ASX / Media Release

20 February 2020

Ellex Reports First Half FY20 Results

Highlights:

- **Agreement for sale of Ellex Lasers & Ultrasound to Lumibird Group SA for $100 million in cash**
- **Shareholder vote to approve Lumibird transaction in late April 2020**
- **Revenues from continuing operations[1] of $7.4 million, down 4% on the prior corresponding period (pcp)**
- **Operating expenses from continuing operations of $8.6 million, down 22% on pcp**
- **EBITDA loss from continuing operations of $2.9 million**
- **Reported Net Loss After Tax from continuing operations of $2.9 million**

Adelaide, Australia, 20 February 2020 – Ellex Medical Lasers Limited (ASX:ELX; OTCQX: ELXMY, ELXMF), today announced its half year fiscal results for the period ended 31 December 2019 (1H FY20).

Mr Victor Previn, Executive Chairman of Ellex Medical Lasers said: "During the half, the Company worked diligently to complete a binding Share Sale and Purchase Agreement with Lumibird for our Lasers & Ultrasound business. We continue to work towards finalising the conditions necessary for transaction completion, with the shareholder meeting to approve the transaction and transaction completion expected late April 2020, versus March 2020 as previously indicated."

"As the sale agreement was consummated in the last reporting period, the accounting standards require reporting as if Ellex had already sold the L&U business, hence the financials reported display performance of the continuing business (2RT® and iTrack™). This significant transaction has caused material change as the Company moves to a new business model and previous sales and EBITDA guidance no longer applies."

"Although the revenue base will be reduced significantly if the transaction with Lumibird is approved by shareholders, the Company will be bank debt-free, with a less complex and streamlined business model. We are excited by the potential of the iTrack and 2RT assets, which target higher growth ophthalmic segments with a large unmet medical need. We look forward to sharing our plans for the new business structure with investors."

Ellex iTrack performance

The Ellex iTrack surgical system global unit volumes were down 8.3% versus the pcp and revenues were up 2.3%. EBITDA improved 56% to a loss of $1.7 million.

- USA unit sales down 11% (3414 units), OUS down 23% due to competitive forces, Chinese unit sales up 31%
- Improved $1.7 million EBITDA loss (vs. $3.9 million loss in 1H FY19)
- Implemented changes to iTrack business in late 1H, including new senior executive appointments
- Solid US reimbursement outlook: 2020 final payment rule (US Medicare) +4% increase in payment for ASC/hospital. Physician procedure fee unchanged

Ellex iTrack has exhibited a three year compound annual growth rate (CAGR) in global revenues of 22%.

The Company continues to assess potential product acquisitions that provide synergies for our dedicated glaucoma device sales channel. This activity is expected to result in at least one transaction during FY20.

Ellex 2RT

Ellex is in the process of submitting an Investigational Device Exemption (IDE) application to the U.S Food and Drug Administration (FDA) to gain clearance for the sale of 2RT in the USA. This is a lengthy and detailed process that includes agreeing a clinical study protocol and associated statistical reporting framework. The Company expects to establish clarity on the FDA requirements and the definition of the way forward for 2RT during the 2Q CY20.

2RT sales have declined from $1.3 million in the pcp to $0.8 million in European countries due to negative sentiment, induced by competitive pharmaceutical company interests on the effectiveness of the therapy.

We expect conditions to improve on approval by FDA to proceed with an IDE.

Outlook

Ellex remains focused on completing the restructuring and other conditions to implement the Lumibird transaction which has caused material change as the Company moves to a new business model, hence previous sales and EBITDA guidance no longer applies.

The Company expects the transaction with Lumibird to complete at the end of April 2020.

- ENDS -

This release dated 20 February 2020 has been authorised for lodgement to the ASX by the Board of Directors of Ellex Medical Lasers Limited and lodged by Kimberley Menzies, Company Secretary.

ABOUT ELLEX

Ellex designs, develops, manufactures and sells innovative product that help eye surgeons around the world to effectively and efficiently treat eye disease. Ellex is a world leader in this field. Headquartered in Adelaide, Australia, Ellex has ophthalmic lasers and devices that treat glaucoma, retinal disease primarily caused by diabetes, secondary cataract and vitreous opacities, as well as age-related macular degeneration. Manufacturing is carried out in Adelaide, Australia and Fremont, California. Sales and service directly to eye surgeons is conducted via subsidiary offices in Minneapolis, Lyon, Berlin and Tokyo. A network of more than 50 distribution partners around the world services other markets.

