits | 417                | 30                             | -                              | 447                |
| Other                                                      | 22                 | 292                            | -                              | 314                |
| <b>Liabilities</b>                                         |                    |                                |                                |                    |
| Provisions                                                 | (36)               | 36                             | -                              | -                  |
|                                                            | <b>239</b>         | <b>266</b>                     | <b>82</b>                      | <b>589</b>         |
| <b>Unused tax losses and credits</b>                       |                    |                                |                                |                    |
| Tax losses (Japan)                                         | 1,005              | (202)                          | -                              | 803                |
| Tax losses (USA)                                           | 607                | (544)                          | -                              | 63                 |
| Tax losses (Germany)                                       | 176                | (60)                           | -                              | 116                |
| Tax losses (France)                                        | 186                | (186)                          | -                              | -                  |
| Tax losses (USA Ellex iScience)                            | 181                | (13)                           | -                              | 168                |
| Unused Research and Development tax offset                 | 3,361              | (322)                          | -                              | 3,037              |
|                                                            | <b>5,516</b>       | <b>(1,327)</b>                 | <b>-</b>                       | <b>4,187</b>       |
|                                                            | <b>5,755</b>       | <b>(1,061)</b>                 | <b>82</b>                      | <b>4,776</b>       |

## 5. Income Tax *continued*

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### (b) Tax consolidation

#### Relevance of tax consolidation to the consolidated group

The Company and its wholly-owned Australian resident entities have formed a tax-consolidated group with effect from 1 July 2004 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is Ellex Medical Lasers Limited. The members of the tax-consolidated group are identified at note 25.

#### Nature of tax funding arrangements and tax sharing agreements

Entities within the tax-consolidated group have entered into a tax funding arrangement and a tax sharing agreement with the head entity. Under the terms of the tax funding arrangement, Ellex Medical Lasers Limited and each of the entities in the tax-consolidated group has agreed to pay a tax equivalent to or from the head entity, based on the current tax liability or current tax asset of the entity. Such amounts are reflected in amounts receivable from or payable to other entities in the tax-consolidated group.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations or if an entity should leave the tax-consolidated group. The effect of the tax sharing agreement is that each member's liability for tax payable by the tax-consolidated group is limited to the amount payable to the head entity under the tax funding agreement.

## 6. Share-based payments

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The consolidated group has an ownership based compensation scheme for employees and executives (including executive directors). In accordance with the provisions of the scheme, as approved by shareholders at an annual general meeting, employees and executives are granted options to purchase parcels of ordinary shares at a price determined by the directors.

Refer to Directors Report for options issued.

## 7. Trade and other receivables

|                                                     | Consolidated Group |                |
|-----------------------------------------------------|--------------------|----------------|
|                                                     | 2017<br>\$'000     | 2016<br>\$'000 |
| <b>Current</b>                                      |                    |                |
| Trade receivables <sup>(i)</sup>                    | 14,859             | 15,217         |
| Allowance for doubtful debts                        | -                  | -              |
|                                                     | <b>14,859</b>      | <b>15,217</b>  |
| Other receivables                                   | -                  | 106            |
| Goods and services tax (GST) recoverable            | 262                | 76             |
|                                                     | <b>15,121</b>      | <b>15,399</b>  |
| <b>Non-Current</b>                                  |                    |                |
| Sundry receivables                                  | 236                | 338            |
|                                                     | <b>236</b>         | <b>338</b>     |
| <b>Ageing of past due but not impaired</b>          |                    |                |
| 1 - 30 days                                         | 524                | 226            |
| 30 - 60 days                                        | 176                | 445            |
| 60 - 90 days                                        | 93                 | 686            |
| 90 - 120 day                                        | 41                 | 214            |
| <b>Total</b>                                        | <b>834</b>         | <b>1,571</b>   |
| <b>Movement in the allowance for doubtful debts</b> |                    |                |
| Balance at the beginning of the year                | -                  | (18)           |
| Amounts written off as uncollectible                | -                  | -              |
| Amounts reversed as previously over provided        | -                  | 18             |
| <b>Balance at the end of the year</b>               | <b>-</b>           | <b>-</b>       |
| <b>Ageing of impaired trade receivables</b>         |                    |                |
| 60 - 90 days                                        | -                  | -              |
| 90 - 120 days                                       | -                  | -              |
| 120 + days                                          | -                  | -              |
| <b>Total</b>                                        | <b>-</b>           | <b>-</b>       |

<sup>(i)</sup> The debtors balance that has been financed is \$6,033 thousand (2016: \$5,118 thousand). This relates specifically to receivables due from customers in Japan, USA, Europe and Australia. An allowance has been made for estimated irrecoverable amounts from the sale of goods, determined by reference to past default experience.

## 8. Inventories

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on a first in first out basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

|                                            | Consolidated Group |                |
|--------------------------------------------|--------------------|----------------|
|                                            | 2017<br>\$'000     | 2016<br>\$'000 |
| <b>Current</b>                             |                    |                |
| Raw materials – at cost                    | 6,993              | 4,485          |
| Raw materials – at net realisable value    | 297                | 389            |
| Work in progress – at cost                 | 1,517              | 1,323          |
| Work in progress – at net realisable value | 38                 | 44             |
| Finished goods – at cost                   | 14,459             | 12,266         |
| Finished goods – at net realisable value   | 112                | 134            |
|                                            | <b>23,416</b>      | <b>18,641</b>  |
| <b>Non-Current</b>                         |                    |                |
| <b>Finished goods – at cost</b>            | <b>530</b>         | <b>608</b>     |
| Provision for stock obsolescence           | (816)              | (728)          |

## 9. Other current assets

|                    | Consolidated Group |                |
|--------------------|--------------------|----------------|
|                    | 2017<br>\$'000     | 2016<br>\$'000 |
| <b>Prepayments</b> | <b>911</b>         | <b>1,476</b>   |

## 10. Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the item. In the event that settlement of all or part of the purchase consideration is deferred, cost is determined by discounting the items payable in the future to their present value as at the date of acquisition.

Depreciation is calculated on a straight line and diminishing value basis so as to write off the net cost or other revalued amount of each asset over its expected useful life.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

Capital WIP is not depreciated until the asset is ready for use. Capital WIP largely represents the new Ellex Machine Shop building at Mawson Lakes.

The following estimated useful lives are used in the calculation of depreciation.

- Building 50 years
- Plant and equipment 2-20 years

## 10. Property, plant and equipment *continued*

|                                           | Consolidated Group       |                               |                                             |                 |
|-------------------------------------------|--------------------------|-------------------------------|---------------------------------------------|-----------------|
|                                           | Capital<br>WIP<br>\$'000 | Building<br>at cost<br>\$'000 | Plant and<br>Equipment<br>at cost<br>\$'000 | Total<br>\$'000 |
| <b>Gross carrying amount</b>              |                          |                               |                                             |                 |
| <b>Balance at 30 June 2015</b>            | <b>32</b>                | <b>-</b>                      | <b>10,968</b>                               | <b>11,000</b>   |
| Additions                                 | 4,172                    | -                             | 960                                         | 5,132           |
| Disposals                                 | (32)                     | -                             | (60)                                        | (92)            |
| Net foreign currency exchange difference  | -                        | -                             | 258                                         | 258             |
| <b>Balance as at 30 June 2016</b>         | <b>4,172</b>             | <b>-</b>                      | <b>12,126</b>                               | <b>16,298</b>   |
| Additions                                 | 405                      | 62                            | 517                                         | 984             |
| Additions for Mawson Lakes premises       | 6,101                    | -                             | -                                           | 6,101           |
| Transfers to/(from) capital WIP           | (7,157)                  | 3,941                         | 3,216                                       | -               |
| Disposals                                 | -                        | -                             | (1,175)                                     | (1,175)         |
| Net foreign currency exchange difference  | -                        | -                             | (144)                                       | (144)           |
| <b>Balance at 30 June 2017</b>            | <b>3,521</b>             | <b>4,003</b>                  | <b>14,540</b>                               | <b>22,064</b>   |
| <b>Accumulated depreciation</b>           |                          |                               |                                             |                 |
| Balance at 30 June 2015                   | -                        | -                             | (7,365)                                     | (7,365)         |
| Depreciation                              | -                        | -                             | (1,057)                                     | (1,057)         |
| Disposals                                 | -                        | -                             | 43                                          | 43              |
| Net foreign currency exchange differences | -                        | -                             | (148)                                       | (148)           |
| <b>Balance at 30 June 2016</b>            | <b>-</b>                 | <b>-</b>                      | <b>(8,527)</b>                              | <b>(8,527)</b>  |
| Depreciation                              | -                        | (39)                          | (1,180)                                     | (1,219)         |
| Disposals                                 | -                        | -                             | 992                                         | 992             |
| Net foreign currency exchange differences | -                        | -                             | 142                                         | 142             |
| <b>Balance at 30 June 2017</b>            | <b>-</b>                 | <b>(39)</b>                   | <b>(8,573)</b>                              | <b>(8,612)</b>  |
| <b>Net book value</b>                     |                          |                               |                                             |                 |
| As at 30 June 2016                        | 4,172                    | -                             | 3,599                                       | 7,771           |
| As at 30 June 2017                        | 3,521                    | 3,964                         | 5,967                                       | 13,452          |

## 11. Intangible assets

### Patents, trademarks and licences

Patents, trademarks and licences are recorded at cost less accumulated amortisation. Amortisation is charged on a straight line basis over the estimated useful lives (2-20 years) of the products the patent covers. The estimated useful life and amortisation method is reviewed at the end of each annual reporting period.

