3-4 Second Avenue
Mawson Lakes
SA 5095 Australia

ellex.com

t +61 8 8104 5200
f +61 8 8221 5651

ABN 35 008 276 060

Dear Shareholder,

I am pleased to report another year of solid progress at Ellex, as our significant investments into the business made during the 2017 and 2018 financial period begin to transition to sales execution in the 2019 financial year and beyond.

During the 2019 financial year, we continued to focus on driving growth in our restorative glaucoma franchise, consisting of our world-leading laser restorative treatment with Ellex Tango™ for early stage glaucoma, and the iTrack™ surgical system for the angioplasty-type treatment of more advanced forms of glaucoma.

Our glaucoma franchise delivered revenue growth of 15% to $46.7 million, comprising iTrack revenue growth of 29% to $14.3 million and laser growth of 10% to $32.4 million. The segment has delivered an impressive three-year compound annual growth rate or CAGR of 24%. With this solid growth, there has also been a significant increase in our glaucoma product mix, from 36% of group revenues in FY16 to 57% of group revenues in FY19, justifying our investment and focus into this high growth, underpenetrated market.

There are a number of reasons to be excited for the future of our restorative glaucoma franchise. In March 2019, the results of a large clinical trial in over 600 newly diagnosed glaucoma patients called LiGHT, which used the Ellex Tango, were reported in the prestigious *The Lancet* journal. The trial showed unequivocally that patients who were administered laser treatment (also known as SLT) versus pharmaceutical eye drops exhibited better control of their glaucoma disease at three years. Further, none of the laser patients progressed to a stage that required surgical intervention. Laser treatment was also reported to be more cost effective than eye drops. Ellex believes the results of the LiGHT Trial will materially enhance clinician interest for Ellex Tango in markets such as the UK and the USA, where eye drops are considered first-line therapy for glaucoma.

Secondly, Ellex has materially grown its iTrack business in the key USA market, with new account acquisition growing 49% over the prior period. Additionally, we were able to introduce an increase to the price for our iTrack surgical system in the USA market in the latter part of the second half, supported by the strong reimbursement landscape for iTrack across private practices, day surgeries and hospitals.

Our proprietary 2RT® Retinal Rejuvenation Therapy for patients with intermediate Age-Related Macular Degeneration (iAMD) showed solid growth in sales, up 260% to $1.8 million for the year. Ellex has been focused on the education and marketing of the LEAD Trial results in those territories where we have regulatory clearances for early AMD, excluding the USA.

3-4 Second Avenue
Mawson Lakes
SA 5095 Australia

ellex.com

+61 8 8104 5200
+61 8 8221 5651

ABN 35 008 276 060

The post-hoc analysis of the LEAD trial showed a clinically meaningful 77% reduction in the rate of progression to late-stage AMD in 76% of selected patients enrolled in the study at three years, with a prolongation of benefit out to four years recently reported. LEAD was the first ever trial to show a significant efficacy effect in an iAMD population.

We are strong believers in the meaningfulness of these clinical results, despite the LEAD Trial not meeting the primary endpoint, across the entire study population. There are currently no regulatory approved products to treat early AMD, with the market representing millions of patients in the USA alone each year. Hence, we are determined to examine the most appropriate pathway to obtain a Food and Drug Administration (FDA) clearance for 2RT in early AMD for the USA market.

Ellex has now submitted our regulatory documentation to the FDA and Ellex expects to meet with the FDA and report on those outcomes in the fourth quarter of this calendar year.

Overall, we were satisfied with our group financial performance during the year, which saw the Company meet its market guidance and deliver a small EBITDA loss for the period. Our core Laser & Ultrasound business delivered a 6% uplift in EBITDA to $9.5 million and although our investment phase into iTrack continued for much of the 2019 financial year, the solid earnings leveraged off that business were highlighted in the second half, with the EBITDA loss narrowing to $1 million from $4 million in the first half.

The 2020 financial year is shaping up as an exciting year for Ellex, as we obtain clarity from the FDA on 2RT and present a US commercial strategy to our investors. From a financial perspective we expect our group EBITDA for the 2020 financial year to improve on 2019, subject to global economic conditions and foreign exchange rates. Ellex also anticipates iTrack revenue growth to continue with that segment to turn EBITDA positive in the 2H of the 2020 financial year.

From a management perspective, we did see some changes at the CEO level during the year, and the Board appointed Maria Maieli, who was Ellex's CFO and Company Secretary, as Interim CEO in July. The Board anticipates the permanent CEO position will be announced in the early part of the 2020 calendar year.

Thank you for your ongoing support. We continue to fulfil our commitment to help the world to see clearly.

Victor Previn
Chairman

V. Previn

25 October 2019

Annual Report

Ellex Medical Lasers Limited
Year ended 30 June 2019

Helping the world see clearly

Transforming sight.
Transforming lives.

ANNUAL REPORT 2019

Corporate Governance

Corporate Governance

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

The Corporate Governance Statement which was approved by Board of Directors on 26 June 2019 is available for viewing on our website **www.ellex.com**

Directors' Report

Directors' Report

Directors

The directors of Ellex Medical Lasers Limited (the "Company") submit herewith the annual financial report of the Company and the entities it controlled (the "Group" or "Ellex") at the end of, or during the financial year ended 30 June 2019. 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 31 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 31 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, Remuneration Committee and Nomination Committee.

Mr Previn beneficially holds 9,069,980 shares as at 29th August, 2019.

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 Industry. He is currently Chairman of the Audit & Risk Committee and Chairman of the Nomination Committee.

Mr Sundich beneficially holds 6,300,000 shares as at 29th August, 2019.

Giuseppe Canala

Giuseppe Canala was appointed a Director on 17 October 2008. His tenure of 11 years as a director and 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, Remuneration Committee and Nomination 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 3,061,788 shares as at 29th August, 2019.

Directors' Report

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 31 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 Y ear in Technology and Emerging Industries for the Central Region of Australia in 2009. He is currently a member of the Remuneration Committee.

Mr Coupe beneficially holds 914,400 shares as at 29th August, 2019.

Mike Southard

Mr Southard was appointed as an Executive Director on 2 July 2018.

Mike Southard spent 26 years with the world's largest ophthalmology company, Alcon Laboratories of Fort Worth Texas, as Vice President of the Global Surgical business. During Mike's tenure, the Alcon business grew dramatically from US$85 million to US$2.4 billion of sales per year. Prior to this, he was an executive with Beecham Laboratories (now SmithKline Beecham), and Cooper-Vision, which was acquired by Alcon Laboratories.

Mike is currently actively involved in Ophthalmology, Dermatology and Orthopaedics through his consulting company based in Portland, Oregon, USA. He has vast experience in both the International and U.S. markets and maintains important contacts with many of the world's key opinion leaders in all areas of eye surgery.

Mike holds a Bachelor of Science Degree from Oregon State University, in Business, and also an executive MBA degree from Stanford University. Mike has served on Scientific Advisory Boards, Industry Advisory Councils, and also represented the International Markets and the Eye Surgery segment on the team that lead the initial public offering of Alcon in the early 2000's.

Mr Southard beneficially holds 20,000 shares as at 29th August, 2019.

Mike Mangano

Mr Mangano was appointed as an Independent Director on 2 July 2018.

Mike Mangano is an accomplished global executive leader with over 24 years' experience in the medical device industry.

Mike is currently the President and CEO of ABK Biomedical Inc., a Canadian based venture backed start-up focused on the development of innovative embolic devices. Prior to ABK, he was the President and CEO of ReShape Medical Inc., a U.S. venture backed company focused on obesity that was sold in October of 2017. Mr. Mangano was also President of the Americas for Sirtex Medical for over six years. At Sirtex, Mike grew the business from US$30 million to over US$140 million of sales per year, while building a team of 17 to more than 130 employees. Prior to Sirtex, he spent 15 years with Boston Scientific in numerous senior executive roles, including two overseas positions in Japan and Australia. He has vast experience in sales and marketing management, product development, strategic planning, international business, M&A, project management, and business model development. He currently is a member of the board of directors of ABK Biomedical.

Mr Mangano beneficially holds 50,000 shares as at 29th August, 2019.

Directors' Report

Group Chief Executive Officer
Maria Maieli

Maria Maieli was appointed Interim Group Chief Executive Officer on 19 July 2019. Ms Maieli joined Ellex as Chief Financial Officer in May 2011. She has over 20 years of senior corporate management experience in public and private companies. This experience includes parts of all functional areas in a corporation including finance, sales, operations, compliance and governance.

Ms Maieli was formerly Finance Manager of Penrice Soda Holdings Limited, an ASX-listed company that owned and operated 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), a member of the Governance Institute of Australia and Australian Institute of Company Directors.

Tom Spurling (former CEO)

Tom Spurling was appointed Chief Executive Officer in March 2011. Mr Spurling resigned as Chief Executive Office on 5 April 2019. 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.

Gerard Wallace (former CEO)

Mr Wallace was appointed Chief Executive Officer on 8 April 2019. He resigned as Chief Executive Officer on 19 July 2019. Mr Wallace has significant senior executive medical device experience, across Asia Pacific, Europe and the Middle East. He was formerly the President of Europe, Middle East and Africa at Boston Scientific (NYSE:BSX), which generated US$1.7 billion in revenue and comprised 1,650 staff. Mr. Wallace was also a past President of Asia/China at Baxter International (NYSE:BAX) responsible for approximately 2,000 staff and US$270 million in annual revenue. He also served as President, Commercialisation for CathRX Limited and currently serves as a Non-Executive Director at Cipher Surgical Limited.

Company Secretary

Kimberley Menzies was appointed Company Secretary on 19 July 2019. Ms Menzies joined Ellex as Group Financial Controller in November 2015. She has over 12 years of auditing and financial reporting experience in ASX listed, mid-sized and large private companies.

Ms. Menzies holds a Master's Degree in Accounting from the University of Adelaide and is a Chartered Accountant (CA).

Ms. Maieli resigned as Company Secretary on 19 July 2019.

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; and
- 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

The Group's financial reporting identifies the business across three segments: 1. Laser and Ultrasound, 2. Ellex iTrack™ and, 3. 2RT®. This reporting structure provides shareholders with visibility of the growing profits associated with the Laser and Ultrasound business segment, as well as the investments for the Ellex iTrack™ and 2RT® business segments respectively.

During the 2019 financial year Ellex continued with a significant investment in sales and marketing of the Ellex iTrack™ business segment and educating retinal specialists on the significance of the Ellex 2RT® LEAD clinical study results. The continued investment into our glaucoma business resulted in a group operating loss after income tax of A$5,773k for the year ended 30 June 2019, compared with an operating loss after income tax of A$5,074k for the year ended 30 June 2018.

Operating cash outflows of $4,207k reflected an increase in working capital associated with higher inventory build on sales expectations, particularly for Ellex iTrack in 2019. Capital expenditure of $722k was down 27% on the pcp following the completion of the manufacturing expansion of Ellex's Mawson lakes facility in Adelaide and Ellex iTrack™ manufacturing in Fremont, California.

The installed capacity at both sites provides Ellex with the flexibility and capability to meet the expected increase in demand for its innovative ophthalmology products over the long term.

Ellex offers two restorative glaucoma treatment technologies that can be used as standalone procedures, or in combination to offer a number of synergies to physicians and patients alike: the Ellex iTrack™ surgical system and the Ellex Tango™ glaucoma laser, which is also widely known as Selective Laser Trabeculoplasty or SLT.

