OptiScan Imaging Limited
ABN 81 077 771 987

30 August 2010

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

Dear Sir

PRELIMINARY FINAL REPORT – APPENDIX 4E
YEAR ENDED 30 JUNE 2010

In accordance with Listing Rule 4.3A we enclose the Preliminary Final Report for Optiscan Imaging Limited for the year ended 30 June 2010.

The overall net loss for the year was $1,649,910. In 2009, the loss of $6,404,608 included impairment losses of $3,123,875 in addition to the underlying trading loss of $3,280,733. In the current year, the underlying loss (excluding impairment) dropped by 50%, and the total loss dropped by 74%.

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

Yours Faithfully

Bruce Andrew
Company Secretary

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OPTISCAN IMAGING LIMITED

ABN 81 077 771 987

ANNOUNCEMENT OF RESULTS AND PRELIMINARY FINAL REPORT FOR YEAR ENDED 30 JUNE 2010

Review of Operations

Major Achievements

- Design and prototype of new smaller scanner completed
- First dual HD procedure with smaller scanner
- Second generation processor nears completion
- Progress with development of probe based microscopy
- Accelerating progress in neurosurgery developments with Carl Zeiss
- Continuing steady sales of Five 1 research instrument
- Tight cost containment

Brief overview of the year

The year opened with the company adjusting to the substantial contraction of its activities that occurred in early 2009. Design and development activity was tightly focused on achieving completion of the second generation confocal platform, and peripheral projects and clinical trials were parked. The Pentax collaboration was formally concluded in July 2009, with a termination settlement of US$575,000. This was followed by some sales of spare parts and training, and a winding back of production activity.

A steady level of interest in the Five 1 research system was maintained, both through the distributor network and by direct enquiry. Several systems were sold during the year into Canada, China, Japan, and Europe.

The Zeiss collaboration continued with an expanded clinical trial in the USA. These trials have recently gained considerable momentum with increased patient recruitment rates and exquisite imaging leading to negotiations on the future direction of the collaboration. These negotiations are expected to be concluded by October.

Considerable progress was achieved in research and development activities, although the contraction of staff numbers required a re-balancing of priorities from time to time. The smaller scanner project was completed in the first half, producing a viable, improved scanner technology for incorporation into multiple future products. The CIS2 (confocal imaging system, generation 2) platform is at advanced prototype stage.

The Company’s funding position was closely monitored and carefully managed throughout the year. In November 2009, a share purchase plan and placement was undertaken, which raised $1.1M.

Collaborative Product Developments

The collaboration with Carl Zeiss to develop a confocal application for neurosurgery has continued during the year. The clinical trials are being conducted at the Barrow Neurological Institute (BNI) in Phoenix, USA, and have resulted in some significant publications of the progress being achieved. As mentioned above, these trials have now gained critical momentum and discussions around the form of future collaboration with Zeiss are well advanced.

FIVE 1 Sales

There were five sales of the Five 1 research confocal instrument during the year, generating revenue of more than $500,000. The sales were in Japan, China, Canada, and the United Kingdom, and extended the global installed base to 26 sites.

The Five 1 system and accessories account for most of the inventory carried on the Company's balance sheet, such inventory likely to be sufficient to meet FIVE-1 demand for the next 12 months based on the assumption that sales levels will be maintained as minimum.

Design & Development Activity

In the early part of the year, the development team proved a new, second generation scanner technology that achieves a 70% reduction in volume and delivers higher resolution imaging and more scan modes, including full HD 1080p. In September 2009, the Company announced that the first ever endoscopy procedures using a dual high definition endomicroscope had been completed by Professor Finlay McCrae at Cabrini Hospital in Melbourne. Since that time, the new scanner technology has been retro-fitted into a number of different endoscopes, to demonstrate its compatibility across a range of endoscope brands. This new development would be the scanner component of choice for all new product developments.

The larger project of developing the second generation processor continued to advance during the year.

A series of key modular technologies (laser illumination, detection, scan control) and a new digital system architecture have been proven as a system approach that can be rapidly configured to meet the requirements of future products, whether Optiscan branded or designed to partners requirements.

This new platform also delivers a host of improvements over the first generation technology, and provides for vastly more sophisticated instruments with significantly smaller footprints.

Sound progress has been achieved over the past year, despite the significant reduction in the Company's R&D infrastructure. This has however manifested in longer timelines to completion than were originally anticipated. Our plans to develop and deploy clinical grade prototypes based on the new technology in key US sites remain on foot, but this may not occur until early 2011.