### Intellectual Property

Intellectual property acquired is recognised at fair value and is amortised straight line over ten years.

|                                                | Consolidated Group                 |                                     |                 |
|------------------------------------------------|------------------------------------|-------------------------------------|-----------------|
|                                                | Intellectual<br>Property<br>\$'000 | Patents and<br>Trademarks<br>\$'000 | Total<br>\$'000 |
| <b>Carrying amount</b>                         |                                    |                                     |                 |
| <b>Balance at 30 June 2015</b>                 | <b>3,871</b>                       | <b>1,385</b>                        | <b>5,256</b>    |
| Additions                                      | -                                  | 183                                 | 183             |
| Impairment                                     | -                                  | (146)                               | (146)           |
| Foreign currency exchange differences          | 114                                | 3                                   | 117             |
| <b>Balance at 30 June 2016</b>                 | <b>3,985</b>                       | <b>1,425</b>                        | <b>5,410</b>    |
| Additions                                      | -                                  | 355                                 | 355             |
| Impairment                                     | -                                  | -                                   | -               |
| Foreign currency exchange differences          | (123)                              | (12)                                | (135)           |
| <b>Balance at 30 June 2017</b>                 | <b>3,862</b>                       | <b>1,768</b>                        | <b>5,630</b>    |
| <b>Accumulated amortisation and impairment</b> |                                    |                                     |                 |
| Balance at 30 June 2015                        | (574)                              | (313)                               | (887)           |
| Amortisation                                   | (408)                              | (71)                                | (479)           |
| Impairment                                     | -                                  | 57                                  | 57              |
| Foreign currency exchange differences          | (8)                                | -                                   | (8)             |
| <b>Balance at 30 June 2016</b>                 | <b>(990)</b>                       | <b>(327)</b>                        | <b>(1,317)</b>  |
| Amortisation                                   | (393)                              | (63)                                | (456)           |
| Impairment                                     | -                                  | -                                   | -               |
| Foreign currency exchange differences          | 37                                 | (15)                                | 22              |
| <b>Balance at 30 June 2017</b>                 | <b>(1,346)</b>                     | <b>(405)</b>                        | <b>(1,751)</b>  |
| <b>Net book value</b>                          |                                    |                                     |                 |
| As at 30 June 2016                             | 2,995                              | 1,098                               | 4,093           |
| As at 30 June 2017                             | 2,516                              | 1,363                               | 3,879           |

## 12. Capitalised development expenditure

|                                                | Consolidated Group                |
|------------------------------------------------|-----------------------------------|
|                                                | Capitalised Development<br>\$'000 |
| <b>Gross carrying amount</b>                   |                                   |
| Balance at 30 June 2015                        | 18,677                            |
| Additions                                      | 2,747                             |
| Impairment                                     | (266)                             |
| <b>Balance at 30 June 2016</b>                 | <b>21,158</b>                     |
| Additions                                      | 3,324                             |
| Foreign currency exchange differences          | 2                                 |
| Impairment                                     | -                                 |
| <b>Balance at 30 June 2017</b>                 | <b>24,484</b>                     |
| <b>Accumulated amortisation and impairment</b> |                                   |
| Balance at 30 June 2015                        | (7,967)                           |
| Amortisation expense                           | (1,612)                           |
| <b>Balance at 30 June 2016</b>                 | <b>(9,579)</b>                    |
| Amortisation expense                           | (1,459)                           |
| <b>Balance at 30 June 2017</b>                 | <b>(11,038)</b>                   |
| <b>Net book value</b>                          |                                   |
| As at 30 June 2016                             | 11,579                            |
| As at 30 June 2017                             | 13,446                            |

### Research and development expense/capitalised development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following are demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Internally-generated intangible assets are stated at cost less accumulated amortisation and impairment, and are amortised over the period which the products are actually sold:

- Capitalised development costs 5 - 10 years

Capitalised development includes \$5.3m of expenditure on products that have not yet been commercialised. This amount relates to 2RT® and the pipeline of other new products.

### 13. Assets pledged as security

In accordance with the security arrangements of liabilities, as disclosed in note 15 to the financial statements, all non-current and current assets of the consolidated group (except capitalised development and deferred tax assets), have been pledged as security under banking agreements. There is a first registered mortgage over the property situated at 3-4 Second Avenue, Mawson Lakes, South Australia.

### 14. Current and non-current trade and other payables

|                                      | Consolidated Group |                |
|--------------------------------------|--------------------|----------------|
|                                      | 2017<br>\$'000     | 2016<br>\$'000 |
| <b>Current</b>                       |                    |                |
| Trade payables                       | 4,276              | 5,266          |
| Accruals                             | 866                | 1,743          |
| Accrual for contingent consideration | 1,954              | 765            |
| Payable to directors                 | 48                 | 48             |
| Other payables                       | 1,872              | 1,241          |
|                                      | <b>9,016</b>       | <b>9,063</b>   |
| <b>Non-current</b>                   |                    |                |
| Accrual for contingent consideration | -                  | 2,528          |

## 15. Borrowings

Borrowings are recorded initially at fair value, net of transaction costs. Subsequent to initial recognition, borrowings are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit and loss over the period of the borrowings using the effective interest rate method. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised.

|                                                       | Consolidated Group |                |
|-------------------------------------------------------|--------------------|----------------|
|                                                       | 2017<br>\$'000     | 2016<br>\$'000 |
| <b>Current</b>                                        |                    |                |
| Bank overdraft                                        | 788                | -              |
| Mortgage (Mawson Lakes) <sup>(i)</sup>                | 6,130              | 175            |
| Bank borrowings <sup>(ii)</sup>                       | 8,115              | 5,292          |
| Finance lease liabilities (note 24a) <sup>(iii)</sup> | 312                | 116            |
| Other loans (unsecured)                               | 191                | 196            |
|                                                       | <b>15,536</b>      | <b>5,779</b>   |
| <b>Non-current</b>                                    |                    |                |
| Mortgage (Mawson Lakes) <sup>(i)</sup>                | -                  | 1,892          |
| Bank borrowings <sup>(ii)</sup>                       | -                  | 149            |
| Finance lease liabilities (note 24a) <sup>(iii)</sup> | 99                 | 349            |
|                                                       | <b>99</b>          | <b>2,390</b>   |

### Summary of borrowing arrangements

- <sup>(i)</sup> Mortgage for Mawson Lakes \$2,794 thousand (2016: \$2,067 thousand) and fitout for Mawson Lakes \$3,336 thousand (2016: Nil). Repayments for this facility commenced June 2017. Interest rates are floating.
- <sup>(ii)</sup> Bank Borrowings is the sum of ANZ and Kansai Bank facility in Japan. The ANZ facility is a combination of working capital facilities, overdraft and cash advance. This facility is an “umbrella” facility across the subsidiaries in the group. A financial instrument in any one subsidiary in the currency of AUD, USD, YEN, RMB and EUR can be financed in this facility. Interest rates are floating BBR daily rates for the relevant currency.
- <sup>(iii)</sup> Secured by the assets leased. The borrowings are all at fixed interest rates with repayment periods not exceeding 5 years.

### Loan covenants

The following financial covenants apply at all times to the group and are tested with respect to the twelve month period prior to the test date:

- Interest cover ratio > 3.00x;
  - Gearing ratio is < 0.6;
  - Borrowing base ratio < 100%;
- <sup>(iv)</sup> ANZ Banking facility are treated as current liabilities resulting from a breach of the interest cover covenant. There is no request by ANZ to repay any of its facilities other than in the normal course. Ellex is working with ANZ to ensure it meets its obligations. A waiver has been issued by ANZ post year end and a new trading covenant metric is to be issued in FY18 to support Ellex's heavy investment in iTrack.

## 16. Provisions

Provisions are recognised when the consolidated group has a present obligation, the future sacrifice of economic benefits is probable, and the amount of the provision can be measured reliably.

### Warranties

Provisions for warranty costs are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the consolidated group's liability.

Provision is made for benefits accruing to employees in respect of wages and salaries, staff bonuses, annual leave, long service leave and sick leave when it is probable that settlement will be required and they are capable of being measured reliably.

Provisions made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the compensation rate expected to apply at the time of settlement.

Provisions made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated group in respect of services provided by employees up to reporting date.

Contributions to employee contribution super plans are expensed when incurred.

|                         | Consolidated Group |                |
|-------------------------|--------------------|----------------|
|                         | 2017<br>\$'000     | 2016<br>\$'000 |
| <b>Current</b>          |                    |                |
| Employee benefits       | 2,380              | 2,758          |
| Warranty <sup>(i)</sup> | 345                | 379            |
|                         | <b>2,725</b>       | <b>3,137</b>   |
| <b>Non-Current</b>      |                    |                |
| Employee benefits       | 450                | 104            |

|                                  | Consolidated Group |
|----------------------------------|--------------------|
|                                  | \$'000             |
| <b>Warranty <sup>(i)</sup></b>   |                    |
| <b>Balance at 30 June 2015</b>   | <b>325</b>         |
| Additional provisions recognised | 491                |
| Amounts used                     | (437)              |
| <b>Balance at 30 June 2016</b>   | <b>379</b>         |
| Additional provisions recognised | 375                |
| Amounts used                     | (409)              |
| <b>Balance at 30 June 2017</b>   | <b>345</b>         |

<sup>(i)</sup> The provision for warranty claims represents the present value of the directors' best estimate of the future outflow of economic benefits that will be required under the consolidated group's warranty program. The estimate has been made on the basis of historical warranty trends and may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.