Glaucoma is the second-leading cause of blindness in the developed world. Globally, there are more than 80 million people with glaucoma, the treatment of which costs approximately US$5 billion annually. The majority of this spend is directed to anti-glaucoma pharmaceuticals (administered daily as eye drops which patients find to be painful, inconvenient and expensive), and an invasive, high-complication surgery known as trabeculectomy. The market for glaucoma technologies and devices designed to displace medications and invasive surgery is now a rapidly growing and potentially very large opportunity for the Ellex business as an increasing number of ophthalmologists turn to restorative and interventional treatment options to better manage their glaucoma patients.

The Ellex iTrack™ surgical system is used in a minimally invasive keyhole ocular surgery to lower the elevated intraocular pressure associated with glaucoma, and or to reduce the medication burden of glaucoma patients. It can also delay or obviate the need for invasive surgery, called trabeculectomy.

The gentle Ellex Tango™ and Tango Reflex™ glaucoma laser provides a highly effective first-line treatment option, which is clinically proven to be as effective as medication, but free of the side effects and complications associated with anti-glaucoma medications. A gentle and restorative treatment, it can be performed throughout the glaucoma

Directors' Report

treatment paradigm and does not preclude future treatment options, making it a highly sought after addition to the ophthalmologist's glaucoma toolkit.

The restorative and rejuvenative properties of the Ellex iTrack™ surgical system and Ellex Tango™ and Tango Reflex™ glaucoma laser are proving to be an appealing treatment approach for our ophthalmologist customers. This theme is driving the Group's revenue growth, with Ellex's glaucoma therapy devices now accounting for approximately 57% of Group revenue.

The Ellex iTrack surgical system global unit volumes were up 17% versus the prior comparative period (pcp) and revenues were up 29% in the 2019 financial year to $14,324k. Revenue growth accelerated over unit volume growth principally due to the effects of a lower AUD versus the USD, mix benefits associated with a higher proportion of US denominated sales and a higher average selling price in the US market during the fourth quarter. Segment gross margin (ex labour) decreased to 79% (84% in the pcp), while the segment EBITDA recorded a loss of $5,145k, which was similar to financial year 2018. Second half EBITDA loss was just $1,100k, reflecting the significant increase in sales within the US market and a moderation in operating expenditures as the benefits of iTrack education and awareness programs (such as the Company's major presence at the World Glaucoma Congress in Melbourne in March). Ellex iTrack has exhibited a three year compound annual growth rate (CAGR) in global revenues of 32%.

In March 2019, the results of LiGHT; a large multi-centre, randomised controlled trial of selective laser trabeculoplasty (SLT) versus eye drops for newly diagnosed, first-line treatment of ocular hypertension and glaucoma were released. The results were published in the prestigious medical journal The Lancet. The Laser in Glaucoma and Ocular HyperTension (LiGHT) clinical trial demonstrated across 718 participants that SLT is safe and effective as a first-line treatment for open angle glaucoma and ocular hypertension. SLT provided superior intraocular pressure stability to drops, at a lower cost and, importantly, it allowed almost three quarters of patients (74%) to be successfully controlled without drops for at least 3 years after starting treatment. The study authors interpretation of the results were "Selective laser trabeculoplasty should be offered as a first-line treatment for open angle glaucoma and ocular hypertension, supporting a change in clinical practice."

Accordingly, with a market leading position in SLT via our Ellex Tango™ and Tango Reflex™ lasers we directed our sales and marketing efforts to educate clinicians on the significance of these results, which is expected to increase the number of clinicians who use SLT in newly diagnosed glaucoma patients well into the future.

The core Laser & Ultrasound revenue of $65,522k declined 3% in FY19, principally due to a weaker than expected second half sales performance. Segment gross margins (ex-labour) expanded by 500 basis points to 59% driven by a favourable mix of FX effects and stronger sales of higher margin Selective Laser Trabeculoplasty (SLT) lasers to treat glaucoma. The Group was also prudent on expenditures to ensure they were directed to support higher margin and growth laser products, which despite a reduction in overall Laser & Ultrasound sales, saw a 6% increase in EBITDA to $9,469k.

SLT laser revenue grew 10% to $32,430k and constituted 49% of the segment by revenue (FY18: 44%). Ellex's SLT laser business has exhibited a compound annual growth rate (CAGR) of 21% by revenues over the last three years. The majority of Ellex SLT sales are primary placements, not replenishments.

Our retinal disease franchise lasers declined modestly by 2% to $14,370k as the shift from photocoagulator lasers to treat diabetic retinopathy and diabetic macular edema towards approved pharmaceutical treatments continued.

Sales of Ellex's cataract and vitreous opacities lasers were down 23% to $12,637k. Sales were negatively impacted by some product cannabilisation from Ellex's dual glaucoma and cataract laser Tango Reflex™, pricing pressures from conventional photodisruptor lasers and purchasing decision delays experienced in Europe.

Sales of diagnostic ultrasound equipment was down 37% to $4,294k. Ellex launched its next generation ultrasound offering, Eye Prime™ in May 2019, which offers significant benefits to customers.

Sales of Ellex's proprietary Retinal Rejuvenation Therapy laser, 2RT increased 260% to $1,791k, following the release of the Group's LEAD clinical study in September 2018, which showed that treatment with 2RT achieved a clinically meaningful 77% reduction in the rate of progression of 76% of patients with intermediate age-related macular degeneration (iAMD) to advanced forms of the disease over the 36 months of the study. 4th year LEAD trial follow up showed sustained, positive 2RT treatment benefits for the 76% of RPD(-) patients with intermediate AMD enrolled in the trial, which was reported in early July 2019. 2RT segment EBITDA loss improved to $558k. Ellex remains on track to establish a regulatory pathway with the FDA for 2RT in iAMD during this current half with FDA submissions for a US clinical trial and a meeting planned.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the year not otherwise disclosed elsewhere in this annual report.

Events since the end of the financial year

No 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.

Financial position

As at 30 June 2019, the net assets of the consolidated Group decreased by $4,448k from 30 June 2018 to $68,796k.

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.

Directors' Report

Future developments

The Group 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 Group 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 2019 (2018: 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 Group 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 Group 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 Group has not otherwise, during or since the end of financial year indemnified or agreed to indemnify an officer or auditor of the Group 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 2019 is available on our website 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).

	Board of Directors		Audit & Risk Committee		Remuneration Committee	
Directors	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**
V Previn	12	12	3	3	2	2
A Sundich	12	11	3	2	-	-
G Canala	12	12	3	3	2	2
R Coupe	12	10	-	-	2	2
M Mangano	12	11	-	-	-	-
M Southard	12	12	-	-	-	-

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 (Key Management Personnel – "KMP") for the financial year ended 30 June 2019 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
- Mike Southard – Executive Director
- Mike Mangano – Independent Director

Directors' Report

The Group executives of Ellex Medical Lasers Limited during the year or as at the date of this report were:

- Maria Maieli – Interim Chief Executive Officer
- Victor Previn – Chairman
- Ged Wallace – Former Chief Executive Officer
- Tom Spurling – Former Chief Executive Officer

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 and independent directors, last approved by shareholders at the 2017 AGM, is not to exceed $500,000 per annum and was 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 were $50,000 per annum in the 2019 financial year (USD $50,000 for US based Directors). The base fee for non-executive and independent directors has remained at $30,000 since 2010. The base fee was increased for the 2019 financial year having regard to the growth in complexity and scale of the Company's operations since 2010 and to take account of the increase in time commitment, risks and challenges, and responsibility and liability, for Directors.

The Chairman receives a Director's fee of $50,000 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. A fee of $5,000 per annum is payable for membership of the Remuneration 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 Group'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 Group's performance and the setting of remuneration except as discussed previously.

Depending on the business segment and the role of the employee involved, targets are defined as either:

- Earnings Before Interest, Tax, Impairment, Depreciation and Amortisation (EBITDA); or
- Earnings Before Tax (EBT); or
- Regional Contribution Margin; or
- Sales growth

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 2019.

Performance Summary	30 June 2019 $'000	RESTATED[(ii)] 30 June 2018 $'000	30 June 2017 $'000	30 June 2016 $'000	30 June 2015 $'000
Revenue (i)	81,637	79,250	71,635	72,913	62,679
EBITDA	(1,027)	(1,055)	1,579	7,876	5,605
EBT	(5,656)	(5,157)	(1,959)	4,190	2,631
Net (loss)/profit after tax	(5,773)	(5,074)	(894)	3,027	1,680

(i) Revenue includes revenue from sale of goods and rendering of services as per note 2 of the consolidated financial statements.

Directors' Report

Historical Share Price	30 June 2019 $	RESTATED(ii) 30 June 2018 $	30 June 2017 $	30 June 2016 $	30 June 2015 $
Share price at start of year	0.610	1.065	0.960	0.310	0.375
Share price at end of year	0.530	0.610	1.065	0.960	0.310
Interim dividend	-	-	-	-	-
Final dividend	-	-	-	-	-
Basic earnings per share	(4.02)cps	(3.78)cps	(0.76)cps	2.77cps	1.56 cps
Diluted earnings per share	(4.02)cps	(3.78)cps	(0.76)cps	2.77cps	1.56 cps

(ii) The 30 June 2018 amounts have been restated to reflect the impact of AASB 15 *Revenue from Contracts with Customers*. This standard was adopted by the Group from 1 July 2018 and the adoption resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transitional provisions in AASB 15, the Group has adopted the new rules using the full retrospective approach and has restated the 2018 comparative figures via retained earnings.

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.

Maria Maieli – Interim Chief Executive Office

- Salary package of $280,000 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.

Victor Previn – Senior Executive

- Salary package of $150,000 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.

Mike Southard – Executive Director

- 12-month term with consulting company XMN Inc.
- Monthly fee of US $6,000.
- The Group or Consultant may terminate agreement on 4 weeks written notice.

Ged Wallace – Former Chief Executive Officer

- Total remuneration package of $340,000 exclusive of superannuation to be reviewed annually.
- Interstate relocation costs $20,000.
- Annual leave entitlements of 25 days per year.
- 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 during the first 12 months of employment; and six months' written notice where notice of termination is given thereafter.

Tom Spurling – Former Chief Executive Officer

- Total remuneration package of $300,000 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. The termination benefit may be reduced by any amounts due to the Company under the long-term incentive arrangement.

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:

a) Fixed salary/fees

b) Benefits – including the provision of motor vehicle, superannuation and health benefits; and

c) 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.

Directors' Report

Remuneration of Directors and Executives for the year ending 30 June 2019

	Short-term employee benefits				Post employment benefits		Share-based payment			Other long-term benefits	Total
	Salary and fees	Director & Committee Fees	Bonus	Non-monetary benefits	Pension and superannuation	Other	Shares	Options	Rights		
2019	$	$	$	$	$	$	$	$	$	$	$
Directors											
V Previn	148,077	70,000	-	-	18,667	-	-	-	-	34,941	271,685
G Canala	-	60,000	-	-	5,750	-	-	-	-	-	65,750
A Sundich	-	55,000	-	-	5,275	-	-	-	-	-	60,275
R Coupe	-	55,000	-	-	5,225	-	-	-	-	-	60,225
M Southard**	92,957	70,423	-	-	-	-	-	-	-	-	163,380
M Mangano	-	70,423	-	-	-	-	-	-	-	-	70,423
Executives											
G Wallace	61,538	-	-	-	5,846	-	-	-	-	-	67,384
T Spurling*	305,771	-	-	-	21,923	-	-	-	-	120,200	447,894
Total	**608,343**	**380,846**	**-**	**-**	**62,886**	**-**	**-**	**-**	**-**	**155,141**	**1,207,216**

* Includes termination payment of $75,000.
** Salary and fees relates to consultancy services.