New Product Developments and Clinical Trial Activity

As reported last year, new product development and clinical trial activity has been scaled back. Clinical trial activity is largely restricted to trials administered and funded by third party collaborators. Optiscan's commitment is now limited to staff support only. Similarly, research and development activity is only undertaken when spare staffing capacity exists and direct project costs are minimal. There has been some progress achieved within these constraints, and some promising concepts are being explored in relation to probe based endomicroscopes. Along with several significant enhancements around the protection of existing IP, our team has developed probe based solutions around both our generation 2 platform and also around further miniaturisation concepts.

Probe based endomicroscopy acts as an accessory to existing endoscopes rather than a completely integrated endomicroscope. The probe based endomicroscope is fed into the working channel of existing endoscopes in much the same way as other accessories such as miniaturised forceps. Consequently, the probe based endomicroscope follows much broader pathways to market as it can be used as an accessory to a range of endoscopes made by many manufacturers. While the probe based solution necessarily involves compromises in functionality, Optiscan's team has demonstrated that these can be minimised to deliver a highly efficacious probe based endomicroscope using its second generation platform.

Probe based endomicroscopy is a complementary offering to the fully integrated endomicroscope, with the latter providing optimal performance.

Intellectual Property

Optiscan continues to carefully manage its intellectual property portfolio, to maintain competitive advantage whilst being prudent with the associated costs.

The patent portfolio remained essentially unchanged during the period, despite significant activity relating to patents undergoing examination in multiple regions.

During the year, the two original patent families that Optiscan was founded upon expired. These patents had been licensed to manufacturers of non-endoscopic benchtop microscopes. As a result, royalty income decreased substantially and the royalty income stream from these benchtop licenses has now concluded.

A detailed review of recent development progress and directions was conducted and identified inventions associated with at least two new patent applications yet to be submitted.

Corporate

Optiscan's infrastructure was further reduced and refined during 2010 financial year. Staff numbers fell from 14 to 8, as production of the ISC-1000 for Pentax drew to a close and the generation 2 platform approached completion. Production activity has now effectively ceased, with minor requirements being met by sub contract services. Administration functions are performed by directors.

The board remains at the statutory minimum of three directors, each of whom also performs a management role. Executive Chairman, Angus Holt, has assumed the responsibilities of the former CEO, Vicki Tutungi. Bruce Andrew, who was retained on a consulting basis following the redundancies implemented in 2009, has continued in the role of Chief Financial Officer, as well as joining the board to fill the casual vacancy which arose on the departure of Vicki Tutungi. Peter Delaney, one of the founding directors of the company, continues as Director of Technology, now on a consulting basis. The board recognised the need to lead by example in cost control, and agreed to substantial remuneration reductions. Executive and board remuneration has been reduced by more than 50% during the year.

Infrastructure and overhead costs have been carefully managed. Some personnel related overheads have reduced in line with the smaller staff numbers and discretionary expenses have been kept to a minimum. However, some costs are more fixed in nature and do not necessarily fall as the company structure contracts. Overheads such as ASX fees, audit fees, intellectual property costs and quality system expenses are costs that need to be incurred to protect the core technology and status of the company.

Financial

The 2010 financial year was one of financial consolidation, characterised by tight control of expenses and cash flow. The fallout from the global financial crisis during the previous year continued to reverberate within the biotechnology sector. Optiscan had to navigate these challenging conditions without sales to Pentax/Hoya due to the expiry in 2009 of the Supply Agreement, and a decline in royalty income due to the expiry of the two patents underlying the benchtop licenses. This dictated a necessity for Optiscan to implement measures that would preserve cash, and this philosophy is reflected in the financial results for 2010.

Sales revenue of $965,812 was down 36% on the previous year ($1,500,923 in 2009), mainly due to the conclusion of the Supply Agreement with Hoya in 2009. Sales of the Five 1 research instrument increased 37% in the current year, to more than $500,000. Service and parts sales, including some to Hoya, were up 20% over last year. The reduced Hoya product sales were largely offset by income of $709,920 received in settlement of termination of the Hoya agreements.

Royalty revenue of $240,790 was down 68% due to expiry of the two patents underlying the benchtop licenses. Other income from interest and government grants also declined, as did Design and Development income, as the Zeiss collaboration moved into a clinical trial support phase which is considerably less intensive than the earlier product development phase.

Overall, total revenue including all sales and other income declined 41% from $3,875,258 to $2,289,162.

