OptiScan Imaging Limited
ABN 81 077 771 987

27 August 2009

Companies Section
Australian Stock Exchange Limited
525 Collins Street
MELBOURNE VIC 3000

Dear Sir

PRELIMINARY FINAL REPORT – APPENDIX 4E
YEAR ENDED 30 JUNE 2009

In accordance with Listing Rule 4.3A we enclose the Preliminary Final Report for Optiscan Imaging Limited for the year ended 30 June 2009.

The loss for the year was $6,413,370, (2008, $4,984,340) including impairment losses of $3,123,875.

A detailed commentary on results is included in the attached Appendix 4E report.

Yours Faithfully

Vicki Tutungi
Chief Executive Officer

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OPTISCAN IMAGING LIMITED

ABN 81 077 771 987

ANNOUNCEMENT OF RESULTS AND PRELIMINARY FINAL REPORT FOR YEAR ENDED 30 JUNE 2009

Review of Operations

The past year will be remembered for the global economic turbulence that dominated all markets and industries. The shock was of such proportions that it demanded an unprecedented response from governments and companies alike. Optiscan was by no means immune from these events. The Group revised its short term strategy, renegotiated contracts with partners and significantly reduced its burn rate.

Major Achievements

- Optiscan secured the right to work non-exclusively in gastroenterology.
- Award winning results were presented from the first study with Zeiss.
- Optiscan entered into a second agreement with Zeiss.
- Optiscan successfully raised $500,000 in a difficult financial climate.
- Optiscan completed development and testing of the second generation smaller scanner.

Brief overview of the year

The year opened with the Group concluding the final stage of a $3m placement, and planning a further capital raising in the USA in October 2008 to secure its medium term funding position. At the same time, there was continuing uncertainty over the future of the collaboration with Hoya. The absence of new orders persisted, and there was no indication of a change in sales prospects.

When the global financial crisis produced a meltdown in October 2008, it was clear that our then imminent USA roadshow plans would not proceed. We immediately regrouped and reviewed our cash position and forward plans. We conducted an assessment of our critical activities and core skills, and moved swiftly to reduce our burn rate to match the available cash reserves. Optiscan staff numbers were reduced from 45 to 14. The gross burn rate was reduced from $600,000 per month to around $250,000 per month. This resulted in Optiscan focussing its resources on the Zeiss project and on the continuing development of the second generation technology.

Notwithstanding the significant challenges over the course of the financial year, Optiscan advanced its collaboration with Zeiss, entering into a second agreement.

There were few positive developments with Hoya, and in March, Optiscan announced that it had terminated the collaborative development of a second generation product with Hoya.

In May 2009, Optiscan raised $500,000 with a convertible note issue under the guidance of new Chairman, Mr Angus Holt. This transaction, along with a number of other sales and negotiations of agreements resulted in a stabilisation of the Group's funding position.

By year end, Optiscan had completed development and testing of its smaller, second generation scanner and was in the final stages of development of the Generation 2 processor.

Importantly, over the past year there was abundant evidence that the market had embraced Optiscan's confocal imaging technology. Endomicroscopy is moving from a specialist research tool to an accepted imaging modality used in every day gastroenterology cases.

Gastroenterology – Confocal Moving to Mainstream

Confocal featured more strongly than ever before at Digestive Disease Week (DDW) 2009, with the key surprise being the large number of presentations that featured confocal endomicroscopy. Put simply, endomicroscopy was included alongside all of the other mainstream endoscopy technologies such as ultrasound and high definition endoscopy, featuring in over 60 presentations.

Publications continue to proliferate rapidly in gastrointestinal endoscopy (GI) and are too numerous to mention individually. A regularly updated bibliography can be found on Optiscan's website.
A new multicentre trial in the US led by Dr Marcia Canto from Johns Hopkins Hospital (Baltimore, MD, USA), has received funding from the American Society for Gastrointestinal Endoscopy (ASGE). Other hospitals participating in the study include the Cleveland Clinic (Cleveland, OH, USA), Massachussetts General Hospital (Boston, MA, USA), Mount Sinai Medical Center (New York, NY, USA) and the University of Mainz (Mainz, Germany). This independent endorsement by a highly regarded US learned society reflects the importance of the technique and its potential to address a major area of need in endoscopy for Barrett's esophagus. The multi-centre nature of the trial and its randomised controlled design is expected to produce a weight of medical evidence sufficient to influence practice guidelines. This would be a major stimulus to uptake of the technology.

Utilisation of the technology continues to escalate. For example, the University of Mainz now uses endomicroscopy routinely, having performed over 3,000 procedures and training approximately 100 endoscopists in the technique per year. Systems are now in use in USA, Germany, UK, France, Italy, Spain, Sweden, Netherlands, Japan, Australia, China (including Hong Kong), Singapore, Romania, Czech Republic, Russia, and South Africa.

Market development has also progressed locally. Confocal endomicroscopy is now available in four major Australian hospitals with several others soon to be established with the device. In April 2009, Monash Medical Centre hosted a symposium on "Technical Advances in Gastroenterology – Endomicroscopy and Endoscopic Ultrasound". One of the two international guests at the conference was Professor Ralf Kiesslich, Chief of Endoscopy, Johannes Gutenberg University Mainz, Germany. Professor Kiesslich demonstrated the use of the Pentax ISC-1000 endomicroscope during two live cases. Those cases were then discussed by attendees with direction from a panel of experts.

Chairing the proceedings for most of the two days, and Director of the Symposium, was Dr. David Devonshire, Head of Endoscopy, Monash Medical Centre Melbourne, Australia. Dr Devonshire is himself an endomicroscopist, having undertaken the training offered by Professor Kiesslich in Germany. After the event Professor Kiesslich, considered by many to be the father of endomicroscopy, commented on how far the Australian endoscopy community had come in just the last 12 months in their adoption of endomicroscopy.

Collaborative Product Developments

Hoya
As noted above, sales to Hoya slowed to a trickle during 2008 and a series of high level meetings failed to provide any prospect of finding a solution. The Supply Agreement, which the parties entered into in October 2005, came to an end in March 2009. Under the terms of the ongoing Licence Agreement, which the parties had also executed in October 2005, Hoya had the right to manufacture the product itself when the Supply Agreement expired. Hoya's rights to manufacture are subject to payment of a royalty to Optiscan on sales. This change in arrangements had little impact on Optiscan's revenue as Hoya had not been buying product for some time. It also allowed Optiscan to reduce the costs of carrying an underutilised manufacturing capability.

The parties executed a new licence agreement in July 2009. This new agreement is significantly different from the original Licence Agreement in that it gives Hoya only non-exclusive rights to the technology. While Hoya still have the right to manufacture the Generation 1 product, subject to payment of a royalty to Optiscan on units sold, Optiscan also has the right to work with other parties in the field of gastroenterology with Generation 2 technology. In addition to receipt of royalty payments from Hoya under the licence, the parties negotiated a service agreement under which Optiscan is paid at commercial rates for providing both service support and training to Hoya. This outcome also resulted in Hoya purchasing some additional systems and scanners, which provided valuable sales revenue during the year.

Concurrent with the negotiations around the manufacture and support of the generation 1 product were negotiations related to the Generation 2 Collaboration Agreement. The parties agreed to terminate the Generation 2 Agreement and discontinue the collaboration. The specifics of this arrangement included a right back to Optiscan to work non-exclusively in the field of gastroenterology. This was a critical outcome for Optiscan. Previously, Hoya had exclusive rights to this field. The endoscopy market in gastroenterology is estimated to be worth approximately US$3B pa and under the exclusive arrangement with Hoya, Optiscan was limited to the 15% share of the endoscopy market (as estimated by Optiscan) that Hoya supplies through its Pentax brand. Optiscan is now free to enter the other 85% of the market.

Zeiss
Optiscan and Zeiss started their collaboration in July 2008, and as recently announced, the fields that are the subject of the collaboration are neurosurgery, ear, nose and throat surgery and spinal surgery. During the second half of the year, the interim results of the trial activity were reported at the annual conference of the American Academy of Neurological Surgeons (AANS). The results also featured as the winner of a prestigious Springer Journal of Neuro-Oncology Award. The abstract can be found on the AANS website.

Zeiss and Optiscan were significantly buoyed by these results and as a consequence the parties entered into a new agreement which focused on ongoing development of the application. This new agreement is for a period of 12 months and sees the parties working together to complete an extensive human trial of the technology.

FIVE 1 Sales

The Optiscan FIVE 1 research confocal microscope was developed in 2007. It was anticipated that whilst the research market was not the main focus of Optiscan's activities, the product could provide a small but valuable stream of ongoing income from the 10 or so anticipated sales a year. Whilst Optiscan did not make 10 sales during the year there has been steady interest for the FIVE 1. Despite Optiscan all but eliminating its marketing budget, including the redundancy of three sales staff, Optiscan sold an instrument into Canada, one into Japan and one locally in Australia. It has also received an order for a second instrument in Canada and an order from China both of which will be filled this financial year. The unique studies that are able to be performed with the FIVE 1 are now beginning to be published, with several studies appearing in press and others now being submitted for publication.

Design & Development Activity

Although the unavoidable staff reductions have reduced the capacity of the design and development team, the Generation 2 platform has continued to progress. A complete set of stand alone hardware modules has now been finalised. A completely portable prototype system that includes a range of further improvements has also been completed.

The new smaller scanner has been assembled into a prototype probe and demonstrated working with the new platform. A range of enhancements and new features have been demonstrated with the new scanner that are expected to be highly beneficial to existing and new clinical applications. The new scanner will be transferred into production in the near future.