Remuneration of Directors & Executives for the year ending 30 June 2018

	Short-term employee benefits				Post employment benefits		Share-based payment			Other long-term benefits	Total
	Salary and fees	Director & Committee Fees	Bonus	Non-monetary benefits	Pension and superannuation	Other	Shares	Options	Rights		
2018	$	$	$	$	$	$	$	$	$	$	$
Directors											
V Previn	100,000	35,000	-	-	12,825	-	-	-	-	-	147,825
G Canala*	1,826	35,000	-	-	3,498	-	-	-	-	-	40,324
A Sundich	-	35,000	-	-	3,325	-	-	-	-	-	38,325
R Coupe	-	30,000	-	-	2,850	-	-	-	-	-	32,850
M Verma**	203,076	22,500	-	-	18,392	-	-	-	-	-	243,968
Executives											
T Spurling	300,000	-	-	-	28,500	-	-	-	-	-	328,500
Total	**604,902**	**157,500**	**-**	**-**	**69,390**	**-**	**-**	**-**	**-**	**-**	**831,792**

* G Canala salary and fees related to consultation to executives in the capacity as a Director.
** Includes termination payment of $68,750.

Directors' Report

Bonuses granted as compensation and additional comments – 2019 and 2018

	Fixed remuneration		Performance based remuneration				At Risk	
			Bonus		LTI			
Name	2019 %	2018 %	2019 %	2018 %	2019 %	2018 %	2019 %	2018 %
V Previn	100	100	-	-	-	-	-	-
G Canala	100	100	-	-	-	-	-	-
A Sundich	100	100	-	-	-	-	-	-
R Coupe	100	100	-	-	-	-	-	-
M Southard	100	-	-	-	-	-	-	-
M Mangano	100	-	-	-	-	-	-	-
G Wallace	100	-	-	-	-	-	-	-
T Spurling	100	100	-	-	-	-	-	-

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:

		Beneficiary holdings of Directors and Executives		
Directors	Opening Balance	Received as compensation	Movements	Closing Balance
V Previn	9,069,980	-	-	9,069,980
A Sundich	6,300,000	-	-	6,300,000
G Canala	3,061,788	-	-	3,061,788
R Coupe	914,400	-	-	914,400
M Southard (i)	-	-	20,000	20,000
M Mangano	50,000	-	-	50,000
G Wallace	-	-	-	-
T Spurling (i)	597,843	-	(250,000)	347,843

(i) Movements in shareholdings represent shares purchased or sold on market.

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 87% of "yes" votes on its Adoption of Remuneration Report Motion for the 2018 financial year.

Other transactions with KMP

During the financial year ended 30 June 2019, the following transactions occurred between the Group and its other related parties:

- Rental and outgoing expenses of nil (2018: $38,939) were incurred with YourAmigo Limited, a Director related entity of Mr Coupe and Mr Previn.
- Consulting fees of $92,957 (2018: nil) were incurred with XMN inc, a Director related entity of Mr Southard.

End of remuneration report

Directors' 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, PricewaterhouseCoopers, and its related practices for audit and non-audit services provided during the year are set out in Note 31 to the consolidated financial statements.

Auditor's Independence Declaration

The lead auditor's independence declaration for the year ended 30 June 2019 is following this Directors' report.

Rounding 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 consolidated financial statements 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

V Previn
Chairman
Adelaide, 29th August 2019

pwc

Auditor's Independence Declaration

As lead auditor for the audit of Ellex Medical Lasers Limited for the year ended 30 June 2019, 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.

This declaration is in respect of Ellex Medical Lasers Limited and the entities it controlled during the period.

M. T. Lojszczyk
Partner
PricewaterhouseCoopers

Adelaide
29 August 2019

PricewaterhouseCoopers, ABN 52 780 433 757
Level 11, 70 Franklin Street, ADELAIDE SA 5000, GPO Box 418, ADELAIDE SA 5001
T: +61 8 8218 7000, F: +61 8 8218 7999, www.pwc.com.au

Consolidated Financial Statements

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the financial year ended 30 June 2019

	Note	Consolidated Group	
		2019 $'000	RESTATED 2018 $'000
Revenue	2	81,637	79,250
Other income	4(a)	592	477
Foreign exchange gain		726	428
Changes in inventories of finished goods and work in progress		1,053	(392)
Raw materials and consumables used	4(b)	(31,893)	(32,826)
Employee benefits expenses		(32,472)	(29,649)
Depreciation and amortisation expense	4(b)	(4,011)	(3,662)
Facility and property expenses		(1,711)	(2,139)
Legal fees		(78)	(253)
Impairment expense	4(b)	(204)	(127)
Advertising and marketing		(2,866)	(2,429)
Congress expenses		(2,512)	(1,755)
Finance costs	3	(414)	(313)
Product development expenses		(1,683)	(1,030)
Travel expenses		(3,841)	(3,759)
Consulting fees		(2,964)	(2,406)
Other expenses		(5,015)	(4,572)
(Loss) before income tax		**(5,656)**	**(5,157)**
Income tax benefit / (expense)	5	(117)	83
(Loss) for the year attributable to members of the parent		**(5,773)**	**(5,074)**
Other comprehensive income:			
Items that may be reclassified subsequently to profit and loss			
Exchange differences on translating foreign operations		1,325	1,002
Total comprehensive income for the year attributable to members of the parent		**(4,448)**	**(4,072)**
Earnings per share:			
Basic and diluted (loss) per share (cents)	21	(4.02)	(3.78)

Consolidated Statement of Financial Position as at 30 June 2019

	Note	Consolidated Group 2019 $'000	RESTATED 2018 $'000
Current assets			
Cash and cash equivalents	28	15,372	23,067
Trade and other receivables	7	15,503	14,663
Inventories	8	26,084	22,458
Other current assets	9	773	1,030
Total current assets		**57,732**	**61,218**
Non-current assets			
Trade and other receivables	7	282	294
Inventories	8	150	304
Property, plant and equipment	10	13,730	14,576
Intangible assets	11	4,031	3,885
Capitalised development expenditure	12	15,308	14,885
Deferred tax assets	5	8,660	8,303
Total non-current assets		**42,161**	**42,247**
Total assets		**99,893**	**103,465**
Current liabilities			
Trade and other payables	14	7,468	6,391
Borrowings	15	15,039	9,097
Provisions	16	3,300	3,203
Deferred income	17	3,341	3,735
Current tax liabilities		178	135
Total current liabilities		**29,326**	**22,561**
Non-current liabilities			
Borrowings	15	42	5,902
Provisions	16	505	434
Deferred income	17	1,224	1,324
Total non-current liabilities		**1,771**	**7,660**
Total liabilities		**31,097**	**30,221**
Net assets		**68,796**	**73,244**
Equity			
Issued capital	18	78,311	78,311
Reserves	19	1,646	321
Accumulated (losses)/profits	20	(11,161)	(5,388)
Total Equity		**68,796**	**73,244**

Notes to the consolidated financial statements are included on pages 31 to 87.

Consolidated Statement of Changes in Equity for the financial year ended 30 June 2019

	Issued capital $'000	Other reserves $'000	Foreign currency reserve $'000	Accumulated (losses)/ profits $'000	Total $'000
Balance at 1 July 2017	**55,949**	**142**	**(823)**	**1,665**	**56,933**
Effect from change in standard	-	-	-	(2,954)	(2,954)
Tax impact from change in standard	-	-	-	975	975
Net impact from change in standard	**-**	**-**	**-**	**(1,979)**	**(1,979)**
Restated balance at 1 July 2017	**55,949**	**142**	**(823)**	**(314)**	**54,954**
Issue of share capital	23,577	-	-	-	23,577
Transaction costs, net of tax	(1,215)	-	-	-	(1,215)
Total of transactions with owners	**22,362**	**-**	**-**	**-**	**22,362**
(Loss) for the year	-	-	-	(5,074)	(5,074)
Other comprehensive income	-	-	1,002	-	1,002
Total comprehensive income	**-**	**-**	**1,002**	**(5,074)**	**(4,072)**
Restated balance at 30 June 2018	**78,311**	**142**	**179**	**(5,388)**	**73,244**
Issue of share capital	-	-	-	-	-
Transaction costs, net of tax	-	-	-	-	-
Total of transactions with owners	**-**	**-**	**-**	**-**	**-**
(Loss) for the year	-	-	-	(5,773)	(5,773)
Other comprehensive income	-	-	1,325	-	1,325
Total comprehensive income	**-**	**-**	**1,325**	**(5,773)**	**(4,448)**
Balance at 30 June 2019	**78,311**	**142**	**1,504**	**(11,161)**	**68,796**

Notes to the consolidated financial statements are included on pages 31 to 87.

Consolidated Statement of Cash Flows for the financial year ended 30 June 2019

	Note	Consolidated Group	
		2019 $'000	2018 $'000
Cash flows from operating activities			
Receipts from customers		83,795	86,569
Grant income received		61	628
Payments to suppliers and employees		(87,244)	(86,014)
Interest and other costs of finance paid		(411)	(308)
Income tax paid		(408)	(353)
Net cash (used in)/provided by operating activities	**28(c)**	**(4,207)**	**522**
Cash flows from investing activities			
Interest received		166	156
Payment for deferred consideration (earn out)		-	(1,940)
Payment for building and fit-out Mawson Lakes		-	(570)
Payment for property, plant and equipment		(726)	(1,223)
Payment for Stewart Street fit-out (Fremont)		-	(851)
Proceeds from sale of plant and equipment		8	20
Payment for intangible assets		(520)	(379)
Payments for capitalised development costs		(2,419)	(3,160)
Net cash used in investing activities		**(3,491)**	**(7,947)**
Cash flows from financing activities			
Proceeds from issues of share capital		-	23,577
Payment of capital raising costs		-	(1,737)
Repayment of mortgage		(800)	(600)
Proceeds from borrowings		824	5
Repayment of borrowings		-	(133)
Repayment of leases (net)		(133)	(143)
Proceeds from mortgage/fit-out		-	993
Net cash provided by financing activities		**(109)**	**21,962**
Net (Decrease)/ increase in cash and cash equivalents		(7,807)	14,537
Cash and cash equivalents at the beginning of the financial year		23,067	8,456
Effects of exchange rate changes on the balance of cash held in foreign currencies		(77)	74
Cash and cash equivalents at the end of the financial year	**28(a)**	**15,183**	**23,067**

Notes to the consolidated financial statements are included on pages 31 to 87.

Notes to the Consolidated Financial Statements for the financial year ended 30 June 2019

Notes to the consolidated financial statements

1. Significant accounting policies

This financial report includes the consolidated financial statements and notes of Ellex Medical Lasers Limited and controlled entities (the "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 2019 were approved and authorised for issue by the Board of Directors on 29th August 2019. The Directors have the power to amend and reissue the consolidated financial statements.

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.

Ellex Medical Lasers Limited is a for profit entity for the purpose of preparing financial statements.

Going concern

The consolidated financial statements have been prepared on a going concern basis. The Directors believe the application of the going concern assumption is appropriate notwithstanding the loss after tax of $5,773k and negative operating cash flows of $4,207k generated by the Group in the current year. During the year, the Group has breached the EBITDA covenant and therefore the ANZ banking facilities (mortgage for Mawson Lakes of $5,723k and bank borrowings of $8,674k) are treated as current liabilities.