Expenses (excluding impairment losses in 2009) were substantially reduced from $5,991,532 to $3,380,559, a reduction of 44%. This largely reflects the staff redundancies implemented during 2009, although some continuing reduction in staff numbers occurred in the current year. There were no significant changes to staff remuneration, but executive and board remuneration was reduced by 56%, including redundancy of the CEO role. There was very tight control of overhead expenses throughout the year, with non staff expenses reduced by 30%.

The overall net loss for the year, now known as “total comprehensive income (loss)” was $1,649,910. In 2009, the loss of $6,404,608 included impairment losses of $3,123,875 in addition to the underlying trading loss of $3,280,733. In the current year, the underlying loss (excluding impairment) dropped by 50%, and the total loss dropped by 74%.

Cash at bank at end June 2010 was $1,555,401, compared to $1,651,106 the year before. Cash consumed in operations was $1,227,864, a reduction of more than 60% over the previous year ($3,189,129). A share purchase plan and placement in November 2009 raised $1,102,721 reducing the overall net cash movement for the year to a modest reduction of $127,527.

Outlook

The future of the company now rests with products based on the new, second generation platform. This exciting new technology is now proven, and we are already engaged in early stage dialogue about potential licensing and collaboration opportunities across several fields.

In the short term, we are seeking to negotiate terms for the continuation of the collaboration in rigid endomicroscopy with Zeiss. A satisfactory outcome will provide a path to the first product initiative with a rigid endoscope. In the longer term, our efforts will be directed to introducing our new technology to the gastroenterology market, where there is an established user base, and an increasing demand for confocal technology. This provides a fertile environment for Optiscan to capitalise on the many enhancements and improvements that have been incorporated into the new generation development.

Moving forward, we will continue to carefully manage our existing cash reserves, whilst seeking to ensure that the commercialisation of our new technology delivers material benefits to the shareholders.

OPTISCAN IMAGING LIMITED

ABN : 81 077 771 987

APPENDIX 4E

Preliminary Final Report

Year ended 30 June 2010

Previous corresponding period: Year ended 30 June 2009

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1. Results for announcement to the market

The results of Optiscan Imaging Limited for the year ended 30 June 2010 are as follows:

Results

Sales revenue declined by 36% to $965,812, largely due to the termination of the Hoya supply agreement in 2009.

Other revenue and income, including royalties, grants, interest, design and development income and the Hoya termination settlement declined by 31% to $1,045,733.

Gross profit (excluding other revenue) increased marginally to $436,842, and the gross profit rate increased from 27% to 45%.

Total expenses excluding impairment losses and redundancies decreased 43%, to $3,038,630.

Net loss after tax attributable to members was reduced by 74% to $1,649,910 (2009, $6,404,608)

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 overall net loss for the year, now known as "total comprehensive income (loss)" is $1,649,910. In 2009, the loss of $6,404,608 included impairment losses of $3,123,875 in addition to the underlying trading loss of $3,280,733. In the current year, the underlying loss (excluding impairment) improved by 50%, and the total loss improved by 74%.

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3. Commentary on result

The Overview of 2009/2010 on pages 1 to 4 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 2010 amount to $0.01 (2009, $0.01).

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 23 November 2010 at the offices of the Company at 15-17 Normanby Road, Notting Hill, Victoria 3168.

5. Audit Report

The audit report is set out on pages 8 to 10 of this report.

6. Financial information

Audited financial information is set out on pages 12 to 63 of this report.

Bruce Andrew

Director

30 August 2010

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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 statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows 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. In Note 2(a), the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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 consolidated entity's financial position at 30 June 2010 and of its 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.

Significant Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 2(a) in the financial report which indicates that the company and the consolidated entity incurred net losses of $1,649,910 and $1,650,799 respectively during the year ended 30 June 2010. As outlined in Note 2(a) to the financial statements, in common with other biotechnology companies, the operations of the consolidated entity are subject to considerable risks due primarily to the nature of the product development and commercialisation being undertaken. The Directors cannot be certain of the success of any product development or commercialisation or any fund raising initiatives in the future. As a result of these factors, and unless the initiatives described in Note 2(a) are achieved, there is significant uncertainty whether the consolidated entity will be able to continue as a going concern, and therefore, whether the consolidated entity will be able to realise assets and extinguish its 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 consolidated entity not continue as a going concern.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 12 to 18 of the directors' report for the year ended 30 June 2010. 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 2010, complies with section 300A of the Corporations Act 2001.