## 17. Deferred income

|                                          | Consolidated Group |                |
|------------------------------------------|--------------------|----------------|
|                                          | 2017<br>\$'000     | 2016<br>\$'000 |
| Deferred service income                  | 831                | 663            |
| Grant liability                          | 76                 | -              |
| <b>Total deferred income current</b>     | <b>907</b>         | <b>663</b>     |
| Deferred service income                  | 91                 | 69             |
| Grant liability                          | 648                | -              |
| <b>Total deferred income non-current</b> | <b>739</b>         | <b>69</b>      |

## 18. 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.

|                                        | Consolidated Group |                |
|----------------------------------------|--------------------|----------------|
|                                        | 2017<br>\$'000     | 2016<br>\$'000 |
| 121,146,897 fully paid ordinary shares |                    |                |
| <b>(2016: 114,146,897)</b>             | <b>55,949</b>      | <b>46,041</b>  |

Changes to the then Corporations Law abolished the authorised capital and par value concept in relation to share capital from 1 July 1998. Therefore, the Company does not have a limited amount of authorised capital and issued shares do not have a par value.

|                                         | Company 2017   |               | Company 2016   |               |
|-----------------------------------------|----------------|---------------|----------------|---------------|
|                                         | No. '000       | \$'000        | No. '000       | \$'000        |
| Fully paid ordinary shares              |                |               |                |               |
| Balance at beginning of financial year  | 114,146        | 46,041        | 107,646        | 41,229        |
| Share issue                             | 7,000          | 10,290        | 6,500          | 5,005         |
| Transaction costs for share issue       | -              | (545)         | -              | (275)         |
| Tax impact of share issue costs         | -              | 163           | -              | 82            |
| <b>Balance at end of financial year</b> | <b>121,146</b> | <b>55,949</b> | <b>114,146</b> | <b>46,041</b> |

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

## 19. Reserves

|                                                            | Consolidated Group |                |
|------------------------------------------------------------|--------------------|----------------|
|                                                            | 2017<br>\$'000     | 2016<br>\$'000 |
| <b>Foreign currency translation reserve <sup>(i)</sup></b> |                    |                |
| Balance at beginning of financial year                     | (485)              | (1,109)        |
| Translation of foreign operations                          | (338)              | 624            |
| <b>Balance at end of financial year</b>                    | <b>(823)</b>       | <b>(485)</b>   |
| <b>Other reserves <sup>(ii)</sup></b>                      |                    |                |
| Balance at beginning and end of financial year             | 142                | 142            |
| Transaction with non-controlling interest                  | -                  | -              |
| <b>Balance at end of financial year</b>                    | <b>142</b>         | <b>142</b>     |

<sup>(i)</sup> Exchange differences relating to the translation from USA Dollars, Japanese YEN and the Euro, being the functional currencies of the consolidated group's foreign subsidiaries in the USA, Japan, France and Germany, into Australian dollars are brought to account by entries made directly to the foreign currency translation reserve.

<sup>(ii)</sup> Other reserves is the closing balance transferred from non-controlling interests of subsidiaries that are now 100% owned by the Group.

## 20. Accumulated profits

|                                                                | Consolidated Group |                |
|----------------------------------------------------------------|--------------------|----------------|
|                                                                | 2017<br>\$'000     | 2016<br>\$'000 |
| Balance at beginning of financial year                         | 2,559              | (468)          |
| Net (loss)/profit attributable to members of the parent entity | (894)              | 3,027          |
| <b>Balance at end of financial year</b>                        | <b>1,665</b>       | <b>2,559</b>   |

## 21. Earnings per share

### Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding 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 additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

|                                         | Consolidated Group |               |
|-----------------------------------------|--------------------|---------------|
|                                         | 2017<br>cents      | 2016<br>cents |
| Basic earnings per share:               |                    |               |
| <b>Total basic earnings per share</b>   | <b>(0.76)</b>      | <b>2.77</b>   |
| Diluted earnings per share:             |                    |               |
| <b>Total diluted earnings per share</b> | <b>(0.76)</b>      | <b>2.77</b>   |

### Basic and diluted earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:

|                                                                                                     | Consolidated Group |                |
|-----------------------------------------------------------------------------------------------------|--------------------|----------------|
|                                                                                                     | 2017<br>\$'000     | 2016<br>\$'000 |
| Net (loss)/profit                                                                                   | (894)              | 3,027          |
|                                                                                                     | 2017<br>No.        | 2016<br>No.    |
|                                                                                                     |                    |                |
| Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share | 118,050,743        | 109,142,787    |

## 22. Dividends

|                                 | 2017            |              | 2016            |              |
|---------------------------------|-----------------|--------------|-----------------|--------------|
|                                 | Cents per share | Total \$'000 | Cents per share | Total \$'000 |
| Fully paid ordinary shares      |                 |              |                 |              |
| Final dividend – franked to 30% | Nil             | Nil          | Nil             | Nil          |

|                                   | Consolidated Group |             |
|-----------------------------------|--------------------|-------------|
|                                   | 2017 \$'000        | 2016 \$'000 |
| Adjusted franking account balance | 3,797              | 3,797       |

## 23. Commitments for expenditure

### Lease commitments

Finance lease liabilities are non-cancellable lease commitments and are disclosed in note 24 to the financial statements.

Contractual commitments for the acquisition of property, plant and equipment as at 30 June 2017 are \$129 thousand (2016: \$793 thousand).

## 24. Leases

Leases are classified as finance leases whenever the terms of the lease transfers substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Assets held under finance leases are initially recognised at their fair value or, if lower, at amounts equal to the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

Finance leased assets are amortised on a straight line basis over the estimated useful life of the asset.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

## 24. Leases *continued*

### (a) Finance leases

#### Leasing arrangements

Finance leases relate to motor vehicles, plant and equipment and leasehold improvements with lease terms of 3 to 5 years.

The consolidated group's obligation under finance leases are secured by the lessor's title to the leased assets.

|                                                | Present value of minimum future lease payments |                |
|------------------------------------------------|------------------------------------------------|----------------|
|                                                | Consolidated Group                             |                |
|                                                | 2017<br>\$'000                                 | 2016<br>\$'000 |
| Not longer than 1 year                         | 325                                            | 138            |
| 1 to 5 years                                   | 116                                            | 376            |
| Greater than 5 years                           | -                                              | -              |
| <b>Minimum future lease payments</b>           | <b>441</b>                                     | <b>514</b>     |
| Less future finance charges                    | (30)                                           | (49)           |
| <b>Present value of minimum lease payments</b> | <b>411</b>                                     | <b>465</b>     |

### (b) Operating leases

#### Leasing arrangements

Operating leases relate to business premises with lease terms of between 8 months to 5 years and plant and equipment and motor vehicles with lease terms less than 5 years.

|                                                | Consolidated Group |                |
|------------------------------------------------|--------------------|----------------|
|                                                | 2017<br>\$'000     | 2016<br>\$'000 |
| Non-cancellable operating lease payments       |                    |                |
| Not longer than 1 year                         | 831                | 1,093          |
| Longer than 1 year and not longer than 5 years | 3,144              | 772            |
|                                                | <b>3,975</b>       | <b>1,865</b>   |

## 25. Subsidiaries

The Group applies the acquisition method in accounting for business combinations. The consideration transferred by the Group to obtain control of a subsidiary is calculated as the sum of the acquisition-date fair values of assets transferred, liabilities incurred and the equity interests issued by the Group, which includes the fair values of any asset or liability arising from a contingent consideration arrangement. Acquisition costs are expenses as incurred.

The Group recognises identifiable assets acquired and liabilities assumed in a business combination regardless of whether they have been previously recognised in the acquiree's financial statements prior to the acquisition. Assets acquired and liabilities assumed are generally measured at their acquisition-date fair values.

|                                                  |                          | Ownership interest |        |
|--------------------------------------------------|--------------------------|--------------------|--------|
| Name of Entity                                   | Country of Incorporation | 2017 %             | 2016 % |
| Parent Entity                                    |                          |                    |        |
| Ellex Medical Lasers Limited <sup>(i) (ii)</sup> | Australia                |                    |        |
| Subsidiaries                                     |                          |                    |        |
| Ellex Medical Pty Ltd <sup>(i) (ii)</sup>        | Australia                | 100                | 100    |
| Laserex Medical Pty Ltd <sup>(iii)</sup>         | Australia                | 100                | 100    |
| Ellex Inc                                        | USA                      | 100                | 100    |
| Ellex Inc                                        | Japan                    | 100                | 100    |
| Ellex R&D Pty Ltd <sup>(i) (ii)</sup>            | Australia                | 100                | 100    |
| Ellex Australia Pty Ltd <sup>(i) (ii)</sup>      | Australia                | 100                | 100    |
| Ellex Services Europe SARL                       | France                   | 100                | 100    |
| Ellex France SARL <sup>(iii)</sup>               | France                   | -                  | 100    |
| Innovative Imaging, Inc                          | USA                      | 100                | 100    |
| Ellex Deutschland GmbH                           | Germany                  | 100                | 100    |
| Ellex Machine Shop Pty Ltd <sup>(i) (ii)</sup>   | Australia                | 100                | 100    |
| Ellex iScience Inc                               | USA                      | 100                | 100    |
| Ellex Hong Kong Limited                          | Hong Kong                | 100                | -      |

<sup>(i)</sup> Ellex Medical Lasers Limited is the head of the Tax Consolidated Group which included Ellex Medical Pty Ltd, Ellex Australia Pty Ltd, Ellex R&D Pty Ltd and Ellex Machine Shop Pty Ltd.