For additional information about Ellex and its products, please visit www.ellex.com

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For further information on Ellex please contact:

Victor Previn
Executive Chairman
Ellex Medical Lasers Limited
3 Second Avenue, Mawson Lakes SA 5095
W +61 8 7074 8200
vprevin@ellex.com

Dr. Tom Duthy
Investor Relations & Corporate Development
Ellex Medical Lasers Limited
3 Second Avenue, Mawson Lakes SA 5095
M +61 402 493 727
tduthy@ellex.com

CONSOLIDATED RESULTS FOR ANNOUNCEMENT TO THE MARKET

For the half year ended 31 December 2019
Ellex Medical Lasers Limited ACN 007 702 927

This results announcement and the half-year report attached to this announcement should be read in conjunction with the annual financial report for the year ended 30 June 2019.

Current reporting period: Half-year ended 31 December 2019
Previous corresponding reporting period: Half-year ended 31 December 2018

Consolidated Results

				$A'000
Revenues from ordinary activities from continuing operations	Down	4%	To	7,427
Consolidated results				
(Loss) before interest, tax, depreciation and amortisation (EBITDA)	Down	40%	to	(2,867)
(Loss) for the period, before tax from continuing operations	Down	32%	to	(3,617)
(Loss) from ordinary activities after tax from continuing operations	Down	26%	to	(2,930)
Net (loss) for the period attributable to members from continuing operations	Down	26%	to	(2,930)

Dividends (distributions)	**Amount per security**	**Franked amount per security**
Final Dividend Interim Dividend	Nil	Nil
Previous corresponding period	Nil	Nil
Record date for determining entitlements to the dividend	NOT APPLICABLE	

OTHER INFORMATION

For the half-year ended 31 December 2019
Ellex Medical Lasers Limited ACN 007 702 927

Net Tangible Assets per Security	Half Year ended 31 December 2019	Half Year ended 31 December 2018
Net tangible asset backing per ordinary security (excludes value attributable to goodwill, other intangible assets, deferred tax asset, capitalised development expenditure and related deferred grant income)	$0.26	$0.34

Dividends

Date the dividend (distribution) is payable	NOT APPLICABLE
Record date to determine entitlements to the dividend (distribution)	NOT APPLICABLE
If it is a final dividend, has it been declared?	NOT APPLICABLE

Amount per security

	Amount per security	Franked amount per security at 30% tax	Amount per security of foreign source dividend
Final dividend: Current year Previous year	0.00 ¢ 0.00 ¢	0.00 ¢ 0.00 ¢	0.00 ¢ 0.00 ¢
Interim dividend: Current year Previous year	0.00 ¢ 0.00 ¢	0.00 ¢ 0.00 ¢	0.00 ¢ 0.00 ¢

Details of entities over which control has been gained or lost during the period

On 17 December 2019, Adele Ellex SPV Pty Ltd a 100% owned subsidiary of Ellex Medical Lasers Limited was incorporated. There have been no other changes in the period.

Ellex Medical Lasers Limited

ACN 007 702 927
Report for the half-year ended 31 December 2019

Contents | Page

Directors' report

The directors of Ellex Medical Lasers Limited (the Company and the Group) submit herewith the financial report of Ellex Medical Lasers Limited and its subsidiaries (the Group) for the half-year ended 31 December 2019. In order to comply with the provisions of the Corporations Act 2001, the directors report as follows:

The names of the directors of the Company during or since the end of the half-year are:

Name	
Mr V Previn	Chairman
Mr A Sundich	Non-Executive Director
Mr R Coupe	Independent Director
Mr M Southard	Executive Director
Mr M Mangano	Independent Director
Mr G Canala (resigned 27 November 2019)	Non-Executive Director

Ms Kimberley Menzies was appointed Company Secretary on 19 July 2019. Ms Maria Maieli resigned as Company Secretary on 18 July 2019. Ms Maieli resigned as Interim CEO on 18 February 2020 with Victor Previn assuming management responsibilities.

Principal Activities

The principal activities of the Company during the financial period were the manufacture, service and distribution of medical equipment.

Review of operations

For the six months ended 31 December 2019, Ellex Medical Lasers Limited (Ellex) recorded a group loss after tax of $2.7m, comprising a loss from continuing operations of $2.9m and a profit from the discontinued Laser & Ultrasound business operations of $0.2m. This compares with a group loss of $2.7m in the six months to 31 December 2018 comprising a loss from continuing operations of $4.0m and a profit from the discontinued operations of $1.3m.

In addition to the group loss of $2.7m being lower than comparative period, net cash from operations improved materially to $1.8m compared with $1.8m net cash used in operations in the prior period. This $3.6m improvement was a direct result of initiatives to improve working capital in reducing group inventory levels and focussing on cost savings.

