OPTISCAN IMAGING LIMITED

ABN : 81 077 771 987

APPENDIX 4D

Report for the Half Year ended

31 December 2011

Previous corresponding period : Half year ended 31 December 2010

This half year report is to be read in conjunction with the company's 2011 annual report

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1. Results for announcement to the market

The results of Optiscan Imaging Limited for the half year ended 31 December 2011 are as follows:

Results

(Previous corresponding period: Half year ended 31 December 2010)

- Total revenues from ordinary activities down 80% from $1,436,008 to $289,632.
- Loss from ordinary activities after tax attributable to members of $841,337, compared to a profit of $315,200 in the previous corresponding period
- Net loss after tax attributable to members of $841,337, compared to a net profit of $315,200 in the previous corresponding period

Dividends

No dividends have been paid or declared by the entity since the beginning of the reporting period. No dividends were paid or declared in the previous corresponding period.

2. Commentary on result

Optiscan reported a net loss after tax of $841,337 for the half year to 31 December 2011. In the previous corresponding period, the group received development income amounting to $1,267,919, which underscored a net profit of $315,200 for the 2010 half year. Current period operating revenue was $289,632. Expenses increased in the current half year by $373,239 (36%), largely related to product development and inputs for Carl Zeiss.

3. Brief explanation of financial results

Optiscan recorded a net loss after tax of $841,337 for the half year ended 31 December 2011. In the corresponding period last year, Optiscan recorded a profit of $315,200. Cash on hand at 31 December 2011 amounted to $810,070, with an additional receivable of $456,350 in relation to the R&D tax credit scheme.

There were some significant variances from the previous half year. Expenses increased by $373,239 (36%), of which nearly $300,000 related to increased investment in the second generation platform development (CIS2) specifically in software contracting and assembly of prototypes for Carl Zeiss. Administration expenses accounted for the remaining expense movement with costs associated with the strategic review process. Underlying operating expenses remained tightly controlled.

Margin from sales was modest and similar to the previous corresponding period. However, other revenue and income is lumpy, and 2010 included $1,267,919 in design and development revenue, no equivalent revenue generating milestones occurred in the current half year. Offsetting this, a tax grant under the R&D Tax Concession Scheme of $456,350 was brought to account in the current period with no equivalent item in the previous corresponding period.

Strategic Review and Outlook

It is now almost nine months since we commenced a strategic review process. This review has been thorough and exhaustive. As mentioned at the Company's AGM in November 2011, a non-binding term sheet was executed over our then leading opportunity. Since that time considerable work has been done to move that arrangement to a more concrete footing and indeed work continues on a further development that should provide the basis for a significantly enhanced outcome. While this process has been necessarily long it is of critical importance to the future of the business as the outcome, which should be near, will set the foundation for value realisation well into the future. While we are cognisant of the need to produce a result in the near term, we are also acutely aware of the impact the result of present negotiations will have on the underlying value of the Company and the ability to leverage that for the creation of future value.

It must be borne in mind that the overriding objective of the strategic review process is to leverage the successful recovery operation of the past few years and maximise shareholder value.

In order to achieve this we must extend Optiscan's business beyond its existing relationship with Carl Zeiss, the world's leading supplier of neurosurgical visualisation equipment. Extension of the business beyond neurosurgery is now predominantly about market access and penetration, not technological development. While the value of the Zeiss relationship in neurosurgery and ENT surgery is significant, the technology platform developed by Optiscan has far broader application in many other surgical areas, the single largest and best known to Optiscan being the field of gastrointestinal (GI) surgery, in particular flexible endoscopy.

Endomicroscopy has had a presence in the GI market since the launch of Pentax's ISC 1000 in 2006 and uptake and interest is accelerating and is now well beyond the early adopters. There are now hundreds of papers around endomicroscopy with that number growing at an average of approximately one per week. This demonstrates the traction endomicroscopy has in GI and is clearly a function of the time the technology has had in key opinion leaders' hands. The development of endomicroscopy within GI is also being well supported by the emergence of Mauna Kea's Cellvizio probe based system and that company's successful IPO mid last year. Mauna Kea's presence in this market and its ability to spend is a real positive for the development of the market and leverages well the pioneering of the GI market by Pentax and Optiscan and will benefit the market for all involved. Optiscan's second generation technology platform, as initially developed for Carl Zeiss, will be quickly adaptable to the GI market and will have market leading specifications in both integrated and probe based platforms. The development of the market for live micro imaging within GI is accelerating and healthy and should be receptive to Optiscan's leading second generation technology in the near term. This will be a key driver of value creation for Optiscan and is a top priority in our strategic development plans that are in the latter stages of refinement.