<sup>(ii)</sup> These wholly-owned subsidiaries have entered into a deed of cross-guarantee with Ellex Medical Lasers Limited pursuant to Legislative Instrument 2016/785 and are relieved from the requirement to prepare and lodge an audited financial report from the year ended 30 June 2009.

<sup>(iii)</sup> At 1 January 2016, Ellex France SARL merged with Ellex Europe SARL and is no longer in existence.

## 25. Subsidiaries *continued*

The Statement of profit or loss and other comprehensive income and Statement of financial position of the entities party to the deed of cross guarantee are:

|                                               | Consolidated Group |                |
|-----------------------------------------------|--------------------|----------------|
|                                               | 2017<br>\$'000     | 2016<br>\$'000 |
| <b>Statement of comprehensive income</b>      |                    |                |
| Revenue                                       | 36,296             | 50,195         |
| Other income                                  | 352                | 143            |
| Loss on sale of property, plant and equipment | (178)              | -              |
| Raw materials and consumables used            | (29,043)           | (29,579)       |
| Employee benefits expense                     | (8,737)            | (7,402)        |
| Depreciation and amortisation expense         | (2,163)            | (2,059)        |
| Impairment expense                            | -                  | (355)          |
| Legal fees                                    | (168)              | (313)          |
| Advertising and marketing                     | (2,721)            | (1,360)        |
| Finance costs                                 | (325)              | (200)          |
| Product development                           | (1,361)            | (1,367)        |
| Rent/lease expense                            | (1,215)            | (1,175)        |
| Foreign currency translation movement         | (505)              | 365            |
| Other expenses and intercompany recharges     | 6,661              | (4,225)        |
| <b>(Loss)/profit before income tax</b>        | <b>(3,107)</b>     | <b>2,668</b>   |
| Income tax benefit/(expense)                  | 863                | (759)          |
| <b>(Loss)/profit for the year</b>             | <b>(2,244)</b>     | <b>1,909</b>   |
| <b>Statement of financial position</b>        |                    |                |
| <b>Current assets</b>                         |                    |                |
| Cash and cash equivalents                     | 6,715              | 6,545          |
| Trade and other receivables                   | 9,844              | 12,283         |
| Inventories                                   | 14,132             | 10,926         |
| Other                                         | 592                | 1,145          |
| <b>Total current assets</b>                   | <b>31,283</b>      | <b>30,899</b>  |

## 25. Subsidiaries *continued*

|                                      | Consolidated Group |                |
|--------------------------------------|--------------------|----------------|
|                                      | 2017<br>\$'000     | 2016<br>\$'000 |
| <b>Non-current assets</b>            |                    |                |
| Trade and other receivables          | 19,361             | 21,099         |
| Property, plant and equipment        | 12,302             | 6,505          |
| Deferred tax assets                  | 3,663              | 2,637          |
| Intangible assets                    | 859                | 799            |
| Capitalised development expenditure  | 13,893             | 12,136         |
| <b>Total non-current assets</b>      | <b>50,078</b>      | <b>43,176</b>  |
| <b>Total assets</b>                  | <b>81,361</b>      | <b>74,075</b>  |
| <b>Current liabilities</b>           |                    |                |
| Trade and other payables             | 923                | 6,619          |
| Borrowings                           | 15,342             | 5,560          |
| Provisions                           | 2,399              | 2,247          |
| <b>Total current liabilities</b>     | <b>18,664</b>      | <b>14,426</b>  |
| <b>Non-current liabilities</b>       |                    |                |
| Borrowings                           | -                  | 2,142          |
| Provisions                           | 108                | 104            |
| <b>Total non-current liabilities</b> | <b>108</b>         | <b>2,246</b>   |
| <b>Total liabilities</b>             | <b>18,772</b>      | <b>16,672</b>  |
| <b>Net assets</b>                    | <b>62,589</b>      | <b>57,403</b>  |
| <b>Equity</b>                        |                    |                |
| Issued capital                       | 55,953             | 46,043         |
| Reserves                             | (1,233)            | 1,246          |
| Retained earnings                    | 7,869              | 10,114         |
| <b>Total equity</b>                  | <b>62,589</b>      | <b>57,403</b>  |

## 26. Segment information

Each of these operating segments is managed separately as each of these sales lines require different technologies and other resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

### Identification of reportable segments

The Group has identified its operating segments based on the internal reports that are reviewed and used by Chief Operating Decision Makers in assessing performance and determining the allocation of resources.

The Group is managed primarily on the basis of distribution channels since the diversification of the Group's operations inherently has notably different risk profiles and performance assessment criteria. Operating segments are therefore determined on the same basis.

Reportable segments disclosed are based on aggregating operating segments where the segments are considered to have similar economic characteristics and are also similar with respect to the following:

- the products sold and/or services provided by the segment;
- the manufacturing process;
- the type or class of customer for the products or service;
- the distribution method; and
- external regulatory requirements.

Communication to the market on products relating to diseases has led the Chief Operating Decision Makers to change the reporting segments in-line with these product ranges. This enables them to focus on relevant strategies to maximise opportunities.

### Fast growing (iTrack)

The fastest growing and emerging markets has been and will continue to be the Glaucoma MIGS market with a current CAGR of 44% and Ellex iTrack™ rated no. 2 in the USA. With the new revolutionary ABIC™ procedure, the iTrack™ is a fast, simple surgical procedure. It is a single use catheter device for "angioplasty" of the eye on patients with glaucoma.

Ellex iTrack™ differs from competitor MIGS because it treats 360° of Schlemm's canal, rather than the insertion of a single point.

### Emerging (2RT)

Emerging market for early AMD treatment with \$5bn currently spent annually on pharma for late stage disease management. Ellex 2RT™ treatment, patent-protected with significant lead on competition and a per-use recurring fee business model.

### Core Ophthalmic Market (Lasers & Ultrasounds)

Growing with aging population and new emerging markets (like China) Ellex is a global leader in this segment with increasing market share. Ellex growing at higher than market rate because of continued investment.

## 26. Segment information *continued*

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### **Basis of accounting for purposes of reporting by operating segments**

#### **Accounting policies adopted**

Unless stated otherwise, all amounts reported to the Board of Directors as the Chief Decision Maker with respect to operating segments are determined in accordance with accounting policies that are consistent to those adopted in the annual financial statements of the Group.

#### **Segment assets**

Where an asset is used across multiple segments, the asset is allocated to the segment that receives the majority of economic value from the asset. In the majority of instances, segment assets are clearly identifiable on the basis of their nature and physical location.

Unless indicated otherwise in the segment assets note, investments in financial assets, deferred tax assets and intangible assets have not been allocated to operating segments.

#### **Segment liabilities**

Liabilities are allocated to segments where there is direct nexus between the incurrence of the liability and the operations of the segment. Tax liabilities are generally considered to relate to the Group as a whole and are not allocated. Segment liabilities include trade and other payables and certain direct borrowings.

#### **Unallocated items**

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

- impairment of intangibles;
- income tax expense;
- deferred and current taxes; and
- intangible assets

## 26. Segment information *continued*

### (a) Segment performance

|                                                                        | Lasers &<br>Ultrasounds | 2RT          | iTrack         | Total          |
|------------------------------------------------------------------------|-------------------------|--------------|----------------|----------------|
|                                                                        | \$'000                  | \$'000       | \$'000         | \$'000         |
| <b>Year ended 30 June 2017</b>                                         |                         |              |                |                |
| <b>Revenue</b>                                                         |                         |              |                |                |
| External sales                                                         | 62,515                  | 901          | 8,219          | 71,635         |
| <b>Total segment revenue</b>                                           | <b>62,515</b>           | <b>901</b>   | <b>8,219</b>   | <b>71,635</b>  |
| <b>Segment EBITDA</b>                                                  | <b>7,245</b>            | <b>(409)</b> | <b>(1,310)</b> | <b>5,526</b>   |
| <i>Reconciliation of segment result to group net profit before tax</i> |                         |              |                |                |
| Amounts not included in segment result:                                |                         |              |                |                |
| ● Depreciation, amortisation and impairment expense                    |                         |              |                | (3,134)        |
| Unallocated items:                                                     |                         |              |                |                |
| ● Corporate costs, quality and service charges                         |                         |              |                | (4,083)        |
| ● Finance costs                                                        |                         |              |                | (336)          |
| ● Interest and other revenue                                           |                         |              |                | 68             |
| <b>Net (loss) before tax from continuing operations</b>                |                         |              |                | <b>(1,959)</b> |
| <b>Year ended 30 June 2016</b>                                         |                         |              |                |                |
| <b>Restated *</b>                                                      |                         |              |                |                |
| <b>Revenue</b>                                                         |                         |              |                |                |
| External sales                                                         | 65,092                  | 1,456        | 6,365          | 72,913         |
| <b>Total segment revenue</b>                                           | <b>65,092</b>           | <b>1,456</b> | <b>6,365</b>   | <b>72,913</b>  |
| <b>Segment EBITDA</b>                                                  | <b>10,853</b>           | <b>(233)</b> | <b>745</b>     | <b>11,365</b>  |
| <i>Reconciliation of segment result to group net profit before tax</i> |                         |              |                |                |
| Amounts not included in segment result:                                |                         |              |                |                |
| ● Depreciation, amortisation and impairment expense                    |                         |              |                | (3,503)        |
| Unallocated items:                                                     |                         |              |                |                |
| ● Corporate costs, quality and service charges                         |                         |              |                | (3,839)        |
| ● Finance costs                                                        |                         |              |                | (214)          |
| ● Interest and other revenue                                           |                         |              |                | 381            |
| <b>Net profit before tax from continuing operations</b>                |                         |              |                | <b>4,190</b>   |