The first human trial of the new scanner is expected to be commenced in November 2009.

New Product Developments and Clinical Trial Activity

With the Company's focus on the Zeiss project and on the Generation 2 technology and with the reduction in resources, the work in new product development and trial activity has been heavily curtailed. However, despite this, some work continued over the year. This was principally driven by third parties and not by Optiscan.

Respiratory
A trial has commenced at the Austin Hospital in Melbourne in thoracoscopy procedures using our rigid prototype to investigate lesions on the extremities of the lungs and surrounding membranes. Whilst the

procedures are minimally invasive to the chest via a keyhole, it is hoped that endomicroscopy may offer a means to differentiate disease on the extremity of the lungs without the need to biopsy delicate membranes and lung tissue. This pilot study is approved for examination of 30 patients.

The manuscript from the first human bronchoscopy work (University Of Pennsylvania, Philadelphia) has been accepted by the journal *CHEST,* the official journal of the society of the same name. *CHEST* have since invited the authors to present the work as a late breaking abstract in the *CHEST* annual meeting in October 09. This is a prestigious and high profile endorsement and we expect it will result in a significant number of enquiries from other researchers in this field.

Robotic Prostate Surgery
The trial using the confocal microscope to assist in robotic prostate surgery commenced in October last year. Due to the focus on Zeiss and Generation 2 technology, only very limited support has been provided to this trial and as a consequence progress has been slow.

Women's Health
The trial at Royal Women's Hospital (RWH) on endometriosis continued but again support from Optiscan has been very limited. A paper describing our cervical cancer trials at the RWH was accepted by the British Journal of Obstetrics and Gynaecology recently, and its publication is imminent. This could be a useful stimulus to commercial interest in this application.

Pancreatic Cancer
The surgical work performed at Bankstown Hospital (NSW, Australia) in pancreatic cancer was accepted for publication in the *Annals of Surgery* recently, and has now appeared in press. We expect this to stimulate considerable interest in this field as pancreatic cancer resection is associated with poor outcomes and represents an area of significant medical need.

Liver Disease
The liver work conducted by Mainz using Near Infrared laser (NIR) was presented at DDW. This has now been prepared for journal publication and is presently being submitted by Dr Martin Goetz. Although the blue laser liver imaging has already been published, the results were marginal. The NIR work elegantly addressed the limitations experienced with the blue system and the ability to predict histology was strong, as well as suggesting a possible improvement in yield from biopsy. This publication is also expected to stimulate real interest in the rigid probe for this potential clinical application.

Intellectual Property

Optiscan continues to manage its intellectual property portfolio carefully, to ensure that whilst its competitive advantage is protected, costs are contained. In July 2008, Optiscan's patent entitled "Optical Connector" was granted in the US. During September 2008, Optiscan's patent entitled "Electrically Operated Tuning Fork" was granted in France, Italy, Germany and Great Britain. This patent had already been granted in Australia, the US and Japan and covers one of the key miniaturised mechanisms in the head of the Optiscan endomicroscope. In May 2009, Optiscan's patent application entitled "Tuning Fork Type Scanning with Counterweight" was granted in the US. This patent protects elements of the scanning mechanism in the head of the device.

The two original patent families that Optiscan was founded upon expired in July and August 2009. The patents described the fundamental elements of a confocal microscope. Optiscan has received a regular royalty stream from manufacturers of desk top confocal microscopes for use of the technology described in these two patent families. This royalty stream will not continue.

Despite the lapsing of these original patent families, Optiscan maintains a strong patent portfolio with:

- 16 granted patents in Optiscan's name,
- 24 patent applications filed in Optiscan's name,
- 14 granted patents in joint names with Hoya,
- 34 patent applications filed in joint names with Hoya and access to a further 11 applications filed by Hoya.

Corporate

The corporate profile of Optiscan has changed significantly in the past year.

Staff costs have historically represented more than 60% of our cost base. When faced with the need to reduce costs during the year, this necessarily required staff reductions. The guiding principle adopted was to retain key, mission-critical technical and technology knowledge. As a result, production, marketing and administration staffing were reduced to minimal levels. The current complement of 14 staff comprises eight R&D staff, three production, one quality and two administration, being the CEO and an assistant.

The board of directors was also reduced from five to three. Keith Daniel retired from the board in November after eight years service. Jim Fox resigned, followed by Tony Rogers and Grant Latta. Angus Holt joined the board in February, and was appointed Chairman in May when Grant Latta resigned. The board now comprises three directors. The executive group was similarly reduced, with John Allen, Bruce Andrew and Robert Pattie being part of the staff redundancy program. The board has assumed the role of the former executive group. Bruce Andrew and Robert Pattie have agreed to provide consulting services to the Group to enable an orderly transition of their extensive knowledge and experience about the Group's finances and R&D activities, respectively.

Funding of the Group's activities has been an enormous challenge over the past year. As noted in the overview, our US fundraising plans were scuttled in October when the full force of the global economic crisis took effect. Since that time, an extensive program to seek additional funding was undertaken by the board. This activity was carried out in what is regarded as the most difficult financial market conditions since the Great Depression. The state of financial markets and the consequent risk aversion of investors provided little scope for Optiscan to raise necessary working capital. With the assistance of new director, Angus Holt, the Group eventually raised $500,000 via the private placement of convertible notes. This raising was concluded in May, providing a much needed level of security to the forward cash position.

Financial

The impact of the global financial crisis is central to an analysis of the financial result for 2008/2009. The net loss for the year is $6,413,370. This includes impairment losses of $3,123,875 relating to reduction in the value of both goodwill and inventory, which are now carried at $0 and $436,881 respectively.

Sales revenue of $1,500,923 was slightly higher than $1,427,035 in 2008, mainly due to the end of life purchase of parts and accessories by Hoya at the conclusion of the Supply Agreement.

Royalty revenue of $754,862 was similar to last year, but there were no infringement settlements, consequently the year on year comparison shows an overall decline of $350,140.

Other income from interest and government grants also declined, while design and development income increased to $1,386,703, largely due to the new agreements entered into with Zeiss.

Expenses were substantially reduced from October 2008, and, excluding the one off impairment losses and redundancies, were 31% lower than last year. As most of this reduction occurred in the second half of the year, it represents a steep reduction in the expense rate.

The pre tax loss before impairment and redundancies for the year was $2,519,429, compared to $4,932,052 last year. After allowing for income tax, (which represents the write off of withholding tax deductions amounting to $74,934), the net loss for the year is $6,413,370, which is 29% higher than the loss of $4,984,340 in 2008.

Cash at bank at end June 2009 was $1,651,106, compared to $3,990,520 the year before. Cash consumed in operations was $3,295,133, a decrease over the previous year of $1,355,529. The finalisation of the $3M share placement announced in June 2008 raised $446,755 in July, and the convertible note issue in May 2009 raised $500,000, reducing the overall net cash usage for the year to $2,238,378.

Outlook

The past year has certainly re-shaped Optiscan. Today, Optiscan is a hyper focussed unit with a greatly reduced cost base with its immensely valuable technology intact.

The Group's funding and its operations are back on a steady footing, and the commercial outlook is positive. Indeed, with the newfound freedom to operate in the gastroenterology market when the Generation 2 platform is completed, the Board believes the upside potential is now greater than ever. This is expected to open up exciting new licensing and partnership opportunities.

Optiscan will continue to focus on completion of the Zeiss contract and development of the second generation platform in the near term. These projects have the clearest near term earning potential. Cost containment will remain a priority.

Given the growing awareness and use of confocal in the gastroenterology community, Optiscan anticipates a much shorter time to market acceptance when its second generation technology is released, compared to the long lead times experienced with Generation 1. While there is still much work to do in getting Generation 2 product to market, the time to meaningful sales and profitability may not be far beyond market launch with the Group already fielding enquiries from doctors looking for the next product in the field.

OPTISCAN IMAGING LIMITED

ABN : 81 077 771 987

APPENDIX 4E

Preliminary Final Report

Year ended 30 June 2009

Previous corresponding period: Year ended 30 June 2008

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1. Results for announcement to the market
2. Brief explanation of results
3. Commentary on results
4. Other information
5. Audit Report
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1. Results for announcement to the market

The results of Optiscan Imaging Limited for the year ended 30 June 2009 are as follows:

Results

Sales revenue increased 5% to $1.501M.

Other revenue and income, including royalties, grants, interest and design and development income declined marginally, by 4% to $2.374M.

Gross profit increased from $0.255M to $0.411M, and the gross profit rate increased from 18% to 27%.

Total expenses excluding impairment losses and redundancies decreased 31%, to $5.305M.

Impairment losses amounted to $3.124M, and redundancies $0.695 (2008, nil).

Net loss after tax attributable to members was up 29% to $6.413M (2008, $4.984M)

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 net loss for the year is $6,413,370. This includes impairment losses of $3,123,875 relating to reduction in the value of both goodwill and inventory.

Sales revenue of $1,500,923 was slightly higher than $1,427,035 in 2008, mainly due to the end of life purchase of parts and accessories by Hoya at the conclusion of the Supply Agreement.

Royalty revenue of $754,862 was similar to last year, but there were no infringement settlements, so the year on year comparison shows an overall decline of $350,140.

Other income from interest and government grants also declined, but Design and Development income increased to $1,386,703, largely due to the new agreements entered into with Zeiss.

Expenses were substantially reduced from October 2008, and, excluding the once off impairment losses and redundancies, were 31% lower than last year. As most of this reduction occurred in the second half of the year, it represents a steep reduction in the expense rate. All categories of expense were reduced, but most of the reductions related to staff costs, which were reduced by 44% (excluding redundancies).