There are also numerous other applications outside of Carl Zeiss and GI where investigation could quickly be recommenced, a few of which are prostate surgery, endometriosis and cervical cancer.

Beyond our immediate priority of gaining market access and penetration for our leading second generation technology, Optiscan's philosophy of delivering the highest quality cellular images is paramount for ongoing value creation. Endomicroscopy with images of a diagnostic quality allowing the transition to telepathology at a cellular level is the logical advancement from today's significant visualisation and biopsy targeting benefits of endomicroscopy. Optiscan's image quality is on its own at this level and continues to improve.

It is pleasing to see a growing appreciation for our efforts through a higher share price albeit from a very low base. We appreciate the support and loyalty of our shareholders and urge a little more patience in order to capitalise on the significant rebuild we have done over the past 3 years, not to mention the more than $90 million that has been invested in the development of the Company and it's technology over the past 14 years.

4. Other information to be included in Appendix 4D

Net Tangible Assets per ordinary Security

Net tangible assets per ordinary security at 31 December 2011 amount to $0.004 (30 June 2011: $0.01).

Subsidiaries, associates and joint ventures

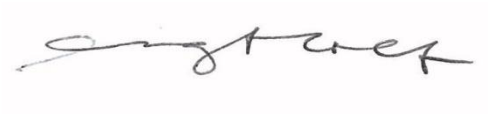
There were no changes in subsidiaries, associates and joint ventures during the half year.

Status of review of accounts

This Appendix 4D is based on accounts which have been subject to review by our auditors.

5. Financial information

The Interim condensed Financial Report for the half year ended 31 December 2011 is set out on pages 5 to 25 of this report.



Angus Holt
Director

29 February 2012

Optiscan Imaging Limited

ABN 81 077 771 987

Interim Financial Report

for the half year ended 31 December 2011

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Corporate Information

ABN 81 077 771 987

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

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the directors' report on pages 3-4. The directors' report is not part of the financial report.

Directors

A. M. Holt (Chairman)
P. M. Delaney
B. R. Andrew

Company Secretary

B.R. Andrew

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Notting Hill Vic 3168
Australia

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T 61 3 9415 5000

Solicitors

Lander & Rogers
600 Bourke Street
Melbourne VIC 3000

Auditors

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000

Bankers

National Australia Bank

Directors' Report

The Board of Directors of Optiscan Imaging Limited has pleasure in submitting its report in respect of the half year ended 31 December 2011.

Directors

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

Mr Angus Holt, Chairman
Mr Peter Delaney, Director of Technology
Mr Bruce Andrew, Chief Financial Officer

Review of Operations

Optiscan recorded a net loss after tax of $841,337 for the half year ended 31 December 2011. In the corresponding period last year, Optiscan recorded a net profit of $315,200. Cash on hand at 31 December 2011 amounted to $810,070, with an additional receivable of $456,350 in relation to the R&D tax credit scheme.

There were some significant variances from the previous half year. Expenses increased by $373,239, of which nearly $300,000 related to increased investment in the second generation platform development (CIS2) specifically in software contracting and assembly of prototypes for Carl Zeiss. Administration expenses accounted for the remaining expense movement with costs associated with the strategic review process. Underlying operating expenses remained tightly controlled.

Margin from sales was modest and similar to the previous corresponding period. However, other revenue and income is lumpy, and 2010 included $1,267,919 in design and development revenue, no equivalent revenue generating milestones occurred in the current half year. Offsetting this, a tax grant under the R&D Tax Concession Scheme of $456,350 was brought to account in the current period with no equivalent item in the previous corresponding period.

Strategic Review and Outlook

It is now almost nine months since we commenced a strategic review process. This review has been thorough and exhaustive. As mentioned at the Company's AGM in November 2011, a non-binding term sheet was executed over our then leading opportunity. Since that time considerable work has been done to move that arrangement to a more concrete footing and indeed work continues on a further development that should provide the basis for a significantly enhanced outcome. While this process has been necessarily long it is of critical importance to the future of the business as the outcome, which should be near, will set the foundation for value realisation well into the future. While we are cognisant of the need to produce a result in the near term, we are also acutely aware of the impact the result of present negotiations will have on the underlying value of the Company and the ability to leverage that for the creation of future value.

