

30 August 2013

OPTISCAN IMAGING LIMITED

ABN 81 077 771 987

ANNOUNCEMENT OF RESULTS AND PRELIMINARY FINAL REPORT FOR YEAR ENDED 30 JUNE 2013

OPTISCAN IMAGING LIMITED

ABN : 81 077 771 987

APPENDIX 4E

Preliminary Final Report

Year ended 30 June 2013

Previous corresponding period: Year ended 30 June 2012

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1. Results for announcement to the market
2. Brief explanation of results
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1. Results for announcement to the market

The results of Optiscan Imaging Limited for the year ended 30 June 2013 are as follows:

Results

Revenue increased 132% to \$984,726, due to sales of pre-clinical systems to collaboration partner, Carl Zeiss.

Other income, including grants and design and development income increased from \$456,350 in 2012 to \$1,851,780 in 2013 due largely to the increase in R&D Tax Incentive (\$1,024,005) and also to the receipt of a milestone payment amounting to \$371,425.

Total expenses decreased by 4%, to \$3,116,653. The major factors were lower costs associated with funding facilities in 2013, partially offset by increased investment in R&D activities.

Net loss after tax attributable to members for 2013 was down 74% to \$643,950 (2012, loss of \$2,502,450).

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. Brief explanation of results

The operations of the Group during the year were focussed on moving the Zeiss collaboration toward completion. The activities were funded by three key transactions. In August 2012, a small group of investors supported a modest share placement, which raised \$1,003,875, and represented an important source of funding. The Group also received support from the R&D Tax incentive initiative from the Australian government, with receipt of \$614,189 during the year in respect of 2012, and a receivable of \$866,167 for 2013. Thirdly, the Group generated sales revenue of \$931,920, mainly arising from an order for five prototype systems for the Zeiss project.

The scale of the cost base was essentially unchanged during the year, with total expenses declining slightly by 4%. The improved funding noted above enabled acceleration of some aspects of the development activity, and R&D expenses increased 27% to \$1,519,404. This accounted for most of the increase in cash outgoings in the Statement of Cash Flows, with the balance being the purchase of inventory for manufacture of pre production systems. Other expenses declined compared to 2012, the most significant being costs associated with concluding the previous converting note facility.

Overall, the reported net loss for the year was reduced by 74%, from \$2,502,450 in 2012 to \$643,950 in the current year. The largest single factor in the movement was the income recognised from the R&D Tax Incentive.

3. Commentary on result

Sales revenue of \$931,920 was up 144% on the previous year (2012: \$381,791), mainly due to sales of pre production prototypes to Zeiss.

Other income increased by 306% from \$456,350 in 2012 to \$1,851,780 in the current year. This was due largely to the increase in R&D Tax Incentive (\$1,024,005) and also to the receipt of a milestone payment amounting to \$371,425

Total expenses decreased by 4%, to \$3,116,653. There were two primary movements underlying the marginal decrease. R&D expenses increased by \$325,761 (27%), while administration expenses declined by \$345,278, an 18% movement.

Cash at bank at June 2013 was \$429,927. This compares with a total of \$645,900 in 2012, a movement of \$215,973 for the year. Further perspective on the cash movement is revealed in the Statement of Cash Flows. The net cash used in operating activities increased from \$793,545 to \$1,193,270, a modest movement of \$399,725, and notably less than the loss for the year. The increase was mainly in R&D and inventory, and was enabled by the improved funding position noted above.

4. Other information to be included in Appendix 4E

Net Tangible Assets per ordinary Security

Net tangible assets per ordinary security at 30 June 2013 amount to \$0.006 (2012: \$0.002).

Subsidiaries, associates and joint ventures

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

Status of audit of accounts

This Appendix 4E is based on accounts which have been audited.

Annual General Meeting

The Annual General Meeting will be held at 3.30pm on Tuesday 19 November 2013 at the offices of the Company at 15-17 Normanby Road, Notting Hill, Victoria 3168.

5. Audit Report

The audit report is set out on pages 8 to 9 of this report.

6. Financial information

Audited financial information is set out on pages 10 to 58 of this report.

A handwritten signature in black ink, appearing to read "Angus Holt".

Angus Holt

Director

30 August 2013

Optiscan Imaging Limited
ABN 81 077 771 987

Annual Financial Report

for the year ended 30 June 2013

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Corporate Information

ABN 81 077 771 987

This annual report covers both Optiscan Imaging Limited as an individual entity and the consolidated entity comprising Optiscan Imaging Limited and its subsidiaries. The Group's functional and 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 4 to 15. 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

Registered office

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Notting Hill Vic 3168
Australia

Principal place of business

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Solicitors

HWL Ebsworth Lawyers
6530 Collins Street
Melbourne VIC 3000

Auditors

Ernst & Young
Melbourne

Bankers

National Australia Bank

Directors' Report

The Board of Directors of Optiscan Imaging Limited has pleasure in submitting its report in respect of the financial year ended 30 June 2013.

Directors

The names of the directors in office during or since the end of the financial year and up to the date of this report are:

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

Details of the qualifications and experience of the directors in office during the financial year and until the date of this report are as follows:

Angus M. Holt
B Com
Age 42

Mr Holt has a Commerce degree from the University of Melbourne and has over 15 years experience in funds management, private equity and early stage biotech ventures.

Mr Holt was a director of Equity Life during the 90's, at the time Australia's leading provider of regulated short term annuity investments. Mr Holt was Investment Director at Equity Life overseeing in excess of \$200m invested in a range of hybrid securities, smaller companies and the leaders. Following the sale of Equity Life to Challenger International in 1997 Mr Holt has focussed on private equity opportunities funded by a few select individuals. Those opportunities have been dominated by smaller companies (<\$500m) across many fields ranging from toll roads, mezzanine infrastructure debt, waste to energy, plumbing supplies and biotechs, including in imaging, surgery navigation and immunology. Mr Holt has lived in the US where he established the local operations for a surgical navigation start up.

Mr Holt has 14 years experience as a public company director in Australia and was appointed to the Board of Optiscan in February 2009 and later Chairman in May 2009. Mr Holt assumed the role of Executive Chairman in January 2010.

Mr Holt held no other directorships of public companies during the past three years.

Peter M. Delaney
BSc(Pharm) (Hons.)
Age 45

Peter Delaney, Director of Technology, completed a science degree with honours in Pharmacology at Monash University in 1989. He has played a major role in the refinement of the fibre optic approach to produce a commercial instrument which received an R&D 100 Award in 1991. In 1993, Mr Delaney received the Victorian Young Achiever Award (Science and Technology) for his development of the company strategy and infrastructure. Mr Delaney was appointed a director of Optiscan Pty Ltd in March 1994, and was Managing Director until December 2002, at which time he assumed the role of Director of Technology. In April 2007, Peter Delaney was awarded a prestigious ATSE Clunies Ross award for excellence in the innovation and commercialisation of scientific endeavours.

Mr Delaney held no other directorships of public companies during the past three years.

Directors' Report (continued)

Directors (continued)

Bruce R. Andrew
B Bus, CPA
Age 59

Mr Andrew is an accountant with extensive corporate experience in both listed and unlisted entities.

Mr Andrew was appointed Company Secretary when Optiscan listed in 1997. After several years in a part time role, Mr Andrew was appointed Chief Financial Officer in 2001, and has been a member of the executive management team since that time. Mr Andrew was appointed to the board in January 2010. During the past three years, Mr Andrew served as a director of Orpheus Energy Limited.

All directors held their position as director throughout the entire financial year and up to the date of this report.

Directors' Interests

Relevant interests of the directors in the shares, options or other instruments of the company at the date of this report are:

<i>Director</i>	Shares	Options
Angus Holt	13,883,729	1,500,000
Peter Delaney	3,501,349	-
Bruce Andrew	90,000	-

Other Interests of Directors

Peter Delaney

Related parties to Peter Delaney hold a combined total of 270,090 ordinary shares (2012: 270,090 ordinary shares).

Angus Holt

Related parties to Angus Holt hold a combined total of 10,710,070 ordinary shares (2012: 6,132,000 ordinary shares) and 1,500,000 options (2012: 1,500,000).

Directors' Report (continued)

Directors' Meetings

The company held seven (7) Directors' meetings during the year. The attendances of the directors at meetings of the Board were:

Board of Directors		
Director	Attended	Held
Angus Holt	7	7
Peter Delaney	7	7
Bruce Andrew	7	7

As at the date of this report, the board comprised three directors, all of whom are executive directors. As a consequence, the operation of committees of the board has been temporarily suspended until the board is expanded to a larger group in the future. All matters previously considered by the Audit Committee, Remuneration Committee and Nomination committee are now dealt with by the board.

Principal Activities

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

Corporate Structure

Optiscan Imaging Limited is a company limited by shares that is incorporated and domiciled in Australia.

Trading Results

The consolidated loss of the consolidated entity for the financial year was \$643,950 (2012, \$2,502,450) after income tax.

Operating and Financial Review

Introduction

In order to provide some perspective to the reports on operations and financial results for 2012/2013, it is useful to briefly recap on the medium term history of the Group.

Optiscan's core technology of live micro imaging was first released to market in 2006, under a collaboration with Pentax. During the following two years more than 130 systems were sold to Pentax. Over time, the technology was embraced by early adopters and key opinion leaders in gastroenterology, and is now well established and widely accepted as a valuable imaging capability.

From late 2008, global financial conditions deteriorated, creating very difficult trading conditions, particularly for companies in the biotech sector. Optiscan moved quickly to scale down its activities in an effort to ride out the financial storm that followed, and operations and staff numbers were reduced by a factor of 80%. During this time, the arrangement with Pentax came to an end, leaving the company to focus on the collaboration with Carl Zeiss Meditech for applications in neurosurgery.

Directors' Report (continued)

Operating and Financial Review (continued)

Introduction (continued)

In the period since 2009, the Group has maintained tight control of costs, and has continued to operate within the parameters established in 2008. This strategy has been successful in ensuring the continuing development of the core technology and the important collaboration with Carl Zeiss. That said, operating in an environment of significantly reduced resources has required both careful planning and considerable patience, as resource constraints necessarily reduce capacity and output.

There have been two key activities in the Group since 2009. The first was the development of a second generation imaging platform, comprising a miniaturised scanner and a processor. This was largely completed by 2011. Since that time, our development activity has been focussed on tailoring that platform to the specific requirements of the Zeiss collaboration. This has entailed both hardware and software applications and refinements to ensure the new system is optimally designed and configured for the intended use in neurosurgery.

Operations

The core operational activity in the current year has involved moving the Zeiss system development toward completion. The design and operation of the scanner and processor have been settled throughout the year. Software refinement has been the major task, with our engineers collaborating with counterparts from Zeiss in Germany to ensure the confocal processor integrates seamlessly with the neurosurgery hardware and software. The other significant development activity has revolved around the design of the probe which incorporates the scanner. A custom specification for neurosurgery was established in consultation with the medical specialists engaged in the clinical trials. Our engineers then designed, manufactured and tested prototypes, and prepared the documentation required to transfer the design to production. The next, and near final stage of development, required an enhanced sterility approach for use of the probe in a surgical environment. This was to generalise the approach for all global markets. This step required significant design and manufacturing changes to ensure that the highest levels of safety and sterility are achieved in a form that can be used in different markets regardless of differences in hospital sterilisation infrastructure. This final stage of development must deal with a range of sterility and usage issues, including the seal integrity, setup methodology, packaging, shelf life and so on. It is in process at present, with completion expected in the coming months.

Beyond these development activities, our technicians have been engaged in pilot production activities during the year. We received an order from Zeiss for five pre-production systems, which were manufactured in the first half of the year, and invoiced to Zeiss. In the second half of the year our production team have been preparing to build a further twelve systems. At year end, ordering of all but the higher cost items had been completed, and initial sub assembly activity has commenced.

Very little technical risk remains within the Zeiss development collaboration. Timing sensitivities are still difficult to project and at this point we are confident of achieving our major Zeiss pre-launch milestone within six months. The Zeiss product development project has been necessarily veiled in confidentiality and while this is commercially prudent when at the cutting edge of imaging technology, it is also a source of some frustration in our lack of ability to candidly convey the significance of both progress and the totality of the development project with Zeiss. While we have incurred delays of some months in the final technical stages with Zeiss, the technical risk has now been all but removed. Notably, Zeiss' commitment to product is as strong as ever.

Directors' Report (continued)

Operating and Financial Review (continued)

Financial Results

The operations of the Group were funded by three key transactions during the year. In August 2012, a small group of investors supported a modest share placement, which raised \$1,003,875, and represented an important source of funding. The Group also received support from the R&D Tax Incentive initiative from the Australian Government, with receipt of \$614,189 during the year in respect of 2012, and a receivable of \$866,167 for 2013. Thirdly, the Group generated sales revenue of \$931,920, mainly arising from an order for five prototype systems for the Zeiss project.