Pending Sale of the Laser & Ultrasound Business

On 24 December 2019 a binding agreement for the sale of the Laser & Ultrasound business was signed with Lumibird SA. The contracted sale price is $100m with adjustments for cash, debt, iTrack and 2RT costs at settlement. Lumibird is headquartered in Lannion, France and is a global leader in lasers. The binding agreement requires certain conditions precedent to be satisfied before settlement of the transaction can take place, including approval by Ellex shareholders. Settlement is expected in late April 2020.

As required by IFRS, the financial statements have been prepared disclosing the performance of the Laser & Ultrasound business as a discontinued operation and the assets and liabilities of the Laser & Ultrasound business as assets and liabilities held for sale. As at 31 December 2019, the net assets held for sale are shown as $41.6 million. The final value of the assets & liabilities of the Laser & Ultrasound business sold will be determined as at the date of settlement, which is expected to be late April 2020.

The sale of the Laser and Ultrasound business will see Ellex exit a number of mature ophthalmic market segments that have mature market dynamics. Going forward this means Ellex can use its proprietary 2RT and iTrack technology platforms to focus exclusively on new ophthalmic markets with very large unmet needs, high entry barriers and high potential for growth. Furthermore the sale of the business will leave Ellex bank-debt free and with a less complex business that requires less corporate overhead support.

Ellex Lasers & Ultrasound (Discontinued operations)

Sales revenue was $34.4m for the period. This represents growth of 1.4% on the prior comparative period. This sales growth was assisted by a lower A$ compared with US$, YEN & Euro compared to prior comparative period.

EBITDA decreased to $2.8m compared with $3.9m in the prior period. The reduction in EBITDA was due to a reduction in gross margin caused by higher foreign import costs associated with lower A$ and price competition in the Japanese market.

Ellex iTrack

Sales revenue was $6.6m for the period. This represents growth of 2% over the prior corresponding period. The EBITDA level loss for this segment was $1.7m. This compares with a loss of $3.9m in the prior corresponding period. The improved EBITDA performance is a result of reduction in advertising, marketing and congress expenses during the half year.

The Group has adopted the new standard IFRS 16 Leases from 1 July 2019, which has resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transitional provisions in IFRS 16, the Group has adopted the new rules by applying the standard at the date of initial application and has not restated the 2018 comparative figures.

The adoption of the new standard has seen an increase in finance cash flows and a corresponding decrease in cash flows from operations for lease payments in the Consolidated Statement of Cash Flows.

Auditor's independence declaration

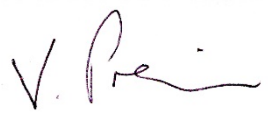
The auditor's independence declaration is included on page 4 of the half-year report.

Rounding of amounts

The company is a company of the kind referred to in ASIC Instrument 2016/191. In accordance with that Class Order amounts in the directors' report and the half-year financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

Signed in accordance with a resolution of directors made pursuant to s.306 (3) of the Corporations Act 2001.

On behalf of the Directors



Victor Previn
Chairman
Adelaide, 20 February 2020

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Auditor's Independence Declaration

As lead auditor for the review of Ellex Medical Lasers Limited for the half-year ended 31 December 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 review; and

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

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

M. T. Lojszczyk
Partner
PricewaterhouseCoopers

Adelaide
20 February 2020

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 statement of profit or loss and other comprehensive income for the half-year ended 31 December 2019

	Note	Consolidated Group	
		Half-year ended 31 Dec 2019 $'000	Half-year ended 31 Dec 2018 $'000
Revenue from continuing operations		**7,427**	**7,719**
Other income		37	133
Changes in inventories of finished goods and work in progress		294	702
Raw materials and consumables used		(2,020)	(2,284)
Employee benefits expense		(5,526)	(6,318)
Depreciation and amortisation expense		(719)	(523)
Facilities expense		(50)	(251)
Legal expenses		(79)	(45)
Advertising and marketing expense		(504)	(1,689)
Finance costs		(31)	-
Realised foreign exchange gain/(loss)		(17)	(14)
Travel expense		(577)	(830)
Consulting fees		(1,292)	(995)
Other expenses		(560)	(891)
(Loss) before tax from continuing operations		**(3,617)**	**(5,286)**
Income tax benefit/(expense)		687	1,305
(Loss) for the period from continuing operations		**(2,930)**	**(3,981)**
Profit after tax from discontinued operations	**10**	**252**	**1,282**
(Loss)/profit after tax for the period		**(2,678)**	**(2,699)**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translating foreign operations (tax: nil)		(104)	1,094
Total comprehensive (loss)/income for the period		**(2,782)**	**(1,605)**
Earnings per share:			
From continuing operations:			
Basic (cents per share)		(2.04)	(2.77)
Diluted (cents per share)		(2.04)	(2.77)
From profit attributable to the ordinary equity holders of the company:			
Basic (cents per share)		(1.86)	(1.88)
Diluted (cents per share)		(1.86)	(1.88)

Notes to the consolidated financial statements are included on pages 9 to 19.