The pre tax loss before impairment and redundancies for the year was $2,519,429, compared to $4,932,052 last year. After allowing for income tax, (which represents the write off of withholding tax deductions amounting to $74,934), the net loss for the year is $6,413,370, which is 29% higher than the loss of $4,984,340 in 2008.

3. Commentary on result

The Overview of 2008/2009 on pages 1 to 6 of this report is to be read as forming part of this Preliminary Final Report.

4. Other information to be included in Appendix 4E

Net Tangible Assets per ordinary Security

Net tangible assets per ordinary security at 30 June 2009 amount to $0.01 (2008, $0.05).

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 24 November 2009 at the offices of Lander & Rogers Lawyers, Level 12, Bourke Place, 600 Bourke Street, Melbourne, Victoria.

5. Audit Report

The audit report is set out on pages 10 to 12 of this report.

6. Financial information

Audited financial information is set out on pages 13 to 61 of this report.

Vicki Tutungi
Chief Executive Officer

27 August 2009

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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 balance sheet as at 30 June 2009, and the income statement, statement of recognised income and expense and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes 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 and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 our 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, we consider 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 met 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. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

1. 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 financial position of Optiscan Imaging Limited and the consolidated entity at 30 June 2009 and of their performance for the year ended on that date; and

    ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Inherent uncertainty regarding continuation as a going concern

Without qualification to the opinion expressed above, attention is drawn to the following matter.

As outlined in Note 2(a) to the financial statements, in common with other biotechnology companies, the operations of the company and consolidated entity are subject to considerable risks due primarily to the nature of the product development and commercialisation being undertaken.

In addition, in order for the company and consolidated entity to execute their longer term plans, it will be necessary to raise additional funds in the future. The Directors cannot be certain of the success of any intended fund raising or the success of any product development or commercialisation. As a result of these factors and unless the initiatives described in Note 2(a) are achieved there is significant uncertainty whether the company and consolidated entity will be able to continue as going concerns, and therefore, whether the company and consolidated entity will be able to realise their assets and extinguish their liabilities in the normal course of business at the amounts stated in the financial report.

The financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the company and consolidated entity not continue as going concerns.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 16 to 22 of the directors' report for the year ended 30 June 2009. 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.

Auditor's Opinion

In our opinion the Remuneration Report of Optiscan Imaging Limited for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Don Brumley
Partner

Melbourne
27 August 2009

Income Statement
FOR THE YEAR ENDED 30 JUNE 2009

	Note	CONSOLIDATED		PARENT	
		2009 $	2008 $	2009 $	2008 $
Sale of goods		1,337,228	1,384,622	-	-
Rendering of services		163,695	42,413	-	-
Other revenue	6(a)	862,988	1,397,951	33,191	47,771
Revenue		2,363,911	2,824,986	33,191	47,771
Cost of sales		(1,089,525)	(1,172,033)	-	-
Gross Profit		1,274,386	1,652,953	-	-
Other income	6(b)	1,511,347	1,082,389	-	-
Marketing expenses		(774,169)	(808,232)	-	-
Research & development expenses		(2,818,301)	(3,621,848)	-	-
Administrative expenses		(2,349,392)	(3,146,611)	(220,683)	(422,906)
Other expenses	6(h)	(3,182,307)	(90,703)	-	-
Investing expenses	6(i)	-	-	(6,217,116)	(4,610,137)
Loss before income tax		(6,338,436)	(4,932,052)	(6,404,608)	(4,985,272)
Income tax expense	7	(74,934)	(52,288)	-	-
Net loss for the year		(6,413,370)	(4,984,340)	(6,404,608)	(4,985,272)
Loss per share (cents per share)	8				
- basic loss per share for the year		(5.48)	(4.78)		
- diluted loss per share for the year		(5.48)	(4.78)		

Balance Sheet
AS AT 30 JUNE 2009

	Note	*CONSOLIDATED*		*PARENT*	
		2009	*2008*	*2009*	*2008*
		$	*$*	*$*	*$*
ASSETS					
Current Assets					
Cash and cash equivalents	9	1,651,106	3,990,520	722,992	3,097,849
Trade and other receivables	10	250,987	482,491	-	6,967
Inventories	11	436,881	1,885,268	-	-
Prepayments		52,496	45,672	-	-
Total Current Assets		2,391,470	6,403,951	722,992	3,104,816
Non-current Assets					
Investments in subsidiaries	12	-	-	1,500,570	4,606,657
Other receivables	10	-	-	-	-
Plant and equipment	13	454,982	795,296	-	-
Intangible assets - Software	14	29,944	49,366	-	-
Goodwill	15	-	1,981,467	-	-
Total Non-current Assets		484,926	2,826,129	1,500,570	4,606,657
TOTAL ASSETS		2,876,396	9,230,080	2,223,562	7,711,473
LIABILITIES					
Current Liabilities					
Trade and other payables	16	258,765	608,190	4,786	7,959
Provisions	19	362,969	870,127	-	-
Total Current Liabilities		621,734	1,478,317	4,786	7,959
Non-current Liabilities					
Trade and other payables	16	11,260	-	-	-
Borrowings	17	461,609	-	461,609	-
Provisions	19	24,626	48,249	-	-
Total Non-current Liabilities		497,495	48,249	461,609	-
TOTAL LIABILITIES		1,119,229	1,526,566	504,786	7,959
NET ASSETS		1,757,167	7,703,514	1,757,167	7,703,514
EQUITY					
Contributed equity	20	43,913,560	43,428,415	43,913,560	43,428,415
Accumulated losses	20	(42,754,427)	(36,341,057)	(42,746,597)	(36,341,989)
Reserves	20	598,034	616,156	590,204	617,088
TOTAL EQUITY		1,757,167	7,703,514	1,757,167	7,703,514

Statement of Recognised Income and Expense
FOR THE YEAR ENDED 30 JUNE 2009

	CONSOLIDATED		*PARENT*	
	2009 *$*	*2008* *$*	*2009* *$*	*2008* *$*
Foreign exchange difference on translation of net investment in USA subsidiary	8,762	(932)	-	-
Loss for the period	(6,413,370)	(4,984,340)	(6,404,608)	(4,985,272)
Total recognised income and expense for the period	(6,404,608)	(4,985,272)	(6,404,608)	(4,985,272)

Cash Flow Statement
FOR THE YEAR ENDED 30 JUNE 2009

	Note	*CONSOLIDATED*		*PARENT*	
		2009	*2008*	*2009*	*2008*
		$	*$*	*$*	*$*
Cash flows from operating activities					
Receipts from customers		2,988,662	2,596,568	-	-
Payments to suppliers and employees		(7,136,616)	(8,277,198)	(250,741)	(314,422)
Royalties received		728,037	706,648	-	-
Interest received		116,764	304,881	40,158	40,804
Receipt of government grants		188,958	626,450	-	-
Income tax paid		(74,934)	(52,288)	-	-
Net cash flows (used in) operating activities	9	(3,189,129)	(4,094,939)	(210,583)	(273,618)
Cash flows from investing activities					
Purchase of plant and equipment	13	(95,302)	(541,026)	-	-
Purchase of intangible assets - software	14	(25,770)	(14,697)	-	-
Proceeds from sale of plant and equipment		15,068	-	-	-
(Advances to) / Repayments from controlled entity	10	-	-	(3,111,029)	216,619
Net cash flows from/(used in) investing activities		(106,004)	(555,723)	(3,111,029)	216,619
Cash flows from financing activities					
Proceeds from issue of shares	20	450,103	2,663,053	450,103	2,663,053
Proceeds from issue of convertible notes		500,000	-	500,000	-
Transaction costs relating to issue of shares	20	(3,348)	(7,959)	(3,348)	(7,959)
Net cash flows from financing activities		946,755	2,655,094	946,755	2,655,094
Net increase (decrease) in cash and cash equivalents		(2,348,378)	(1,995,568)	(2,374,857)	2,598,095
Net foreign exchange differences		8,963	49,515	-	-
Cash and cash equivalents at beginning of period		3,990,520	5,936,573	3,097,849	499,754
Cash and cash equivalents at end of period	9	1,651,106	3,990,520	722,992	3,097,849

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2009

1 CORPORATE INFORMATION

The financial report of Optiscan Imaging Limited (the Company) for the year ended 30 June 2009 was authorised for issue in accordance with a resolution of the directors on 28 August 2009.

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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a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with Australian Accounting Standards ('AASBs') (including Australian Interpretations) as issued by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*. 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.

Going Concern (Significant Uncertainty as at 30 June 2009)
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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

Basis of preparation (continued)

As at 30 June 2009, the financial position of the consolidated entity as disclosed in the financial statements reflects a net asset position of 1,757,167 (2008: $7,703,514). This balance has been determined after a consolidated net loss for the year of $6,413,370 (2008: loss $4,984,340), and a net cash outflow from operations of $3,189,129 (2008: 4,094,939).