Total sales revenue of \$931,920 was up 144% on the previous year (2012: \$381,791), mainly due to sales of pre production prototypes to Zeiss. Other income increased by 306% from \$456,350 in 2012 to \$1,851,780 in the current year. This was due largely to the increase in R&D Tax Incentive (\$1,024,005) and also to the receipt of a milestone payment amounting to \$371,425.

The scale of the cost base was essentially unchanged during the year, with total expenses declining slightly by 4% to \$3,116,653. The improved funding noted above enabled acceleration of some aspects of the development activity, and R&D expenses increased 27% to \$1,519,404. This was mainly expended on software contractors and on the sterility solution development discussed earlier, and accounted for most of the increase in cash outgoings in the Statement of Cash Flows. The remaining increase was associated with the purchase of inventory for manufacture of pre production systems. Administration expenses declined by \$345,278, an 18% movement, mainly due to lower finance facility costs.

Overall, the reported net loss for the year was reduced by 74%, from \$2,502,450 in 2012 to \$643,950 in the current year. The largest single factor in the movement was the income recognised from the R&D Tax Incentive.

Cash at bank at June 2013 was \$429,927. This compares with a total of \$645,900 (consisting of cash at bank and term deposit classified as receivable) in 2012, a movement of \$215,973 for the year. Further perspective on the cash movement is revealed in the Statement of Cash Flows. The net cash used in operating activities increased from \$793,545 to \$1,193,270, a modest movement of \$399,725. The increase was mainly in R&D and inventory, and was enabled by the improved funding position noted above.

The net assets of the Group at 30 June 2013 are \$952,456, of which \$429,927 is in cash. The Group's operations remain tightly controlled, and receivables from the R&D Tax Incentive, as well as a new financing facility discussed later in this report provide a stable, if not quite robust, funding outlook. This is consistent with the financial conditions within which the Group has operated in recent years, and which have underscored the emphasis of matter reported by the auditors.

Capital Management

Effective capital management is at the forefront of the Board's objectives. In the lead up to recurring commercial sales, capital management allowing the unrestricted pursuit of near term objectives is critical. Further, it is important for the Company to expand its ownership base beyond Australia and into regions that form the dominant markets for future technologies and products. To fulfil these corporate goals Optiscan has secured an initial investment from Magna Group ("Magna"), an investment firm based out of the world's single largest medical technology market - the United States. The details of Magna's initial US\$100,000 investment are contained within the Appendix 3B which was released today.

Directors' Report (continued)

Operating and Financial Review (continued)

Strategy and Outlook

Over the past few years the Board has presented the consistent message that Optiscan's imaging capabilities are of unrivalled quality and ultimately will provide the potential for real time in vivo diagnosis at a sub cellular level. This is a capability possessed by Optiscan alone in the rapidly growing yet early stage market of live micro imaging, with applications throughout the body that may lead to improved, earlier, minimally invasive diagnosis and treatment.

The clinical applications and benefits of Optiscan's technology and systems are well defined, particularly within gastro-intestinal imaging where reimbursement in the US is at an advanced stage of development, following the granting of CPT codes in January 2013. The challenge for Optiscan is to identify appropriate commercialisation channels and subsequently break into the multiple markets opening up within live micro imaging. This challenge is close to completion with our partner in neurosurgery and the world leader in the field, Carl Zeiss.

Beyond our first Carl Zeiss market, our top priority is to successfully penetrate the gastro-intestinal imaging market where our technology has generated level 1 clinical evidence, having been used in many thousands of procedures and with US reimbursement now well advanced (3 CPT codes granted January 2013). Optiscan has an enviable and loyal KOL following in the gastro-intestinal imaging space including the top rated hospital in the US, being Johns Hopkins in Baltimore. While the key clinical and technology hurdles have been cleared there is a great deal more that is required to successfully penetrate this key micro imaging market, a hurdle that cannot be jumped with money alone. Significant progress on the development of pathways into the flexible GI market (among other markets) has been made however these developments have not yet been consummated and are therefore not at a stage where further comment is prudent nor justified.

In addition to the aforementioned commercial priorities, it is essential that Optiscan maintain its technological edge through continued innovation and appropriate protection of that innovation. Optiscan's patent portfolio is strong and growing and the Company has recently also extended its intellectual property development to encapsulate rights over certain technologies under development externally that have both a direct and indirect relevance to Optiscan's existing and future markets. Optiscan sees the super hi-resolution live micro imaging market as an enduring one, hence the importance of IP development and protection.

Investor Communications

The Board appreciates the difficulty shareholders may have in interpreting the reports published by Optiscan and indeed are frustrated by the commercial and regulatory restrictions that limit further disclosure that would clearly aid in the understanding of Optiscan's business and the significance and uniqueness of its technology and its application within medical imaging.

The Board is keen to increase its interaction with shareholders which cannot be done by public releases and an annual meeting alone. Consequently the Board proposes to hold investor briefings on a regular basis in Melbourne, Sydney and Perth. Detail around these briefings will be released in coming weeks.

Outlook

Although the Zeiss product development was subject to some delays over recent months, it remains a key priority for both Optiscan and Zeiss, and an imaging technology with superior and unique application in neurosurgery. We look forward to unveiling the system in the near future. Flexible endoscopy is a highly concentrated, multi-billion dollar market within which Optiscan's technology is highly validated. In accordance with earlier commentary, we continue to work on pathways to best exploit this market and feel we have made significant progress to this end, albeit unquantifiable at this point. The Board is committed to delivering the highest quality product within a corporate structure that maintains leverage for shareholders while appropriately rewarding staff. We hope all stakeholders are well rewarded this financial year.

Directors' Report (continued)

Dividends

No dividends have been paid or declared since the beginning of the financial year by the Company (2012: Nil).

Significant Changes in the State of Affairs

There have been no significant changes to the state of affairs of the consolidated entity during the year.

Significant Events After Balance Date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the consolidated entity, the expected results of those operations in future years, or the state of affairs of the consolidated entity in future financial years, other than:

- the execution of a Convertible Note Agreement with Magna Group, a US based structured investment company in August 2013. The agreement provides for the issue of up to US\$1 million in convertible notes
- the issue of a convertible note with a face value of US\$100,000 under that agreement
- the allotment of 355,022 fully paid ordinary shares in satisfaction of a commitment fee relating to that agreement
- the conversion by the noteholder of US\$10,000 of convertible note, with the allotment of 215,037 shares in respect thereof.

Likely Developments and Future Results

The Directors have excluded from this report any information on likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years, since, in the opinion of the directors, it may prejudice the interests of the group if this information were included.

Environmental Regulations

The Group is not subject to significant environmental regulations.

Share Options

Details of movements in share options are set out in Note 22 in the financial statements

Since the end of the financial year, and up to the date of this report, no new shares have been issued as a consequence of the exercise of employee options which were on issue at year end. Since the end of the financial year, and up to the date of this report, no new options have been issued, and no options have expired. The total number of options outstanding at the date of this report is 6,900,000.

Indemnification and Insurance

During the financial year ended 30 June 2013, the company indemnified its directors, the company secretary and executive officers in respect of any acts or omissions giving rise to a liability to another person (other than the company or a related party) unless the liability arose out of conduct involving a lack of good faith. In addition, the company indemnified the directors, the company secretary and executive officers against any liability incurred by them in their capacity as directors, company secretary or executive officers in successfully defending civil or criminal proceedings in relation to the company. No monetary restriction was placed on this indemnity. The Company has insured its directors, the company secretary and executive officers for the financial year ended 30 June 2013. Under the company's Directors' and Officers' Liabilities Insurance Policy, the Company shall not release to any third party or otherwise publish details of the nature of the liabilities insured by the policy or the amount of the premium. Accordingly, the company relies on section 300(9) of the *Corporations Act 2001* to exempt it from the requirement to disclose the nature of the liability insured against and the premium amount of the relevant policy.

Directors' Report (continued)

Remuneration Report (Audited)

This remuneration report outlines the director and executive remuneration arrangements of the group in accordance with the requirements of the *Corporations Act 2001* and its regulations. For the purposes of this report, Key Management Personnel (KMP) of the group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the group, directly or indirectly, including any director (whether executive or otherwise) of the parent company.

For the purposes of this report, the Executive Management team encompasses the board of directors, as all executives are members of the parent entity board.

Details of Key Management Personnel in office during the year

A. Holt	Executive Chairman, Director
P. Delaney	Director of Technology, Director
B. Andrew	Chief Financial Officer, Director

Remuneration Philosophy

The quality and performance of directors, executives and staff is critical to achieving business success. Optiscan must foster a remuneration policy that attracts, motivates and retains personnel of the highest calibre.

In formulating a framework for remuneration policies and practices, the board takes account of the following factors:

- Capacity to pay.
- Employment market conditions.
- Company performance.
- Identification of appropriate performance benchmarks.
- Individual performance levels.

Objective of Remuneration Policy

The overall objective of the remuneration policy is to ensure maximum stakeholder benefit from the retention of a high quality board, management and staff at a cost which is commercially realistic and acceptable to shareholders. This objective seeks to:

- Reward employees for individual performance against appropriate benchmarks.
- Align the interests of management and staff with those of shareholders.
- Provide a link between rewards and the achievement of strategic targets, performance outcomes and share price.
- Ensure remuneration is competitive by market standards.

Non-executive Director Remuneration

The Constitution of the company and the ASX Listing Rules establish an aggregate or maximum level of remuneration available to non-executive directors, to be divided amongst the directors as agreed. The aggregate amount approved by shareholders to be available for remuneration of non-executive directors is \$400,000 per annum. This amount was approved at a general meeting of the company held on 12 August 2008.

Directors' Report (continued)

Remuneration Report (Audited) (continued)

Non-executive Director Remuneration (continued)

The Board has determined that non-executive directors shall receive only fixed remuneration by way of payment of fees. There is no variable, short term incentive remuneration for non-executive directors, nor is there any entitlement to retiring allowances or payments other than the statutory superannuation required by law.

Non-executive directors receive an annual fee for all services provided to the company, including being a director of the company and any of its subsidiaries, and for serving on board sub committees in accordance with the requirements of the Corporate Governance Policy.

Non-executive directors are encouraged to hold shares in the company which have been purchased on market or through placements where participation by the directors has been approved by shareholders in general meeting. It is considered good governance for the directors to have a personal financial stake in the company.

As a consequence of a reduction in the size of the board in May 2009, there were no non-executive directors in office during 2012/2013.

The remuneration of directors for the years ended 30 June 2013 and 30 June 2012 is detailed in Table 1 and Table 2 on page 16 of this report.

Executive Remuneration

The Remuneration Committee (currently comprising the board) is responsible for establishing the structure and amount of remuneration.

Remuneration may consist of fixed and variable components, incorporating both short term incentives (STI) and long term incentives (LTI), as follows:

Remuneration Component	Form of Settlement
Fixed remuneration	Base salary and superannuation
Variable remuneration, (STI)	Performance bonus
Variable remuneration, (LTI)	Employee options

Fixed Remuneration

Objective

The level of fixed remuneration is set so as to provide a base level of remuneration, which is both appropriate to the position and competitive in the market.

Structure

Fixed remuneration is reviewed annually by the Remuneration Committee, and the process consists of a review of company and individual performance, and comparative remuneration in the market. All employees are provided with the opportunity to receive their fixed remuneration in both cash or benefits, subject to there being no change in overall cost to the company. Compulsory superannuation contributions are included in the determination of fixed remuneration.

The fixed remuneration component of executives for the years ended 30 June 2013 and 30 June 2012 is detailed in Table 1 and Table 2 on page 16 of this report.

Directors' Report (continued)

Remuneration Report (Audited) (continued)

Executive Remuneration (continued)

Variable Remuneration - Short Term Incentive (STI)

Objective

The objective of the STI program is to link the achievement of the group's operational targets with the remuneration received by the executives with prime responsibility for meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the executive managers to achieve the operational targets and such that the cost to the company is reasonable in the circumstances.

Structure

Actual STI payments granted to each executive manager depend on the extent to which specific operating targets set at the beginning of the financial year are met. The operational targets consist of a number of Key Performance Indicators (KPI's) covering both financial and non-financial measures of performance. Typically included are such measures as achievement of budgeted financial outcomes and key milestones, for example, demonstrating clinical efficacy, achieving quality accreditation, obtaining regulatory clearance or measures such as control of expenditure or achievement of sales targets. The Remuneration Committee establishes clear performance benchmarks, which must be met in order to trigger payments under the short term incentive scheme.