It must be borne in mind that the overriding objective of the strategic review process is to leverage the successful recovery operation of the past few years and maximise shareholder value.

In order to achieve this we must extend Optiscan's business beyond its existing relationship with Carl Zeiss, the world's leading supplier of neurosurgical visualisation equipment. Extension of the business beyond neurosurgery is now predominantly about market access and penetration, not technological development. While the value of the Zeiss relationship in neurosurgery and ENT surgery is significant, the technology platform developed by Optiscan has far broader application in many other surgical areas, the single largest and best known to Optiscan being the field of gastrointestinal (GI) surgery, in particular flexible endoscopy.

Strategic Review and Outlook (continued)

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Auditor independence

The directors have obtained a declaration of independence from Ernst & Young, the group's auditors, which is set out on page 9.

This report has been made in accordance with a resolution of directors.

Angus Holt

Director

29 February, 2011

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

In relation to our review of the financial report of Optiscan Imaging Limited for the half-year ended 31 December 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst + Young

Ernst & Young

Lonergan

Joanne Lonergan
Partner
29 February 2012

Consolidated Statement of Financial Position
AS AT 31 DECEMBER 2011

	Note	CONSOLIDATED December 2011 $	June 2011 $
ASSETS			
Current Assets			
Cash and cash equivalents	6	810,070	1,078,694
Trade and other receivables		532,102	835,191
Inventories		161,077	197,100
Prepayments		38,348	50,112
		1,541,597	2,161,097
Non-current Assets			
Plant and equipment		43,336	38,553
TOTAL ASSETS		1,584,933	2,199,650
LIABILITIES			
Current Liabilities			
Trade and other payables		345,559	180,397
Interest bearing loans and borrowings		492,592	484,485
Provisions		169,252	179,958
Total Current Liabilities		1,007,403	844,840
Non-current Liabilities			
Trade and other payables		-	2,575
Provisions		9,906	9,521
Total Non-current Liabilities		9,906	12,096
TOTAL LIABILITIES		1,017,309	856,936
NET ASSETS		567,624	1,342,714
EQUITY			
Equity attributable to equity holders of the parent			
Contributed equity	7	45,016,281	45,016,281
Retained earnings		(45,232,158)	(44,390,821)
Reserves		783,501	717,254
TOTAL EQUITY		567,624	1,342,714
TOTAL EQUITY AND LIABILITIES		1,584,933	2,199,650

Consolidated Statement of Comprehensive Income
FOR THE HALF YEAR ENDED 31 DECEMBER 2011

	Note	*CONSOLIDATED*	
		December 2011	*December 2010*
		$	*$*
Continuing operations			
Sale of goods		244,620	95,704
Rendering of services		3,142	34,694
Other revenue	4(a)	41,870	1,305,610
Revenue		289,632	1,436,008
Cost of sales		(174,662)	(81,390)
Gross Profit		114,970	1,354,618
Other income	4(b)	456,350	-
Administrative expenses		(704,198)	(627,970)
Research & development expenses		(694,396)	(396,147)
Other expenses		(14,063)	(15,301)
Profit (loss) before income tax		(841,337)	315,200
Income tax expense	5	-	-
Profit (loss) for the period		(841,337)	315,200
Other comprehensive income			
Foreign currency translation		(32)	1,228
Income tax on items of other comprehensive income		-	-
Other comprehensive income for the period net of tax		(32)	1,228
TOTAL COMPREHENSIVE INCOME (LOSS) FOR PERIOD		(841,369)	316,428
Earnings (loss) per share (cents per share)			
- basic earnings (loss) per share for the period		(0.64)	0.24
- diluted earnings (loss) per share for the period		(0.64)	0.24

Consolidated Statement of Changes in Equity
FOR THE HALF YEAR ENDED 31 DECEMBER 2011