The Group has a very strong net asset position of $68,796k and working capital ratio of 2:1. Appropriate plans are in place and the Group is forecasted to generate profits and positive cash flows from operating activities in the 12 months from the date these consolidated financial statements are signed. There is no request by ANZ to repay any of its facilities other than in the normal course of business. The Group is working with ANZ to ensure it meets its obligations. A waiver has been issued by ANZ post 30 June 2019.

Accordingly, the Directors have prepared the consolidated financial statements on a going concern basis in the belief that the Group will realise its assets and settle its liabilities and commitments in the normal course of business for at least the amounts stated in the consolidated financial statements.

Notes to the consolidated financial statements

New and amended standards adopted by the Group

A number of new accounting standards became applicable for the current reporting period, including the adoption of the new revenue standard AASB 15 Revenue from Contracts with Customers and AASB 9 Financial Instruments during financial year ended 30 June 2019.

AASB 15 Revenue from Contract with Customers ('AASB 15')

AASB 15 has resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. In accordance with the transitional provisions in AASB 15, the Group has adopted the new rules using the full retrospective approach and has restated the 2018 comparative figures via retained earnings.

The change in accounting policy primarily relates to revenue being deferred for maintenance services that are included in the sale of medical devices, which are included in the overall price of the goods sold.

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of control to the buyer and where all obligations incidental to the sale have been completed by Ellex. The sales price for goods is reduced by any amounts relating to future services yet to be performed such as preventative maintenance services. Transaction price is allocated between performance obligations on a relative standalone price-basis.

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

The adoption of the new standard has no impact on cash flow, nor total revenue recognised from any contract over the life of the contract.

The impact of adopting AASB 15 is shown below.

Consolidated Statement of Financial Position

	30 June 2018 reported $'000	30 June 2018 restated $'000	Movement $'000
Deferred revenue (i)	(964)	(3,735)	(2,771)
Deferred tax asset (ii)	7,548	8,303	755

(i) Relates to deferred service revenue, refer to note 17.

(ii) Included in the 'other' category in the deferred tax asset. Refer to note 5.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

	30 June 2018 reported $'000	30 June 2018 restated $'000	Movement $'000
Revenue	79,067	79,250	183
Income tax benefit	303	83	(220)
Net (loss) after tax	**(5,037)**	**(5,074)**	**37**

AASB 9 Financial Instruments ('AASB 9')

The Group has adopted AASB 9 from 1 July 2018, which has resulted in changes in accounting policies, however has not resulted in any adjustments to the amounts recognised in the consolidated financial statements.

The Group has changed the accounting policy for trade receivables as a result of adopting AASB 9, specifically the provisioning for trade debtors where the Group now utilises the expected credit loss model to calculate the provision for doubtful debts. The new policy for the provisioning for trade debtors has not resulted in any changes made to the balance as it was calculated under the old policy.

Impact of standards issued but not yet applied by the Group

AASB 16 Leases ('AASB 16')

The Group will apply AASB 16 from its mandatory adoption date of 1 July 2019. AASB 16 will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised.

The Group has undertaken a detailed assessment of the impact of AASB 16. Based on the Group's assessment, the impact on the first-time adoption of AASB 16 for the year ending 30 June 2020 includes:

- there will be a significant increase in right to use leased assets and financial liabilities recognised on the balance sheet of approximately $4,327k.
- EBITDA will increase as rental repayments are replaced with amortisation and interest expense. The estimated increase in amortisation expense is $862k and an increase in interest expense of $30k for FY20.
- Operating cash outflows will be lower and financing cash flows will be higher in the consolidated statement of cash flows as principal repayments on all lease liabilities will now be included in financing activities rather than operating 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.

Notes to the consolidated financial statements

Accounting Policies

The accounting policies set out below have been applied in preparing the consolidated financial statements for the year ended 30 June 2019 and the comparative information presented for the year ended 30 June 2018.

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

Financial assets

Classification

From 1 July 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortised cost	Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss and other comprehensive income.
FVOCI	Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss.

When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss and other comprehensive income.

FVPL

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Impairment

From 1 July 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 7(a) for further details.

Accounting policies applied until 30 June 2018

The Group has applied AASB 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided for financial assets continues to be accounted for in accordance with the Group's previous accounting policy, which is detailed below.

Classification

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.

Notes to the consolidated financial statements

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.

Financial liabilities

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

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.

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.

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.

Impairment of non-financial 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.

Notes to the consolidated financial statements

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.

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.

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 consolidated 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.

Rounding 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 consolidated financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

Significant management judgement in applying accounting policies

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

Recognition of deferred tax assets for carried forward tax losses

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable the future taxable profit will be available to utilise those temporary differences. Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based on the likely timing and the level of future taxable profits together with future tax planning strategies.

Ellex iScience Inc

The deferred tax assets include an amount of $3,488k (2018: $2,339k) which relates to carried forward tax losses of Ellex iScience Inc. The subsidiary has incurred the losses over the last 2 financial years due to heavy investment to grow the business. The Group has concluded that the deferred tax assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets for the subsidiary. The subsidiary is expected to generate taxable income from 2021 onwards and utilise the losses in a 4-5 year period. Tax losses in the USA can be carried forward for a maximum of 20 years.

Unused research and development tax offset

The deferred tax assets include an amount of $4,850k (2018: $5,316k) which relates to unused research and development tax offsets available to the Australian tax consolidated Group (detailed in note 5(c)). The Australian tax consolidated Group has generated positive taxable income over the past 4 years. The Group has concluded that the deferred tax assets will be recoverable using the estimated future taxable income based on the approved business plans and budgets for the Australian tax consolidated Group. The Australian tax consolidated Group is expected to generate taxable income from 2020 onwards and utilise the losses in a 5 year period. The losses can be carried forward indefinitely and have no expiry date, subject to meeting statutory tests.

Impairment of non-financial assets

The Group tests whether non-financial assets (including capitalised development expenditure, intangible assets and property, plant and equipment), have suffered any impairment on an annual basis.

The Group recognised an impairment loss on capitalised development expenditure of $161k (2018: $127k); $43k on other (2018: Nil) and nil (2018: Nil) on patents and trademarks.

For the 2019 and 2018 reporting periods, the recoverable amount of the cash generating units (CGUs) was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering a five-year period.

Cash flows beyond the five-year period are extrapolated using an estimated growth rates stated below.

The table on the following page sets out the key assumptions within the value-in-use calculation for the CGU's:

Notes to the consolidated financial statements

Retinal	30 June 2019	30 June 2018
Sales growth (% average annual growth rate)	14.99	25.97
Sales prices (% average annual growth rate)	2.00	2.00
Long-term growth rate (%)	2.00	2.00
WACC (%) post tax	7.83	9.81

Glaucoma	30 June 2019	30 June 2018
Sales growth (% average annual growth rate)	12.01	10.00
Sales prices (% average annual growth rate)	2.00	2.00
Long-term growth rate (%)	2.00	2.00
WACC (%) post tax	7.83	9.81

Diagnostic	30 June 2019	30 June 2018
Sales growth (% average annual growth rate)	2.18	1.00
Sales prices (% average annual growth rate)	2.00	2.00
Long-term growth rate (%)	2.00	2.00
WACC (%) post tax	7.83	9.81

Cataract	30 June 2019	30 June 2018
Sales growth (% average annual growth rate)	1.67	1.00
Sales prices (% average annual growth rate)	2.00	2.00
Long-term growth rate (%)	2.00	2.00
WACC (%) post tax	7.83	9.81

Impact of possible changes in key assumptions

The consolidated Group's review of change in key assumptions does not result in any impairment for the CGU's.

2. Revenue

Revenue is measured at the fair value of the consideration received or receivable after taking into account any trade discounts. Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of control to the buyer and where all obligations incidental to the sale have been completed by Ellex. The sales price for goods is reduced by any amounts relating to future services yet to be performed such as preventative maintenance services. Transaction price is allocated between performance obligations on a relative standalone price-basis.

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

	Consolidated Group	
	2019 $'000	RESTATED(i) 2018 $'000
Revenue from the sale of goods	75,528	73,715
Revenue from services	6,109	5,535
Total revenue from continuing operations	**81,637**	**79,250**

(i) Refer to Note 1

Disaggregation of revenue from contracts with customers

The Group derives revenue from the sale of goods and services over time and at a point in time in the following major product lines:

	Lasers & Ultrasounds $'000	2RT® $'000	iTrack™ $'000	Total $'000
Year ended 30 June 2019				
Revenue	**65,522**	**1,791**	**14,324**	**81,637**
Timing of revenue recognition				
At a point in time	63,540	1,546	14,324	79,410
Over time*	1,982	245	-	2,227
	65,522	**1,791**	**14,324**	**81,637**
Year ended 30 June 2018				
Revenue	**67,668**	**497**	**11,085**	**79,250**
Timing of revenue recognition				
At a point in time	66,469	473	11,085	78,027
Over time*	1,199	24	-	1,223
	67,668	**497**	**11,085**	**79,250**

*The revenue recognised over time relates to preventative maintenance services included in the sale of goods. This revenue is recognised on a straight-line basis over the service period.

Notes to the consolidated financial statements

Assets and liabilities related to contracts with customers

The Group has recognised the following assets and liabilities related to contracts with customers:

	Consolidated Group	
	2019 $'000	2018 $'000
Trade receivables	15,344	14,573
Total Trade receivables	**15,344**	**14,573**
Deferred income: current (i)	3,240	3,634
Deferred income: non-current (i)	161	172
Total deferred income	**3,401**	**3,806**

	Consolidated Group
Deferred income (i)	$'000
Balance at 30 June 2017	**3,876**
Additional provisions recognised	1,153
Amounts used	(1,223)
Balance at 30 June 2018	**3,806**
Additional provisions recognised	1,822
Amounts used	(2,227)
Balance at 30 June 2019	**3,401**

3. Finance costs

	Consolidated Group	
	2019 $'000	2018 $'000
Interest on bank overdrafts, trade finance and loans	405	283
Interest on obligations under finance leases	9	30
Total finance costs	**414**	**313**

4. (Loss) for the year

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

a) Other income

Grants 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.

Interest income

Interest income 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.

	Consolidated Group	
	2019 $'000	2018 $'000
Grants income	152	136
Interest income	168	160
Other income	272	181
Total other income	**592**	**477**

Notes to the consolidated financial statements

b) Other expenses

(Loss) before income tax has been arrived at after charging the following expenses. The line items below are attributable to continuing operations:	Consolidated Group	
	2019 $'000	2018 $'000
Cost of goods sold	31,893	32,826
Write-down of inventories to net realisable value	262	343
Write-off of obsolete stock	(87)	(531)
Total of movement in stock provision	**175**	**(188)**
Impairment of capitalised development costs and other	204	127
Total impairment expense	**204**	**127**
Depreciation of property, plant and equipment	1,577	1,570
Amortisation of intangible assets	567	477
Amortisation of capitalised development expenditure	1,867	1,606
Total depreciation and amortisation expense	**4,011**	**3,662**
Minimum lease payments	913	599
Superannuation contributions	1,275	1,339
Research costs	2,520	806
Loss on disposal of property, plant and equipment	56	25

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 consolidated 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.