The aggregate amount of annual STI payments available for executives is subject to the approval of the Remuneration Committee. Payments made are usually delivered as a cash bonus.

STI Arrangements

The board suspended STI arrangements for all staff during 2009/2010 due to the difficult economic circumstances confronting the Group. No STI entitlements were accrued and no payments were made to staff during 2012/2013.

Variable Remuneration - Long Term Incentive (LTI)

Long term incentives are delivered to executives and employees by way of grant of options under the Employee Share Option Plan.

Objective

The objective of the long term incentive plan is to reward executives and employees in a manner which aligns this element of remuneration with the creation of shareholder wealth.

Structure

LTI grants to employees, including executives, are delivered in the form of options. The Remuneration Committee is responsible for the allocation of options, and determines the quantum of grants by reference to group and individual performance against targets.

LTI Arrangements in 2012/2013

The board suspended LTI arrangements during 2009/2010 due to the difficult economic circumstances confronting the Group. No LTI entitlements were granted and no issues were made to staff during 2012/2013.

Directors' Report (continued)

Remuneration Report (Audited) (continued)

Incentives and Company Performance

The link between incentive structure and company performance is an important aspect of remuneration philosophy. The purpose of the remuneration policies of the Group is to create an effective and transparent link between the incentives provided and the performance of the Group.

The group is in the process of transition from a business predominantly engaged in research and development ("R&D") to one increasingly focussed on commercialisation of its technology. Whilst substantial progress has been made, the transition from loss making R&D activities to profit making trading has not yet been completed. As a consequence, performance to date cannot appropriately be determined with conventional financial measurement tools. As the group has expensed all R&D expenditure incurred to date, losses have been reported so conventional earnings measures such as profit growth, EPS or dividend yield and payout are not applicable.

In view of the limited relevance of financial measurement tools, the Board of Directors has determined that the performance of the group is best reviewed in the context of achievement of key milestones.

Incentive Payments and Performance Conditions 2012/2013

During the year ended 30 June 2013, no short or long term incentive payments were made to staff.

Employment Contracts

All staff including executives are engaged under rolling employment agreements. The contracts continue indefinitely subject to satisfactory performance, and provide one months notice. Under the terms of the agreements:

- The company may terminate the employment agreement by providing the requisite period of written notice or by providing payment in lieu of notice, based on the fixed component of remuneration. Any unvested options at the expiry of the notice period will be forfeited.
- On resignation, all unvested options are forfeited.
- The company may terminate the agreement at any time without notice if serious misconduct has occurred, in which case the executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination.

Directors' Report (continued)

Remuneration Report (Audited) (continued)

Compensation of Key Management Personnel

Table 1: Compensation of Key Management Personnel for the year ended 30 June 2013

30 June 2013	<u>Short-Term</u>		Office Expenses Reimbursed \$	<u>Long Term</u>	<u>Post Employment</u>	<u>Total</u> \$	<u>Total Performance Related</u> %
	Salary & fees \$	Directors fees and expenses \$		Long Service Leave	Superannuation \$		
Directors							
A. Holt	52,500	40,000	62,000	633	8,325	163,458	-
P. Delaney	109,375	40,000	-	-	3,600	152,975	-
B. Andrew	52,500	40,000	-	633	8,325	101,458	-
	214,375	120,000	62,000	1,266	20,250	417,891	-

Table 2: Compensation of Key Management Personnel for the year ended 30 June 2012

30 June 2012	<u>Short-Term</u>		Share based payments \$	<u>Long Term</u>	<u>Post Employment</u>	<u>Total</u> \$	<u>Total Performance Related</u> %
	Salary & fees \$	Directors fees and expenses \$		Long Service Leave	Superannuation \$		
Directors							
A. Holt	6,250	^105,755	40,619++	330	4,163	157,117	-
P. Delaney	103,500	40,000	-	-	3,600	147,100	-
B. Andrew	52,500	40,000	-	330	8,325	101,155	-
	162,250	185,755	40,619	660	16,088	405,372	-

^^ Comprises directors fees of \$40,000 and the reimbursement of travel and office expenses of \$65,755.

++ Shareholders approved a share based payment arrangement in lieu of cash remuneration at the AGM in November 2010. The fair value of the shares granted is equal to the cash remuneration foregone. This arrangement concluded in December 2011.

Compensation Options Granted and Vested During the Year

During the current financial year, and the previous financial year, no options were granted as equity compensation benefits under the long-term incentive plan. For further details relating to the options on issue, refer to note 22 in the financial statements.

Shares Issued on Exercise of Compensation Options

No shares have been issued as a result of the exercise of options granted as compensation to key management personnel during the years ended 30 June 2013 and 30 June 2012.

Directors' Report (continued)

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

Non-Audit Services


The following non-audit services were provided by Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of non-audit services provided means that auditor independence was not compromised.

Ernst & Young received the following amount for the provision of non-audit services:

R&D tax services - \$21,000

Auditor Independence

The directors received the following declaration from the auditor of Optiscan Imaging Limited.



Ernst & Young
8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

Tel: +61 3 9288 8000
Fax: +61 3 8650 7777
ey.com/au

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

In relation to our audit of the financial report of Optiscan Imaging Limited for the financial year ended 30 June 2013, 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

Joanne Lonergan

Joanne Lonergan
Partner
30 August 2013

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



ANGUS HOLT, Director
30 August, 2013

Corporate Governance Statement

Optiscan is committed to ensuring that its policies and practices reflect good corporate governance.

This statement reports against the key governance principles as outlined in the Australian Stock Exchange Corporate Governance Council's "Principles of Good Corporate Governance and Best Practice Recommendations".

In accordance with the Council's recommendations, and for full details on corporate governance policies adopted by Optiscan Imaging Limited, please refer to our Corporate Governance Statement a copy of which can be found on our website at www.optiscan.com. Also available on the website is a copy of the Board Charter and the Code of Conduct.

The Board of Directors of Optiscan Imaging Limited is responsible for the corporate governance of the consolidated entity. The Board guides and monitors the business and affairs of Optiscan Imaging Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

Details of the directors, current at the time of this report, and their term in office are:

<u>Director</u>	<u>Status</u>	<u>Term in office</u>
Angus M Holt (Chairman)	Executive	4.5 years
Peter M Delaney	Executive	16 years
Bruce R Andrew	Executive	3.5 years

The skills, experience and expertise of each director is included in the Directors' Report. Directors of Optiscan Imaging Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their independent judgement .

The Board does not have a majority of directors who are independent. During the 2008-2009 financial year, the board was reduced from five members to the minimum level of three as part of the overall downsizing of Optiscan that followed the global financial crisis. The Board considers that its current composition and size is sufficient to adequately discharge its duties and responsibilities at this time. The directors will monitor the issues of the board composition, skills, diversity and independence over the next 12 months.

The policy and procedure for nomination, selection and appointment of new directors and the re-election of incumbents is detailed in the Corporate Governance Statement.

The process for evaluating the Board is also set out in the Corporate Governance Statement. An evaluation of the Board did not take place during the period.

The functions reserved to the Board, and those delegated to senior executives are clearly distinguished and set out in the Corporate Governance Statement. The process for evaluating the performance of senior executives is also set out in the Corporate Governance Statement. An evaluation of senior executives did not take place during the year due to the restructuring within the Group.

Members of the Board are entitled to obtain such independent advice as is deemed necessary at the expense of the Group, subject to the prior consent of the Chairman.

Optiscan has established a share trading policy for directors, senior executives and employees, details of which are set out in the Code of Conduct.

Corporate Governance Statement (continued)

With the reduction in the size of the Board in 2009, there is no Nomination Committee or Audit Committee. In both cases the Board has assumed the responsibilities of the committees.

A statement as to the procedures for the selection appointment and rotation of external audit engagement partners forms part of the Group's Corporate Governance Statement.

The Group has an established continuous disclosure policy, a communications policy and a risk management policy. All of these policies form part of the Corporate Governance Statement which can be found on the Group's website.

Diversity

The company has not established a policy on diversity at this time and the company has not established measurable objectives for achieving gender diversity. The board considers that adoption of a policy on diversity at this time is impractical for a small organisation comprising less than ten full time equivalent (FTE) staff. The company's policy on equal opportunity provides relevant guidance on issues of diversity in the current circumstances of the company. In relation to gender of employees, the company currently has two women employees (1.4 FTE), representing 15% of total staff.

Remuneration

The Board is responsible for determining and reviewing compensation arrangements for the directors, management and staff.

The objective of the Group's remuneration policy is to provide maximum stakeholder benefit from the retention of a high quality Board and executive team. This is achieved by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions. The Board links the nature and amount of executive directors' and officers' emoluments to the Group's financial and operational performance. This is intended to achieve the retention and motivation of management and key staff. Similarly, in relation to the payment of bonuses and the issue of options, discretion is exercised by the Board, having regard to the overall performance of the Group and the performance of the individual during the period.

There is no scheme to provide retirement benefits, other than statutory superannuation, to non-executive directors. Full details of the remuneration of key management personnel, and all directors are included in the Directors' Report.

Statement of Financial Position

AS AT 30 JUNE 2013

	<i>Notes</i>	<i>CONSOLIDATED</i>	
		<i>2013</i>	<i>2012</i>
		\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents	9	429,927	578,900
Trade and other receivables	10	939,569	162,687
Inventories	11	89,832	153,075
Prepayments	12	9,681	143,391
Total Current Assets		<u>1,469,009</u>	<u>1,038,053</u>
Non-current Assets			
Prepayments	12	-	101,401
Plant and equipment	13	41,424	41,217
Total Non-current Assets		<u>41,424</u>	<u>142,618</u>
TOTAL ASSETS		<u>1,510,433</u>	<u>1,180,671</u>
LIABILITIES			
Current Liabilities			
Trade and other payables	14	317,544	469,175
Interest bearing loans and borrowings	15	-	210,414
Provisions	17	229,799	174,201
Total Current Liabilities		<u>547,343</u>	<u>853,790</u>
Non-current Liabilities			
Provisions	17	10,634	13,571
Total Non-current Liabilities		<u>10,634</u>	<u>13,571</u>
TOTAL LIABILITIES		<u>557,977</u>	<u>867,361</u>
NET ASSETS		<u>952,456</u>	<u>313,310</u>
EQUITY			
Contributed equity	18	46,993,580	45,710,667
Accumulated losses	18	(47,537,221)	(46,893,271)
Reserves	18	1,496,097	1,495,914
TOTAL EQUITY		<u>952,456</u>	<u>313,310</u>

The above statement of financial position should be read in conjunction with the accompanying notes.

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2013

	Notes	CONSOLIDATED	
		2013 \$	2012 \$
Sale of goods		931,920	381,791
Other revenue	6(a)	52,806	43,380
Revenue		984,726	425,171
Cost of sales		(363,803)	(145,059)
Gross Profit		620,923	280,112
Other income	6(b)	1,851,780	456,350
Research & development expenses		(1,519,404)	(1,193,643)
Administrative expenses		(1,524,590)	(1,870,318)
Other expenses		(72,659)	(174,951)
Loss before income tax		(643,950)	(2,502,450)
Income tax expense	7	-	-
Net profit (loss) for the year		(643,950)	(2,502,450)
Other comprehensive income			
Items that may be subsequently recycled through profit and loss:			
Foreign currency translation of net investment in foreign subsidiary		183	60
Items that will not be subsequently recycled through profit and loss:		-	-
Other comprehensive income for the period net of tax		183	60
TOTAL COMPREHENSIVE INCOME (LOSS) FOR PERIOD		(643,767)	(2,502,390)
Earnings (loss) per share (cents per share)	8		
- basic earnings (loss) per share for the year		(0.4)	(1.9)
- diluted earnings (loss) per share for the year		(0.4)	(1.9)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2013

	CONSOLIDATED				
	Ordinary shares \$	Accumulated Losses \$	Share Based Payments \$	Foreign Currency Translation Reserve \$	\$
At 1 July 2012	45,710,667	(46,893,271)	1,485,661	10,253	313,310
Loss for the year	-	(643,950)	-	-	(643,950)
Other comprehensive income	-	-	-	183	183
Total comprehensive income (loss) for the year	-	(643,950)	-	183	(643,767)
Transactions with owners in their capacity as owners:					
Shares issued on placement	1,003,875	-	-	-	1,003,875
Equity component of convertible notes	7,002	-	-	-	7,002
Shares issued on conversion of notes	272,036	-	-	-	272,036
At 30 June 2013	46,993,580	(47,537,221)	1,485,661	10,436	952,456
At 1 July 2011	45,016,281	(44,390,821)	707,061	10,193	1,342,714
Loss for the year	-	(2,502,450)	-	-	(2,502,450)
Other comprehensive income	-	-	-	60	60
Total comprehensive income (loss) for the year	-	(2,502,450)	-	60	(2,502,390)
Transactions with owners in their capacity as owners:					
Shares issued on conversion of notes	629,298	-	-	-	629,298
Equity component of convertible notes	65,088	-	-	-	65,088
Share based payments	-	-	778,600	-	778,600
At 30 June 2012	45,710,667	(46,893,271)	1,485,661	10,253	313,310