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 2009 is $1,651,106 (2008: $3,990,520), which includes cash raised through the issue of convertible notes in May 2009 totalling $500,000
- Cashflow of US$575,000 are expect to be received under the agreements with Hoya signed in July 2009 over the next two years,
- Additional cashflow will also be received in the 2010 financial year under the agreement with Carl Zeiss
- 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.

b) Statement of compliance

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

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 ending 30 June 2009. These are outlined in the table below.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Statement of compliance (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB Int. 16	Hedges of a Net Investment in a Foreign Operation	This interpretation requires that the hedged risk in a hedge of a net investment in a foreign operation is the foreign currency risk arising between the functional currency of the net investment and the functional currency of any parent entity. This also applies to foreign operations in the form of joint ventures, associates or branches.	1 October 2008	The foreign currency risk in the net investment in a foreign operation is not material and no significant impact is anticipated.	1 July 2009
AASB 8 and AASB 2007-3	Operating Segments and consequential amendments to other Australian Accounting Standards	New standard replacing AASB 114 *Segment Reporting*, which adopts a management reporting approach to segment reporting.	1 January 2009	The present segment report largely reflects management reporting so no significant impact is anticipated.	1 July 2009
AASB 123 (Revised) and AASB 2007-6	Borrowing Costs and consequential amendments to other Australian Accounting Standards	The amendments to AASB 123 require that all borrowing costs associated with a qualifying asset be capitalised.	1 January 2009	The Group has not previously incurred borrowing costs for qualifying assets and this is not expected to change so no impact is anticipated.	1 July 2009
AASB 101 (Revised), AASB 2007-8 and AASB 2007-10	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	These amendments are only expected to affect the presentation of the Group's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report. The Group has not determined at this stage whether to present a single statement of comprehensive income or two separate statements.	1 July 2009

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2009

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Statement of compliance (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations	The amendments clarify the definition of 'vesting conditions', introducing the term 'non-vesting conditions' for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.	1 January 2009	The Group has share-based payment arrangements but it is unlikely that they will be affected by these amendments. The Group has not previously used non vesting conditions and presently has no intention to vary existing terms and conditions to introduce non vesting conditions. Accordingly, the Group does not expect any impact from these amendments.	1 July 2009
AASB 127 (Revised)	Consolidated and Separate Financial Statements	Under the revised standard, a change in the ownership interest of a subsidiary (that does not result in loss of control) will be accounted for as an equity transaction.	1 July 2009	If the Group changes its ownership interest in existing subsidiaries in the future, the change will be accounted for as an equity transaction. This will not give rise to a gain or a loss in the Group's income statement.	1 July 2009
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127	Amending standard issued as a consequence of revisions to AASB 3 and AASB 127.	1 July 2009	The Group does not anticipate any business combinations in the immediate future and does not expect any impact from these amendments.	1 July 2009

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2009

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Statement of compliance (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2008-7	Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	The main amendments of relevance to Australian entities are those made to AASB 127 deleting the 'cost method' and requiring all dividends from a subsidiary, jointly controlled entity or associate to be recognised in profit or loss in an entity's separate financial statements (i.e., parent company accounts). The distinction between pre- and post-acquisition profits is no longer required. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. AASB 127 has also been amended to effectively allow the cost of an investment in a subsidiary, in limited reorganisations, to be based on the previous carrying amount of the subsidiary (that is, share of equity) rather than its fair value.	1 January 2009	Recognising all dividends received from subsidiaries, jointly controlled entities and associates as income will likely give rise to greater income being recognised by the parent entity after adoption of these amendments if such dividend payments are made.. In addition, if the Group enters into any group reorganisation establishing new parent entities, an assessment will need to be made to determine if the reorganisation meets the conditions imposed to be effectively accounted for on a 'carry-over basis' rather than at fair value.	1 July 2009
AASB 2008-8	Amendments to Australian Accounting Standards – Eligible Hedged Items	The amendment to AASB 139 clarifies how the principles underlying hedge accounting should be applied when (i) a one-sided risk in a hedged item and (ii) inflation in a financial hedged item existed or was likely to exist.	1 July 2009	The Group has not yet recently entered into hedging transactions. There is no immediate impact on the Group whilst there are no hedging transactions.	1 July 2009

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2009

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Statement of compliance (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2009-2	Amendments to Australian Accounting Standards – Improving disclosures about Financial Instruments [AASB 4, AASB 7, AASB 1023 & AASB 1038]	The main amendment to AASB 7 requires fair value measurements to be disclosed by the source of inputs, using the following three-level hierarchy: - Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (Level 2) and - Inputs for the asset or liability that are not based on observable market data (unobservable inputs) (Level 3) These amendments arise from the issuance of *Improving disclosures about Financial Instruments* (Amendments to IFRS 7) by the IASB in March 2009. The amendments to AASB 4, AASB 1023, and AASB 1038 comprise editorial changes resulting from the amendments to AASB 7.	Annual reporting periods beginning on or after 1 January 2009 that end on or after 30 April 2009.	Where applicable, additional disclosures may be required. At present, the Group does not revalue its financial assets and financial liabilities to fair value and therefore minimal impact is expected.	1 July 2009

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2009

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Statement of compliance (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2008-5	Amendments to Australian Accounting Standards arising from the Annual Improvements Project	The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs. The IASB has separated the amendments into two parts: Part I deals with the changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact.	1 July 2009	The standard deals with a range of technical issues, relating to specific transactions or unusual circumstances that have never, or would only rarely, be encountered by the Group. The standard is expected to have minimal, if any, impact on the Group.	1 April 2009
AASB 2008-6	Further amendments to Australian Accounting Standards arising from the Annual improvements Project	Refer to AASB 2008-5 above. The amendments relate to circumstances where there is a sale plan for disposal of a subsidiary.	1July 2009	The Group has no plans for the sale of a subsidiary so no impact is anticipated.	1 April 2010

*Designates the beginning of the annual reporting period unless otherwise stated

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

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

Government grants are recognised in the balance sheet as a liability when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. 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.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2009

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 the income statement in accordance with the term of the lease.

(ii) Group as lessee
Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

g) Cash and cash equivalents
Cash and short-term deposits in the balance sheet 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 Cash Flow Statement, 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 2009

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 the balance sheet date.

All transactional exchange differences are recognised in the income statement. 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 the balance sheet 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 the balance sheet 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 2009

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 sheet 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 sheet 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 the balance sheet 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 balance sheet.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other taxes (continued)

Cash flows are included in the Cash Flow Statement 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:

Class of plant and equipment	Depreciation rate
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) Goodwill

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group’s interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2009

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. When the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses recognised for goodwill are not subsequently reversed.

Goodwill was impaired to a zero carrying value in 2008/2009.

q) Intangible assets
The only intangible assets other than goodwill recognised by the group are software assetsThe amounts capitalised (refer note 14) represent the acquisition cost of software packages 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.

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.

r) 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.

s) 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.

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

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2009

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

t) 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 the income statement net of any reimbursement.

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.

u) Share-based payment transactions
(i*) Equity settled transactions:*
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 23.

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).

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions (continued)

At each reporting date until vesting the cumulative charge to the income statement 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 the income statement 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.

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.

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).

v) 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.

w) 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 2009

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

x) Segment reporting

A business segment is a distinguishable component of the entity that is engaged in providing products or services that are subject to risks and returns that are different to those of other operating business segments.

A geographical segment is a distinguishable component of an entity that is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

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 2009

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, and to Convertible notes issued in 2009. As cash on deposit is expected to exceed the amount of interest bearing liabilities, 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		Parent	
	2009	2008	2009	2008
Financial Assets	$	$	$	$
Cash and cash equivalents	1,628,558	3,925,361	722,992	547,919
Financial Liabilities				
Convertible notes	500,000	-	500,000	-
Net exposure	1,128,558	3,925,361	222,992	547,919

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

At 30 June 2009, 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 Loss (Higher) Lower		Equity Higher (Lower)	
	2009	2008	2009	2008
	$	$	$	$
Consolidated				
+0.5% (50 basis points)	10,688	22,694	-	-
-0.5% (50 basis points)	(10,688)	(22,694)	-	-
Parent				
+0.5% (50 basis points)	3,476	4,295	-	-
-0.5% (50 basis points)	(3,476)	(4,295)	-	-

The movement factor of 0.5% is the average movement in official interest rates over the four years from 2005 to 2008. In 2009, there was a large downward movement of 4.25% which has been excluded from the average as it reflected exceptional policies related to the global financial crisis. In the current climate where a slow, steady recovery from the financial crisis is anticipated, modest movements in official interest rates of 0.5% are considered a reasonable expectation of interest rate movement in the near term. 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 equity as there are no derivative instruments designated as cash flow hedges.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

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, the Group's balance sheet can be affected by significant movements in the US$/A$ 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 2009, there were no economic hedges in place in respect of net foreign currency exposures, as the balances outstanding was below the materiality threshold.

At 30 June 2009, the Group had the following exposure to US$ foreign currency that is not designated in cash flow hedges:

	Consolidated		Parent	
	2009	2008	2009	2008
	$	$	$	$
Financial Assets				
Cash and cash equivalents	11,806	48,352	-	-
Trade and other receivables	25,732	70,590	-	-
Financial Liabilities				
Trade and other payables	(15,271)	(145,812)	-	-
Net exposure	22,267	(26,870)	-	-

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

At 30 June 2009, had the Australian Dollar moved by the same amount experienced during the past 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 A$/US$ exchange rates:	Net Loss (Higher) Lower		Equity Higher (Lower)	
	2009	2008	2009	2008
	$	$	$	$
Consolidated				
AUD/USD +14.68%	4,729	2,797	-	-
AUD/USD - 14.68%	(3,518)	(3,492)	-	-
Parent				
AUD/USD +14.684	-	-	-	-
AUD/USD - 14.68%	-	-	-	-

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 2009

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. Until this year, all capital financing has been derived from issues of equity. In May 2009, the Group 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 2009. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2009.