Notes to the consolidated financial statements

Current and deferred tax for the year

Current and deferred tax is recognised as an expense or income in the statement of 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.

Income tax recognised in profit or loss

	Consolidated Group	
	2019 $'000	RESTATED(i) 2018 $'000
Tax expense/(benefit) comprises:		
Current tax expense	474	417
Deferred tax (benefit)	(357)	(500)
Total tax expense/(benefit)	**117**	**(83)**
The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the consolidated financial statements as follows:		
(Loss) from operations	**(5,656)**	**(5,157)**
Income tax (benefit)	(1,697)	(1,547)
Non-deductible expenses	211	102
Effect of different tax rates of tax on overseas income	433	185
Other – Research and Development Tax Concession	-	(391)
Other	1,016	937
Under/(over) provision of income tax in previous year	154	631
Total income tax expense/(benefit)	**117**	**(83)**

(i) Refer to Note 1

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.

a) Deferred tax balances

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

	Consolidated Group			
2019	RESTATED 1/07/18 $'000	Charged to profit and loss $'000	Charged to Equity $'000	30/06/19 $'000
Assets				
Property, plant and equipment	50	80	-	130
Intangible assets	1,825	(225)	-	1,600
Capitalised development expenditure	(4,557)	198	-	(4,359)
Section 40-880 deductions	611	(148)	-	463
Provisions	1,224	(52)	-	1,172
Temporary difference on unrealised intercompany profits	67	(46)	-	21
Other	1,375	(105)	-	1,270
Liabilities				
Provisions	-	-	-	-
	595	**(298)**	**-**	**297**
Unused tax losses and credits				
Tax losses (Japan)	-	-	-	-
Tax losses (USA)	-	-	-	-
Tax losses (Germany)	53	(28)	-	25
Tax losses (USA Ellex iScience)	2,339	1,149	-	3,488
Unused Research and Development tax offset	5,316	(466)	-	4,850
	7,708	**655**	**-**	**8,363**
Net deferred tax asset	**8,303**	**357**	**-**	**8,660**

Notes to the consolidated financial statements

2018	RESTATED 1/07/17 $'000	Charged to Profit and Loss $'000	Charged to Equity $'000	RESTATED 30/06/18 $'000
	Consolidated Group			
Assets				
Property, plant and equipment	10	40	-	50
Intangible assets	2,014	(189)	-	1,825
Capitalised development expenditure	(4,168)	(389)	-	(4,557)
Section 40-880 deductions	303	(213)	521	611
Provisions	1,271	(47)	-	1,224
Temporary difference on unrealised intercompany profits	107	(40)	-	67
Other	1,281	94	-	1,375
Liabilities				
Provisions	(32)	32	-	-
	786	**(712)**	**521**	**595**
Unused tax losses and credits				
Tax losses (Japan)	736	(736)*	-	-
Tax losses (USA)	9	(9)	-	-
Tax losses (Germany)	64	(11)	-	53
Tax losses (USA Ellex iScience)	1,241	1,098	-	2,339
Unused Research and Development tax offset	4,446	870	-	5,316
	6,496	**1,212**	**-**	**7,708**
Net deferred tax asset	**7,282**	**500**	**521**	**8,303**

*Japan tax losses were derecognised due to uncertainty of future utilisation.

b) Tax losses

	2019 $'000	2018 $'000
Unused tax losses for which no deferred tax asset has been recognised		
Japan	8,927	8,507
	8,927	**8,507**
Potential tax benefit @ 30%	**2,678**	**2,552**

The unused tax losses are not recognised as it is not likely to generate taxable income in the forseeable future. The Japan tax losses can be carried forward indefinitely subject to meeting relevant statutory tests. In addition, there is a $718k (2018: nil) of unused Research and Development tax offset that has not been recognised as it is not expected to be recouped within 5 years. The offsets can be carried forward indefinitely and have no expiry date, subject to meeting statutory tests.

(c) Tax consolidation

Relevance of tax consolidation to the consolidated Group

Ellex Medical Lasers Limited and its wholly owned Australian subsidiaries have applied the tax consolidation legislation which means that these entities are taxed as a single entity. As a consequence, the deferred tax assets and deferred tax liabilities of these entities have been offset in the consolidated financial statements.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends wither to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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.

Notes to the consolidated financial statements

6. Share-based payments

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 or rights to purchase parcels of ordinary shares at a price determined by the directors.

There have been no options or rights granted pursuant to the scheme during the year (2018 nil).

7. Trade and other receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

	Consolidated Group	
	2019 $'000	**2018 $'000**
Current		
Trade receivables (i)	15,344	14,573
	15,344	**14,573**
Other receivables	126	103
Goods and services tax (GST) recoverable	33	(13)
	15,503	**14,663**
Non-Current		
Sundry receivables	282	294

i. Trade receivables of $6,174k (2018: $5,956k) are subject a to trade finance facility as described in note 15. This relates specifically to receivables due from customers in Japan, USA, Europe and Australia.

(a) Impairment of trade receivables

From 1 July 2018, the Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. The Group has recognised expected losses based on past payment profiles of the customers and by taking into account any forward looking macroeconomic factors that may affect the ability of the customers to settle the receivables. When taking these factors into account, the Group has a less than 1% expected loss rate on trade and other receivables.

30 June 2019	Current	More than 30 days past due	More than 60 days past due	More than 90 days past due	More than 120 days past due	Total
Expected loss rate	Less than 1%	Less than 1%	Less than 1%	Less than 1%	Less than 1%	
Gross carrying amount – trade receivables	12,911	1,437	468	201	327	15,344

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.

Notes to the consolidated financial statements

	Consolidated Group	
	2019 $'000	2018 $'000
Current		
Raw materials – at cost	8,859	6,196
Raw materials – at net realisable value	233	353
Work in progress – at cost	2,117	1,191
Work in progress – at net realisable value	22	50
Finished goods – at cost	14,694	14,347
Finished goods – at net realisable value	159	321
Total current inventories	**26,084**	**22,458**
Non-Current		
Finished goods – at cost	150	304
Provision for stock obsolescence	**(804)**	**(629)**

9. Other current assets

	Consolidated Group	
	2019 $'000	2018 $'000
Prepayments	773	1,030

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 lease.

Capital WIP is not depreciated until the asset is ready for use.

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

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

	Consolidated Group				
	Capital WIP $'000	Land $'000	Building at cost $'000	Plant & Equipment at cost $'000	Total $'000
Gross carrying amount					
Balance at 30 June 2017	**3,521**	**2,200**	**1,803**	**14,540**	**22,064**
Additions	1,012	-	(61)	860	1,811
Additions for Stewart St (Fremont)	-	-	-	851	851
Transfers to/(from) capital WIP	(4,408)	-	3,049	1,359	-
Disposals	-	-	-	(218)	(218)
Net foreign currency exchange difference	-	-	-	207	207
Balance at 30 June 2018	**125**	**2,200**	**4,791**	**17,599**	**24,715**
Additions	600	-	-	122	722
Transfers to/(from) capital WIP	(314)	-	-	314	-
Disposals	-	-	-	(888)	(888)
Net foreign currency exchange difference	-	-	-	284	284
Balance as at 30 June 2019	**411**	**2,200**	**4,791**	**17,431**	**24,833**
Accumulated depreciation					
Balance at 30 June 2017	**-**	**-**	**(39)**	**(8,573)**	**(8,612)**
Depreciation	-	-	(173)	(1,397)	(1,570)
Disposals	-	-	-	157	157
Net foreign currency exchange differences	-	-	-	(114)	(114)
Balance at 30 June 2018	**-**	**-**	**(212)**	**(9,927)**	**(10,139)**
Depreciation	-	-	(44)	(1,533)	(1,577)
Disposals	-	-	-	818	818
Net foreign currency exchange differences	-	-	-	(205)	(205)
Balance at 30 June 2019	**-**	**-**	**(256)**	**(10,847)**	**(11,103)**
Net book value					
As at 30 June 2018	125	2,200	4,579	7,672	14,576
As at 30 June 2019	411	2,200	4,535	6,584	13,730

Notes to the consolidated financial statements

11. Intangible assets

Patents and trademarks

Patents and trademarks 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 or trademark 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 10 years.

	Consolidated Group		
	Intellectual Property $'000	Patents & Trademarks $'000	Total $'000
Carrying amount			
Balance at 30 June 2017	**3,862**	**1,768**	**5,630**
Additions / Disposals	-	373	373
Impairment	-	-	-
Foreign currency exchange differences	144	36	180
Balance at 30 June 2018	**4,006**	**2,177**	**6,183**
Additions / Disposals	-	542	542
Impairment	-	-	-
Foreign currency exchange differences	222	55	277
Balance at 30 June 2019	**4,228**	**2,774**	**7,002**
Accumulated amortisation and impairment			
Balance at 30 June 2017	**(1,346)**	**(405)**	**(1,751)**
Amortisation	(383)	(94)	(477)
Impairment	-	-	-
Foreign currency exchange differences	(67)	(3)	(70)
Balance at 30 June 2018	**(1,796)**	**(502)**	**(2,298)**
Amortisation	(422)	(145)	(567)
Impairment	-	-	-
Foreign currency exchange differences	(100)	(6)	(106)
Balance at 30 June 2019	**(2,318)**	**(653)**	**(2,971)**
Net book value			
As at 30 June 2018	2,210	1,675	3,885
As at 30 June 2019	1,910	2,121	4,031

12. Capitalised development expenditure

	Consolidated Group $'000
Gross carrying amount	
Balance at 30 June 2017	**24,484**
Additions	3,167
Foreign currency exchange differences	5
Impairment	(127)
Balance at 30 June 2018	**27,529**
Additions	2,434
Foreign currency exchange differences	17
Impairment	(161)
Balance at 30 June 2019	**29,819**
Accumulated amortisation and impairment	
Balance at 30 June 2017	**(11,038)**
Amortisation expense	(1,606)
Balance at 30 June 2018	**(12,644)**
Amortisation expense	(1,867)
Balance at 30 June 2019	**(14,511)**
Net book value	
As at 30 June 2018	14,885
As at 30 June 2019	15,308

Notes to the consolidated financial statements

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 expenditure 5 – 10 years

Capitalised development includes $6,031k of expenditure on products that have not yet been commercialised. Of this amount, $5,176k relates to 2RT® with the remaining relating to 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 consolidated financial statements, all non-current and current assets of the consolidated Group (excluding 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. Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

	Consolidated Group	
	2019 $'000	2018 $'000
Trade payables	4,120	2,232
Accruals	1,845	1,556
Payable to directors	95	34
Other payables	1,408	2,569
	7,468	**6,391**

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 costs are charged directly against profit and loss, unless they are directly attributable to qualifying assets, in which case they are capitalised.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

	Consolidated Group	
	2019 $'000	2018 $'000
Current		
Bank overdraft	189	-
Mortgage (Mawson Lakes) (i)	5,723	800
Bank borrowings (ii)	8,674	7,906
Finance lease liabilities (note 24a) (iii)	125	118
Other loans (unsecured)	328	273
	15,039	**9,097**
Non-Current		
Mortgage (Mawson Lakes) (i)	-	5,723
Finance lease liabilities (note 24a) (iii)	42	179
	42	**5,902**

Notes to the consolidated financial statements

Summary of borrowing arrangements

i. Mortgage for Mawson Lakes $2,117k (2018: $2,917k) and fit out for Mawson Lakes $3,606k (2018: $3,606k). Repayments for this facility commenced June 2017. Interest rates are floating.

ii. Bank Borrowings is the sum of ANZ bank facility. The ANZ facility is a combination of working capital facilities, trade finance ($6,174k), overdraft ($189k) and cash advance ($2,500k). 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.

iii. Secured by the assets leased. The borrowings are all at fixed interest rates with repayment periods not exceeding 5 years.