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2013

	<i>Notes</i>	<i>CONSOLIDATED</i>	
		<i>2013</i>	<i>2012</i>
		<i>\$</i>	<i>\$</i>
Cash flows from operating activities			
Receipts from customers		1,176,324	711,729
Payments to suppliers and employees		(3,037,323)	(2,594,254)
Royalties received		34,641	1,509
Interest received		18,899	42,519
Receipt of government grants		614,189	1,092,350
Interest paid		-	(47,398)
Net cash used in operating activities	9	<u>(1,193,270)</u>	<u>(793,545)</u>
Cash flows from investing activities			
Cash (to) from deposit	10	67,000	(67,000)
Purchase of plant and equipment	13	(30,548)	(28,776)
Net cash used in investing activities		<u>36,452</u>	<u>(95,776)</u>
Cash flows from financing activities			
Proceeds from share placement	18	1,003,875	-
Proceeds from issue of convertible notes, net of transaction costs	15	-	398,000
Net cash flows from financing activities		<u>1,003,875</u>	<u>398,000</u>
Net decrease in cash and cash equivalents		(152,943)	(491,321)
Net foreign exchange differences		3,970	(8,473)
Cash and cash equivalents at beginning of period		578,900	1,078,694
Cash and cash equivalents at end of period	9	<u>429,927</u>	<u>578,900</u>

The above statement of cash flows should be read in conjunction with the accompanying notes.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2013

1 CORPORATE INFORMATION

The financial report of Optiscan Imaging Limited (the Company) for the year ended 30 June 2013 was authorised for issue in accordance with a resolution of the directors on 30 August 2013.

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 the Group are described in note 5, Segment Information.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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- t) Share-based payment transactions
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a) Basis of preparation

The financial report is a general-purpose financial report, which has 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. The financial report is presented in Australian dollars and has been prepared on a historical cost basis, except for derivative financial instruments which have been measured at fair value. Optiscan Imaging Limited is, for the purposes of preparing these financial statements, a for-profit entity.

Compliance with IFRS

The financial report complies with Australian Accounting Standards and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

a) Basis of preparation (continued)

Going Concern (Significant Uncertainty as at 30 June 2013)

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 30 June 2013, the financial position of the consolidated entity as disclosed in the financial statements reflects a net asset position of \$952,456 (2012: \$313,310). This balance has been determined after a consolidated net loss for the year of \$643,950 (2012: \$2,502,450), and a net cash outflow from operations of \$1,193,270 (2012: \$793,545).

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 30 June 2013 is \$429,927 (2012: \$578,900)
- Additional cashflow is expected to be received in the 2014 financial year under the agreement with Carl Zeiss
- The Company has a US\$1 million convertible note funding facility (refer note 25)
- The directors believe the Company has the ability to raise additional capital from existing and new investors
- The Company has a successful track record in raising capital to fund its operations
- The Company may have the ability to raise additional income, or accelerate forecast 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 future capital raising 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.

The directors plan to continue the Company and the consolidated entity's operations on the basis outlined above, and believe there will be sufficient funds for the Group to conduct its affairs for at least twelve months from the date of this report. To the extent that future arrangements may not be concluded on a timely basis, and in the absence of new capital or additional income, 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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New accounting standards and interpretations

(i) Accounting standards and interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2013. These are outlined in the table below.

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 10	<i>Consolidated Financial Statements</i>	<p>AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 <i>Consolidated and Separate Financial Statements</i> dealing with the accounting for consolidated financial statements and UIG-112 <i>Consolidation - Special Purpose Entities</i>.</p> <p>The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.</p> <p>Consequential amendments were also made to this and other standards via AASB 2011-7 and AASB 2012-10.</p>	1 Jan 2013***	The Group has considered the impact of this standard and determined that there will be no impact on the Group's financial report	1 July 2013
AASB 11	<i>Joint Arrangements</i>	<p>AASB 11 replaces AASB 131 <i>Interests in Joint Ventures</i> and UIG-113 <i>Jointly- controlled Entities - Non-monetary Contributions by Ventures</i>.</p> <p>AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method.</p> <p>Consequential amendments were also made to this and other standards via AASB 2011-7, AASB 2010-10 and amendments to AASB 128.</p>	1 January 2013***	The Group has considered the impact of this standard and determined that there will be no impact on the Group's financial report	1 July 2013

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New accounting standards and interpretations

(i) Accounting standards and interpretations issued but not yet effective

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 12	<i>Disclosure of Interests in Other Entities</i>	AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates, structured entities and subsidiaries with non-controlling interests.	1 January 2013***	The Group has considered the impact of this standard and determined that additional disclosures will be required in the Group's financial report	1 July 2013
AASB 13	<i>Fair Value Measurement</i>	AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined. Consequential amendments were also made to other standards via AASB 2011-8.	1 January 2013	The Group has considered the impact of this standard and determined that there will be no material impact on the Group's financial report	1 July 2013
AASB 119	<i>Employee Benefits</i>	The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognised in full with actuarial gains and losses being recognised in other comprehensive income. It also revised the method of calculating the return on plan assets. The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date. Consequential amendments were also made to other standards via AASB 2011-10.	1 January 2013	The Group has considered the impact of this standard and determined that there will be no material impact on the Group's financial report	1 July 2013

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New accounting standards and interpretations

(i) Accounting standards and interpretations issued but not yet effective

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2012-2	Amendments to Australian Accounting Standards - <i>Disclosures - Offsetting Financial Assets and Financial Liabilities</i>	AASB 2012-2 principally amends AASB 7 <i>Financial Instruments: Disclosures</i> to require disclosure of the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position, when all the offsetting criteria of AASB 132 are not met.	1 January 2013	The Group has considered the impact of this standard and determined that there will be no material impact on the Group's financial report	1 July 2013
AASB 2012-5	Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle	AASB 2012-5 makes amendments resulting from the 2009-2011 Annual Improvements Cycle. The standard addresses a range of improvements, including the following: <ul style="list-style-type: none"> ▶ Repeat application of AASB 1 is permitted (AASB 1) ▶ Clarification of the comparative information requirements when an entity provides a third balance sheet (AASB 101 <i>Presentation of Financial Statements</i>). 	1 January 2013	The Group has considered the impact of this standard and determined that there will be no material impact on the Group's financial report	1 July 2013

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New accounting standards and interpretations

(i) Accounting standards and interpretations issued but not yet effective

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 1053	<i>Application of Tiers of Australian Accounting Standards</i>	<p>This standard establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements:</p> <p>(a) Tier 1: Australian Accounting Standards (b) Tier 2: Australian Accounting Standards - Reduced Disclosure Requirements</p> <p>Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.</p> <p>The following entities apply Tier 1 requirements in preparing general purpose financial statements:</p> <p>(a) For-profit entities in the private sector that have public accountability (as defined in this standard) (b) The Australian Government and State, Territory and Local governments</p> <p>The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements:</p> <p>(a) For-profit private sector entities that do not have public accountability (b) All not-for-profit private sector entities (c) Public sector entities other than the Australian Government and State, Territory and Local governments.</p> <p>Consequential amendments to other standards to implement the regime were introduced by AASB 2010-2, 2011-2, 2011-6, 2011-11, 2012-1, 2012-7 and 2012-11.</p>	1 July 2013	The Group has considered the impact of this standard and determined that there will be no material impact on the Group's financial report	1 July 2013
AASB 2012-3	Amendments to Australian Accounting Standards - <i>Offsetting Financial Assets and Financial Liabilities</i>	AASB 2012-3 adds application guidance to AASB 132 <i>Financial Instruments: Presentation</i> to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.	1 January 2014	The Group has not yet considered the impact of this stand on its financial report	1 July 2014

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New accounting standards and interpretations

(i) Accounting standards and interpretations issued but not yet effective

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 9	<i>Financial Instruments</i>	<p>AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below.</p> <p>(a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows.</p> <p>(b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.</p> <p>(c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.</p> <p>(d) Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:</p> <ul style="list-style-type: none"> ▶ The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ▶ The remaining change is presented in profit or loss <p>If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss.</p> <p>Further amendments were made by AASB 2012-6 which amends the mandatory effective date to annual reporting periods beginning on or after 1 January 2015. AASB 2012-6 also modifies the relief from restating prior periods by amending AASB 7 to require additional disclosures on transition to AASB 9 in some circumstances.</p> <p>Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.</p>	1 Jan 2015	The Group has not yet considered the impact of this stand on its financial report	1 July 2015

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Optiscan Imaging Limited and its subsidiaries as at 30 June each year (the Group). Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities.

The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is obtained by the Group and cease to be consolidated from the date on which control is transferred out of the Group.

d) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

(i) Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards of ownership are considered passed to the buyer at the time of delivery of the goods to the customer.

(ii) Rendering of services

Revenue from service and product support activities is recognised by reference to the stage of completion of a contract. Stage of completion is measured by reference to labour hours incurred to date as a percentage of total estimated labour hours for each contract. When the contract outcome cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

(iii) Royalty revenue

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant licensing agreement.

(iv) Interest revenue

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

e) Government grants

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where expenditure has been incurred that gives rise to an entitlement under a grant agreement, the grant income is accrued. Revenue is recognised only to the extent that there is reasonable assurance that the grant will be received and conditions attached will be complied with.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

(i) Group as lessor

Leases in which the Group retains substantially all the risks and benefits of ownership are classified as operating leases. Rental income is recognised in profit or loss in accordance with the term of the lease.

(ii) Group as lessee

Operating lease payments are recognised as an expense in profit or loss on a straight-line basis over the lease term.

g) Cash and cash equivalents

Cash and short-term deposits in the Statement of Financial Position comprise cash at bank and in hand and short term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and short term deposits are stated at nominal values.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

h) Trade and other receivables

Trade receivables and other receivables, both of which generally have 30 to 60 day terms, are non interest bearing and are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. Impairment of receivables is assessed by reference to ageing of receivables and the Group's knowledge of the profile and status of the debtors.

An allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

i) Inventories

Inventories are valued at the lower of cost and net realisable value.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

- Raw materials – purchase cost on a first-in, first-out basis; cost comprises the purchase price, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), and transport, handling and other costs directly attributable to acquisition
- Finished goods and work-in-progress – cost of direct materials and labour and a proportion of manufacturing overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Derivative financial instruments and hedging

The Group sometimes uses derivative financial instruments in the form of forward currency contracts to economically hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

As the Group economically hedges but does not meet the strict criteria for hedge accounting under AASB 139 *Financial Instruments: Recognition and Measurement*, any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss for the year. For information on the Group's financial risk management objectives and policies with respect to its economic hedging program, refer to Note 3.

k) Foreign currency translation

Both the functional and presentation currency of Optiscan Imaging Limited and its Australian subsidiary is Australian dollars (\$). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at balance date.

All transactional exchange differences are recognised in profit or loss. Exchange variations arising on consolidation from the translation of the net investment in foreign subsidiaries, including loans forming part of the net investment, are recognised in the foreign currency translation reserve in equity.

l) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by balance date.

Deferred income tax is provided on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at balance date.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Income tax (continued)

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised. Exceptions to this position arise:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance date to determine whether it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. The carrying amount of deferred tax assets is reduced to the extent that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at balance date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

If deferred tax assets and deferred tax liabilities are recorded in the accounts, they are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation

Optiscan Imaging Limited and its 100% owned Australian resident subsidiary have elected not to form a tax consolidated group.

m) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Other taxes (continued)

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

n) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets. The depreciation rates applied to the main classes of plant and equipment are:

<u>Class of plant and equipment</u>	<u>Depreciation rate</u>
Office furniture & equipment	20% - 40%
Production equipment	20%
R&D equipment	30% - 40%

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

Disposal

An item of plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

o) Investments and other financial assets

Other financial assets consist of investments in controlled entities, which are carried at cost less any impairment in the parent company's financial statements.