	CONSOLIDATED				
	Ordinary Shares	*Accumulated Losses*	*Employee Equity Benefits Reserve*	*Foreign Currency Translation Reserve*	
	$	*$*	*$*	*$*	*$*
At 1 July 2011	45,016,281	(44,390,821)	707,061	10,193	1,342,714
Loss for the half year	-	(841,337)	-	-	(841,337)
Other comprehensive income	-	-	-	(32)	(32)
Total comprehensive income for the half year	-	(841,337)	-	(32)	(841,369)
Transactions with owners in their capacity as owners:					
Share based payments	-	-	66,279	-	66,279
At 31 December 2011	45,016,281	(45,232,158)	773,340	10,161	567,624
At 1 July 2010	45,016,281	(44,405,226)	680,488	8,719	1,300,262
Profit for the half year	-	315,200	-	-	315,200
Other comprehensive income	-	-	-	1,228	1,228
Total comprehensive income for the half year	-	315,200	-	1,228	316,428
Transactions with owners in their capacity as owners:					
Share based payments	-	-	3,086	-	3,086
At 31 December 2010	45,016,281	(44,090,026)	683,574	9,947	1,619,776

Consolidated Statement of Cash Flows
FOR THE HALF YEAR ENDED 31 DECEMBER 2011

	Note	*CONSOLIDATED*	
		December 2011 $	*December 2010 $*
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		609,979	1,399,645
Payments to suppliers and employees (inclusive of GST)		(1,509,199)	(1,006,539)
Royalties received		-	5,168
Interest received		14,409	17,567
Receipt of government grants		636,000	-
Net cash flows from (used in) operating activities	6	(248,811)	415,841
Cash flows from investing activities			
Purchase of plant and equipment		(20,583)	(1,647)
Net cash flows used in investing activities		(20,583)	(1,647)
Net (decrease) increase in cash and cash equivalents		(269,394)	414,194
Net foreign exchange differences		770	15,239
Cash and cash equivalents at beginning of period		1,078,694	1,555,401
Cash and cash equivalents at end of period	6	810,070	1,984,834

Notes to the Consolidated Financial Statements
FOR THE HALF YEAR ENDED 31 DECEMBER 2011

1 CORPORATE INFORMATION

The financial report of Optiscan Imaging Limited ("the Company") for the half year ended 31 December 2011 was authorised for issue in accordance with a resolution of the directors on 29 February 2012.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The half year financial report should be read in conjunction with the annual Financial Report of Optiscan Imaging Limited as at 30 June 2011, and considered together with any public announcements made by Optiscan Imaging Limited and its controlled entities during the half-year ended 31 December 2011 in accordance with the continuous disclosure obligations of the ASX listing rules.

a) Basis of preparation

This general purpose condensed financial report for the half year ended 31 December 2011 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

Going Concern (Significant Uncertainty as at 31 December 2011)

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

As at 31 December 2011, the financial position of the consolidated entity as disclosed in the financial statements reflects a net asset position of $567,624. This balance has been determined after a consolidated loss for the half year of $841,337 (2010: profit $315,200), and a net cash out flow from operations for the half year of $248,811 (2010: net cash inflow $415,841).

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

- Cash on hand at 31 December 2011 is $810,070
- Receivables amount to $532,102
- A strategic review process has been enacted by the company to seek new directions and opportunities
- The Company has the potential to raise additional income, or accelerate forecast cash flows and manage cash flows if required

The directors cannot be certain of the Company's ability to achieve success in its activities, as these are dependent on future events. Thus, should these activities result in a position where there are insufficient funds to allow continuation of current activities, the directors will consider scaling back activities until further funding is obtained, or undertake a reassessment of the company's activities. The strategy for any potential additional funding and its timing will be determined by the directors based upon an assessment of the financial and operational circumstances of the consolidated entity at the time.

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Basis of preparation (continued)

The directors plan to continue the Company and the consolidated entity's operations on the basis outlined above. To the extent that future arrangements may not be concluded on a timely basis, and in the absence of additional income or funding, there is significant uncertainty whether the Group will continue as a going concern, and therefore, whether the Group will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report. The financial statements take no account of the consequences, if any, of the effects of unsuccessful product development, commercialisation or capital raising, nor the ability of the company to continue as a going concern. Hence, the financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the Company and consolidated entity not continue as going concerns.

b) Basis of consolidation

The half-year consolidated financial statements comprise the financial statements of Optiscan Imaging Limited and its subsidiaries as at and throughout 31 December 2011.

c) Significant Accounting Policies

The accounting policies and methods of computation are the same as those adopted in the most recent annual financial report. Other standards issued as of 1 July 2011 do not have a significant impact on the consolidated financial report of Optiscan Imaging Limited. The Group has not elected to early adopt any other new standards, amendments of interpretations that are issued but not yet effective.