Loan covenants

ANZ Banking facility are treated as current liabilities resulting from a breach of the EBITDA covenant. There is no request by ANZ to repay any of its facilities other than in the normal course of business. Ellex is working with ANZ to ensure it meets its obligations. A waiver has been issued by ANZ post 30 June 2019. All other covenants have been met at 30 June 2019 (Borrowing Base ratio and Gearing Ratio).

- Borrowing base ratio: not to exceed 100%
- Gearing ratio: to be less than 60%

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 Company's best estimate of the expenditure required to settle the consolidated Group's liability.

Employee benefits

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.

Termination benefits

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of AASB 137 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

	Consolidated Group	
	2019 $'000	**2018 $'000**
Current		
Employee benefits	2,928	2,871
Warranty (i)	372	332
	3,300	**3,203**
Non-Current		
Employee benefits (ii)	505	434

i. Warranty

The provision for warranty claims represents the present value of the Group's 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.

Notes to the consolidated financial statements

Warranty (i)	Consolidated Group $'000
Balance at 30 June 2017	**345**
Additional provisions recognised	621
Amounts used	(634)
Balance at 30 June 2018	**332**
Additional provisions recognised	552
Amounts used	(512)
Balance at 30 June 2019	**372**

ii. Leave obligations

The leave obligations cover the Group's liabilities for long service leave and annual leave which are classified as either other long-term benefits or short-term benefits. The current portion of this liability includes all of the accrued annual leave, the unconditional entitlements to long service leave where employees have completed the required period of service and also for those employees that are entitled to pro-rata payments in certain circumstances. The entire amount of the provision is presented as current, since the Group does not have an unconditional right to defer settlement for any of these obligations. The below reflects leave that is not expected to be taken or paid within the next 12 months.

	Consolidated Group	
	2019 $'000	2018 $'000
Leave obligations expected to be settle after 12 months	1,464	1,435

17. Deferred income

	Consolidated Group	
	2019 $'000	RESTATED 2018 $'000
Deferred service income (i)	3,240	3,634
Capital grants (ii)	101	101
Total deferred income current	**3,341**	**3,735**
Deferred service income (i)	161	172
Capital grants (ii)	1,063	1,152
Total non-current deferred income	**1,224**	**1,324**

i. Deferred service income represents income received in advance for service contracts. The deferred service income is released to income over the remaining service period.

ii. Capital grants represent funding received that is to be released to the statement of profit or loss over the expected useful lives of the assets concerned.

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	
	2019 $'000	2018 $'000
143,601,138 fully paid ordinary shares		
(2018: 143,601,138)	78,311	78,311

	Company 2019		Company 2018	
	No. '000	$'000	No. '000	$'000
Fully paid ordinary shares				
Balance at beginning of financial year	143,601	78,311	121,146	55,949
Share issue	-	-	22,455	23,577
Transaction costs for share issue	-	-	-	(1,737)
Tax impact of share issue costs	-	-	-	522
Balance at end of financial year	**143,601**	**78,311**	**143,601**	**78,311**

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

Notes to the consolidated financial statements

19. Reserves

	Consolidated Group	
	2019 $'000	2018 $'000
Foreign currency translation reserve (i)		
Balance at beginning of financial year	179	(823)
Translation of foreign operations	1,325	1,002
Balance at end of financial year	**1,504**	**179**
Other reserves (ii)		
Balance at beginning of financial year	142	142
Transaction with non-controlling interest	-	-
Balance at end of financial year	**142**	**142**

i. 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, Germany and Hong Kong, into Australian dollars are brought to account by entries made directly to the foreign currency translation reserve.

ii. Other reserves is the closing balance transferred from non-controlling interests of subsidiaries that are not 100% owned by the Group.

20. Accumulated losses

	Consolidated Group	
	2019 $'000	RESTATED 2018 $'000
Balance at beginning of financial year	(5,388)	(314)
Net (loss) attributable to members of the parent entity	(5,773)	(5,074)
Balance at end of financial year	**(11,161)**	**(5,388)**

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	
	2019 cents	RESTATED 2018 cents
Basic and diluted loss per share	(4.02)	(3.78)

There are no dilutive securities on issue.

Basic earnings per share

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

	Consolidated Group	
	2019 $'000	RESTATED 2018 $'000
Net (loss)	(5,773)	(5,074)

	Consolidated Group	
	2019 No.	2018 No.
Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share	143,601,138	134,390,620

Notes to the consolidated financial statements

22. Dividends

	2019		2018	
	Cents per share	Total $'000	Cents per share	Total $'000
Final dividend – franked to 30%	Nil	Nil	Nil	Nil

	Consolidated Group	
	2019 $'000	2018 $'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 consolidated financial statements.

Contractual commitments for the acquisition of property, plant and equipment as at 30 June 2019 are nil (2018: nil).

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 consolidated 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.

a) Finance leases

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	
	2019 $'000	2018 $'000
Not longer than 1 year	86	129
1 to 5 years	88	187
Greater than 5 years	-	-
Minimum future lease payments	**174**	**316**
Less future finance charges	(6)	(19)
Present value of minimum lease payments	**168**	**297**

b) Operating leases

Operating leases relate to business premises with lease terms of between 1 months to 10 years and plant and equipment and motor vehicles with lease terms less than 5 years.

	Consolidated Group	
	2019 $'000	2018 $'000
Non-cancellable operating lease payments		
Not longer than 1 year	890	958
Longer than 1 year and not longer than 5 years	3,410	3,877
Greater than 5 years	452	-
	4,752	**4,835**

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.

Notes to the consolidated financial statements

Name of Entity	Country of Incorporation	Ownership Interest 2019 %	Ownership Interest 2018 %
Parent Entity			
Ellex Medical Lasers Limited (i) (ii)	Australia		
Subsidiaries			
Ellex Medical Pty Ltd (i) (ii)	Australia	100	100
Laserex Medical Pty Ltd (ii)	Australia	100	100
Ellex Inc.	USA	100	100
Ellex Inc.	Japan	100	100
Ellex R&D Pty Ltd (i) (ii)	Australia	100	100
Ellex Australia Pty Ltd (i) (ii)	Australia	100	100
Ellex Services Europe SARL	France	100	100
Innovative Imaging, Inc.	USA	100	100
Ellex Deutschland GmbH	Germany	100	100
Ellex Machine Shop Pty Ltd (i) (ii)	Australia	100	100
Ellex iScience Inc	USA	100	100
Ellex Hong Kong Limited	Hong Kong	100	100

i. 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.

ii. 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.

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	
	2019 $'000	**2018 $'000**
Statement of profit or loss and other comprehensive income		
Revenue	32,782	35,774
Other income	1,113	490
Gain on sale of property, plant and equipment	-	4
Raw materials and consumables used	(24,940)	(28,144)
Employee benefits expense	(15,775)	(14,614)
Depreciation and amortisation expense	(2,848)	(2,655)
Impairment expense	(204)	(118)
Legal fees	(23)	(84)
Advertising and marketing	(3,647)	(3,971)
Finance costs	(390)	(307)
Product development	(400)	(589)
Rent/lease expense	(141)	(501)
Foreign exchange gains	84	401
Other expenses and intercompany recharges	13,584	14,631
Profit/(loss) before income tax	**(807)**	**317**
Income tax (expense)/ benefit	(627)	203
(Loss)/profit for the year	**(1,434)**	**520**
Statement of financial position		
Current assets		
Cash and cash equivalents	12,471	20,980
Trade and other receivables	32,294	27,751
Inventories	15,312	11,791
Other	495	651
Total current assets	**60,572**	**61,173**
Non-current assets		
Trade and other receivables	19,213	17,850
Property, plant and equipment	11,984	12,382
Deferred tax assets	3,739	4,346
Intangible assets	1,073	945
Capitalised development expenditure	14,531	14,633
Total non-current assets	**50,540**	**50,156**
Total assets	**111,112**	**111,329**
Current liabilities		
Trade and other payables	4,480	5,972
Borrowings	16,174	16,153
Provisions	2,610	2,627
Total current liabilities	**23,264**	**24,752**
Non-current liabilities		
Provisions	157	75
Total non-current liabilities	**157**	**75**
Total liabilities	**23,421**	**24,827**
Net assets	**87,691**	**86,502**
Equity		
Issued capital	78,311	78,311
Reserves	2,912	289
Retained earnings	6,468	7,902
Total equity	**87,691**	**86,502**

Notes to the consolidated financial statements

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 the Chief Operating Decision Maker in assessing performance and determining the allocation of resources. In the Group's case, the Chief Operating Decision Maker is the Board of Directors.

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.

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.

Faster growing (iTrack™)

The fastest growing and emerging markets has been the market for minimally invasive interventional surgery for treating glaucoma. It is independently estimated that the market for such devices is growing at a CAGR of 30% to 40% over the next few years.

Ellex iTrack™ is a catheter device that dilates the ocular structures compromised by glaucoma.

Emerging (2RT®)

Emerging market for early AMD (Age related Macula Degeneration) is a nano-pause laser device that rejuvenates retinal structures compromised by AMD. Ellex 2RT® 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 Ellex is a global leader in this segment with increasing market share. Ellex growing at higher than market rate because of continued investment.

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 Operating 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 asset 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:

- income tax expense; and
- deferred and current taxes.

a) Segment performance

	Lasers & Ultrasounds $'000	2RT® $'000	iTrack™ $'000	Total $'000
Year ended 30 June 2019				
Revenue				
External sales	65,522	1,791	14,324	81,637
Total segment revenue	**65,522**	**1,791**	**14,324**	**81,637**
Segment EBITDA	**9,469**	**(558)**	**(5,145)**	**3,766**
Depreciation and amortisation	(2,547)	(62)	(1,402)	(4,011)
Impairment expense	(204)	-	-	(204)
Segment results	**6,718**	**(620)**	**(6,547)**	**(449)**
Unallocated items:				
• Corporate costs, quality and service charges				(5,265)
• Finance costs				(414)
• Interest and other revenue				472
Net (loss) before tax from continuing operations				**(5,656)**