The carrying values of investments in controlled entities are reviewed for impairment at each reporting date. The recoverable amount of investments in and loans to controlled entities is the higher of estimated fair value less costs to sell and value in use.

p) Intangible assets

The only intangible assets recognised by the group are software assets. The amounts capitalised represent the acquisition cost of software used in the design, development and administrative activities of the group. These amounts are amortised over a period of no more than three years, and are assessed for impairment on an annual basis. At present intangible software assets are fully written down, with zero carrying value.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Intangible assets (continued)

Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, a review of activity will be conducted on a project by project basis, and the cost model will be applied, requiring the development asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is to be amortised over the period of expected benefits from the related project. No such expenditure has yet been capitalised by the Group.

q) Trade and other payables

Trade payables and other payables are non interest bearing and are carried at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are generally paid on 30 day terms.

r) Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Any fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings. Costs of borrowing facilities are treated as prepayments and allocated over the term of the facility.

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 balance date.

The consideration received from the issue of convertible notes is allocated between equity and liabilities. The equity component is that part of the consideration that relates to the value of the option to convert to equity. The balance of the consideration received is the fair value of the convertible note liability.

s) Provisions and employee leave benefits

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s) Provisions and employee benefits (continued)

Provisions (continued)

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at balance date using a discounted cashflow methodology. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability.

Employee leave benefits

(i) Wages, salaries, superannuation, and annual leave

Liabilities for wages and salaries, including non-monetary benefits, superannuation and annual leave expected to be settled within 12 months of the reporting dates are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

t) Share-based payment transactions

(i) Equity settled transactions with employees

The Group provides benefits to employees (including key management personnel) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

There is an Employee Share Option Plan (ESOP) in place, which provides benefits to employees. The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using a Black Scholes valuation model, further details of which are provided in note 22.

In November 2010, ASX and shareholder approval was obtained to enable the Executive Chairman to take fixed remuneration by way of fully paid ordinary shares in lieu of cash. This approval was for calendar year 2011 only, and thereafter, fixed remuneration reverted to cash.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Optiscan Imaging Limited (market conditions) if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date). At each reporting date until vesting the cumulative charge to profit or loss is the product of (i) the grant date fair value of the award; (ii) the current best estimate of the number of equity instruments that will ultimately vest, taking into account such factors as the likelihood of employee turnover during the vesting period, and the likelihood of non market performance conditions being met, and (iii) the expired portion of the vesting period. The charge to profit or loss for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Share-based payment transactions (continued)

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided all other conditions are satisfied. If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

(ii) *Equity settled transactions with parties other than employees*

The Group may from time to time enter into arrangements with parties other than employees which involve consideration in the form of equity-settled transactions by way of allotment of shares and or options.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the service is provided.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings / (loss) per share (see note 8).

u) Contributed equity

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 from the proceeds (net of tax).

The consideration received from the issue of convertible notes is allocated between equity and liabilities. The equity component is that part of the consideration that relates to the value of the option to convert to equity.

v) Earnings (Loss) per share

Basic earnings (loss) per share is calculated as net profit (loss) attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) divided by the weighted average number of ordinary shares.

Diluted earnings (loss) per share is calculated as net profit (loss) attributable to members of the parent, adjusted for:

- costs of servicing equity (other than dividends) and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

w) Segment reporting

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available.

Operating segments have been identified based on the information provided to the chief operating decision makers, being the board of directors.

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise receivables, payables, cash and short-term deposits, convertible notes and, from time to time, derivatives.

In the context of the Group's overall risk profile, financial instruments do not represent the most significant exposure. Commercial risk associated with our business partnerships, technology risk around future development and market risk relating to adoption of the technology will have considerably more impact on our risk profile than the risks relating to financial instruments.

The Group monitors its exposure to key financial risks, principally currency and liquidity risk, with the objective of achieving the Group's financial targets whilst protecting future financial security.

The Group enters into derivative transactions from time to time, mainly forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations. These derivatives provide economic hedges, but do not qualify for hedge accounting and are based on limits set by the Board. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the Group's financial instruments are foreign currency risk, liquidity risk, interest rate risk and credit risk. The Group uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest and foreign exchange rates. Liquidity risk is monitored through the development of future rolling cash flow forecasts and regular internal reporting. There is a lesser degree of risk management in relation to interest rate risk and credit risk, as these are considered to have less capacity to materially impact the Group's financial position at the present time.

The Board reviews and agrees policies for managing each of these risks as summarised below. Primary responsibility for identification and control of financial risks rests with the Board. It reviews and agrees policies for managing each of the risks, including the use of derivatives, hedging cover of foreign currency, credit allowances, and future cash flow forecast projections.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk Exposures and Responses

Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's cash and cash equivalents. As cash on deposit is expected to exceed the amount of interest bearing liabilities, if any, a climate of increasing interest rates will increase net income and conversely, falling rates will reduce income. However, the impact of movements in interest rates is not material in the context of the Group's operations or trading results.

At balance date, the Group had the following financial assets exposed to Australian variable interest rate risk that are not designated in cash flow hedges:

	Consolidated	
	2013	2012
<u>Financial Assets</u>	\$	\$
Cash and cash equivalents *	401,335	551,014
Other receivables	-	67,000
<u>Financial Liabilities</u>		
Convertible notes	-	(210,414)
Net exposure	<u>401,335</u>	<u>407,600</u>

*These amounts differ from the balance sheet due to non- interest bearing cash on hand and foreign currency balances.

The following sensitivity analysis is based on the interest rate risk exposures in existence at balance date:

At 30 June 2013, if interest rates had moved throughout the year, as illustrated in the table below, with all other variables held constant, post tax loss and equity would have been affected as follows:

Judgements of reasonably possible movements in interest rates:	Net Profit Higher (Lower)		Other Comprehensive Income Higher (Lower)	
	2013 \$	2012 \$	2013 \$	2012 \$
Consolidated				
+0.25% (25 basis points)	845	495	-	-
-0.75% (75 basis points)	(2,536)	(1,484)	-	-

Interest rates trended downwards during 2012/2013, with official rates reaching long term lows by year end. At balance date, the economic outlook in Australia remained subdued, with the prospect of further reductions in official rates being widely canvassed. On this basis, a possible movement in rates from +0.25% to -0.75% has been adopted as a reasonably possible movement in rates. The movements in net loss are due to higher and lower amounts of interest received from interest bearing cash balances. There is no movement in other comprehensive income as there are no derivative instruments designated as cash flow hedges.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

As nearly all of the Group's sales revenue, as well as some expenses and inventory purchases, are denominated in United States Dollars and Euro, the Group's statement of financial position can be affected by significant movements in these exchange rates. Subject to the availability of finance facilities, Group policy is to hedge a minimum of 50% of any individual transactions in excess of a materiality threshold of \$100,000 for which payment or receipt is anticipated more than one month after the Group has entered into a firm commitment for a sale or purchase. It is the Group's policy not to enter into forward contracts until a firm commitment is in place and to negotiate the terms of the economic hedge to match the terms of the hedged item.

At 30 June 2013, there were no economic hedges in place in respect of net foreign currency exposures, as the balances outstanding were below the materiality threshold.

At 30 June 2013, the Group had the following exposure to foreign currency (US\$ and Euro) that is not designated in cash flow hedges:

	Consolidated	
	2013	2012
	\$	\$
<u>Financial Assets</u>		
Cash and cash equivalents US\$	12,186	6,476
Cash and cash equivalents Euro	8,708	19,627
Trade and other receivables US\$	334	265
Trade and other receivables Euro	2,318	2,802
<u>Financial Liabilities</u>		
Trade and other payables US\$	(3,640)	-
Trade and other payables Euro	(220)	-
Net exposure US\$	8,880	6,741
Net exposure Euro	10,806	136,929

The following sensitivity is based on the foreign currency risk exposures in existence at balance date:

At 30 June 2013, had the Australian Dollar moved by the same amount illustrated in the table below, with all other variables held constant, post tax loss and equity would have been affected as follows:

Judgements of reasonably possible movements in A\$ exchange rates:	Net Loss (Higher) Lower		Equity Higher (Lower)	
	2013 \$	2012 \$	2013 \$	2012 \$
<u>Consolidated</u>				
AUD/USD +8.7%	(766)	(316)	-	-
AUD/USD - 8.7%	913	349	-	-
AUD/EURO + 12.1%	(1,651)	(1,853)	-	-
AUD/EURO - 12.1%	2,108	2,138	-	-

There is no currency exposure in the parent entity

Management believe the balance date risk exposures are representative of the risk exposure inherent in the financial instruments.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables and derivative instruments. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note. The Group does not hold any credit derivatives to offset its credit exposure. The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer, and are regularly monitored. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

There is no significant concentration of credit risk in the Group's current trading position. With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from the possibility of default of the counter party. This is considered unlikely as the Group places cash and cash equivalents only with recognised Australian trading banks.

Liquidity risk and capital management

The Group's objective is to maintain adequate funding of its activities. Prior to May 2009, all capital financing has been derived from issues of equity. Since May 2009, the Group has from time to time, issued convertible notes, introducing debt finance to the funding mix. Capital management is a process of monitoring cash reserves and forecast cash requirements, and there are no externally imposed capital requirements.

The table below reflects all contractually fixed pay-offs and receivables for settlement from recognised financial assets and liabilities, as of 30 June 2013. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2013.

	<u><6 months</u>	<u>Consolidated 1-5 years</u>	<u>Total</u>
Year ended 30 June 2013			
<u>Liquid financial assets</u>			
Cash and cash equivalents	429,927	-	429,927
Trade and other receivables	939,569	-	939,569
<u>Financial liabilities</u>			
Trade and other payables	317,544	-	317,544
Convertible notes	-	-	-
Callable bank guarantee	45,500	-	45,500
Net maturity	1,006,452	-	1,006,452
Year ended 30 June 2012			
<u>Liquid financial assets</u>			
Cash and cash equivalents	578,900	-	578,900
Trade and other receivables	162,687	-	162,687
<u>Financial liabilities</u>			
Trade and other payables	266,490	-	266,490
Convertible notes	300,000	-	300,000
Net maturity	175,097	-	175,097

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk and capital management (continued)

The contractual maturities of the Group's and parent entity's financial assets and liabilities set out in the table are equivalent to the maturity analysis of financial assets and liability based on management's expectation.

The risk implied from the values in the table reflects a balanced view of cash inflows and outflows. Trade payables and other financial liabilities mainly originate from investments in working capital, principally inventories and trade receivables. These assets are considered in the Group's overall liquidity risk, which is monitored through review of forecasts of liquidity reserves on the basis of expected cash flow.

The cash and cash equivalent balance classified as being capable of settlement within 90 days includes term deposits which are secured by the bank (refer note 16). These amounts could be released within six months upon cancellation of the underlying bank facilities, or upon a re-negotiation of the security arrangements, for example, by providing a charge over assets other than cash.

The Group's activities are funded from its cash reserves and convertible notes. There are no unused credit facilities. Bank facilities are non credit lines, details of which are disclosed in note 16.

Fair value

The methods for estimating fair value are outlined in the relevant notes to the financial statements, and unless specifically stated, carrying value approximates fair value for all financial instruments.

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

In applying the Group's accounting policies, management continually evaluates judgements, estimates and assumptions based on historical experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgements, estimates and assumptions. The more significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below:

Net realisable value of inventory

Some of the inventory held by the Group is the first generation confocal imaging platform, relating to FIVE 1 products and accessories, and the balance is materials for second generation processors.

The rate of future sales, and the usage of parts for service and support are uncertain, and as a consequence the Group's ability to realise the carrying value of inventory is similarly uncertain.

Long service leave provision

The liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of services provided by all employees up to balance date. In determining the present value of the liability, years of service, attrition rates, future pay increases and inflation have been taken into account. Expected future payments are discounted using market yields at the reporting date on government bonds with terms to maturity that match, as closely as practicable, the estimated future cash outflows.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (cont)

Recognition of grant receivable for R&D Tax Incentive

The Group has established a precedent for entitlement to grant income from the R&D Tax incentive in prior periods. This experience supports the assumption that eligibility for the grant will continue on the same basis, and accordingly, it is appropriate to recognise entitlement to the income in the current period.

Warranty provision

A provision for warranty at the rate of 3% of sales has been provided since the commencement of product sales in March 2006. The incidence of warranty claims is modest and is monitored by management on an ongoing basis to assess the adequacy of the provision.

Capitalisation of research and development expenditure

The group expenses all research and development expenditure (refer note 2(q)). The group's development activities are at a stage where there is not yet adequate probability that the tests for capitalisation can be met. The matter is kept under regular review.

Recognition of deferred tax assets

The carrying amount of deferred tax assets is dependent upon a judgement as to whether it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. In the light of the continuing expenditure on R&D there is not yet adequate probability of taxable profit in the future that will enable the utilisation of these deductible temporary differences, which include tax losses (refer note 2 (l)).