Consolidated statement of financial position as at 31 December 2019

	Note	Consolidated Group 31 December 2019 $'000	30 June 2019 $'000
Current assets			
Cash and cash equivalents		733	15,372
Trade and other receivables		2,148	15,503
Inventories		2,977	26,084
Other current assets		82	773
Assets held for sale	11	70,410	-
Total current assets		**76,350**	**57,732**
Non-current assets			
Trade and other receivables		47	282
Inventories		-	150
Property, plant and equipment		3,186	13,403
Intangible assets		3,398	4,358
Capitalised development expenditure		7,086	15,308
Deferred tax assets		8,114	8,660
Total non-current assets		**21,831**	**42,161**
Total assets		**98,181**	**99,893**
Current liabilities			
Trade and other payables		1,086	7,468
Borrowings		-	14,956
Lease liability		351	83
Provisions		264	3,300
Deferred income		-	3,341
Current tax liabilities		-	178
Liabilities held for sale	11	28,849	-
Total current liabilities		**30,550**	**29,326**
Non-current liabilities			
Lease liability		1,606	42
Provisions		-	505
Deferred income		-	1,224
Total non-current liabilities		**1,606**	**1,771**
Total liabilities		**32,156**	**31,097**
Net assets		**66,025**	**68,796**
Equity			
Issued capital		78,311	78,311
Reserves		1,553	1,646
Accumulated (losses)		(13,839)	(11,161)
Total equity		**66,025**	**68,796**

Notes to the consolidated financial statements are included on pages 9 to 19.

Consolidated statement of changes in equity for the half-year ended 31 December 2019

	Note	Issued capital $'000	Other reserve $'000	Foreign currency reserve $'000	Accumulated profits/ (losses) $'000	Total $'000
Balance at 1 July 2018		**78,311**	**142**	**179**	**(5,388)**	**73,244**
Issue of share capital		-	-	-	-	-
Transaction costs		-	-	-	-	-
Total of transactions with owners		**-**	**-**	**-**	**-**	**-**
(Loss) for the period		-	-	-	(2,699)	(2,699)
Other comprehensive income		-	-	1,094	-	1,094
Total comprehensive income		**-**	**-**	**1,094**	**(2,699)**	**(1,605)**
Balance at 31 December 2018		**78,311**	**142**	**1,273**	**(8,087)**	**71,639**
Balance at 1 July 2019		**78,311**	**142**	**1,504**	**(11,161)**	**68,796**
Issue of share capital		-	-	-	-	-
Transaction costs		-	-	-	-	-
Employee share scheme	**13**	-	11	-	-	11
Total of transactions with owners		**-**	**11**	**-**	**-**	**11**
(Loss) for the period		-	-	-	(2,678)	(2,678)
Other comprehensive income		-	-	(104)	-	(104)
Total comprehensive income		**-**	**-**	**(104)**	**(2,678)**	**(2,782)**
Balance at 31 December 2019		**78,311**	**153**	**1,400**	**(13,839)**	**66,025**

Notes to the consolidated financial statements are included on pages 9 to 19.

Consolidated statement of cash flows
for the half-year ended 31 December 2019

	Note	Consolidated Group	
		Half-year ended 31 Dec 2019 $'000	Half-year ended 31 Dec 2018 $'000
Cash flows from operating activities			
Receipts from customers		41,909	44,337
Payments to suppliers and employees		(39,621)	(45,780)
Interest and other costs of finance paid		(185)	(158)
Income tax paid		(276)	(170)
Net cash provided by/(used in) operating activities		**1,827**	**(1,771)**
Cash flows from investing activities			
Interest received		30	85
Payment for plant and equipment		(159)	(446)
Proceeds from the sale of plant and equipment		-	8
Payment for intangible assets		(406)	(378)
Payment for capitalised development costs		(1,104)	(1,273)
Net cash (used in)/provided by investing activities		**(1,639)**	**(2,004)**
Cash flows from financing activities			
Proceeds from borrowings		-	496
Repayment of borrowings		(3,160)	-
Repayment of mortgage		(600)	(600)
Repayment of leases		(321)	(87)
Net cash (used in)/provided by financing activities		**(4,081)**	**(191)**
Net (decrease) in cash and cash equivalents		(3,893)	(3,966)
Cash and cash equivalents at the beginning of the period	**9**	15,183	23,067
Effects of exchange rate changes on the balance of cash held in foreign currencies		(31)	63
Cash and cash equivalents at the end of the period	**9**	**11,259**	**19,164**

Cash flows for discontinued operations are disclosed in note 10.
Notes to the consolidated financial statements are included on pages 9 to 19.