## 26. Segment information *continued*

### (b) Segment assets

|                                                  | Lasers &<br>Ultrasounds | 2RT          | iTrack        | Total         |
|--------------------------------------------------|-------------------------|--------------|---------------|---------------|
|                                                  | \$'000                  | \$'000       | \$'000        | \$'000        |
| <b>Year ended 30 June 2017</b>                   |                         |              |               |               |
| Segment assets – opening                         | 57,749                  | 2,703        | 6,737         | 67,189        |
| Segment asset charges for the period:            |                         |              |               |               |
| Net movement in inventories and receivables      | 7,828                   | 595          | 4,623         | 13,046        |
| <b>Total segment assets</b>                      | <b>65,577</b>           | <b>3,298</b> | <b>11,360</b> | <b>80,235</b> |
| Reconciliation of segment assets to group assets |                         |              |               |               |
| Inter-segment eliminations                       |                         |              |               |               |
| Unallocated assets:                              |                         |              |               |               |
| Deferred tax assets and current tax assets       |                         |              |               | 6,307         |
| <b>Total group assets</b>                        |                         |              |               | <b>86,542</b> |
| <b>Restated *</b>                                |                         |              |               |               |
| Year ended 30 June 2016                          |                         |              |               |               |
| Segment assets – opening                         | 17,391                  | 1,911        | 6,435         | 25,737        |
| Segment asset charges for the period:            |                         |              |               |               |
| Net movement in inventories and receivables      | 40,358                  | 792          | 302           | 41,452        |
| <b>Total segment assets</b>                      | <b>57,749</b>           | <b>2,703</b> | <b>6,737</b>  | <b>67,189</b> |
| Reconciliation of segment assets to group assets |                         |              |               |               |
| Inter-segment eliminations                       |                         |              |               |               |
| Unallocated assets:                              |                         |              |               |               |
| Deferred tax assets and current tax asset        |                         |              |               | 4,801         |
| <b>Total group assets</b>                        |                         |              |               | <b>71,990</b> |

## 26. Segment information *continued*

### (c) Segment liabilities

|                                                            | Lasers &<br>Ultrasounds | 2RT        | iTrack       | Total         |
|------------------------------------------------------------|-------------------------|------------|--------------|---------------|
|                                                            | \$'000                  | \$'000     | \$'000       | \$'000        |
| <b>Year ended 30 June 2017</b>                             |                         |            |              |               |
| <b>Segment liabilities</b>                                 | <b>23,772</b>           | <b>314</b> | <b>5,386</b> | <b>29,472</b> |
| Reconciliation of segment liabilities to group liabilities |                         |            |              |               |
| Unallocated liabilities:                                   |                         |            |              |               |
| Current tax payable                                        |                         |            |              | 137           |
| <b>Total liabilities</b>                                   |                         |            |              | <b>29,609</b> |
| <b>Year ended 30 June 2016</b>                             |                         |            |              |               |
| <b>Segment liabilities</b>                                 | <b>18,250</b>           | <b>452</b> | <b>5,031</b> | <b>23,733</b> |
| Reconciliation of segment liabilities to group liabilities |                         |            |              |               |
| Unallocated liabilities:                                   |                         |            |              |               |
| Current tax payable                                        |                         |            |              | -             |
| <b>Total liabilities</b>                                   |                         |            |              | <b>23,733</b> |

### (d) Revenue by geographical region

Revenue attributable to external customers is disclosed below, based on the location of the external customer:

|                          | 2017<br>\$'000 | 2016<br>\$'000 |
|--------------------------|----------------|----------------|
| Australia                | 8,946          | 8,656          |
| United States of America | 24,807         | 25,967         |
| Europe/Middle East       | 18,117         | 17,030         |
| Japan                    | 11,180         | 10,776         |
| Asia                     | 6,770          | 8,474          |
| South America and other  | 1,815          | 2,010          |
| <b>Total revenue</b>     | <b>71,635</b>  | <b>72,913</b>  |

## 26. Segment information *continued*

### (e) Assets by geographical region

The location of segment assets is disclosed below by geographical location of the assets:

|                          | 2017<br>\$'000 | 2016<br>\$'000 |
|--------------------------|----------------|----------------|
| Australia                | 52,055         | 42,272         |
| United States of America | 14,798         | 13,630         |
| Europe/Middle East       | 6,797          | 6,099          |
| Japan                    | 10,874         | 9,989          |
| Asia                     | 2,018          | -              |
| <b>Total assets</b>      | <b>86,542</b>  | <b>71,990</b>  |

### (f) Cost to acquire segment assets

The below table shows the cost incurred to acquire segment assets that are expected to be used during more than one period.

|                         | Lasers &<br>Ultrasounds | 2RT    | iTrack | Total  |
|-------------------------|-------------------------|--------|--------|--------|
|                         | \$'000                  | \$'000 | \$'000 | \$'000 |
| Year ended 30 June 2017 | 7,518                   | 992    | 354    | 8,864  |
| Year ended 30 June 2016 | 5,326                   | 936    | 111    | 6,373  |

### (g) Change in reportable segments

During the year there has been a change in the reportable segments to align with information used by key decision makers of the business when directing resources of the group. This has resulted in three new segments based on product type. The 30 June 2016 segment performance and the 30 June 2016 segment assets has been restated for the change in reportable segments.

## 27. Related party disclosures

### (a) Equity interests in related parties

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 25 to the financial statements.

### (b) Transactions between Ellex Medical Lasers Limited and its related parties

The following balances arising from transactions between the Company and its other related parties are outstanding at reporting date:

- Loan totalling \$16,240,388 (2016: \$8,370,237) are receivable from subsidiaries which have been eliminated on consolidation.

During the financial year ended 30 June 2017, the following transactions occurred between the Group and its other related parties:

- Interest payments of \$95,107 (2016: \$149,397) were made between subsidiaries in the Group on inter-Company loans payable. The weighted average interest rate on the loans is 3% (2016: 3%). Interest is payable annually.
- Sales between the subsidiaries totalled \$28,294,856 (2016: \$31,124,621) during the year. Payment terms are 60 days.
- Management fees were charged between subsidiaries of \$9,664,320 (2016: \$2,251,552) during the year for management, accounting, marketing and communication support.
- Rental and outgoing expenses of \$73,322 (2016: \$35,705) were incurred with YourAmigo Limited, Director related entity.
- Amounts payable to (related to remuneration paid in arrears):

|             | 2017<br>\$ | 2016<br>\$ |
|-------------|------------|------------|
| ● V Previn  | 10,113     | 10,113     |
| ● A Sundich | 10,161     | 10,113     |
| ● G Canala  | 10,113     | 10,113     |
| ● M Verma   | 8,669      | 8,669      |
| ● R Coupe   | 8,669      | 8,669      |

All loans payable to related parties are unsecured.

## 27. Related party disclosures *continued*

### (c) Key management personnel compensation

The aggregate compensation of the key management personnel of the consolidated group is set out below:

|                              | Consolidated Group |                |
|------------------------------|--------------------|----------------|
|                              | 2017<br>\$'000     | 2016<br>\$'000 |
| Short term employee benefits | 582                | 563            |
| Post-employment benefits     | 56                 | 51             |
| Share based payments         | 32                 | 50             |
|                              | <b>670</b>         | <b>664</b>     |

Details of key management personnel compensation are disclosed in Directors' Report.