Useful lives of assets

The estimation of the useful lives of assets has been based on historical experience and management judgement. In addition, the condition of assets is assessed annually and considered in the context of remaining useful life, and adjustments to useful life are made where necessary. Depreciation charges are disclosed in note 6(c). Details of useful lives by major asset category are included in note 2(n).

Impairment of loans to, and investment in, subsidiaries

Where a subsidiary entity incurs a loss, the parent entity assesses the recoverability of any loans due from, or investments in, any subsidiary. Where required, the parent entity will then record an impairment loss against the value of its loans to, or investment in, the subsidiary.

5 SEGMENT INFORMATION

The Group has identified its operating segments based on the internal reports that are reviewed and used by management and the board (the chief decision makers) in assessing performance and in determining the allocation of resources. The operating segments are identified by management based on the activities undertaken. Financial information about each of these operating activities is reported to management on a monthly basis. The group has two separate business segments, being product realisation (trading), where activities comprise manufacturing and sales of confocal imaging products, and research and development, where activities include design and development of new products and technologies, including related income from customers. Unallocated amounts relate mainly to central costs and overheads, and include unallocated revenues and other income. The accounting policies used by the group in reporting segments internally are the same as those contained in note 2 to the accounts and in the prior period.

Major customers

There is no significant concentration of customers in the Group's trading activities, which are limited in scope at present. The major customer in the Group's primary activity, 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 YEAR ENDED 30 JUNE 2013

5 SEGMENT INFORMATION (continued)

	<i>Trading</i>	<i>R&D</i>	<i>Unallocated</i>	<i>Total</i>
	\$	\$	\$	\$
Year ended 30 June 2013				
Revenue				
Sales to external customers	931,920	-	-	931,920
Inter segment revenue	-	-	-	-
Total segment revenue	931,920	-	-	931,920
Other revenues	-	-	52,806	52,806
Total consolidated revenue	931,920	-	52,806	984,726
Result				
Net profit (loss) for year by segment	568,116	332,377	-	900,493
Unallocated items	-	-	(1,544,443)	(1,544,443)
Consolidated net profit (loss)	568,116	332,377	(1,544,443)	(643,950)
Assets and liabilities				
Segment assets *	92,484	866,167	551,782	1,510,433
Segment liabilities	(90,207)	(95,093)	(372,677)	(557,977)
Segment net assets	2,277	771,074	179,105	952,456
Cash flow				
Segment net cash flow from operating activities	526,989	(515,401)	(1,204,858)	(1,193,270)
Investing cash flows	-	-	36,452	36,452
Financing cash flows	-	--	1,003,875	1,003,875
Net cash flow for year	526,989	(515,401)	(164,531)	(152,943)
Other Segment information				
Non cash expenses				
Depreciation and amortisation	-	-	30,341	30,341
Amortised cost adjustment of convertible notes	-	-	68,624	68,624
Impairment of inventory	109,158	-	-	109,158
Foreign exchange differences	-	-	(3,788)	(3,788)
Revenue by geographic segment (location of customer)				
Asia	1,083	-	34,641	35,724
Australia	206,810	-	18,165	224,975
Europe	718,247	-	-	718,247
USA & Canada	5,780	-	-	5,780
Total	931,920	-	52,806	984,726

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

5 SEGMENT INFORMATION (continued)

	<i>Trading</i>	<i>R&D</i>	<i>Unallocated</i>	<i>Total</i>
	\$	\$	\$	\$
Year ended 30 June 2012				
Revenue				
Sales to external customers	381,791	-	-	381,791
Inter segment revenue	-	-	-	-
Total segment revenue	381,791	-	-	381,791
Other revenues	-	-	43,380	43,380
Total consolidated revenue	381,791	-	43,380	425,171
Result				
Net profit (loss) for year by segment	236,732	(737,293)	-	(500,561)
Unallocated items	-	-	(2,001,889)	(2,001,889)
Consolidated net profit (loss)	236,732	(737,293)	(2,001,889)	(2,502,450)
Assets and liabilities				
Segment assets *	232,589	1,319	946,763	1,180,671
Segment liabilities	(38,250)	(76,538)	(752,573)	(867,361)
Segment net assets	194,339	(75,219)	194,190	313,310
Cash flow				
Segment net cash flow from operating activities	390,249	(116,292)	(1,067,502)	(793,545)
Investing cash flows	-	-	(95,776)	(95,776)
Financing cash flows	-	-	398,000	398,000
Net cash flow for year	390,249	(116,292)	(765,278)	(491,321)
Other Segment information				
Non cash expenses				
Depreciation and amortisation	9,019	1,400	15,693	26,112
Share based payments	-	-	516,997	516,997
Amortised cost adjustment of convertible notes	-	-	22,314	22,314
Impairment of inventory	148,330	-	-	148,330
Foreign exchange differences	-	-	8,533	8,533
Revenue by geographic segment (location of customer)				
Asia	86,015	-	-	86,015
Australia	203,833	-	43,380	247,213
Europe	88,373	-	-	88,373
USA & Canada	3,570	-	-	3,570
Total	381,791	-	43,380	425,171

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

6 REVENUES AND EXPENSES

	<i>CONSOLIDATED</i>	
	2013 \$	2012 \$
(a) Other revenue		
Royalty revenue	34,641	1,509
Finance revenue – bank interest received	18,165	41,871
Total Other revenue	<u>52,806</u>	<u>43,380</u>
(b) Other income		
Design and development income	371,425	-
Government grants – R&D Tax incentive	1,480,355	456,350
Total Other income	<u>1,851,780</u>	<u>456,350</u>
(c) Depreciation and amortisation		
- Depreciation included in cost of sales	1,879	9,019
- Depreciation included in R&D expenses	1,319	1,400
- Depreciation included in administration expenses	27,143	15,693
	<u>30,341</u>	<u>26,112</u>
(d) Employee benefits expense		
Wages and salaries	1,034,550	778,742
Workers' compensation costs	5,725	7,930
Defined contribution plan expense	93,031	69,939
Annual leave expense	22,810	11,125
Long service leave expense	17,630	12,435
Share-based payments expense - employees	-	41,280
	<u>1,173,746</u>	<u>921,451</u>
(e) Cost of inventories recognised as an expense		
Consumed in production – cost of goods sold	145,706	71,550
Consumed in R&D	43	-
Write down inventory to net realisable value	109,158	148,330
	<u>254,907</u>	<u>219,880</u>
(f) Finance costs		
Interest on convertible notes	18,624	37,706
Amortised cost adjustment of convertible notes	-	22,314
Bergen facility termination costs :		
- termination fee settled by note issue	50,000	-
- prepaid facility costs written off on termination	236,601	-
	<u>284,625</u>	<u>60,020</u>
(g) Share based payment expense		
Share-based payments expense - employees	-	41,280
Share-based payments expense – non-employees		
- funding facility costs	-	23,619
- options issued	-	452,098
	<u>-</u>	<u>516,997</u>

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

7 INCOME TAX

	<i>CONSOLIDATED</i>	
	<i>2013</i>	<i>2012</i>
	<i>\$</i>	<i>\$</i>
	<hr/>	<hr/>
The components of income tax expense are:		
Income Statement		
<i>Current income tax</i>		
Current income tax charge	-	-
Adjustments in respect of current income tax of previous year:		
Withholding tax deducted from royalty revenue	-	-
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	-	-
Income tax (expense) benefit reported in the income statement	<hr/>	<hr/>
	<hr/> <hr/>	<hr/> <hr/>

Tax Losses

The Group has unconfirmed, unrecouped tax losses in Australia of \$39,720,634 (2012: \$40,086,601) which have not been brought to account. The ability to be able to recognise a deferred tax asset in respect of these tax losses will be dependent upon the probability that future taxable profit will be available against which the unused tax losses can be utilised and the conditions for deductibility imposed by Australian tax authorities will be complied with.

Tax Consolidation

Optiscan Imaging Limited and its 100% owned Australian resident subsidiary have elected not to form a tax consolidated group.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

7 INCOME TAX (continued)

A reconciliation between tax expense and the product of accounting loss before income tax multiplied by the Group's applicable income tax rate is as follows:

	CONSOLIDATED	
	2013	2012
	\$	\$
Accounting loss before income tax	(643,950)	(2,502,450)
Prima facie income tax (benefit) at the Parent entity's statutory income tax rate of 30% (2012: 30%)	(193,185)	(750,735)
Adjustments in respect of current income tax of previous years	6,570	-
Non assessable gains	(444,550)	(136,905)
Share based payments not deductible	-	155,100
R&D Tax Incentive deductions foregone for tax offset	577,445	402,888
Expenditure not allowable for income tax purposes	85,980	55,290
Deferred tax assets (recognised) / not recognised	(32,260)	265,509
Income tax expense	-	-

Statement of financial position		Statement of comprehensive income	
2013	2012	2013	2012
\$	\$	\$	\$

Deferred income tax - not brought to account

Deferred income tax at 30 June relates to the following items and has not been brought to account (Refer note 2(l)):

CONSOLIDATED

Deferred tax assets

Undeducted patent costs	200,799	175,514	25,285	8,752
Employee benefit & warranty provisions	72,130	56,331	15,799	(513)
Expenses not yet deductible	9,000	9,888	(888)	(11,528)
Inventory impairment provision	473,783	424,683	49,100	44,499
Deferred deductible equity issue costs	3,419	8,238	(4,819)	(2,898)
Tax Losses available	11,909,243	12,025,980	(116,737)	227,195
Foreign tax credits	-	52,288	-	-
Gross deferred income tax assets	12,668,374	12,752,922		
Less amounts not recognised in accounts	(12,668,374)	(12,752,922)		
Gross deferred income tax assets	-	-		
Deferred tax income/ (expense) incurred			(32,260)	265,507
Less deferred income tax (expense) not recognised in accounts			32,260	(265,507)
Deferred tax income/ (expense)			-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

8 EARNINGS (LOSS) PER SHARE

The following reflects the income and share data used in the basic and diluted earnings (loss) per share computations:

	<i>CONSOLIDATED</i>	
	<i>2013</i>	<i>2012</i>
	\$	\$
Net loss	<u>(643,950)</u>	<u>(2,502,450)</u>
	<i>2013</i>	<i>2012</i>
	<i>Number</i>	<i>Number</i>
Weighted average number of ordinary shares for basic earnings per share	156,055,723	132,121,706
Effects of dilution:		
Share options	<u>-</u>	<u>-</u>
Weighted average number of ordinary shares adjusted for the effect of dilution	<u>156,055,723</u>	<u>132,121,706</u>
Weighted average number of converted, lapsed or cancelled potential ordinary shares included in diluted earnings per share	-	-

Options on issue have been determined to be not dilutive, as the exercise prices exceed current market price, making the prospect of exercise highly unlikely.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

9 CASH AND CASH EQUIVALENTS

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and six months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. At balance date the bank balance interest rate is 2.35% (2012: 3.25%), and the balances are at call. The fair value of cash at bank approximates the carrying amount.

At balance date the term deposit interest rate is 4.0%, and the weighted average term to maturity is 51 days. The fair value of cash deposit approximates the carrying amount, in view of the short term to maturity. Term deposits amounting to \$65,635 are subject to a charge which secures banking facilities made available to the group (refer note 16).

Reconciliation to Statement of Cash Flows

For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise the following at 30 June:

	<i>CONSOLIDATED</i>	
	<i>2013</i>	<i>2012</i>
	\$	\$
Cash at bank and in hand	364,292	578,900
Short-term deposits	65,635	-
	<u>429,927</u>	<u>578,900</u>

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

Net profit (loss)	(643,950)	(2,502,450)
<i>Adjustments for:</i>		
Depreciation and amortisation	30,341	26,112
Amortised cost adjustment of convertible notes represented by:	-	22,314
Interest on convertible notes	18,624	-
Termination fee settled by note issue	50,000	-
Impairment of assets	109,158	148,330
Net exchange differences	(3,971)	8,473
Shares based payments expensed	-	778,600
Exchange differences recognised in equity	183	60

Changes in assets and liabilities

(Increase)/decrease in trade and other receivables	(843,882)	739,503
(Increase)/decrease in inventories	(45,915)	(104,305)
(Increase)/decrease in prepayments	235,112	(194,680)
(Decrease)/increase in trade and other payables	51,054	103,853
(Decrease)/increase in deferred revenue	(202,685)	182,352
(Decrease)/increase in provisions	52,661	(1,707)
Net cash used in operating activities	<u>(1,193,270)</u>	<u>(793,545)</u>

Disclosure of financing facilities - Refer to note 16.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

10 TRADE AND OTHER RECEIVABLES

	<i>CONSOLIDATED</i>	
	2013 \$	2012 \$
CURRENT		
Trade receivables	2,652	77,635
GST refund receivable	51,798	15,492
Interest receivable	280	514
R&D Tax incentive grant receivable	866,167	-
Cash on term deposit	-	67,000
Refund receivable	16,711	
Other receivables	1,961	2,046
Net carrying amount	<u>939,569</u>	<u>162,687</u>

Ageing Analysis of Receivables

	Total	0-30 Days	31-60 Days	61-90 Days PDNI*	90+ Days PDNI*
Consolidated – 2013	939,569	936,637	280	-	2,652
Consolidated – 2012	162,687	87,448	3,526	67,514	4,199

* Past due not impaired ("PDNI")

(i) All receivables shown as past due are the subject of follow up action by the company.