	Consolidated			Parent		
	<6 months	1-5 years	Total	<6 months	1-5 years	Total
Year ended 30 June 2009						
Financial assets						
Cash and cash equivalents	1,651,106	-	1,651,106	722,992	-	722,992
Trade and other receivables	250,987	-	250,987	-	-	-
Financial liabilities						
Trade and other payables	(33,376)	-	(33,376)	-	-	-
Convertible notes	-	(500,000)	(500,000)	-	(500,000)	(500,000)
Net maturity	1,868,717	(500,000)	1,368,717	722,992	(500,000)	222,992
Year ended 30 June 2008						
Financial assets						
Cash and cash equivalents	3,990,520	-	3,990,520	3,097,849	-	3,097,849
Trade and other receivables	482,491	-	482,491	6,967	-	6,967
Financial liabilities						
Trade and other payables	(608,188)	-	(608,188)	(7,959)	-	(7,959)
Net maturity	3,864,823	-	3,864,823	3,096,857	-	3,096,857

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

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 18). 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 18.

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:

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill is allocated.

During the year ended 30 June 2009, the impairment assessment resulted in the recognition of an impairment loss equal to the pre impairment carrying amount of goodwill. Impairment losses on goodwill are not subject to reversal, and accordingly, the balance previously recognised will no longer be included in the Group balance sheet.

Impairment testing of goodwill

Annual impairment testing requires an assessment of the recoverable amount of the cash-generating unit (“CGU”) to which the goodwill relates, which is the higher of its fair value less costs to sell, and its value in use.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Impairment of goodwill (continued)

The fair value less costs to sell has been estimated by reference to the market value of the group. In prior years, the market capitalisation, when adjusted to exclude net trading assets and costs to sell has been substantially in excess of an estimate of the value in use, and both amounts have exceeded the carrying amount of the CGU to which the goodwill has been allocated. During the 2009 year, the Group's market capitalisation declined significantly as a result of the global financial crisis. This resulted in a significant indicator of impairment in the fair value less cost to sell of goodwill.

The value in use of goodwill has been assessed in prior years by reference to cash flows from both royalties and from the sale of products. The assessment has been based on a range of key assumptions, each of which was reviewed during the impairment assessment in the current year. The following indicators of impairment arose:

Sales volumes of endomicroscopes
Sales volumes of endomicroscopes were expected to continue to grow as confocal microscopy is progressively adopted, and when multi-centre trials achieve proof of efficacy and enable reimbursement by insurers. However during 2008/2009, the global financial crisis introduced a significant degree of uncertainty into future sales volumes and our ability to secure the required funding to realise those sales.

Flexible endomicroscopy partnership with Pentax/Hoya
The partnership with Pentax was previously expected to continue in accordance with the relevant agreements. However, during 2008/2009, there was little dialogue and commercial interaction with Pentax, and by year end, we were actively negotiating the basis on which the second generation agreement would be terminated. A review of sales prospects for the existing product line also resulted in substantially reduced forecast sales volumes.

Development and commercialisation of rigid endoscope products and partnerships
It was previously assumed that the company would successfully develop applications in rigid endoscopy, and form partnerships to commercialise new products. Whilst this goal remains valid, the impact of the global financial crisis has substantially increased both the funding risk and the timeline to completion.

Optiscan FIVE 1
Management previously assumed that there would be continuing increasing sales of the Optiscan FIVE 1 research instrument. Although some sales are being achieved, they are well below the rate previously forecast, and earlier forecasts have been substantially reduced.

Gross margins and growth rates
The deterioration in the global economic environment over the past year has resulted in a reduction is both gross margins, due to pricing pressures, and forecast sales growth rates.

Effect of impairment testing of goodwill in 2008/2009
The impairment testing process including the review of assumptions outlined above and the movement in the market capitalisation of the Group resulted in a conclusion that goodwill was impaired, and the carrying value should be reduced to zero.

Share-based payment transactions

The Group measures the cost of equity-settled transactions with employees 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, using the assumptions detailed in note 23.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Net realisable value of inventory
Most of the inventory held by the Group is for production of the first generation confocal imaging platform, embodied in the ISC-1000 and FIVE 1 products.

The issues identified in the impairment assessment of goodwill have also impacted on the forecasts of inventory utilisation. In addition, the expiry of the Supply Agreement with Hoya and their decision to manufacture the ISC-1000 has resulted in a substantially increased risk that much of the inventory held by the Group will not be required for production or future development. Furthermore, the reduction in staff numbers in response to the impact of the global financial crisis has reduced production capacity and the likelihood of consumption of inventory in the ordinary course of business. The effect of these factors has been a substantial reduction in the net realisable value of inventory (Note 6(e)).

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.

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 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 an early stage and 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.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2009

5 SEGMENT INFORMATION

The Group's primary segment reporting format is business segments. The group does not operate in multiple geographic segments, as all activities are conducted in Australia.

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.

		Trading $	*R&D* $	*Unallocated* $	*Total* $
Year ended 30 June 2009					
Revenue					
	Sales to external customers	1,500,923	-	-	1,500,923
	Other revenues	-	-	862,988	862,988
	Inter segment revenue	-	-	-	-
	Total consolidated revenue	1,500,923	-	862,988	2,363,911
Result					
	Net profit (loss) for year by segment	(355,805)	(1,530,991)	(4,526,574)	(6,413,370)
Assets and liabilities					
	Segment assets *	546,766	179,324	2,150,306	2,876,396
	Segment liabilities	(164,157)	(260,016)	(695,056)	(1,119,229)
	Segment net assets	382,609	(80,692)	1,455,250	1,757,167
Cash flow					
	Segment net cash flow from operating activities	(417,413)	(1,498,941)	(1,272,775)	(3,189,129)
	Investing cash flows	45,167	(44,280)	(106,891)	(106,004)
	Financing cash flows	-	-	946,755	946,755
	Net cash flow for year	(372,246)	(1,543,221)	(432,911)	(2,348,378)
Other Segment information					
Non cash expenses					
	Depreciation and amortisation	126,685	193,147	158,815	478,647
	Share based payments	-	-	(26,884)	(26,884)
Revenue by geographic segment (location of customer)					
	Asia	1,153,105	-	281,798	1,434,903
	Australia	81,428	-	108,126	189,554
	Europe	95,372	-	473,064	568,436
	USA	171,018	-	-	171,018
	Total	1,500,923	-	862,988	2,363,911

* Unallocated segment assets include cash

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

5 SEGMENT INFORMATION (continued)

		Trading *$*	*R&D* *$*	*Unallocated* *$*	*Total* *$*
Year ended 30 June 2008					
Revenue					
	Sales to external customers	1,427,035	-	-	1,427,035
	Other revenues	-	324,874	1,073,077	1,397,951
	Inter segment revenue	-	-	-	-
	Total consolidated revenue	1,427,035	324,874	1,397,951	2,824,986
Result					
	Net profit (loss) for year by segment	(857,913)	(2,751,439)	(1,374,988)	(4,984,340)
Assets and liabilities					
	Segment assets *	4,109,737	328,191	4,792,152	9,230,080
	Segment liabilities	(711,610)	(422,392)	(392,564)	(1,526,566)
	Segment net assets	3,398,127	(94,201)	4,399,588	7,703,514
Cash flow					
	Segment net cash flow from operating activities	(35,797)	(2,534,737)	(1,524,405)	(4,094,939)
	Investing cash flows	(13,671)	(304,948)	(237,104)	(555,723)
	Financing cash flows	-	-	2,655,094	2,655,094
	Net cash flow for year	(49,468)	(2,839,685)	893,585	(1,995,568)
Other Segment information					
Non cash expenses					
	Depreciation and amortisation	64,777	139,339	199,160	403,276
	Share based payments	18,747	59,759	22,019	100,525
Revenue by geographic segment (location of customer)					
	Asia	1,083,975	-	508,615	1,592,590
	Australia	116,470	-	292,949	409,419
	Europe	-	324,874	265,246	590,120
	USA	226,590	-	6,267	232,857
	Total	1,427,035	324,874	1,073.077	2,824,986

* Unallocated segment assets include cash

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

6 REVENUES AND EXPENSES

	CONSOLIDATED		PARENT	
	2009 *$*	*2008* *$*	*2009* *$*	*2008* *$*
Revenue and Expenses				
(a) Other revenue				
(i) Royalty revenue				
Recurring royalty revenue	754,862	360,663	-	-
Initial license fees	-	324,874	-	-
Royalty entitlement settlements [(1)]	-	419,465	-	-
Total royalty revenue	754,862	1,105,002	-	-

[(1)] In 2004/2005, Optiscan announced that following hearings in the Japanese Patent Office and European Patent Office, the geographic coverage of its first generation of core patents had been extended to Japan and key European countries. The nature of these hearings meant that unpaid and outstanding royalties from existing licensees of Optiscan technology could be pursued. The amounts were fully settled in 2008.