Notes to the Consolidated financial statements for the half-year ended 31 December 2019

Note 1: Basis of preparation

These general purpose financial statements for the interim half-year reporting period ended 31 December 2019 have been prepared in accordance with requirements of the Corporations Act 2001 and Australian Accounting Standards including AASB 134: Interim Financial Reporting. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

Note 2: General information and basis of preparation

The condensed interim consolidated financial statements ('the interim financial statements') of the Group are for the six months ended 31 December 2019 and are presented in Australian Dollars, which is the functional currency of Ellex Medical Lasers Limited (the parent company). They do not include all of the information required in the annual financial statements in accordance with Australian Accounting Standards, and should be read in conjunction with the consolidated financial statements of the Group for the year ended 30 June 2019 and any public announcements made by the Group during the half-year in accordance with continuous disclosure requirements arising under the Australian Securities Exchange Listing Rules and the Corporations Act 2001.

The interim financial statements have been approved and authorised for issue by the Board of Directors on 20 February 2020.

Note 3: Changes in accounting policies

The accounting policies adopted are consistent with those of the last financial statements for the year ended 30 June 2019 except for the following:

New and amended standards adopted by the Group
The Group has changed its accounting policy for leases where the Group is a lessee. Until 30 June 2019, leases of property, plant and equipment where the Group, as lessee, had substantially all the risks and rewards of ownership were classified as finance leases. Finance leases were capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charged, were included in other short-term and long-term payables. Each lease payment was allocated between the liability and the finance cost. The finance cost was charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remining balance of the liability for each period. The property, plant and equipment acquired under finance leases was depreciated over the asset's useful life, or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the Group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

IFRS 16 Leases was applicable for the current reporting period, and was applied during the six months to 31 December 2019. From 1 July 2019, leases are recognised as a right-of-use asset (classified in property, plant and equipment on the balance sheet), and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments, less any lease incentives receivable
- Variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date
- Amounts expected to be payable by the Group under residual value guarantees
- The exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which generally is the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right- of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- Where possible, uses recent third-party financing received by the individual lease as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- Uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third-party financing, and
- Makes adjustments specific to the lease, eg term, country, currency and security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance costs. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement date less any lease incentives received
- Any initial direct costs, and
- Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchaser option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of plant and equipment and all leases of low-value assets are recognised on a straight-line basis as an expense in the profit and loss. Short-term leases are leases with a lease term of 12 months or less. Low value assets comprise small IT equipment and parking space rentals.

Extension and termination options
Extension and termination options are included in a number of property and equipment leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options are exercisable by the Group and not the respective lessor.

Practical expedients applied
In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- Applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review. There were no onerous contracts as a 1 July 2019.
- Accounting for operating leases with a remaining lease term of less than 12 months as at 1 July 2019 as short-term leases
- Excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying AASB 117 and interpretation 4 *Determining whether an Arrangement contains a lease.*

The Group has elected to adopt the cumulative catch up approach whereby comparatives are not restated, as permitted by the standard. The below shows the impact on the statement of financial position as at 31 December 2019:

Consolidated Statement of Financial Position

Continuing operations	31 Dec 2019 $'000	1 July 2019 $'000
Buildings	1,896	4,163
Plant and equipment	-	153
Total Right of use asset (included in Property, plant and equipment)	**1,896**	**4,316**
Lease liabilities current (included in Borrowings)	351	822
Lease liabilities non-current (included in Borrowings)	1,606	3,494
Total lease liability	**1,957**	**4,316**

Held for sale	31 Dec 2019 $'000	1 July 2019 $'000
Buildings	1,878	-
Plant and equipment	132	-
Total Right of use asset (included in Property, plant and equipment)	**2,010**	**-**
Lease liabilities current (included in Borrowings)	479	-
Lease liabilities non-current (included in Borrowings)	1,522	-
Total lease liability	**2,001**	**-**

Consolidated statement of profit or loss and other comprehensive income

	Half year ended 31 Dec 2019 continuing operations $'000	Half year ended 31 Dec 2019 discontinuing operations $'000
Rental expense	-	-
Depreciation expense	194	249
Interest expense	31	8