## 28. Cash flow information

Cash and cash equivalents comprise cash on hand, cash in banks and investments in money market instruments, net of outstanding bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

### (a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year as shown in the statement of cash flow is reconciled to the related items in the statement of financial position:

|                           | Consolidated Group |                |
|---------------------------|--------------------|----------------|
|                           | 2017<br>\$'000     | 2016<br>\$'000 |
| Cash and cash equivalents | 9,244              | 7,283          |
| Bank overdraft (note 15)  | (788)              | -              |
|                           | <b>8,456</b>       | <b>7,283</b>   |

## 28. Cash flow information *continued*

### (b) Financing facilities

|                                                           | Consolidated Group |                |
|-----------------------------------------------------------|--------------------|----------------|
|                                                           | 2017<br>\$'000     | 2016<br>\$'000 |
| Equipment finance and finance advance (insurance premium) |                    |                |
| ● amount used (note 15)                                   | 191                | 196            |
| ● amount unused                                           | -                  | -              |
|                                                           | <b>191</b>         | <b>196</b>     |
| ANZ finance facility                                      |                    |                |
| ● amount used                                             | 8,903              | 5,118          |
| ● amount unused                                           | 1,097              | 4,882          |
|                                                           | <b>10,000</b>      | <b>10,000</b>  |
| Mortgage ANZ                                              |                    |                |
| ● amount used                                             | 6,130              | 2,067          |
| ● amount unused                                           | 994                | 3,933          |
|                                                           | <b>7,124</b>       | <b>6,000</b>   |
| Other facilities                                          |                    |                |
| ● amount used                                             | 411                | 465            |
| ● amount unused                                           | 545                | 715            |
|                                                           | <b>956</b>         | <b>1,180</b>   |

## 28. Cash flow information *continued*

### (c) Reconciliation of (loss)/profit for the year to net cash flows from operating activities

|                                                                                                    | Consolidated Group |                |
|----------------------------------------------------------------------------------------------------|--------------------|----------------|
|                                                                                                    | 2017<br>\$'000     | 2016<br>\$'000 |
| (Loss)/profit for year                                                                             | (894)              | 3,027          |
| Depreciation and amortisation of non-current assets                                                | 3,134              | 3,148          |
| Impairment expense                                                                                 | -                  | 355            |
| (Loss)/profit on disposal of property, plant and equipment                                         | 178                | 35             |
| Release of grant income                                                                            | (59)               | -              |
| Implied interest on earn out                                                                       | 68                 | 324            |
| Forecast accrual for earn out                                                                      | 201                | 190            |
| Tax on share issue                                                                                 | 163                | 82             |
| Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses: |                    |                |
| ● Current and non-current receivables                                                              | (380)              | (3,316)        |
| ● Decrease/(increase) in tax balances                                                              | (1,368)            | 1,044          |
| ● Current and non-current inventories                                                              | (4,697)            | (2,955)        |
| ● Other assets                                                                                     | 474                | 511            |
| ● Current and non-current payables                                                                 | (440)              | 2,616          |
| ● Other current and non-current liabilities                                                        | 124                | 155            |
| <b>Net cash from operating activities</b>                                                          | <b>(3,496)</b>     | <b>5,216</b>   |

## 29. Financial instruments

The consolidated group enters into derivative financial instruments from time to time to manage its exposure to foreign exchange rate risk.

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable, and leases.

The totals for each category of financial instruments, measured in accordance with AASB 139 as detailed in the accounting policies to these financial statements, are as follows:

|                                    | Note | Consolidated Group |                |
|------------------------------------|------|--------------------|----------------|
|                                    |      | 2017<br>\$'000     | 2016<br>\$'000 |
| <b>Financial assets</b>            |      |                    |                |
| Cash and cash equivalent           | 28   | 9,244              | 7,283          |
| Receivables                        | 7    | 15,357             | 15,737         |
| <b>Total financial assets</b>      |      | <b>24,601</b>      | <b>23,020</b>  |
| <b>Financial liabilities</b>       |      |                    |                |
| Trade and other payables           | 14   | 9,016              | 11,591         |
| Borrowings                         | 15   | 9,505              | 6,102          |
| Mortgage                           | 15   | 6,130              | 2,067          |
| <b>Total financial liabilities</b> |      | <b>24,651</b>      | <b>19,760</b>  |

## 29. Financial instruments *continued*

### (a) Capital risk management

The consolidated group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through optimising the debt and equity balance.

The capital structure of the consolidated group consists of debt, which includes the borrowings disclosed in note 15, cash and cash equivalents and equity attributable to the equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 18, 19 and 20 respectively. The consolidated group operates globally, primarily through subsidiary companies established in the markets in which the consolidated group trades. None of the subsidiary companies are subject to externally imposed capital requirements.

Operating cash flows are used to maintain and expand manufacturing facilities and distribution assets, as well as make routine out flows of tax and repayment of maturing debt. The consolidated group's policy is to manage debt and equity centrally, using capital market issues and borrowing facilities to meet anticipated funding requirements.

### (b) Financial risk management objectives

The requirements are monitored on a continual basis and form part of the regular management and Board reporting.

The Audit & Risk Committee Group reviews the treasury function of the consolidated group to provide services to the business, coordinate access to domestic and international financial markets, and manage the financial risks relating to the operations of the consolidated group. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The consolidated group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes. The use of financial derivatives is governed by the consolidated group's policies approved by the Board of Directors and Audit & Risk Committee, which provide written principles on the use of financial derivatives. Compliance with policies and exposure limits is reviewed by the management on a continuous basis. During the financial year 2010, the Board of Directors minuted that all future foreign currency hedging is to be approved by the Board before proceeding.

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 1 to the financial statements.

### (c) Categories of financial instruments

The categories of financial instruments are identified in the Statement of Financial Position and notes thereto.

### (d) Loans and receivables designated as a 'fair value through profit or loss'

There were no loans and receivables designated as at 'fair value through profit or loss' in 2017 or 2016.

### (e) Market risk

The consolidated group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. From time to time, the consolidated group enters into collar options to hedge the exchange rate risk arising on the sale of ophthalmic equipment in foreign currencies.

At the consolidated group and Company level market risk exposures are measured using sensitivity analysis. There has been no change in the consolidated group's exposure to market risks or the manner in which it manages and measures the risk from the previous period.

## 29. Financial instruments *continued*

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### (f) Foreign currency risk management

The consolidated group undertakes certain transactions denominated in foreign currencies, hence exposures to exchange rate fluctuations arise.

The board of directors approves foreign currency risk management procedures that are applied.

The nature of the consolidated group's exposure to foreign currency risks and the circumstances in which they arise is as follows:

- Price lists
- Inventory holdings in off-shore warehouses

The consolidated group issues some price lists for its products in foreign currency, generally set in terms of its annual budgeted exchange rate.

- Sales and purchases in foreign currency

The consolidated group's major exposure arises from the export of products in foreign currency to off shore locations such as USA, Europe, Asia and Japan and the import of raw materials also denominated in foreign currency. The consolidated group strives to offset as much of this exposure within its capacity of a natural hedge, and manage the net exposure.

The objectives, policies and processes for managing foreign currency risk and the methods used to measure the risk are as follows:

#### Objective

The objective of the consolidated group's foreign currency risk policy is to seek to minimise the volatility associated with foreign currency rates and deliver AUD cash flows with as much certainty as possible.

#### Policy and processes

The management of consolidated group's foreign exchange risk is a two-stage process. The first is to assess the degree of natural hedge (offset purchases against receipts in same currencies) and then, if considered practical, to manage the 'net' exposure.

#### Natural Hedge

The consolidated group identifies any natural hedge that arises as a result of purchases/outflows denominated in the foreign currency which are able to be offset against sales/inflows received.

Timing differences between the inflows and outflows are managed using the following techniques:

- Foreign Currency Deposit Accounts - to store surplus funds from time-to-time;
- Foreign Currency Loans - where working capital requirements are drawn from time-to-time and repaid with foreign currency receipts.
- Non-AUD cashflows are monitored for any surplus funds or shortfalls.

## 29. Financial instruments *continued*

### (f) Foreign currency risk management *continued*

#### Interim policy

The carrying amount of the consolidated group's foreign currency denominated monetary assets and monetary liabilities at reporting date is as follows:

|              | Liabilities    |                | Assets         |                |
|--------------|----------------|----------------|----------------|----------------|
|              | 2017<br>\$'000 | 2016<br>\$'000 | 2017<br>\$'000 | 2016<br>\$'000 |
| US dollars   | 5,476          | 4,343          | 7,551          | 9,382          |
| Japanese Yen | 1,351          | 3,446          | 5,497          | 6,163          |
| Euro         | 107            | 810            | 3,180          | 3,226          |

#### Foreign currency sensitivity analysis

The consolidated group is mainly exposed to USA dollars, Euro and Japanese Yen.

The following table details the consolidated group's sensitivity to a 10% increase and decrease in the Australian dollar against the relevant foreign currency. 10% represents management's assessment of the possible change in foreign currency rates within a reasonable period of time. The sensitivity analysis only includes outstanding foreign currency denominated monetary items and adjusts their translation at the period end for a 10% change in the currency rates. The sensitivity includes external loans. A positive number indicates an increase in profit or loss and other equity where the Australian dollar weakens against the respective currency. For a strengthening of the Australian dollar against the respective currency there would be an equal and opposite impact on the profit and other equity.

|                | Euro Impact consolidated |                | USD Impact consolidated |                | Japanese Yen Impact consolidated |                |
|----------------|--------------------------|----------------|-------------------------|----------------|----------------------------------|----------------|
|                | 2017<br>\$'000           | 2016<br>\$'000 | 2017<br>\$'000          | 2016<br>\$'000 | 2017<br>\$'000                   | 2016<br>\$'000 |
| Profit or loss | 273                      | 219            | 188                     | 458            | 376                              | 247            |

The exposures are mainly attributable to foreign currency denominated receivables, payables, cash and loans.