	CONSOLIDATED 2009 $	CONSOLIDATED 2008 $	PARENT 2009 $	PARENT 2008 $
(ii) Finance revenue – bank interest received	108,126	292,949	33,191	47,771
Total other revenue	862,988	1,397,951	33,191	47,771
(b) Other income				
Design and development income	1,386,703	413,614	-	-
Lease income	11,776	25,685	-	-
Government grants	99,605	643,090	-	-
Net gain on disposal of plant and equipment	13,263	-	-	-
Total Other Income	1,511,347	1,082,389	-	-
(c) Depreciation and amortisation				
-Depreciation included in Cost of sales	61,252	64,777	-	-
- Depreciation included in Marketing expenses	65,432	32,715	-	-
- Depreciation included in R&D expenses	193,148	139,339	-	-
- Depreciation included in Administration expenses	113,623	124,493	-	-
	433,455	361,324	-	-
- Amortisation of software included in Administration expenses	45,192	41,952	-	-
	478,647	403,276	-	-
(d) Employee benefits expense				
Wages and salaries	2,971,437	4,258,713	148,548	220,000
Redundancies	695,132	-	-	-
Workers' compensation costs	37,095	40,257	-	-
Defined contribution plan expense	270,545	394,716	-	-
Annual leave provision	23,113	4,674	-	-
Long service leave provision	25,337	54,050	-	-
Share-based payments expense	(26,884)	100,525	(26,884)	100,525
	3,995,774	4,852,935	121,664	320,525

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2009

		CONSOLIDATED		PARENT	
		2009 $	2008 $	2009 $	2008 $
6	**REVENUES AND EXPENSES (continued)**				
(e)	**Cost of inventories recognised as an expense**				
	Consumed in production – cost of goods sold	476,723	2,694,954	-	-
	Consumed in R&D	2,216	39,030	-	-
	Write down inventory to net realisable value	1,142,408	-	-	-
		1,621,347	2,733,984	-	-
(f)	**Finance costs**				
	Interest on convertible notes	4,786	-	4,786	-
(g)	**Other expenses included in income statement**				
	Minimum lease payments – operating lease	238,500	266,019	-	-
	Warranty provision (Note 19)	(33,683)	(19,349)	-	-
(h)	**Specific Items included in Other expenses**				
	Impairment of goodwill (Note 4)	1,981,467	-	-	-
	Write down inventory to net realisable value (Note 4, 11)	1,142,408	-	-	-
(i)	Impairment losses included in Investing expenses				
	- loans to subsidiaries (Refer note 10)	-	-	3,111,029	2,609,396
	- investment in subsidiaries (Refer notes 2(o), 12 and 21)	-	-	3,106,087	2,000,741
		-	-	6,217,116	4,610,137

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

7 INCOME TAX

	CONSOLIDATED		*PARENT*	
	2009 *$*	*2008* *$*	*2009* *$*	*2008* *$*
The components of income tax expense are:				
Income Statement				
Current income tax				
Current income tax charge	-	-	-	-
Adjustments in respect of current income tax of previous year	-	-	-	-
Withholding tax deducted from royalty revenue	(74,934)	(52,288)	-	-
Deferred income tax				
Relating to origination and reversal of temporary differences	-	-	-	-
Income tax expense reported in the income statement	(74,934)	(52,288)	-	-

Tax Losses
The Group has unconfirmed, unrecouped tax losses in Australia of $39,817,348 (2008: 36,858,522) 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 extent that probable 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.

Withholding tax
A total of $392,148 (2008, $362,980) has been deducted from remittances of royalties to the group in accordance with the withholding tax obligations of the payers. These deductions represent foreign tax credits which may be available to reduce Australian income tax payable in future years. The ability to be able to recognise a deferred tax asset in respect of these tax losses will be dependent upon the extent that probable 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 2009

	CONSOLIDATED		PARENT	
	2009 *$*	*2008* *$*	*2009* *$*	*2008* *$*
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:				
Accounting loss before income tax	(6,338,436)	(4,932,052)	(6,406,608)	(4,985,272)
Prima facie income tax (benefit) at the Parent entity's statutory income tax rate of 30% (2008: 30%)	(1,901,531)	(1,495,302)	(1,921,382)	(1,495,582)
Adjustments in respect of current income tax of previous years	227,311	-	-	-
Non assessable gains	-	(5,387)		-
Share based payments not deductible	(8,065)	30,158	(8,065)	30,158
R&D Tax Concession allowance		(319,320)		-
Impairment losses not deductible	594,440	-	1,865,135	1,383,041
Expenditure not allowable for income tax purposes	11,372	2,506	-	-
Deductible movements through equity	(1,004)	(2,388)	(1,004)	(2,388)
Deferred tax assets not recognised	1,077,477	1,789,533	65,317	84,771
Foreign withholding tax deductions from royalties	74,934	52,288	-	-
Income tax expense	74,934	52,288	-	-

	Balance Sheet		Income Statement	
	2009 *$*	*2008* *$*	*2009* *$*	*2008* *$*
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 liability				
Accrued income not yet assessable	-	(23,945)	23,945	(23,945)
Deferred tax assets				
Undeducted patent costs	141,227	137,950	3,277	25,872
Employee benefit & warranty provisions	116,279	275,512	(159,233)	1,604
Expenses not yet deductible	20,359	50,592	(30,233)	(5,777)
Inventory impairment provision	434,102	91,380	342,722	-
Deferred deductible equity issue costs	10,473	30,290	(19,817)	(18,232)
Tax Losses and foreign tax credits available for offset against future taxable income	12,337,353	11,420,537	916,816	1,810,011
Gross deferred income tax assets	13,059,793	11,982,316		
Less amounts not recognised in accounts	(13,059,793)	(11,982,316)		
Gross deferred income tax assets	-	-		
Deferred tax income/ (expense) incurred			1,077,477	1,789,533
Less deferred income tax not recognised in accounts			(1,077,477)	(1,789,533)
Deferred tax income/ (expense)			-	-

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2009

7 INCOME TAX (continued)

	Balance Sheet		Income Statement	
	2009	2008	2009	2008
	$	$	$	$
PARENT				
Deferred tax assets				
Deferred deductible equity issue costs	10,473	30,056	(19,583)	(17,998)
Less amounts not recognised in accounts	(10,473)	(30,056)		
Gross deferred income tax assets	-	-		
Deferred tax income/ (expense) incurred			(19,583)	(17,998)
Less deferred income tax not recognised in accounts			19,583	17,998
Deferred tax income/ (expense)			-	-

8 EARNINGS (LOSS) PER SHARE

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

	CONSOLIDATED	
	2009	2008
	$	$
Net loss	(6,413,370)	(4,984,340)
	2009 Number	2008 Number
Weighted average number of ordinary shares for basic earnings per share	116,932,459	104,332,044
Effects of dilution:		
Share options	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	116,932,459	104,332,044
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 a loss was incurred during the year.

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 2009

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 three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. At balance date the weighted average interest rate is 1.83% (2008: 7.39%), and the weighted average term to maturity is 16 days (2008: 79 days). The fair value of cash at bank and on deposit approximates the carrying amount, in view of the short term to maturity. Term deposits amounting to $181,500 are subject to a charge which secure banking facilities made available to the group (refer note 18).

Reconciliation to Cash Flow Statement

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

	CONSOLIDATED		*PARENT*	
	2009 $	*2008 $*	*2009 $*	*2008 $*
Cash at bank and in hand	1,466,434	2,831,160	722,992	3,097,849
Short-term deposits	184,672	1,169,548	-	-
Amounts owing on credit card facilities	-	(10,188)	-	-
	1,651,106	3,990,520	722,992	3,097,849

Reconciliation of net loss after tax to net cash flows from operations				
Net loss	(6,413,370)	(4,984,340)	(6,406,608)	(4,985,272)
Adjustments for:				
Depreciation and amortisation	478,647	403,276	-	-
Net gain on disposal of plant and equipment	(12,909)	-	-	-
Impairment of non current assets	3,123,875	-	6,219,116	4,610,137
Net exchange differences	(8,963)	(49,515)	-	-
Share options expensed	(26,884)	100,525	(26,884)	100,525
Exchange differences recognised in equity	8,762	(932)	-	-
Changes in assets and liabilities				
(Increase)/decrease in trade and other receivables	231,504	1,105,603	6,967	(6,967)
(Increase)/decrease in inventories	305,979	(526,941)	-	-
(Increase)/decrease in prepayments	(6,824)	(918)	-	-
(Increase)/decrease in derivatives	-	2,874	-	-
(Decrease)/increase in trade and other payables	(357,017)	(149,918)	(3,173)	7,959
(Decrease)/increase in unearned income	18,852	-	-	-
(Decrease)/increase in provisions	(530,781)	5,347	-	-
Net cash from / (used in) operating activities	(3,189,129)	(4,094,939)	(210,582)	(273,618)

Disclosure of financing facilities - Refer to note 18.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2009

10 TRADE AND OTHER RECEIVABLES

	CONSOLIDATED		*PARENT*	
	2009 *$*	*2008* *$*	*2009* *$*	*2008* *$*
CURRENT				
Trade receivables	26,772	86,184	-	-
Royalties receivable	161,654	209,763	-	-
Grants receivable	-	79,815	-	-
GST refund receivable	34,721	82,992	-	-
Interest receivable	682	9,320	-	6,967
Other receivables	27,158	14,417	-	-
Related party receivables – wholly owned group				
Amounts receivable from controlled entities (note 23)	-	-	36,174,391	33,063,362
Accumulated impairment	-	-	(36,174,391)	(33,063,362)
Net carrying amount	250,987	482,491	-	6,697

<u>Ageing Analysis of Receivables</u>

	Total	0-30 Days	31-60 Days	61-90 Days PDNI*	90+ Days PDNI*
Consolidated – 2009	250,987	231,474	-	-	19,513
Consolidated – 2008	482,491	360,093	105,066	-	17,332

* 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 trade receivables are also non interest bearing.

(iii) Royalties are receivable within 60 days of the half years ended in March and September. Royalty receivables include an accrual of the quarter that has not been reported by licensees.

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

(v) 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.