Reconciliation of operating lease commitments to lease liability recognised

	$'000
Operating lease commitments disclosed as at 30 June 2019	4,752
Discounted using the lessee's incremental borrowing rate at the date of initial application	4,406
Add finance lease liabilities recognised as at 30 June 2019	167
(Less) short term leases recognised on a straight-line basis as an expense	(40)
(Less) low value leases recognised on a straight-line basis as an expense	(50)
Lease liability recognised as at 1 July 2019	**4,483**
Of which are:	
Current lease liabilities from standard change	822
Non-current lease liabilities from standard change	3,494
Current lease liabilities (classified as finance leases as at 30 June 2019)	125
Non-current lease liabilities (classified as finance leases as at 30 June 2019)	42

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.

Note 4: Estimates

When preparing the interim financial statements, management undertakes a number of judgments, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgments, estimates and assumptions made by management, and will seldom equal the estimated results.

The judgments, estimates and assumptions applied in the interim financial statements, including the key source of estimate uncertainty were the same as those applied in the Group's last annual financial statements for the year ended 30 June 2019 except for those outlined below.

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 $3,110k (2019: $3,488k) 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 3-4 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 $5,455k (2019: $5,595k) which relates to unused research and development tax offsets available to the Australian tax consolidated group. The Group has concluded that the deferred tax assets will be recoverable with the gain on sale of the Laser & Ultrasound business.

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.

For the December 2019 reporting periods, the recoverable amount of the cash generating units (CGU's) for 2RT and iTrack 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 following table sets out the key assumptions within the value-in-use calculation for the CGU's:

Retinal (2RT)	**31 December 2019**	**30 June 2019**
Sales growth (% average annual growth rate)	149	50
Sales prices (% average annual growth rate)	-	2.00
Long-term growth rate (%)	2.00	2.00
WACC (%)	10.03	7.83

Glaucoma (iTrack)	**31 December 2019**	**30 June 2019**
Sales growth (% average annual growth rate)	30	20
Sales prices (% average annual growth rate)	-	2.00
Long-term growth rate (%)	2.00	2.00
WACC (%)	10.03	7.83

The Laser & Ultrasound business segment was tested using Fair Value less cost to sell at 31 December 2019.

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.

Note 5: Commitments

There is no commitment for the purchase of property, plant and equipment at 31 December 2019. There are no other changes to the commitments disclosed at 30 June 2019.

Note 6: Contingencies

There is a bank guarantee for $360k held with Australian and New Zealand Banking Group Limited.
There are no other contingencies at the date of this report.

Note 7: Events occurring After the Interim Period

On 24 December 2019 a binding agreement for the sale of the Laser & Ultrasound business was signed with Lumibird SA. The contracted sale price is $100m with adjustments for cash and debt at settlement. Lumibird is headquartered in Lannion, France and is a global leader in lasers. The binding agreement requires certain conditions precedent to be satisfied before settlement of the transaction can take place, including approval by Ellex shareholders. Settlement is expected during late April 2020.

No other matters or circumstances have arisen since the end of the half hear 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 the future financial years.

Note 8: Borrowings

The borrowings under the ANZ Banking facility is treated as current liabilities, within liabilities held for sale, resulting from a breach of the EBITDA and the Borrowing Base ratio covenant. It is intended that the borrowings will be repaid with the proceeds from the sale of the Laser & Ultrasound business.

Note 9: Reconciliation of cash and cash equivalents

	Half-year ended 31 Dec 2019 $'000	Year ended 30 June 2019 $'000
Cash and cash equivalents	733	15,372
Cash classified as held for sale	11,153	-
Bank overdraft classified as liabilities held for sale	(627)	(189)
	11,259	**15,183**

Note 10: Discontinued Operations

Accounting Policy
A discontinued operation is a component or subsidiary of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale.

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets classified as held for sale are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

Description

On 24 December 2019 Ellex Medical Lasers Limited announced a binding agreement for the sale of the Ellex Lasers and Ultrasound Business. The sale of the assets and liabilities held for sale is expected to complete before the end of the financial year.

Financial Performance and cash flow information

The financial information below reflects the discontinued operations for the period ending 31 December 2019 and the prior corresponding period.