(ii) Trade receivables are non-interest bearing and are generally on 30-60 day terms. An allowance for doubtful debts will be made if there is objective evidence that a trade receivable is impaired. No such allowance has yet been made. Receivables other than cash on term deposit are also non-interest bearing.

(iii) The fair value of receivables approximates the carrying amount, in view of the short term nature of the trading terms.

(iv) The maximum exposure to credit risk is the fair value of receivables. Collateral is not held as security, nor is it the Group's policy to transfer or on sell receivables to special purpose vehicles.

(v) Details regarding foreign exchange risk exposure of current receivables are disclosed in note 3.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

11 INVENTORIES

	<i>CONSOLIDATED</i>	
	2013 \$	2012 \$
Raw materials (at net realisable value)	-	-
Work in progress (at net realisable value)	89,832	87,430
Finished goods (at cost)	-	65,645
Total inventories at net realisable value	<u>89,832</u>	<u>153,075</u>
Write down to net realisable value (refer note 6)	<u>109,158</u>	<u>148,330</u>

12 PREPAYMENTS

Current			
Finance facility costs	-	135,201	
Other prepaid expenses	9,681	8,190	
	<u>9,681</u>	<u>143,391</u>	
Non-current			
Finance facility costs	-	101,401	
Total prepayments	<u>9,681</u>	<u>244,792</u>	

13 PLANT AND EQUIPMENT

YEAR ENDED 30 JUNE 2013	<i>Office Furniture & Equipment 2013 \$</i>	<i>Production Equipment 2013\$</i>	<i>R&D Equipment 2013 \$</i>	<i>Total Plant & Equipment 2013 \$</i>
Opening balance, net of accumulated depreciation and impairment	38,018	1,880	1,319	41,217
Additions	30,548	-	-	30,548
Disposals	-	-	-	-
Depreciation charge for the year	(27,142)	(1,880)	(1,319)	(30,341)
At 30 June 2012, net of accumulated depreciation and impairment	<u>41,424</u>	<u>-</u>	<u>-</u>	<u>41,424</u>
At 1 July 2013				
Cost	684,327	258,483	364,905	1,307,715
Accumulated depreciation and impairment	(642,903)	(258,483)	(364,905)	(1,266,291)
Net carrying amount	<u>41,424</u>	<u>-</u>	<u>-</u>	<u>41,424</u>
At 1 July 2012				
Cost	654,352	258,483	364,905	1,277,740
Accumulated depreciation and impairment	(616,334)	(256,603)	(363,586)	(1,236,523)
Net carrying amount	<u>38,018</u>	<u>1,880</u>	<u>1,319</u>	<u>41,217</u>

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

13 PLANT AND EQUIPMENT (continued)

YEAR ENDED 30 JUNE 2012	<i>Office Furniture & Equipment 2012 \$</i>	<i>Production Equipment 2012 \$</i>	<i>R&D Equipment 2012 \$</i>	<i>Total Plant & Equipment 2012 \$</i>
Opening balance, net of accumulated depreciation and impairment	24,935	10,899	2,719	38,553
Additions	28,776	-	-	28,776
Disposals	-	-	-	-
Depreciation charge for the year	(15,693)	(9,019)	(1,400)	(26,112)
At 30 June 2012, net of accumulated depreciation and impairment	<u>38,018</u>	<u>1,880</u>	<u>1,319</u>	<u>41,217</u>
At 1 July 2012				
Cost	654,352	258,483	364,905	1,277,740
Accumulated depreciation and impairment	(616,334)	(256,603)	(363,586)	(1,236,523)
Net carrying amount	<u>38,018</u>	<u>1,880</u>	<u>1,319</u>	<u>41,217</u>
At 1 July 2011				
Cost	548,693	258,483	413,461	1,220,637
Accumulated depreciation and impairment	(523,758)	(247,584)	(410,742)	(1,181,814)
Net carrying amount	<u>24,935</u>	<u>10,899</u>	<u>2,719</u>	<u>38,553</u>

14 TRADE AND OTHER PAYABLES

	<i>CONSOLIDATED</i>	
	<i>2013 \$</i>	<i>2012 \$</i>
Current		
Trade payables (i)	128,657	117,056
Accrued expenses	188,887	149,434
Deferred revenue	-	202,685
	<u>317,544</u>	<u>469,175</u>

- (i) Trade payables are non-interest bearing and are normally settled on 30-day terms. The fair value of trade payables approximates the carrying amount due to the short term nature of the trading terms.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

15 INTEREST BEARING LOANS AND BORROWINGS

	<i>CONSOLIDATED</i>	
	<i>2013</i>	<i>2012</i>
	<i>\$</i>	<i>\$</i>
Current		
Convertible notes	-	210,414
 Movement in convertible note liabilities		
Notes issued May 2009		
Opening balance	-	484,485
Amortised cost adjustment of convertible notes	-	15,515
Convertible notes converted to equity by noteholders	-	(500,000)
Closing balance	-	-
Notes issued 2012		
Opening balance	210,414	-
New convertible notes issued at face value	50,000	470,000
Transaction costs	-	(72,000)
Equity component of new convertible notes	(7,002)	(65,088)
Amortised cost adjustment of convertible notes	18,624	6,800
Convertible notes converted to equity by noteholders	(272,036)	(129,298)
Closing balance	-	210,414

- (a) Fair value
The carrying amount approximates the fair value of the convertible notes on issue. (Refer Note 2(r)).
- (b) Interest rate
Details regarding interest rate and liquidity risk are detailed in Note 3.
- (c) Assets pledged as security
The amounts payable under the convertible notes deed were secured by a charge over the assets of Optiscan Pty Ltd.
- (d) Terms and conditions of convertible notes
At balance date, there are no convertible notes on issue. At 30 June 2012, the parent entity had on issue two convertible notes with a total face value of \$300,000. The book value after allocation of the equity component and adjustment to amortised cost amounted to \$210,414. The notes had a 2 year term and were convertible at the option of the holder, at 90% of the five consecutive daily volume-weighted average share price of the Group's shares. No interest was payable on the notes on issue.
- (e) Potential Dilution
In the event that convertible notes are converted to ordinary shares, and in a circumstance where the Group generates a net profit, there will be potential dilution of earnings per share from the increased number of shares on issue as a consequence of the conversion of notes.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

16 FINANCING FACILITIES

	<i>CONSOLIDATED</i>	
	<i>2013</i>	<i>2012</i>
	\$	\$
Bank Facilities		
- credit cards	20,000	20,000
- bank guarantees and indemnities	45,500	45,500
- electronic transaction facility	-	-
	<u>65,500</u>	<u>65,500</u>
Facilities used at reporting date:		
- credit cards	12,000	4,984
- bank guarantees and indemnities	45,500	45,500
- electronic transaction facility	-	-
	<u>57,500</u>	<u>50,484</u>
Facilities unused at reporting date:		
- credit cards	8,000	15,016
- bank guarantees and indemnities	-	-
	<u>8,000</u>	<u>15,016</u>
Total bank facilities	65,500	65,500
Facilities used at reporting date	<u>57,500</u>	<u>50,484</u>
Facilities unused at reporting date	<u>8,000</u>	<u>15,016</u>
Assets pledged as security		
The bank facilities are secured by charges over specific term deposits	<u>65,635</u>	<u>67,000</u>
Convertible Note Funding Facility[^]		
Total facility	-	2,000,000
Facilities used at reporting date	-	<u>470,000</u>
Facilities unused at reporting date*	-	<u>1,530,000</u>

*Drawings under the facility are interest free but subject to a discount on activation, so the future net funding available will be reduced by the amount of the discount determined at the time of drawdown.

[^]After balance date, and completion of a placement, this facility was terminated by mutual agreement between the parties.

Assets pledged as security
 The convertible note funding facility was secured by a floating charge over the unsecured assets of the Group.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

17 PROVISIONS

	<i>Annual Leave</i> \$	<i>Long Service Leave</i> \$	<i>Warranty</i> \$	<i>Total</i> \$
At 30 June 2012	79,068	89,780	18,924	187,772
Arising during the year	73,749	20,630	12,221	106,600
Utilised	(53,939)	-	-	(53,939)
At 30 June 2013	<u>98,878</u>	<u>110,410</u>	<u>31,145</u>	<u>240,433</u>
Current 2013	98,878	99,776	31,145	229,799
Non-current 2013	-	10,634	-	10,634
	<u>98,878</u>	<u>110,410</u>	<u>31,145</u>	<u>240,433</u>
Current 2012	79,068	76,209	18,924	174,201
Non-current 2012	-	13,571	-	13,571
	<u>79,068</u>	<u>89,780</u>	<u>18,924</u>	<u>187,772</u>

Annual Leave Provision

The annual leave provision is for the unused entitlements to annual leave for employees. Staff are encouraged to take leave when due or entitled, but workflow considerations sometimes prevent all entitlements being utilised.

Long Service Leave

Long service leave provision provides for the future entitlements of employees to long service leave or, where sanctioned by legislation, entitlement to pro rata payment upon termination. Some employees have reached entitlement to pro rata payment upon termination. No employees have yet reached entitlement to long service leave.

Warranty

A provision for warranty at the rate of 3% of sales has been provided and the incidence of warranty claims is monitored on an ongoing basis to assess adequacy of the provision.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

18 CONTRIBUTED EQUITY AND RESERVES

	CONSOLIDATED	
	2013 \$	2012 \$
Ordinary shares - Issued and fully paid	46,993,580	45,710,667
	<i>No of Shares</i>	<i>\$</i>
<i>Movement in ordinary shares on issue</i>		
At 1 July 2011	130,085,790	45,016,281
Shares issued in lieu of cash remuneration	996,784	-
Bergen funding facility fees settled by issue of shares	979,756	
Shares issued upon conversion of notes	11,965,588	629,298
Equity component of convertible notes	-	65,088
At 30 June 2012	144,027,918	45,710,667
Issued for cash in placement	13,385,001	1,003,875
Shares issued upon conversion of notes	4,675,199	272,036
Equity component of convertible notes	-	7,002
At 30 June 2013	162,088,113	46,993,580

Ordinary shares

Effective 1 July 1998, the Corporations legislation abolished the concepts of authorised capital and par value of shares. Accordingly, the Parent does not have authorised capital nor par value in respect of its issued shares. Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Share options

The company has a share based payment option plan under which options to subscribe for the company's shares have been granted to employees (refer note 22).

	CONSOLIDATED	
	2013 \$	2012 \$
<u>Accumulated losses</u>		
Movements in accumulated losses were as follows:		
Balance 1 July	(46,893,271)	(44,390,821)
Net profit (loss) for the year	(643,950)	(2,502,450)
Balance 30 June	(47,537,221)	(46,893,271)

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

18 CONTRIBUTED EQUITY AND RESERVES (continued)

	<i>CONSOLIDATED</i>	
	<i>2013</i>	<i>2012</i>
	<i>\$</i>	<i>\$</i>
<u>Reserves</u>		
Movements in reserves were as follows:		
Share Based Payments Reserve		
Balance 1 July	1,485,661	707,061
Share based payments:		
Employee benefits in lieu of cash remuneration	-	65,620
Options issued in consideration for mandatory conversion of convertible notes	-	433,100
Share and options issued in respect of Bergen funding facility	-	279,219
Employee share option plan	-	661
Balance 30 June	<u>1,485,661</u>	<u>1,485,661</u>
Foreign Currency Translation Reserve		
Balance 1 July	10,253	10,193
Foreign currency translation difference	183	60
Balance 30 June	<u>10,436</u>	<u>10,253</u>
Total reserves	<u>1,496,097</u>	<u>1,495,914</u>

Nature and purpose of reserves

Share based payments reserve

This reserve is used to record the value of equity benefits provided to employees and other parties in consideration for services rendered. Refer to note 22 for further details of the employee share option plan and other share based payments.