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

(vii) For terms and conditions relating to related party receivables refer to note 21.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2009

11 INVENTORIES

	CONSOLIDATED		PARENT	
	2009 $	2008 $	2009 $	2008 $
Raw materials (at net realisable value)	136,482	1,201,366	-	-
Work in progress (at net realisable value)	84,796	175,873	-	-
Finished goods (at cost)	215,603	508,029	-	-
Total inventories at the lower of cost and net realisable value	436,881	1,885,268	-	-
Write down to net realisable value (refer note 4))	1,142,408	-	-	-

12 INVESTMENTS IN SUBSIDIARIES (NON-CURRENT)

	CONSOLIDATED		PARENT	
	2009 $	2008 $	2009 $	2008 $
Investments in controlled entities at cost (Note 21)	-	-	6,607,398	6,607,398
Accumulated impairment	-	-	(5,106,828)	(2,000,741)
Investments in controlled entities (Note 21)	-	-	1,500,570	4,606,657

13 PLANT AND EQUIPMENT

Consolidated * **YEAR ENDED 30 JUNE 2009**	*Office Furniture & Equipment 2009 $*	*Production Equipment 2009 $*	*R&D Equipment 2009 $*	*Total Plant & Equipment 2009 $*
Opening balance, net of accumulated depreciation and impairment	322,739	144,366	328,191	795,296
Additions	51,022	-	44,280	95,302
Disposals	(2,161)	-	-	(2,161)
Depreciation charge for the year	(179,055)	(61,253)	(193,147)	(433,455)
At 30 June 2009, net of accumulated depreciation and impairment	192,545	83,113	179,324	454,982
At 1 July 2008				
Cost	542,291	322,165	476,834	1,341,290
Accumulated depreciation and impairment	(219,552)	(177,799)	(148,643)	(545,994)
Net carrying amount	322,739	144,366	328,191	795,296
At 30 June 2009				
Cost	530,278	258,483	410,351	1,199,112
Accumulated depreciation and impairment	(337,733)	(175,370)	(231,027)	(744,130)
Net carrying amount	192,545	83,113	179,324	454,982

* Consolidated totals only. The parent entity has no plant and equipment.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2009

13 PLANT AND EQUIPMENT (continued)

Consolidated * **YEAR ENDED 30 JUNE 2008**	*Office Furniture & Equipment 2008 $*	*Production Equipment 2008 $*	*R&D Equipment 2008 $*	*Total Plant & Equipment 2008 $*
Opening balance, net of accumulated depreciation and impairment	257,538	195,472	162,584	615,594
Additions	222,409	13,671	304,946	541,026
Depreciation charge for the year	(157,208)	(64,777)	(139,339)	(361,324)
At 30 June 2008, net of accumulated depreciation and impairment	322,739	144,366	328,191	795,296
At 1 July 2007				
Cost	389,515	317,260	291,934	998,709
Accumulated depreciation and impairment	(131,976)	(121,788)	(129,351)	(383,115)
Net carrying amount	257,539	195,472	162,583	615,594
At 30 June 2008				
Cost	542,291	322,165	476,834	1,341,290
Accumulated depreciation and impairment	(219,552)	(177,799)	(148,643)	(545,994)
Net carrying amount	322,739	144,366	328,191	795,296

The useful lives of the assets for both for 2009 and 2008 are estimated to be between two and five years.
* Consolidated totals only. The parent entity has no plant and equipment.

14 INTANGIBLE ASSETS – SOFTWARE

	CONSOLIDATED		***PARENT***	
	2009 $	*2008 $*	*2009 $*	*2008 $*
Opening balance net of accumulated amortisation and impairment	49,366	76,621	-	-
Additions during year	25,770	14,697	-	-
Amortisation	(45,192)	(41,952)	-	-
Net carrying amount	29,944	49,366	-	-
At cost	101,128	111,104	-	-
Accumulated amortisation	(71,184)	(61,738)	-	-
Net carrying amount	29,944	49,366	-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

15 GOODWILL

	CONSOLIDATED		PARENT	
	2009 $	2008 $	2009 $	2008 $
Opening balance	1,981,467	1,981,467		
Impairment recognised	(1,981,467)	-		
Carrying amount	-	1,981,467	-	-

An impairment loss on goodwill was recognised in 2009. This amount cannot be reversed in future years. Refer note 4 for details of the impairment loss.

16 TRADE AND OTHER PAYABLES

	CONSOLIDATED		PARENT	
	2009 $	2008 $	2009 $	2008 $
Current				
Trade payables (i)	33,376	383,452	-	-
Accrued expenses	211,130	224,738	4,786	7,959
Other payables	6,667	-	-	-
Deferred revenue	7,592	-	-	-
	258,765	608,190	4,786	7,959
Non current				
Deferred revenue	11,260	-	-	-

(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 2009

17 INTEREST BEARING LOANS AND BORROWINGS

	CONSOLIDATED		*PARENT*	
	2009 *$*	*2008* *$*	*2009* *$*	*2008* *$*
Non current				
Convertible notes	461,609	-	461,609	-

(a) Fair value
The carrying amount approximates the fair value of the convertible notes.(Refer Note 2(s)).

(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 are to be secured by a charge over the intellectual property assets of Optiscan Pty Ltd. These assets are not recognised in the financial statement and have a zero carrying amount.

(d) Terms and conditions of convertible notes
The parent entity issued 10,000,000 convertible notes at $0.05 each on 12 May 2009. The notes have a 3 year term and are convertible at the option of the holder after 12 May 2010 or when the share price exceeds $0.20 (based on a VWAP for 5 consecutive days). Interest is payable quarterly in arrears.

(e) Potential Dilution
In the event that the 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 2009

18 BANK FACILITIES

Bank Facilities				
Total facilities provided by the group's bankers:				
- foreign currency hedging	-	100,000	-	-
- credit cards	40,000	70,000	-	-
- bank guarantees and indemnities	91,500	250,000	-	-
-bills negotiated under credit	-	240,000	-	-
- electronic transaction facility	50,000	50,000	-	-
	181,500	710,000	-	-
Facilities used at reporting date:				
- credit cards	1,211	10,188	-	-
- bank guarantees and indemnities	48,500	221,500		
- electronic transaction facility	50,000	221,500	-	-
	99,711	231,688	-	-
Facilities unused at reporting date:				
- foreign currency hedging	-	100,000	-	-
- credit cards	38,789	59,812	-	-
- bank guarantees and indemnities	43,000	28,500	-	-
-bills negotiated under credit	-	240,000	-	-
- electronic transaction facility	-	50,000	-	-
	81,789	478,312	-	-
Total facilities	181,500	710,000	-	-
Facilities used at reporting date	99,711	231,688	-	-
Facilities unused at reporting date	81,789	478,312	-	-
Assets pledged as security				
The bank facilities are secured by charges over specific term deposits on an ongoing floating basis	181,500	590,000		

Terms of Security

The bank has a charge over term deposits amounting to $181,500 (2008, $590,000) which secures the facilities outlined above. The charge provides the bank with the right of set off any amounts owing under these facilities against the balance of the term deposit. The charge endures for as long as the group maintains its banking facilities. The bank also holds a negative pledge which can be set aside with their consent.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2009

19 PROVISIONS

	Annual Leave $	*Long Service Leave* $	*Warranty* $	*Total* $
*CONSOLIDATED **				
At 1 July 2008	376,659	354,189	187,528	918,376
Arising during the year	23,113	25,337	38,678	87,128
Utilised	(222,914)	(227,572)	(95,063)	(545,549)
Unused amounts reversed	-	-	(72,360)	(72,360)
At 30 June 2009	176,858	151,954	58,783	387,595
Current 2009	176,858	127,328	58,783	362,969
Non-current 2009	-	24,626	-	24,626
	176,858	151,954	58,783	387,595
Current 2008	376,659	305,940	187,528	870,127
Non-current 2008	-	48,249	-	48,249
	376,659	354,189	187,528	918,376

* There are no provisions in the parent entity

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 20099

20 CONTRIBUTED EQUITY AND RESERVES

	CONSOLIDATED		PARENT	
	2009 $	2008 $	2009 $	2008 $
Ordinary shares - Issued and fully paid	43,913,560	43,428,415	43,913,560	43,428,415

	No of Shares	$
Movement in ordinary shares on issue		
At 1 July 2007	103,868,954	40,773,321
Issued for cash upon exercise of employee options	320,958	113,123
Issued for cash pursuant to share purchase plan	11,086,653	2,549,930
Transaction costs on share issue	-	(7,959)
At 30 June 2008	115,276,565	43,428,415
Issued for cash on placement	1,956,966	450,102
Transaction costs on share issue	-	(3,348)
Equity component of convertible notes	-	38,391
At 30 June 2009	117,233,531	43,913,560

Ordinary shares

Effective 1 July 1998, the Corporations legislation abolished the concepts of authorised capital and par value 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 23).

	CONSOLIDATED		PARENT	
	2009 $	2008 $	2009 $	2008 $
Accumulated losses				
Movements in accumulated losses were as follows:				
Balance 1 July	(36,341,989)	(31,356,717)	(36,341,989)	(31,356,717)
Net loss for the year	(6,413,370)	(4,984,340)	(6,404,608)	(4,985,272)
Balance 30 June	(42,754,427)	(36,341,057)	(42,746,597)	(36,341,989)

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

20 CONTRIBUTED EQUITY AND RESERVES (continued)

	CONSOLIDATED		PARENT	
	2009	2008	2009	2008
	$	$	$	$
Reserves				
Movements in reserves were as follows:				
Employee Equity Benefits Reserve				
Balance 1 July	617,088	516,563	617,088	516,563
Share based payments	(26,884)	100,525	(26,884)	100,525
Balance 30 June	590,204	617,088	590,204	617,088
Foreign Currency Translation Reserve				
Balance 1 July	(932)	-	-	-
Foreign currency translation difference	8,762	(932)	-	-
Balance 30 June	7,830	(932)	-	-
Total reserves	598,034	616,156	590,204	617,088

Nature and purpose of reserves

Employee equity benefits reserve
This reserve is used to record the value of equity benefits provided to employees as part of their remuneration. Refer to note 23 for further details of the option plan.