	Half-year ended 31 Dec 2019 $'000	Half-year ended 31 Dec 2018 $'000
Revenue from discontinued operations	**34,364**	**33,911**
Other income	401	117
Changes in inventories of finished goods and work in progress	(1,154)	656
Raw materials and consumables used	(15,061)	(14,746)
Employee benefits expense	(10,234)	(10,416)
Depreciation and amortisation expense	(1,984)	(1,394)
Facilities expense	(675)	(940)
Legal expenses	(390)	(6)
Impairment expense	-	(124)
Advertising and marketing expense	(910)	(1,035)
Congress expenses	(232)	(983)
Finance costs	(156)	(161)
Product development raw materials and consumables used	(738)	(712)
Realised foreign exchange gain	171	485
Travel expense	(1,034)	(1,113)
Consulting fees	(654)	(329)
Other expenses	(1,030)	(972)
Profit before tax from discontinued operations	**684**	**2,238**
Income tax (expense)	(432)	(956)
Profit for the period from discontinued operations	**252**	**1,282**
Other Comprehensive income from discontinued operations	**(133)**	**420**
Net cash inflow/ (outflow) from operating activities	5,086	3,201
Net cash inflow/ (outflow) from investing activities	(587)	(889)
Net cash inflow/ (outflow) from financing activities	(3,813)	(147)
Net cash inflow/ (outflow) from discontinued operations	686	2,165
Basic earnings per share from discontinued operations	0.18	0.89
Diluted earnings per share from discontinued operations	0.18	0.89

Note 11: Assets and Liabilities held for sale

The below outlines the assets and liabilities held for sale, representing the Laser & Ultrasound business segment.

	Note	31 December 2019 $'000
Current assets		
Cash and cash equivalents		11,153
Trade and other receivables		14,188
Inventories		20,869
Other current assets		532
Property, plant and equipment	i	13,188
Intangible assets		1,361
Capitalised development expenditure		8,198
Deferred tax assets		921
Total assets		**70,410**
Current liabilities		
Trade and other payables		6,864
Borrowings	ii	13,712
Provisions		3,667
Deferred income		4,581
Current tax liabilities		25
Total liabilities		**28,849**
Net assets held for sale		**41,561**

i) Includes a right of use asset of $2,010k from the implementation of IFRS 16. This can be categorised as $1,878k for building right of use assets, and $132k for plant and equipment right of use assets.

ii) Includes lease liability of $2,001k associated with right of use and $11,711k of bank debt.

Note 12: Operating Segments

(i) Segment performance

	2RT $'000	iTrack $'000	Total $'000
Six months ended 31 December 2019			
Revenue from continuing operations			
External sales	811	6,616	7,427
Total segment revenue from continuing operations	811	6,616	7,427
Segment EBITDA	(245)	(1,696)	(1,941)
Depreciation and amortisation	(65)	(654)	(719)
Segment results	(310)	(2,350)	(2,660)
Reconciliation of segment result to group net profit before tax			
Unallocated items:			
• Corporate costs, quality and service charges			(963)
• Finance costs			(31)
• Interest and other revenue			37
Net (loss) before tax from continuing operations			(3,617)

	2RT $'000	iTrack $'000	Total $'000
Six months ended 31 December 2018			
Revenue from continuing operations			
External sales	1,250	6,469	7,719
Total segment revenue from continuing operations	1,250	6,469	7,719
Segment EBITDA	(104)	(3,935)	(4,039)
Depreciation, amortisation and impairment	(61)	(462)	(523)
Segment results	(165)	(4,397)	(4,562)
Reconciliation of segment result to group net profit before tax			
Unallocated items:			
• Corporate costs, quality and service charges			(859)
• Finance costs			-
• Interest and other revenue			135
Net (loss) before tax from continuing operations			(5,286)

Note 12: Operating Segments (Cont)

(ii) Segment assets

	2RT $'000	iTrack $'000	Total $'000
31 December 2019			
Segment assets - opening	4,958	13,861	18,819
Segment asset changes for the period:			
• Net movement in segment assets	2,697	(1,859)	838
Total segment assets	**7,655**	**12,002**	**19,657**
Discontinued operations			70,410
Reconciliation of segment assets to group assets			
Unallocated assets:			
• Deferred tax assets and current tax asset			8,114
Total group assets			**98,181**

	Lasers & Ultrasound $'000	2RT $'000	iTrack $'000	Total $'000
30 June 2019				
Segment assets – opening	76,343	4,958	13,861	95,162
Segment asset changes 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 and current tax asset				8,660
Total group assets				**99,893**

Note 12: Operating Segments (Cont)

(ii) Segment liabilities

	2RT $'000	iTrack $'000	Total $'000
31 December 2019			
Total segment liabilities	**448**	**2,859**	**3,307**
Discontinued operations			28,849
Reconciliation of segment assets to group assets			
Unallocated assets:			
• Current tax payable			-
Total group liabilities			**32,156**

	Lasers & Ultrasound $'000	2RT $'000	iTrack $'000	Total $'000
30 June 2019				
Total segment liabilities	**27,111**	**670**	**3,138**	**30,919**
Reconciliation of segment assets to group assets				
Unallocated assets:				
• Current tax payable				178
Total group liabilities				**31,097**

Note 13: Share-based payments

The establishment of the Ellex Employee Incentive Plan was approved by shareholders at the 2018 annual general meeting. The Employee Incentive Plan is designed to provide long-term incentives for employees to deliver long-term shareholder returns. Under the plan, participants are granted options which only vest if certain performance standards are met. Participation in the plan is at the board's discretion and no individual has a contractual right to participate in the plan or to receive any guaranteed benefits.