Foreign currency translation reserve

This reserve is used for foreign currency translation differences arising on the consolidation of the USA subsidiary, Optiscan Inc.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

19 PARENT ENTITY INFORMATION

	2013 \$	2012 \$
Information relating to Optiscan Imaging Ltd:		
Current assets	340,823	265,662
Total assets	952,456	544,944
Current liabilities	-	231,634
Total liabilities	-	231,634
Issued capital	46,993,580	45,710,667
Accumulated losses	(47,526,785)	(46,883,018)
Share based payments reserve	1,485,661	1,485,661
Total shareholders' equity	<u>952,456</u>	<u>313,310</u>
Profit (Loss) of the parent entity	(643,767)	(2,502,390)
Other comprehensive income of the parent entity	-	-
Total comprehensive income of the parent entity	<u>(643,767)</u>	<u>(2,502,390)</u>
Parent entity guarantees for debts of subsidiaries	-	-
Contingent liabilities of parent entity	-	-
Contractual commitments of parent entity	-	-

20 RELATED PARTY DISCLOSURE

The consolidated financial statements include the financial statements of Optiscan Imaging Limited and the subsidiaries listed in the following table:

Name	Country of incorporation	% Equity interest		Investment \$	
		2013	2012	2013	2012
At cost:					
Optiscan Pty Ltd	Australia	100	100	6,605,396	6,605,396
Optiscan Inc	United States	100	100	2,002	2,002
Accumulated impairment				(5,995,765)	(6,328,116)
				<u>611,633</u>	<u>279,282</u>

Optiscan Imaging Limited is the ultimate Australian parent entity.

Transactions with Subsidiaries

Inter-company transactions between the parent entity, Optiscan Imaging Limited and subsidiary, Optiscan Pty Ltd amounted to \$594,834 (2012, \$1,019,897). Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash. The balances are classified current by the parent entity. An impairment assessment is undertaken each financial year by examining the financial position of the subsidiaries to determine whether there is objective evidence that a related party receivable is impaired. When such objective evidence exists, an impairment loss is recognised.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

21 KEY MANAGEMENT PERSONNEL

Details of Key Management Personnel

(i) *Board of Directors*

Executive Directors

A. Holt	Chairman (Appointed to board 12 February 2009, Executive Chairman 14 May 2009)
P. Delaney	Director of Technology (Appointed to board 21 March 1994)
B. Andrew	Chief Financial Officer (Appointed to board 20 January 2010)

There were no changes of key management personnel after reporting date and the date the financial report was authorised for issue.

Compensation of Key Management Personnel

Table 1: Compensation of Key Management Personnel for the year ended 30 June 2013

	CONSOLIDATED	
	2013	2012
	\$	\$
Short term employee benefits	334,375	282,250
Post Employment benefits	20,250	16,088
Office and travel expenses reimbursed	62,000	65,755
Other long term benefits	1,266	660
Share-based payment	-	40,619
	417,891	405,372

There were no other transactions and balances with Key Management Personnel

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

21 KEY MANAGEMENT PERSONNEL (continued)

Option holdings of Key Management Personnel

Options holdings of Key Management Personnel for the year ended 30 June 2013

30 June 2013	Balance at beginning of period 01-Jul-12	Held at date of appointment to board of holder	Options Exercised	Options Expired Forfeited	Balance at end of period 30-Jun-13	Vested at 30 June 2013		
						Total Vested	Exercisable	Not Exercisable
Directors								
A. Holt								
-direct	-	-	-	-	-	-	-	-
-indirect	-	1,500,000	-	-	1,500,000	1,500,000	1,500,000	-
P. Delaney	-	-	-	-	-	-	-	-
B. Andrew	-	-	-	-	-	-	-	-
Total	-	1,500,000	-	-	1,500,000	1,500,000	1,500,000	-

No options were issued to, or exercised by key management personnel during the year ended 30 June 2013.

Options holdings of Key Management Personnel for the year ended 30 June 2012

30 June 2012	Balance at beginning of period 01-Jul-11	Held at date of appointment to board of holder	Options Exercised	Options Expired Forfeited	Balance at end of period 30-Jun-12	Vested at 30 June 2012		
						Total Vested	Exercisable	Not Exercisable
Directors								
A. Holt	-	-	-	-	-	-	-	-
P. Delaney	-	-	-	-	-	-	-	-
B. Andrew	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-

No options were issued to, or exercised by key management personnel during the year ended 30 June 2012.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

21 KEY MANAGEMENT PERSONNEL (continued)

Shareholdings of Key Management Personnel

Shares held in Optiscan Imaging Limited for the year ended 30 June 2013 (number)

30 June 2013	Balance at beginning of period 01-Jul-12	Purchased	In lieu of cash remuneration	Holding at Date of Appointment to Board of Holder	Balance at end of period 30-Jun-13
Directors					
A. Holt					
-direct	3,173,659	-	-	-	3,173,659
-indirect	6,247,375	420,000	-	4,042,695	10,710,070
P. Delaney					
-direct	3,231,259	-	-	-	3,231,259
-indirect	270,090	-	-	-	270,090
B. Andrew					
-indirect	90,000	-	-	-	90,000
Total	13,012,383	420,000	-	4,042,695-	17,475,078

Shares held in Optiscan Imaging Limited for the year ended 30 June 2012 (number)

30 June 2012	Balance at beginning of period 01-Jul-11	Purchased	In lieu of cash remuneration	Holding at Date of Appointment / Resignation	Balance at end of period 30-Jun-12
Directors					
A. Holt					
-direct	2,176,875	-	996,784	-	3,173,659
-indirect	6,247,375	-	-	-	6,247,375
P. Delaney					
-direct	3,231,259	-	-	-	3,231,259
-indirect	270,090	-	-	-	270,090
B. Andrew					
-indirect	90,000	-	-	-	90,000
Total	12,015,599	-	996,784	-	13,012,383

All equity transactions with Key Management Personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

22 SHARE-BASED PAYMENT PLANS

Types of share based payments

(i) Employee Share Option Plan

Share options are granted to all employees including senior executives with more than 12 months service at the discretion of the board. The exercise price of the options is calculated as the weighted average market price of the shares in the two weeks prior to the date of grant, increased by a minimum of 10%. Options vest in gradual amounts over two to four years and no options can be exercised within two years of the date of grant. The contractual life of each option granted is five years. There are no cash settlement alternatives.

The expense recognised in profit or loss in relation to share-based payments is disclosed in note 6(d).

There have been no issues of options to employees under the plan since January 2008.

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options on issue under the Employee Share option Plan:

Employee Share Option Plan

	No. Options 2013	WAEP 2013	No. Options 2012	WAEP 2012
Outstanding at the beginning of the year	150,000	0.31	361,200	0.44
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	(150,000)		(211,200)	0.50
Outstanding at the end of the year	-	-	150,000	0.31
Exercisable at the end of the year	-	-	150,000	0.31

Options issued to parties other than employees

Issue of options in consideration for mandatory conversion of convertible notes (Tranche 1)

In May 2009, the Company issued 10,000,000 convertible notes at a price of \$0.05 each, expiring on 12 May 2012. In February 2012, the noteholders' agreed to the mandatory conversion of the notes upon maturity. In consideration for this agreement, the company issued 5,000,000 options exercisable at \$0.10 each and expiring on 31 March 2014.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

22 SHARE BASED PAYMENT PLANS (continued)

Issue of shares and options in relation to Convertible Note Facility (Tranche 2)

In March 2012, the Company announced the establishment of a \$2 million funding agreement with Bergen Global Opportunity Fund, LP. The agreement included the issue of 1,900,000 options at an exercise price of 120% of the volume weighted average share price of Optiscan's shares for the 20 day period prior to the date of the agreement. The options have a term of 30 months. The agreement also provided for the payment of fees and costs associated with the facility by share based payment, resulting in the allotment of 979,756 shares as disclosed in Note 17.

Details of options issues to parties other than employees during 2012/2013

The following table illustrates the number and weighted average exercise prices (WAEP) of share options issued to parties other than employees outstanding at year end:

Options issued to parties other than employees

	No. Options 2013	WAEP 2013	No. Options 2012	WAEP 2012
Outstanding at the beginning of the year	6,900,000	0.118	-	-
Granted during the year	-	-	6,900,000	0.118
Exercised during the year	-	-	-	-
Outstanding at the end of the year	<u>6,900,000</u>	<u>0.118</u>	<u>6,900,000</u>	<u>0.118</u>
Exercisable at the end of the year	6,900,000	0.118	6,900,000	0.118

The fair value of the equity-settled share options during the year is estimated as at the date of grant using a Black Scholes valuation model taking into account the terms and conditions upon which the options were granted.

The following tables list the inputs to the model used for option issues outstanding at year end:

	<u>Tranche 1</u>	<u>Tranche 2</u>
Number of options	5,000,000	1,900,000
Dividend yield (%)	-	-
Expected volatility (%)	110.00	110.00
Risk-free interest rate (%)	3.25	3.25
Expected life of option (years)	2.0	2.5
Option exercise price (\$)	0.10	0.166
Share price at grant date (\$)	0.135	0.135

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value. The weighted average term to maturity for share options issued to other parties outstanding at 30 June 2013 is 10.6 months.

The outstanding balance as at 30 June 2013 is represented by:

Options expiring in the year :	No Options	WAEP \$
- 2013/2014	5,000,000	0.10
- 2014/2015	<u>1,900,000</u>	<u>0.166</u>
	<u>6,900,000</u>	<u>0.118</u>

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2013

23 DERIVATIVES AND HEDGING

Economic hedging activities

At 30 June 2013 and 30 June 2012, there were no currency option contracts or forward exchange contracts in existence.

24 COMMITMENTS AND CONTINGENCIES

Operating lease commitments – Group as lessee

The previous property lease over the premises occupied by the Group expired in September 2007. The Group currently occupies the premises on a monthly tenancy. There are no future minimum rentals payable under non-cancellable operating leases as at 30 June 2013.

Capital commitments

At 30 June 2013 there were no material capital commitments outstanding (2012: Nil).

Contingent Liabilities

The group has contingent liabilities in relation to bank guarantees on issue at balance date amounting to \$45,500 (2012: \$45,500).

25 EVENTS AFTER THE BALANCE SHEET DATE

The directors reported on 30 August 2013 that the Group has entered into a Convertible Note Agreement with Magna Group, a US based structured investment company. The agreement provides for the issue of up to US\$1 million in convertible notes. On 30 August, 2013 the following transactions in relation to that agreement were completed:

- the issue of a convertible note with a face value of US\$100,000 under that agreement
- the allotment of 355,022 fully paid ordinary shares in satisfaction of a commitment fee relating to that agreement
- the conversion by the noteholder of US\$10,000 of convertible note, with the allotment of 215,037 shares in respect thereof.

Other than this matter, the directors are not aware of any events after balance date that would have a material impact on the financial statements at 30 June 2013.

26 AUDITORS' REMUNERATION

The auditor of Optiscan Imaging Limited is Ernst & Young (Australia).

	<i>CONSOLIDATED</i>	
	<i>2013</i>	<i>2012</i>
	\$	\$
<i>Amounts received or due and receivable by Ernst & Young (Australia) for:</i>		
• An audit or review of the financial report of the entity and any other entity in the consolidated group	55,993	57,618
• Other services in relation to the entity and any other entity in the consolidated group		
- R&D tax services	21,000	9,900
	<u>76,993</u>	<u>67,518</u>

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 report, and remuneration report included in the directors' report of the company and of the group are in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the company's and group's financial position as at 30 June 2013 and of their performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and *Corporations Regulations 2001* and International Financial Reporting Standards (IFRS) as disclosed in note 2(a) of the financial statements; 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.
- 2 This declaration has been made after receiving the declarations required to be made to the directors in accordance with sections 295A of the *Corporations Act 2001* for the financial year ended 30 June 2013.

On behalf of the Board

A handwritten signature in black ink, appearing to read "Angus Holt".

ANGUS HOLT

Director

30 August 2013

Independent auditor's report to the members of Optiscan Imaging Limited

Report on the financial report

We have audited the accompanying financial report of Optiscan Imaging Limited, which comprises the consolidated statement of financial position as at 30 June 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, 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 year's end or from time to time during the financial year.

Directors' responsibility 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

In conducting our audit 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.



Opinion

In our opinion:

- a. the financial report of Optiscan Imaging Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Material uncertainty regarding continuation as a going concern

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

Report on the remuneration report

We have audited the Remuneration Report included in pages 11 to 15 of the directors' report for the year ended 30 June 2013. 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.

Opinion

In our opinion, the Remuneration Report of Optiscan Imaging Limited for the year ended 30 June 2013, complies with section 300A of the *Corporations Act 2001*.

Ernst + Young

Ernst & Young

Joanne Lonergan
Partner
Melbourne
30 August 2013