3 SEGMENT INFORMATION

Identification of reportable segments

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

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

Types of products and services

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

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

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

3 SEGMENT INFORMATION (continued)

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments are the same as those contained in Note 2 to the accounts and in the prior period.

There are no inter-segment transactions or balances.

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

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

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

- Finance revenue and costs, including fair value adjustments
- Royalty revenue and associated withholding tax
- Foreign exchange differences
- Cash balances are unallocated

Major customers
There is no significant concentration of customers in the Group's trading activities. The major customer in research and development is Carl Zeiss, where income is received under the terms of a collaboration agreement.

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

3 SEGMENT INFORMATION (continued)

	Trading $	R&D $	Unallocated $	Total $
Half year ended 31 December 2011				
Revenue				
Sales to external customers	247,762	-	-	247,762
Other revenues	9,300	-	32,570	41,870
Total consolidated revenue	257,062	-	32,570	289,632
Result				
Net profit (loss) for the period by segment	106,564	(335,844)	(612,057)	(841,337)
Assets and liabilities				
Segment assets	231,092	458,328	895,513	1,584,933
Segment liabilities	278,056	135,119	604,133	1,017,309
Segment net assets	(46,964)	323,209	291,380	567,624
Cash flow				
Segment net cash flow from (used in) operating activities	472,843	(113,575)	(608,078)	(248,811)
Investing cash flows	-	-	(20,583)	(20,583)
Net cash flow for the period	472,843	(113,575)	(628,661)	(269,394)
Other Segment information				
Non- cash expenses				
Depreciation	7,651	741	7,410	15,802
Share based payments	-	-	66,279	66,279
Amortised cost adjustment of convertible notes	-	-	8,107	8,107
Inventory impairment provision	142,868	-	-	142,868
Foreign exchange differences	-	-	(803)	(803)
Revenue by geographic segment (location of customer)				
Asia	86,015	-	-	86,015
Australia	116,760	-	32,570	149,330
Europe	51,260	-	-	51,260
USA & Canada	3,027	-	-	3,027
Total	257,062	-	32,570	289,632

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

3 SEGMENT INFORMATION (continued)

	Trading $	*R&D* $	*Unallocated* $	*Total* $
Half year ended 31 December 2010				
Revenue				
Sales to external customers	143,167	-	-	143,167
Other revenues	-	1,267,919	24,922	1,292,841
Total consolidated revenue	143,167	1,267,919	24,922	1,436,008
Result				
Net profit (loss) for the period by segment	61,777	814,625	(561,201)	315,200
Assets and liabilities				
Segment assets	503,457	2,537	2,038,922	2,544,916
Segment liabilities	80,753	132,996	711,391	925,140
Segment net assets	422,704	(130,459)	1,327,531	1,619,776
Cash flow				
Segment net cash flow from (used in) operating activities	50,327	833,787	(480,955)	415,841
Investing cash flows	-	(1,647)	-	(1,647)
Net cash flow for the period	50,327	832,140	(480,955)	414,194
Other Segment information				
Non- cash expenses				
Depreciation	15,337	38,309	14,635	68,281
Share based payments	-	-	3,086	3,086
Amortised cost adjustment of convertible notes	-	-	1,942	1,942
Inventory impairment provision	4,387	-	-	4,387
Foreign exchange differences	-	-	(14,011)	(14,011)
Revenue by geographic segment (location of customer)				
Australia	93,320	-	19,754	113,074
Europe	30,023	1,267,919	-	1,297,942
USA & Canada	19,824	-	5,168	24,992
Total	143,167	1,267,919	24,922	1,436,008

Notes to the Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2011

4 REVENUES AND EXPENSES

		CONSOLIDATED	
		December 2011 $	*December 2010 $*
(a)	**Other revenue**		
	Finance income – interest received	30,170	16,574
	Design and development revenue	-	1,267,919
	Royalty revenue	-	5,168
	Warranty revenue	9,300	12,769
	Sundry revenue	2,400	3,180
		41,870	1,305,610
(b)	**Other income**		
	Government grants	456,350	-
(c)	**Depreciation**		
	Depreciation of plant and equipment	15,802	68,281
(d)	**Finance costs**		
	Interest on convertible notes	22,298	22,351
	Amortised cost adjustment on convertible notes	8,107	1,942
		30,405	24,293
(e)	**Employee benefits expense**		
	Wages and salaries	365,998	410,709
	Defined contribution plan expense	32,866	36,964
	Annual leave provision	8,117	21,895
	Long service leave provision	5,801	6,283
	Share-based payments expense	41,279	3,086
		454,061	478,937