Options are granted under the plan for no consideration and carry no voting or dividend rights.

When exercisable, each option is convertible into one ordinary share. The exercise price of options is based on the opening share price at 1 July 2019 as traded on the Australian Stock Exchange.

Set out below is a summary of the options granted under the plan:

	31 December 2019	
	Average exercise price per share option	**Number of options**
As at 1 July	-	-
Granted during the year	$0.55	872,729
Exercised during the year	-	-
Forfeited during the year	-	-
As at 31 December	**$0.55**	**872,729**
Vested and exercisable at 31 December	**-**	**-**

No options expired during the periods covered by the above tables. There were no options issued during the prior corresponding period.

Share options outstanding at the end of the year expire 1 October 2029. The weighted average remaining contractual life of options outstanding at the end of the period is 9.75 years.

Fair Value of Options Granted

The assessed fair value at rant date of options granted during the period ended 31 December 2019 was $0.2293. The fair value at grant date is determined using Black-Scholes Model. The model inputs for options granted during the period ended 31 December 2019 included:

(a) Options are granted for no consideration and vest each year over a four-year period at 25%, commencing 1 July 2020. Vested options are exercisable for a period of ten years after vesting.
(b) Exercise price: $0.55
(c) Grant date: 1 October 2019
(d) Expiry date: 1 October 2029
(e) Share price at grant date: $0.55
(f) Expected price volatility of the company's shares: 54.92%
(g) Risk-free rate: 1.36%

Expenses arising from share-based payment transactions

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were $11,000 (2018: Nil).

Directors' declaration

The directors declare that:

(a) The financial statements and notes are in accordance with the corporations Act 2001, including:

   (i) complying with Accounting Standards, Corporations Regulations 2001 and other mandatory professional reporting requirements, and

   (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2019 and of its performance for the half-year ended on that date.

(b) in the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors made pursuant to s.303 (5) of the Corporations Act 2001.

On behalf of the Directors

Victor Previn
Chairman

Adelaide, 20 February 2020

Independent auditor's review report to the members of Ellex Medical Lasers Limited

Report on the half-year financial report

We have reviewed the accompanying half-year financial report of Ellex Medical Lasers Limited (the Company) and the entities it controlled during the half-year (together the Group), which comprises the consolidated statement of financial position as at 31 December 2019, the consolidated statement of changes in equity, consolidated statement of cash flows and consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, selected other explanatory notes and the directors' declaration.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Ellex Medical Lasers Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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

Conclusion

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

1. giving a true and fair view of the Group's financial position as at 31 December 2019 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

M. T. Lojszczyk
Partner

Adelaide
20 February 2020

Corporate directory

Directors

Mr Victor Previn	BE (Chairman)
Mr Alex Sundich	BEc, MComm, ACA, FFINSIA (Non-Executive Director)
Mr Rahmon Coupe	BEng (Hons) (Independent Director)
Mr Mike Southard	B.S., SEP (Executive Director)
Mr Mike Mangano	B.S. (Independent Director)

Company Secretary
Ms Kimberley Menzies Chartered Accountant

Registered Office
Ellex Medical Lasers Limited
ABN 15 007 702 927
3 Second Avenue
Mawson Lakes, South Australia 5095
Telephone: +61 8 7074 8200
Facsimile: +61 8 7074 8231

Auditors
PricewaterhouseCoopers
Level 11, Franklin Street
ADELAIDE, South Australia, 5000

Share Registry
Computershare Investor Services Limited
Level 5, 115 Grenfell Street
Adelaide, South Australia, 5000

GPO Box 1903
Adelaide, South Australia, 5001

Enquiries within Australia: 1300 556 161
Enquiries outside Australia: +61 3 9415 4000
Website: www.computershare.com

Websites:
www.ellex.com

Stock Exchange
The company Ellex Medical Lasers Limited is listed on the Australian Securities Exchange (ASX).
The ASX Code is: ELX-Ordinary Shares.
OTCQX: ELXMY, ELXMF