### (g) Interest rate risk management

The consolidated group is exposed to interest rate risk as it borrows funds at both fixed and floating interest rates. The risk is managed by maintaining an appropriate mix between fixed and floating rate borrowings.

The sensitivity analysis below has been determined based upon exposures to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and held constant throughout the reporting period.

At reporting date, if interest rates had been 100 basis points (2016: 100 basis points) higher or lower and all other variables were held constant, the consolidated group's:

Net profit after tax would increase by \$112 thousand and decrease by \$112 thousand (2016: increase by \$40 thousand and decrease by \$40 thousand). This is attributable to the consolidated group's exposure to interest rates on its variable rate borrowings.

The consolidated group's sensitivity to interest rates has increased during the current period mainly due to an increase in borrowings.

## 29. Financial instruments *continued*

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### (h) Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated group. The consolidated group has adopted a global policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The consolidated groups exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded are spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved annually. The consolidated group measures credit risk on a fair value basis.

Trade accounts receivable consist of a large number of customers, spread across diverse geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable and, where appropriate, credit reference check is conducted for the debtor.

The consolidated group and the Company do not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The carrying amount of financial assets recorded in the financial statements, net of any allowances for losses, represents the consolidated group's maximum exposure to credit risk without taking account of the value of any collateral or other security obtained.

### (i) Fair value of financial statements

The carrying amount of all financial assets and liabilities approximate their fair value.

### (j) Liquidity risk management

The consolidated group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Included in note 28(b) is a listing of undrawn facilities that the consolidated group has at its disposal to further reduce liquidity risk.

## 29. Financial instruments *continued*

### (k) Maturity profile of financial instruments

The following tables detail the consolidated group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the expected cash flows of financial liabilities based on the earliest date on which the consolidated group can be required to pay. The tables include both interest and principal cash flows.

|                              | Interest rate maturity         |                            |                             |                           |                     | Total<br>\$'000 |
|------------------------------|--------------------------------|----------------------------|-----------------------------|---------------------------|---------------------|-----------------|
|                              | Less than<br>1 month<br>\$'000 | 1 to 3<br>months<br>\$'000 | 3 to 12<br>months<br>\$'000 | 1 to 5<br>years<br>\$'000 | + 5 years<br>\$'000 |                 |
| <b>2017</b>                  |                                |                            |                             |                           |                     |                 |
| <b>Financial liabilities</b> |                                |                            |                             |                           |                     |                 |
| Finance lease                | 11                             | 23                         | 103                         | 274                       | -                   | 411             |
| Finance advance              | 31                             | 62                         | 98                          | -                         | -                   | 191             |
| Trade payables               | 4,276                          | -                          | -                           | -                         | -                   | 4,276           |
| Other payables               | 2,738                          | 1,954                      | -                           | -                         | -                   | 4,692           |
| Payable to directors         | 48                             | -                          | -                           | -                         | -                   | 48              |
| Kansai loan                  | 11                             | 22                         | 99                          | -                         | -                   | 132             |
| Debtor finance facility      | 2,105                          | 3,820                      | 108                         | -                         | -                   | 6,033           |
| Mortgage for building        | -                              | 200                        | 600                         | 5,330                     | -                   | 6,130           |
| Overdraft                    | 788                            | -                          | -                           | -                         | -                   | 788             |
| ANZ cash advance             | -                              | -                          | -                           | 1,950                     | -                   | 1,950           |
|                              | <b>10,008</b>                  | <b>6,081</b>               | <b>1,008</b>                | <b>7,554</b>              | <b>-</b>            | <b>24,651</b>   |
| <b>2016</b>                  |                                |                            |                             |                           |                     |                 |
| <b>Financial liabilities</b> |                                |                            |                             |                           |                     |                 |
| Finance lease                | 10                             | 20                         | 87                          | 348                       | -                   | 465             |
| Finance advance              | 25                             | 50                         | 121                         | -                         | -                   | 196             |
| Trade payables               | 3,622                          | 1,424                      | 220                         | -                         | -                   | 5,266           |
| Other payables               | 146                            | 3,049                      | 547                         | 1,804                     | 724                 | 6,270           |
| Payable to directors         | 55                             | -                          | -                           | -                         | -                   | 55              |
| Kansai loan                  | 36                             | 25                         | 113                         | 149                       | -                   | 323             |
| Debtor finance facility      | 991                            | 3,564                      | 564                         | -                         | -                   | 5,119           |
| Mortgage for building        | -                              | -                          | 175                         | 1,892                     | -                   | 2,067           |
|                              | <b>4,885</b>                   | <b>8,132</b>               | <b>1,827</b>                | <b>4,193</b>              | <b>724</b>          | <b>19,760</b>   |

### 30. Parent entity information

The financial information for the parent entity, Ellex Medical Lasers Limited, has been prepared on the same basis as the consolidated financial statements except for that outlined below.

|                                                                   | Parent Entity  |                |
|-------------------------------------------------------------------|----------------|----------------|
|                                                                   | 2017<br>\$'000 | 2016<br>\$'000 |
| <b>Statement of financial position</b>                            |                |                |
| Total current assets                                              | 4,739          | 3,950          |
| Total non-current assets                                          | 44,570         | 35,737         |
| <b>Total assets</b>                                               | <b>49,309</b>  | <b>39,687</b>  |
| Total current liabilities                                         | (187)          | (206)          |
| Total non-current liabilities                                     | -              | -              |
| <b>Total liabilities</b>                                          | <b>(187)</b>   | <b>(206)</b>   |
| Share capital                                                     | 55,949         | 46,041         |
| General reserves                                                  | (1,805)        | (1,802)        |
| Accumulated (loss)                                                | (5,022)        | (4,758)        |
| <b>Total Equity</b>                                               | <b>49,122</b>  | <b>39,481</b>  |
| <b>Statement of profit or loss and other comprehensive income</b> |                |                |
| (Loss)/profit for the year                                        | (264)          | (1,572)        |
| <b>Total comprehensive income</b>                                 | <b>(264)</b>   | <b>(1,572)</b> |

Except for those noted below, our accounting policies for the Ellex entity are consistent with those for the Ellex Group:

- Under tax funding arrangements, amounts receivable (or payable) recognised by the Ellex Group for the current tax payable (or receivable) assumed of our wholly owned entities are booked as current assets or liabilities.
- Investments in controlled entities, included within non-current assets above, are recorded at cost less impairment of the investment value. Refer to note 25 for details on investments in controlled entities.

**(a) Property, plant and equipment commitments**

Contractual commitments for the acquisition of property, plant or equipment as at 30 June 2017 are \$129 thousand (2016: \$760 thousand).

**(b) Contingent liabilities and guarantees**

There is a bank guarantee for \$360 thousand held with Australian and New Zealand Banking Group Limited (2016: \$360 thousand).

**(c) Indemnities, performance guarantees and financial support**

Ellex Medical Lasers Limited has provided a corporate guarantee and indemnity up to the total borrowings of the general security agreement.

### 31. Remuneration of auditors

|                                         | Consolidated Group |                |
|-----------------------------------------|--------------------|----------------|
|                                         | 2017<br>\$'000     | 2016<br>\$'000 |
| Audit or review of the financial report |                    |                |
| ● Grant Thornton                        | 120,000            | 108,000        |
|                                         | <b>120,000</b>     | <b>108,000</b> |

The auditors of Ellex Medical Lasers Limited is Grant Thornton Audit Pty Ltd (2016: Grant Thornton Audit Pty Ltd).

The following non-audit services were provided during the year:

- Corporate advisory for \$136,150 (2016: there were no non-audit services provided).

### 32. Events after reporting date

The Group breached the interest cover ratio at 30 June 2017. As a result all ANZ related borrowings have been classified as current. A letter of waiver has been obtained from the bank acknowledging the breach.

In order to accelerate Ellex iTrack growth, the company's CEO, Tom Spurling, will relocate to Fremont USA and Dr Meera Verma will assume responsibility for managing the laser and ultrasound business based in Adelaide.

No other matters or circumstances have arisen since the end of the year which significantly affected or could significantly affect the operations of the Group, the results of the operations or the state of affairs of the group in future financial years.

## Directors' Declaration

In the opinion of the Directors of Ellex Medical Lasers Limited:

- (a) The consolidated financial statements and notes of Ellex Medical Lasers Limited are in accordance with the Corporations Act 2001, including
  - i. Giving a true and fair view of its financial position as at 30 June 2017 and of its performance for the financial year ended on that date; and
  - ii. Complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and
- (b) There are reasonable grounds to believe that Ellex Medical Lasers Limited 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 from the chief executive officer and chief financial officer for the financial year ended 30 June 2017.

Note 1 confirms that the consolidated financial statements also comply with the International Financial Reporting Standards.

At the date of this declaration, the Group is within the class of companies affected by ASIC Class Order 98/1418.

The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee. In the Directors' opinion, these are reasonable grounds to believe that the Company and the companies to which the ASIC Class Order applies, as detailed in note 26 to the financial statements, will as a group, be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee.

Signed in accordance with a resolution of the directors:

On behalf of the Directors



Victor Previn  
Chairman

Adelaide, 23 August 2017

# **Independent Auditor's Report**



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## Independent Auditor's Report To the Members of Ellex Medical Lasers Limited

### Report on the audit of the financial report

#### Opinion

We have audited the financial report of Ellex Medical Lasers Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, 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 2017 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 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.