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

5 INCOME TAX

	CONSOLIDATED	
	December 2011 $	*December 2010 $*
Statement of comprehensive income		
Income tax expense reported in the statement of comprehensive income	-	-

There is no current income tax charge due to the availability of carry forward losses, which amounted to $39,329,282 at 30 June 2011.

6 CASH AND CASH EQUIVALENTS

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

	CONSOLIDATED	
	Dec 2011 $	*June 2011 $*
Cash at bank and in hand	744,570	879,069
Short-term deposits	65,500	200,625
	810,070	1,078,694

Reconciliation of net profit (loss) after tax to net cash flows from operations	*Dec 2011 $*	*Dec 2010 $*
Net profit (loss) after tax	(841,337)	315,200
Adjustments for:		
Depreciation	15,802	68,281
Loss on disposal of plant and equipment		-
Impairment losses – inventory provision	142,868	4,387
Net exchange differences	(770)	(15,239)
Share based payments	66,279	3,086
Foreign exchange movements through equity	(32)	1,228
Amortised cost adjustments on convertible notes	8,107	1,942
Changes in assets and liabilities:		
Decrease/(Increase) in trade and other receivables	303,088	7,032
(Increase)/Decrease in inventories	(106,845)	(11,343)
Decrease in prepayments	11,763	10,208
Increase/(Decrease) in trade and other payables	(27,825)	31,460
(Decrease)/Increase in unearned income	190,412	(19,250)
Increase in provisions	(10,321)	18,849
Net cash flows from (used in) operating activities	(248,811)	415,841

Notes to the Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2010

7 CONTRIBUTED EQUITY AND RESERVES

	CONSOLIDATED	
	Half Year Ended December 2011 $	*Year Ended June 2011 $*
Ordinary share capital - Issued and fully paid	45,016,281	45,016,281

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

Movement in number of ordinary shares on issue	*No of shares*	*No of shares*
Opening Balance	130,085,790	129,680,531
Shares issued in lieu of cash remuneration	730,111	405,259
Closing Balance	130,815,901	130,085,790

Movement in Share based payment reserve		
Opening Balance	707,061	680,488
Share based payment expense for the period	66,279	26,573
Closing balance	773,340	707,061
Movement in foreign currency translation reserve		
Opening Balance	10,193	8,719
Foreign currency translation for the period	(32)	1,474
Closing Balance	10,161	10,193
Total Reserves	783,501	717,254

Notes to the Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2010

8 EVENTS AFTER THE BALANCE SHEET DATE

The directors have accepted a proposal to issue 5,000,000 options exercisable at 10 cents per share to the holders of 10,000,000 convertible notes as consideration for the mandatory conversion of the notes upon expiry on 12 May 2012.

Other than the matter noted above, the directors are not aware of any events, matters or circumstances which have arisen after balance date that have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

9 COMMITMENTS AND CONTINGENCIES

Since the last annual reporting date, there have been no material changes in any commitments and contingencies, other than as reported in note 8 above.

Directors' Declaration

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

1 In the opinion of the directors:

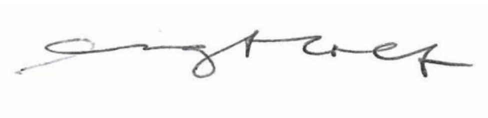
(a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, including:

i giving a true and fair view of the financial position as at 31 December 2011 and the performance for the half year ended on that date of the Group; and

ii comply with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Angus Holt

Director

29 February 2012

Ernst & Young

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To the members of Optiscan Imaging Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Optiscan Imaging Limited, which comprises the statement of financial position as at 31 December 2011, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of 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 financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* . As the auditor of Optiscan Imaging Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

ERNST & YOUNG

Conclusion

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

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and

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

Material Uncertainty Regarding Continuation as a Going Concern

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

Ernst + Young

Ernst & Young

J Lonergan

Joanne Lonergan
Partner
Melbourne
29 February 2012