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

21 RELATED PARTY DISCLOSURE

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

		% Equity interest		Investment $	
Name	*Country of incorporation*	*2009*	*2008*	*2009*	*2008*
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				(5,106,828)	(2,000,741)
				1,500,570	4,606,657

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 $3,111,029 (2008, $216,619). Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash. The balances are classified current by the parent entity.

The amounts outstanding at year end are set out in Note 10. 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 2009

22 KEY MANAGEMENT PERSONNEL

Details of Key Management Personnel

(i) Board of Directors

Non Executive Directors

A. Holt	Chairman (Appointed to board 12 February 2009, Chairman 14 May 2009)
G. Latta	Chairman (Resigned 14 May 2009)
K. Daniel	Director (Resigned 24 November 2008)
J. Fox	Director (Resigned 30 November 2008)
A. Rogers	Director (Resigned 14 May 2009)

Executive Directors

V. Tutungi	Chief Executive Officer
P. Delaney	Director of Technology

(ii) Executives

J. Allen	Business Development Manager (Redundancy effective 22 January 2009)
B. Andrew	Chief Financial Officer (Redundancy effective 24 March 2009)
R. Pattie	Research & Development Manager (Redundancy effective 24 March 2009)

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 2009

	CONSOLIDATED		*PARENT*	
	2009 *$*	*2008* *$*	*2009* *$*	*2008* *$*
Short term employee benefits	1,151,442	1,218,270	148,548	180,000
Post Employment benefits	93,767	104,244	-	10,800
Termination payments	191,978	-	-	-
Other Long-Term	7,016	18,106	-	-
Share-based payment	(11,114)#	16,161	(11,114)	16,161
	1,433,089	1,356,781	137,434	206,961

 # These are forfeitures for the year

There were no other transactions and balances with Key Management Personnel

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2009

22 KEY MANAGEMENT PERSONNEL (continued)

Option holdings of Key Management Personnel

Options holdings of Key Management Personnel for the year ended 30 June 2009

						Vested at 30 June 2009		
30 June 2009	*Balance at beginning of period 01-Jul-08*	*Granted as Remuneration*	*Options Exercised*	*Options Expired Forfeited*	*Balance at end of period 30-Jun-09*	*Total Vested*	*Exercisable*	*Not Exercisable*
Directors								
A. Holt	-	-	-	-	-	-	-	-
G. Latta	-	-	-	-	-	-	-	-
P. Delaney	450,000	-	-	-	450,000	450,000	450,000	-
K. Daniel	-	-	-	-	-	-	-	-
J. Fox	-	-	-	-	-	-	-	-
A. Rogers	-	-	-	-	-	-	-	-
V. Tutungi	-	-	-	-	-	-	-	-
Executives								
J. Allen	294,000	-	-	(294,000)	-	-	-	-
B. Andrew	280,250	-	-	(280,250)	-	-	-	-
R. Pattie	290,000	-	-	(290,000)	-	-	-	-
Total	1,314,250	-	-	(864,250)	450,000	450,000	450,000	-

No options were exercised during the year ended 30 June 2009.

Options holdings of Key Management Personnel for the year ended 30 June 2008

						Vested at 30 June 2008		
30 June 2008	*Balance at beginning of period 01-Jul-07*	*Granted as Remuneration*	*Options Exercised*	*Options Expired Forfeited*	*Balance at end of period 30-Jun-08*	*Total Vested*	*Exercisable*	*Not Exercisable*
Directors								
G. Latta	-	-	-	-	-	-	-	-
M. Barnett	1,000,000	-	-	(1,000,000)	-	-	-	-
P. Delaney	450,000	-	-	-	450,000	450,000	450,000	-
K. Daniel	-	-	-	-	-	-	-	-
A. Rogers	-	-	-	-	-	-	-	-
V. Tutungi	-	-	-	-	-	-	-	-
Executives								
J. Allen	349,000	40,000	-	(95,000)	294,000	191,667	191,667	-
B. Andrew	321,500	40,000	-	(81,250)	280,250	177,917	177,917	-
R. Pattie	280,000	40,000	-	(30,000)	290,000	176,667	176,667	-
Total	2,400,500	120,000	-	(1,206,250)	1,314,250	996,251	996,251	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2009

22 KEY MANAGEMENT PERSONNEL (continued)

Shareholdings of Key Management Personnel

Shares held in Optiscan Imaging Limited for the year ended 30 June 2009 (number)

30 June 2009	*Balance at beginning of period 01-Jul-08*	*Held at Date of Appointment*	*Purchased in placement*	*Holding at Date of Resignation*	*Balance at end of period 30-Jun-09*
Directors					
A. Holt	-	6,107,000	-	-	6,107,000
G. Latta	230,000	-	870,000	1,100,000	-
P. Delaney	3,476,349	-	-	-	3,476,349
K. Daniel	160,000	-	-	160,000	-
J. Fox	-	-	434,783	434,783	-
A. Rogers	275,000	-	434,783	709,783	-
V. Tutungi	-	-	217,400	-	217,400
Executives					
J. Allen	-	-	-	-	-
B. Andrew	40,000	-	-	40,000	-
R. Pattie	-	-	-	-	-
Total	4,281,349	6,107,000	1,956,966	2,214,566	9,800,749

Shares held in Optiscan Imaging Limited for the year ended 30 June 2008 (number)

30 June 2008	*Balance at beginning of period 01-Jul-07*	*Granted as Remuneration*	*Options Exercised*	*Purchased on market*	*Balance at end of period 30-Jun-08*
Directors					
G. Latta	130,000	-	-	100,000	230,000
P. Delaney	3,476,349	-	-	-	3,476,349
K. Daniel	160,000	-	-	-	160,000
A. Rogers	200,000	-	-	75,000	275,000
V. Tutungi	-	-	-	-	-
Executives					
J. Allen	-	-	-	-	-
B. Andrew	40,000	-	-	-	40,000
R. Pattie	-	-	-	-	-
Total	4,006,349	-	-	275,000	4,281,349

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 2009

23 SHARE-BASED PAYMENT PLANS

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 the income statement in relation to share-based payments is disclosed in note 5(d).

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options issued during the year:

	No. Options 2009	WAEP 2009	No. Options 2008		WAEP 2008
Outstanding at the beginning of the year	5,140,242	0.39	6,386,650		0.45
Granted during the year	-	-	865,000		0.31
Forfeited during the year	(2,845,317)	0.38	(1,326,200)		0.54
Exercised during the year	-	-	(320,958)	1	0.35
Expired during the year	(434,650)	0.45	(464,250)		0.54
Outstanding at the end of the year	1,860,275	0.38	5,140,242		0.39
Exercisable at the end of the year	1,297,342	0.37	2,951,943		0.36

[1] The weighted average share price at the date of exercise was $0.55 (2008)

The outstanding balance as at 30 June 2009 is represented by:

Options expiring in the year :	No Options	WAEP $
- 2009/2010	172,000	0.40
- 2010/2011	993,875	0.34
- 2011/2012	394,400	0.50
- 2012/2013	300,000	0.31
	1,860,275	0.38

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2009

23 SHARE BASED PAYMENT PLANS (continued)

The weighted average remaining contractual life for the share options outstanding as at 30 June 2009 is 1 year, 11 months (23 months).

No options were granted during the year. The weighted average fair value of options granted during the previous year was $0.0628.

The fair value of the equity-settled share options granted under the option plan 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 during the year ended 30 June 2008:

	2009	*2008*
		Issue to staff 22 Jan 2008
Number of options	-	865,000
Dividend yield (%)	-	-
Expected volatility (%)	-	50.00
Risk-free interest rate (%)	-	6.287
Expected life of option (years)	-	4.5
Option exercise price ($)	-	0.31
Share price at grant date ($)	-	0.21

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.

24 DERIVATIVES AND HEDGING

Economic hedging activities
At 30 June 2009 and 30 June 2008, there were no currency option contracts or forward exchange contracts in existence.

25 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 2009.

Capital commitments
At 30 June 2009 there were no material capital commitments outstanding (2008: Nil).

Contingent Liabilities
The group has contingent liabilities in relation to bank guarantees on issue at balance date amounting to $48,500 (2008: $221,500).

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2009

26 EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to 30 June 2009, the company reported that it had signed 3 agreements with Hoya governing future access to intellectual property, manufacturing rights and the service of generation one product. These agreements are not expected to affect the financial statements at 30 June 2009. The directors are not aware of any other events after balance date that would have a material on the financial statements at 30 June 2009.

27 AUDITORS' REMUNERATION

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

	CONSOLIDATED		*PARENT*	
	2009 *$*	*2008* *$*	*2009* *$*	*2008* *$*
Amounts received or due and receivable by Ernst & Young (Australia) for:				
• An audit or review of the financial report of the entity and any other entity in the consolidated group	58,038	53,728	1,350	1,415
• Other services in relation to the entity and any other entity in the consolidated group				
- tax compliance	3,264	15,750	-	-
- other advisory services	25,647	-	-	-
- other assurance services	3,011	2,884	-	-
	89,960	72,362	1,350	1,415