Grant Thornton Audit Pty Ltd ACN 130 913 594  
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### 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.

| Key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | How our audit addressed the key audit matter                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Capitalised development costs carrying value exceeds fair value – Note 12</b></p> <p>Included within the Group's capitalised development costs of \$13,446,152 is \$5,313,817 of costs for products not yet commercialised.</p> <p>Assessing whether there is any indication that a development phase asset may be impaired involves a high degree of management judgement.</p> <p>This area is a key audit matter due to the degree of management judgement and assumptions applied in assessing the presence of impairment of a development phase asset.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | <p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>obtaining the impairment paper prepared by management and performing the following: <ul style="list-style-type: none"> <li>testing mathematical accuracy;</li> <li>discussing pertinent aspects of the paper with senior management and project managers to assess consistency with AASB 136 <i>Impairment of Assets</i>;</li> <li>identifying and sensitising the key assumptions in the impairment paper and comparing them to expectations based on historical data; and</li> <li>evaluating the qualifications, objectivity and expertise of managements' experts who assisted with the assumptions used in the management paper</li> </ul> </li> <li>assessing the status of significant projects against the recognition criteria of AASB 138 <i>Intangible Assets</i> through discussions with senior management and project managers; and</li> <li>assessing the adequacy of the related disclosures in the financial statements.</li> </ul> |
| <p><b>Recoverability of unused tax losses – Note 5</b></p> <p>The group recognised gross deferred tax assets of \$6,307,049 at 30 June 2017 of which \$2,051,950 arises from tax losses carried forward.</p> <p>AASB 112 <i>Income Taxes</i> requires deferred tax assets to be recognised only to the extent that it is probable that sufficient future taxable profits will be generated in order for the benefits of the deferred tax assets to be realised.</p> <p>One component entity of the Group has accumulated a significant balance of unused tax losses resulting in a deferred tax asset of \$736,899. This balance is based on an estimate of forecast profits for the period 2018-2022 used to determine the expected utilisation of tax losses.</p> <p>The fact that the component entity has a history of losses in itself is strong evidence that future taxable profit may not be available. Management has forecast future profits using a financial model which requires a high degree of judgement.</p> <p>This area is a key audit matter due to the significant estimation included in the financial model.</p> | <p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"> <li>comparing forecast future cash flows to historical performance to determine the reliability of forecasts prepared by management;</li> <li>agreeing the tax loss position to the latest tax returns to confirm tax losses used as the basis for the deferred tax asset balance are complete;</li> <li>using our own transfer pricing tax specialist to review the transfer pricing policy of the group and transfer pricing adjustments for the Japan jurisdiction; and</li> <li>assessing the adequacy of the tax disclosures within the financial statements.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                            |



### **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 2017, but does not include the financial report and our auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's report.

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:

[http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.



Grant Thornton

## Report on the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 6 to 10 of the directors' report for the year ended 30 June 2017.

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

### Responsibilities

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

*Grant Thornton*

GRANT THORNTON AUDIT PTY LTD  
Chartered Accountants

A handwritten signature in blue ink, appearing to read 'S K Edwards', followed by a period.

S K Edwards  
Partner - Audit & Assurance

Adelaide, 23 August 2017

## Additional Information

## Number of holders of equity securities

### Ordinary share capital

- 121,146,897 fully paid ordinary shares are held by 3,748 individual shareholders.

All issued shares carry one vote per share.

### Distribution of holders of equity securities

| Range                                 | Total Holders |
|---------------------------------------|---------------|
| 1 – 1,000                             | 1,305         |
| 1,001 – 5,000                         | 896           |
| 5,001 – 10,000                        | 520           |
| 10,001 – 100,000                      | 943           |
| 100,001 and over                      | 130           |
|                                       | <b>3,794</b>  |
| Holding less than a marketable parcel | 527           |

### Substantial shareholders

| Ordinary Shareholders                     | Fully Paid |            |
|-------------------------------------------|------------|------------|
|                                           | Number     | Percentage |
| National Nominees Limited                 | 10,009,314 | 8.28       |
| Sedico Pty Ltd                            | 9,316,031  | 7.64       |
| HSBC Custody Nominees (Australia) Limited | 6,842,043  | 5.65       |

## Number of holders of equity securities

### Twenty largest holders of quoted equity securities

| Ordinary Shareholders                                                              | Fully Paid        |              |
|------------------------------------------------------------------------------------|-------------------|--------------|
|                                                                                    | Number            | Percentage   |
| National Nominees Limited                                                          | 10,097,314        | 8.28         |
| Sedico Pty Ltd                                                                     | 9,316,031         | 7.64         |
| HSBC Custody Nominees (Australia) Limited                                          | 6,842,043         | 5.65         |
| Pine Street Pty Ltd (Pine Street Super Fund A/C)                                   | 6,300,000         | 5.16         |
| JP Morgan Nominees Australia Limited                                               | 6,063,692         | 5.01         |
| Ruminator Pty Ltd                                                                  | 5,062,008         | 4.18         |
| Canala Super Fund Pty Ltd (Giuseppe Canala S/F A/C)                                | 3,061,788         | 2.57         |
| Citicorp Nominees Pty Limited                                                      | 2,529,585         | 2.09         |
| Gwynvill Trading Pty Ltd                                                           | 1,998,016         | 1.65         |
| Sandhurst Trustees Ltd (Berkholts Investments A/C)                                 | 1,334,631         | 1.10         |
| Unley Underwriters Pty Limited                                                     | 1,107,424         | 0.91         |
| Moat Investments Pty Ltd (Moat Investment A/C)                                     | 1,002,275         | 0.83         |
| Five Talents Limited                                                               | 963,607           | 0.80         |
| Mr Craig Graeme Chapman (Nampac Discretionary A/C)                                 | 942,193           | 0.78         |
| Mr Douglas Robert Buchanan + Mrs Robyn Lorraine Buchanan (Buchanan Super Fund A/C) | 925,000           | 0.76         |
| Mr Rahmon Charles Coupe + Mrs Julia Deborah Coupe (Super Fund A/C)                 | 874,400           | 0.72         |
| Forsyth Barr Custodians Ltd (Forsyth Barr Ltd-Nominee A/C)                         | 851,316           | 0.70         |
| BNP Paribas Noms (NZ) Ltd (DRP)                                                    | 779,700           | 0.64         |
| Mr Ivan Tanner + Mrs Felicity Tanner (The Supernatural S/F A/C)                    | 739,932           | 0.61         |
| Dr Peter Anthony Stewart                                                           | 680,000           | 0.56         |
|                                                                                    | <b>61,470,955</b> | <b>50.43</b> |

## Notes

## Notes

[illegible]

## Notes

## Notes

This image shows a full page of blank handwriting practice paper. It features approximately 28 horizontal blue lines spaced evenly across the page. The lines are thin and light blue, set against a plain white background. There are no margins, text, or other markings on the page.

## Notes

## Corporate Directory

### Directors

**Victor Previn** B Eng  
*Executive Chairman*

**Alex Sundich** BEc, MComm, ACA, FFINSIA  
*Non-Executive Director*

**Giuseppe Canala** BTECH, BA, FAICD  
*Independent Director*

**Rahmon Coupe** B Eng (Hons)  
*Independent Director*

**Meera Verma** PhD, FTSE, FAICD  
*Independent Director*

### Company Secretary

**Maria Maieli** CPA, MPACC, AGIA

### Auditors

**Grant Thornton Audit Pty Ltd**

Level 13, 170 Frome Street  
Adelaide SA 5000

### Share Registry

**Computershare Investor Services Limited**

Level 5, 115 Grenfell Street  
Adelaide SA 5000  
GPO Box 1903  
Adelaide SA 5001

Enquiries within Australia: 1300 556 161  
Enquiries outside Australia: +61 3 9415 4000  
Email [webenquiries@computershare.com.au](mailto:webenquiries@computershare.com.au)  
[www.computershare.com](http://www.computershare.com)

### Stock Exchange

The Company is listed on the  
Australian Stock Exchange (ASX)

#### ASX Code

ELX - Ordinary Shares

### Registered Office

**Ellex Medical Lasers Limited**

ABN 15 007 702 927

82 Gilbert Street  
Adelaide  
South Australia 5000

Telephone +61 8 7074 8200

Facsimile +61 8 7074 8231

[www.ellex.com](http://www.ellex.com)

## Global sales and service

### Headquarters

#### Australia

3 – 4 Second Avenue  
Mawson Lakes SA, 5095  
AUSTRALIA  
+61 8 7074 8200

### Japan

3F, 3-2-22 Harumi Chuo-ku  
Tokyo 104-0053 JAPAN  
+81 3 5859 0470

### USA (Lasers and Ultrasound)

7138 Shady Oak Road  
Minneapolis, MN, 55344 USA  
800 824 7444

### USA (Ellex iTrack)

41316 Christy St  
Fremont, CA 94538 USA  
510 291 1300

### Germany

ZPO floor 1, Carl-Scheele-Str.16  
12489 Berlin GERMANY  
+49 30 6392896 00

### France

La Chaufferie - 555 chemin du bois  
69140 Rillieux la Pape FRANCE  
+33 4 8291 0460