Notes to the consolidated financial statements

Year ended 30 June 2018				
Revenue				
External sales	67,668	497	11,085	79,250
Total segment revenue	**67,668**	**497**	**11,085**	**79,250**
Segment EBITDA	**8,454**	**(996)**	**(5,063)**	**2,395**
Depreciation and amortisation	(2,597)	(16)	(1,049)	(3,662)
Impairment expense	(108)	(10)	(9)	(127)
Segment results	**5,749**	**(1,022)**	**(6,121)**	**(1,394)**
Unallocated items:				
• Corporate costs, quality and service charges				(3,814)
• Finance costs				(313)
• Interest and other revenue				364
Net (loss) before tax from continuing operations				**(5,157)**

b) Segment assets

	Lasers & Ultrasounds $'000	2RT® $'000	iTrack™ $'000	Total $'000
Year ended 30 June 2019				
Segment assets – opening	76,343	4,958	13,861	95,162
Segment asset charges for the period:				
Net movement in segment assets	(6,549)	1,736	884	(3,929)
Total segment assets	**69,794**	**6,694**	**14,745**	**91,233**
Reconciliation of segment assets to Group assets				
Unallocated assets:				
Deferred tax assets				8,660
Total Group assets				**99,893**
Year ended 30 June 2018				
Segment assets – opening	65,557	3,298	11,360	80,235
Segment asset charges for the period:				
Net movement in segment assets	10,766	1,660	2,501	14,927
Total segment assets	**76,343**	**4,958**	**13,861**	**95,162**
Reconciliation of segment assets to Group assets				
Unallocated assets:				
Deferred tax assets				8,303
Total Group assets				**103,465**

c) Segment liabilities

	Lasers & Ultrasounds $'000	2RT® $'000	iTrack™ $'000	Total $'000
Year ended 30 June 2019				
Segment liabilities	**27,111**	**670**	**3,138**	**30,919**
Reconciliation of segment liabilities to Group liabilities				
Unallocated liabilities:				
Current tax payable				178
Total liabilities				**31,097**
Year ended 30 June 2018				
Segment liabilities	**27,742**	**251**	**2,093**	**30,086**
Reconciliation of segment liabilities to Group liabilities				
Unallocated liabilities:				
Current tax payable				135
Total liabilities				**30,221**

d) Revenue by geographical region

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

	2019 $'000	2018 $'000
Australia	9,694	9,082
United States of America	38,275	36,690
Europe/Middle East	15,807	15,845
Japan	12,140	11,691
Asia	4,874	4,281
South America and other	847	1,661
Total revenue	**81,637**	**79,250**

Notes to the consolidated financial statements

e) Non-current assets by geographical region

The location of segment assets is disclosed below by geographical location of the assets. The amounts shown are exclusive of tax assets:

	2019 $'000	2018 $'000
Australia	27,829	28,123
United States of America	5,121	5,048
Europe/Middle East	156	259
Japan	394	507
Asia	-	7
Total assets	**33,500**	**33,944**

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 & Ultrasounds $'000	2RT® $'000	iTrack™ $'000	Total $'000
Year ended 30 June 2018	2,446	701	365	**3,512**
Year ended 30 June 2019	778	1,302	824	**2,904**

27. Related party disclosures

a) Equity interests in related parties

Equity interests in subsidiaries

Details of the percentage of ordinary shares held in subsidiaries are disclosed in note 25 to the consolidated 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:

- Loans totalling $46,887,588 (2018: $31,428,783) are receivable from subsidiaries which have been eliminated on consolidation.

During the financial year ended 30 June 2019, the following transactions occurred between the Group and its other related parties:

- Interest payments of $821,762 (2018: $285,397) were made between subsidiaries in the Group on inter-Company loans payable. The weighted average interest rate on the loans is 3% (2018: 3%). Interest is payable annually.
- Sales between the subsidiaries totalled $19,456,317 (2018: $23,396,785) during the year. Payment terms range between 30 and 90 days.
- Management fees were charged between subsidiaries of $13,547,780 (2018: $12,457,126) during the year for management, accounting, marketing and communication support.
- Rental and outgoing expenses of nil (2018: $38,939) were incurred with YourAmigo Limited, a Director related entity of Rahmon Coupe and Victor Previn.
- Consulting fees of $92,957 (2018: nil) were incurred with XMN inc, a Director related entity of Mr Southard.
- Amounts payable to (related to remuneration paid in arrears):

	2019 $	2018 $
V Previn	20,228	8,571
A Sundich	14,517	8,571
G Canala	17,338	8,571
M Southard	10,626	-
M Mangano	14,888	-
R Coupe	17,338	8,347

- All loans payable to related parties are unsecured.

Notes to the consolidated financial statements

c) Key management personnel compensation

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

	Consolidated Group	
	2019 $	2018 $
Short term employee benefits	914,189	693,652
Post-employment benefits	62,886	69,390
Share based payments	-	-
Other long term benefits	155,141	-
Termination benefits	75,000	68,750
	1,207,216	**831,792**

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 consolidated statement of financial position.

a) Reconciliation of cash and cash equivalents

For the purposes of the consolidated 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 consolidated statement of financial position:

	Consolidated Group	
	2019 $'000	2018 $'000
Cash and cash equivalents	15,372	23,067
Bank overdraft (note 15)	(189)	-
	15,183	**23,067**

b) Financing facilities

	Consolidated Group	
	2019 $'000	2018 $'000
Equipment finance and finance advance (insurance premium)		
amount used (note 15)	328	273
amount unused	-	-
	328	**273**
ANZ finance facility		
amount used (note 15)	8,863	7,906
amount unused	1,137	2,094
	10,000	**10,000**
Mortgage for building		
amount used (note 15)	5,723	6,523
amount unused	-	-
	5,723	**6,523**
Other facilities		
amount used (note 15)	167	298
amount unused	137	302
	304	**600**

Notes to the consolidated financial statements

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

	Consolidated Group	
	2019 $'000	RESTATED 2018 $'000
(Loss) for the year	(5,773)	(5,074)
Depreciation and amortisation of non-current assets	4,011	3,662
Impairment expense	204	127
Loss on disposal of property, plant and equipment	56	25
Release of grant income	(152)	(136)
Tax on share issue	-	522
	(1,654)	**(874)**
Changes in net assets and liabilities, net of effects from acquisition and disposal of businesses:		
• Current and non-current receivables	(829)	400
• Decrease/(increase) in tax balances	287	(1,204)
• Current and non-current inventories	(3,471)	1,184
• Other assets	216	(119)
• Current and non-current payables	1,076	(2,627)
• Other current and non-current liabilities	168	3,762
	(2,553)	**1,396**
Net cash from operating activities	**(4,207)**	**522**

d) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the periods presented.

	Consolidated Group	
	2019 $'000	2018 $'000
Cash and cash equivalents	15,372	23,067
Borrowings – repayable within 12 months (including bank overdraft)	(15,039)	(9,097)
Borrowings – repayable after 12 months	(42)	(5,902)
Net debt	**291**	**8,068**

	Cash/bank overdraft $'000	Finance leases due within 12 months $'000	Finance leases due after 12 months $'000	Borrowings due within 12 months $'000	Borrowings due after 12 months $'000	Total $'000
Net debt as a 1 July 2017	**8,456**	**(312)**	**(99)**	**(15,224)**	**-**	**(7,179)**
Cash flows (net)	14,537	194	(80)	522	-	15,173
Foreign exchange adjustments	74	-	-	-	-	74
Transfer in current/ non-current	-	-	-	5,723	(5,723)	-
Net debt as at 30 June 2018	**23,067**	**(118)**	**(179)**	**(8,979)**	**(5,723)**	**8,068**
Cash flows (net)	(7,618)	(7)	137	(212)	-	(7,700)
Bank overdraft usage	(189)			189	-	-
Foreign exchange adjustments	(77)	-	-	-	-	(77)
Transfer in current/ non-current	-	-	-	(5,723)	5,723	-
Net debt as at 30 June 2019	**15,183**	**(125)**	**(42)**	**(14,725)**	**-**	**291**

Notes to the consolidated financial statements

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, commercial bills and leases.

The totals for each category of financial instruments, measured in accordance with AASB 9 as detailed in the accounting policies to these consolidated financial statements, are as follows:

		Consolidated Group	
	Note	2019 $'000	2018 $'000
Financial assets			
Cash and cash equivalent	28	15,372	23,067
Receivables	7	15,785	14,957
Total financial assets		**31,157**	**38,024**
Financial liabilities			
Trade and other payables	14	7,468	6,391
Borrowings	15	9,358	8,476
Mortgage	15	5,723	6,523
Total financial liabilities		**22,549**	**21,390**

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.

a) Financial risk management objectives

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

The CFO with the Chair of the Audit & Risk Committee and CEO 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 has a global hedging policy whereby the Group's risk and exposure to financial risks is managed. The entity naturally hedges its risk exposure where applicable.

b) Categories of financial instruments

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

c) 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 2019 or 2018.

d) Market risk

The consolidated Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. It is the policy of the Group to naturally hedge foreign currency and interest rate exposure. The hedging policy allows the Group to enter into approved hedging instruments as required.

e) Foreign currency risk management

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

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.

Notes to the consolidated financial statements

The consolidated Group's major exposure arises from the export of products in foreign currency to off shore locations such as North and South America, 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.

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

	Liabilities		Assets	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000
US dollars	4,517	6,038	7,173	13,320
Japanese Yen	1,759	690	6,835	7,322
Euro	1,243	475	4,694	4,801

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	
	2019 $'000	2018 $'000	2019 $'000	2018 $'000	2019 $'000	2018 $'000
Profit or loss	316	393	241	662	413	602

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

f) Interest rate risk management

The consolidated Group is exposed to interest rate risk as it borrows funds at floating interest rates.

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 (2018: 100 basis points) higher or lower and all other variables were held constant, the consolidated Group's:

Net profit after tax would increase by $166 thousand and decrease by $166 thousand (2018: increase by $118 thousand and decrease by $118 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.

Notes to the consolidated financial statements

g) 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 consolidated 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.

h) Fair value of financial assets and liabilities

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

i) 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.

j) 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.

2019	Less than 1 month $'000	Interest rate maturity 1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	5+ years $'000	Total $'000
Financial liabilities						
Finance lease	10	21	94	43	-	168
Finance advance	39	78	210	-	-	327
Trade payables	4,120	-	-	-	-	4,120
Other payables	3,253	-	-	-	-	3,253
Payable to directors	95	-	-	-	-	95
Debtor finance facility	6,174	-	-	-	-	6,174
Mortgage for building	200	-	267	5,256	-	5,723
ANZ cash advance	-	-	-	2,500	-	2,500
Overdraft	189	-	-	-	-	189
	14,080	**99**	**571**	**7,799**	**-**	**22,549**

2018	Less than 1 month $'000	Interest rate maturity 1 to 3 Months $'000	3 to 12 Months $'000	1 to 5 Years $'000	5+ years $'000	Total $'000
Financial liabilities						
Finance lease	10	20	89	178	-	297
Finance advance	39	78	156	-	-	273
Trade payables	2,232	-	-	-	-	2,232
Other payables	4,125	-	-	-	-	4,125
Payable to directors	34	-	-	-	-	34
Debtor finance facility	5,956	-	-	-	-	5,956
Mortgage for building	200	-	600	5,723	-	6,523
ANZ cash advance	-	-	-	1,950	-	1,950
	12,596	**98**	**845**	**7,851**	**-**	**21,390**

Notes to the consolidated financial statements

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	
	2019 $'000	**2018 $'000**
Statement of Financial Position		
Total current assets	11,282	10,338
Total non-current assets	28,405	29,014
Total assets	**39,687**	**39,352**
Total current liabilities	(28,855)	(31,279)
Total non-current liabilities	-	-
Total liabilities	**(28,855)**	**(31,279)**
Share capital	78,311	78,311
Reserves	(1,805)	(1,805)
Accumulated (losses)	(7,964)	(5,875)
Total Equity	**68,542**	**70,631**
Statement of Profit or Loss and Other Comprehensive Income		
(Loss)/profit for the year	(2,089)	(853)
Total comprehensive income	**(2,089)**	**(853)**

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 2019 are Nil (2018: Nil).

b) Contingent liabilities and guarantees

There is a bank guarantee for $360k held with Australian and New Zealand Banking Group Limited (2018: $360k).

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	
	2019 $	2018 $
Audit or review of the consolidated financial report		
Grant Thornton Audit Pty Ltd	-	130,000
Grant Thornton France	8,000	-
PricewaterhouseCoopers	117,700	-
	125,700	**130,000**

The auditors of Ellex Medical Lasers Limited is PricewaterhouseCoopers (2018: Grant Thornton Audit Pty Ltd).

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

- Other: $4,000 (2018: nil).

These services do not adhere to a breach of auditor independence.

32. Events after reporting date

No 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.

33. Contingent liabilities

There is a bank guarantee for $360k held with Australian and New Zealand Banking Group Limited (2018: $360k).

Directors' Declaration

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 2019 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 2019.

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 25 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, 29th August 2019

Independent Auditor’s Report

pwc

Independent auditor's report

To the members of Ellex Medical Lasers Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Ellex Medical Lasers Limited (the Company) and its controlled entities (together 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 2019 and of its financial performance for the year then ended

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

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2019
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

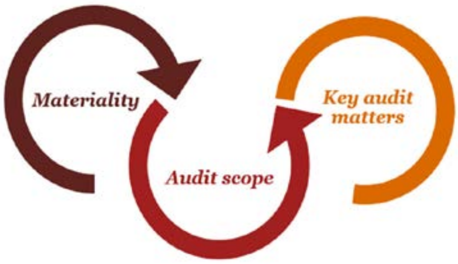
PricewaterhouseCoopers, ABN 52 780 433 757
Level 11, 70 Franklin Street, ADELAIDE SA 5000, GPO Box 418, ADELAIDE SA 5001
T: +61 8 8218 7000, F: +61 8 8218 7999, www.pwc.com.au

Independent auditor's report to the members of Ellex Medical Lasers Limited (continued)

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality

- For the purpose of our audit we used overall Group materiality of $816 thousand, which represents approximately 1% of the Group's revenues.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group revenues because, in our view, it is the benchmark against which the performance of the Group is most commonly measured.
- We utilised a 1% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit Scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The Group's operations are mainly in Australia, the United States, Japan and Europe.
- Our audit work focussed on the Australian and Freemont (United States) operations' financial information given their financial significance to the Group as a whole. Additionally, we performed specific risk focused audit procedures in relation to the Group's operations in Minneapolis (United States) and Japan. While the majority of our audit procedures were performed at the head office in Adelaide, we also visited the American and Japanese operations.
- Local component auditors in France assisted performing work on behalf of the Group engagement team in respect of the European operations. The Group engagement team were responsible for the direction, supervision and performance of the Group audit.
- We performed further audit procedures at Group level, including procedures over the consolidation of the Group's businesses and the preparation of the financial and remuneration reports.

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 for the current period. The key audit 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. Further, any commentary on the outcomes of a particular audit procedure is made in that context. We communicated the key audit matters to the Audit Committee.

Key audit matter	*How our audit addressed the key audit matter*
Capitalisation and amortisation of development expenditure *(Refer to note 12)* At 30 June 2019, the Group recognised capitalised development expenditure of $15.3 million in the consolidated statement of financial position. We focussed on this as a key audit matter due to the size of the capitalised balance and because there is significant judgement required by the Group to assess whether the recognition criteria for the capitalisation of such costs had been met. In addition there was significant judgement involved in determining when the capitalised costs should commence amortisation.	We performed the following procedures, amongst others: • Obtained a detailed listing of capitalised development expenditure and checked this listing reconciled to the financial statements. • For a sample of development expenditure capitalised during the year, we tested the Group's assessment of whether the Australian Accounting Standards criteria for recognising such costs had been met by: - Obtaining an understanding of the nature of the capitalised costs through discussions with project managers and reading related project documents. - Vouching costs to relevant supporting documentation including invoices, purchase orders and bank statements. - Checking employee costs capitalised to relevant payroll records for the projects and checked the appropriateness of the amounts included in the relevant development projects by ensuring employee effort was directed to the relevant project activity. • Through inquiry with project managers and corroboration with information obtained from other testing, we obtained an understanding of incomplete projects at balance date to check it is appropriate for these projects to not have commenced amortisation.
Impairment assessment of non-current assets *(Refer to note 1)* The consolidated statement of financial position includes property, plant and equipment of $13.7 million, intangible assets of $4.0 million and capitalised development expenditure of $15.3 million as at 30 June 2019.	We performed the following procedures, amongst others: • Assessed whether the allocation of the Group's non-current assets into cash generating units (CGUs) was consistent with our knowledge of the Group's operations and internal reporting. • Assessed whether the CGUs included directly attributable cash flows and, where applicable, a reasonable allocation of corporate assets and

Independent auditor's report to the members of Ellex Medical Lasers Limited (continued)

Key audit matter	*How our audit addressed the key audit matter*
In order to assess recoverability of these assets, following the current years losses, the Group prepared financial models ("the models") as at 30 June 2019 to determine if their carrying values were supported by future cash flows discounted to their present value. Given the significance of the carrying value of the related assets to the financial position of the Group, and the judgements and assumptions required in preparing a discounted cash flow model (including growth rates and discount rates), the recoverability of these assets was a key audit matter.	overheads. • Evaluated the key assumptions in the models including sales and expenditure forecasts, growth and inflation rates and the specific CGU discount rates by comparing them with historical results and where applicable to economic and industry forecasts. • Tested that the forecast cash flows used in the impairment model were consistent with the most up-to-date budgets and business plans formally approved by the Board of Directors. • Evaluated the Group's historical ability to forecast future cash flows by comparing budgets with reported actual results for the past year. • Performed sensitivity analyses around the growth rates used in the cash flow forecasts within the impairment model and the discount rate used. • Tested the mathematical accuracy on a sample basis of the impairment model's calculations. • Evaluated the adequacy of the disclosures made in note 1, including those regarding the key assumptions and sensitivities to changes in such assumptions, in light of the requirements of Australian Accounting Standards.
Recoverability of deferred tax assets *(Refer to notes 1 and 5(a))* At 30 June 2019 the Group recognised $8.7 million of deferred tax assets on the consolidated statement of financial position, of which $8.4 million relates to unused tax losses and unused research and development ("R&D") tax offsets. Australian Accounting Standards require deferred tax assets to be recognised only to the extent that it is probable that sufficient future taxable profits in the relevant jurisdictions will be generated in order for the benefits of the deferred tax assets to be realised. These benefits are realised by reducing tax payable on future taxable profits. This was a key audit matter due to the size of the unused tax losses and unused R&D offsets available and because significant judgement was required by the Group to assess whether there will be sufficient future taxable profits in the relevant jurisdictions available to utilise those losses and offsets.	We performed the following procedures, amongst others: • Assessed the Group's estimate of future taxable profits against which the unused tax losses and the unused R&D offsets are expected to be utilised, by evaluating the principal assumptions and inputs including sales and expenditure forecasts and growth and inflation rates by comparing them with historical results and where applicable to economic and industry forecasts. • Checked if the forecast accounting profits are appropriately adjusted for the differences between accounting profits and taxable profits wherever applicable. • Checked the mathematical accuracy of the calculation of the estimated future taxable profits. • With assistance from PwC tax specialists, examined the ability of the Group to carry forward the tax losses and unused R&D offsets in the applicable jurisdictions and assessed if the expected utilisation periods are consistent with the relevant tax laws.

Key audit matter	How our audit addressed the key audit matter
	• Checked if the tax consequences of the realisation of the assets and settlement of the liabilities were appropriately considered in the determination of the temporary differences and the calculation of the deferred tax balances in accordance with the requirements of the Australian Accounting Standards. • Check the mathematical accuracy of the calculation of temporary differences and the deferred tax balances arising thereon. • Evaluated the adequacy of the disclosures made in light of the requirements of Australian Accounting Standards.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

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

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 on the other information that we obtained prior to the date of this auditor's report, 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 ability of the Group 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.

Independent auditor's report to the members of Ellex Medical Lasers Limited (continued)

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 the 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. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 15 to 23 of the directors' report for the year ended 30 June 2019.

In our opinion, the remuneration report of Ellex Medical Lasers Limited for the year ended 30 June 2019 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.

PricewaterhouseCoopers

PricewaterhouseCoopers

M. T. Lojszczyk
Partner

Adelaide
29 August 2019

Number of holders of equity securities

Ordinary share capital

- 143,601,138 fully paid ordinary shares are held by 4,099 individual shareholders.

All issued shares carry one vote per share.

Distribution of holders of equity securities

Range	Total Holders
1 – 1,000	1,327
1,001 – 5,000	1,060
5,001 – 10,000	551
10,001 – 100,000	1,024
100,001 Over	137
	4,099
Holding less than a marketable parcel	1,178

Substantial shareholders

	Fully Paid	
Ordinary Shareholders	Number	Percentage
NATIONAL NOMINEES LIMITED	16,736,888	11.66
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	14,064,543	9.79
J P MORGAN NOMINEES AUSTRALIA LIMITED	10,100,700	7.03

Twenty largest holders of quoted equity securities

	Fully Paid	
Ordinary Shareholders	Number	Percentage
NATIONAL NOMINEES LIMITED	16,736,888	11.66
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	14,064,543	9.79
J P MORGAN NOMINEES AUSTRALIA LIMITED	10,100,700	7.03
SEDICO PTY LTD	9,069,980	6.32
PINE STREET PTY LTD <PINE STREET SUPER FUND A/C>	6,300,000	4.39
BOND STREET CUSTODIANS LIMITED <SALTER - D64848 A/C>	5,950,451	4.14
RUMINATOR PTY LTD	5,062,008	3.53
CANALA SUPER FUND PTY LTD <GIUSEPPE CANALA S/F A/C>	3,061,788	2.13
CITICORP NOMINEES PTY LIMITED	2,256,302	1.57
UNLEY UNDERWRITERS PTY LIMITED	1,107,424	0.77
FIVE TALENTS LIMITED	963,607	0.67
MR DOUGLAS ROBERT BUCHANAN + MRS ROBYN LORRAINE BUCHANAN <BUCHANAN SUPER FUND A/C>	925,000	0.64
NEWECONOMY COM AU NOMINEES PTY LIMITED <900 ACCOUNT>	889,183	0.62
MR RAHMON CHARLES COUPE + MRS JULIA DEBORAH COUPE <SUPER FUND A/C>	874,400	0.61
DR PETER ANTHONY STEWART	780,000	0.54
NURRAGI INVESTMENTS PTY LTD	699,000	0.49
MR DONALD GERHARD COLE	600,000	0.42
LOCOPE PTY LTD	575,000	0.40
MR ROBERT JAMES KENRICK	557,835	0.39
MRS GLENIS NITA O'DONNELL	513,500	0.36

Notes

Helping the world see clearly

Head Office
3 Second Avenue
Mawson Lakes, SA, 5095 AUSTRALIA
+61 8 7074 8200

Registered Office
82 Gilbert Street
Adelaide, SA, 5000 AUSTRALIA
+61 8 7074 8200

Ellex Inc. (USA)
7138 Shady Oak Road
Minneapolis, MN, 55344 USA
800 824 7444

Ellex iTrack
41316 Christy Street
Fremont, CA, 94538 USA
800 391 2316

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

Ellex France SARL
La Chaufferie – 555 chemin du bois
69140 Rillieux la Pape FRANCE
+33 4 8291 0460

Ellex Inc. (Japan)
Harumi Center Bldg 5F, 2-5-24 Harumi Chuo-ku
Tokyo 104-0053 JAPAN
+81 3 5859 0470

Ellex Australia
3 Second Avenue
Mawson Lakes, SA, 5095 AUSTRALIA
+61 8 7074 8200