Ernst & Young

Don Brumley
Partner
Melbourne
30 August 2010

Optiscan Imaging Limited

ABN 81 077 771 987

Financial Statements

for the year ended 30 June 2010

Statement of Financial Position

AS AT 30 JUNE 2010

	Note	CONSOLIDATED 2010 $	2009 $
ASSETS			
Current Assets			
Cash and cash equivalents	9	1,555,401	1,651,106
Trade and other receivables	10	129,363	250,987
Inventories	11	367,075	436,881
Prepayments		37,645	52,496
Total Current Assets		2,089,484	2,391,470
Non-current Assets			
Plant and equipment	12	102,917	454,982
Intangible assets - Software	13	-	29,944
Total Non-current Assets		102,917	484,926
TOTAL ASSETS		2,192,401	2,876,396
LIABILITIES			
Current Liabilities			
Trade and other payables	14	206,519	258,765
Provisions	17	183,314	362,969
Total Current Liabilities		389,833	621,734
Non-current Liabilities			
Trade and other payables	14	7,181	11,260
Borrowings	15	472,460	461,609
Provisions	17	22,665	24,626
Total Non-current Liabilities		502,306	497,495
TOTAL LIABILITIES		892,139	1,119,229
NET ASSETS		1,300,262	1,757,167
EQUITY			
Contributed equity	18	45,016,281	43,913,560
Accumulated losses	18	(44,405,226)	(42,754,427)
Reserves	18	689,207	598,034
TOTAL EQUITY		1,300,262	1,757,167

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

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2010

	Note	CONSOLIDATED	
		2010 *$*	*2009* *$*
Sale of goods		822,642	1,337,228
Rendering of services		143,170	163,695
Other revenue	6(a)	277,617	862,988
Revenue		1,243,429	2,363,911
Cost of sales		(528,970)	(1,089,525)
Gross Profit		714,459	1,274,386
Other income	6(b)	1,045,733	1,511,347
Marketing expenses		(101,567)	(774,169)
Research & development expenses		(1,509,047)	(2,818,301)
Administrative expenses		(1,651,388)	(2,349,392)
Other expenses	6(h)	(119,444)	(3,182,307)
Loss before income tax		(1,621,254)	(6,338,436)
Income tax expense	7	(29,545)	(74,934)
Net loss for the year		(1,650,799)	(6,413,370)
Other comprehensive income			
Foreign currency translation of net investment in foreign subsidiary		889	8,762
Total comprehensive loss for the period		(1,649,910)	(6,404,608)
Loss per share (cents per share)	8		
- basic loss per share for the year		(1.34)	(5.48)
- diluted loss per share for the year		(1.34)	(5.48)

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

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2010

	CONSOLIDATED				
	Ordinary shares $	*Accumulated Losses* $	*Employee Equity Benefits Reserve* $	*Foreign Currency Translation Reserve* $	$
At 1 July 2009	43,913,560	(42,754,427)	590,204	7,830	1,757,167
Loss for the year	-	(1,650,799)	-	-	(1,650,799)
Other comprehensive income	-	-	-	889	889
Total comprehensive income for the year		(1,650,799)	-	8,719	(1,649,910)
Transactions with owners in their capacity as owners:					
Shares issued	1,159,701	-	-	-	1,159,701
Transaction costs on shares issued	(56,980)	-	-	-	(56,980)
Share based payments	-	-	90,284	-	90,284
At 30 June 2010	45,016,281	(44,405,226)	680,488	8,719	1,300,262
At 1 July 2008	43,428,415	(36,341,057)	617,088	(932)	7,703,514
Loss for the year	-	(6,413,370)	-	-	(6,413,370)
Other comprehensive income	-	-	-	8,762	8,762
Total comprehensive income for the year		(6,413,370)		8,762	(6,404,608)
Transactions with owners in their capacity as owners:					
Shares issued	450,102	-	-	-	450,102
Transaction costs on shares issued	(3,348)	-	-	-	(3,348)
Equity component of convertible notes	38,391	-	-	-	38,391
Share based payments forfeited	-	-	(26,884)	-	(26,884)
At 30 June 2009	43,913,560	(42,754,427)	590,204	7,830	1,757,167

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

Cash Flow Statement

FOR THE YEAR ENDED 30 JUNE 2010

	Note	*CONSOLIDATED*	
		2010	*2009*
		$	*$*
Cash flows from operating activities			
Receipts from customers		1,904,888	2,988,662
Payments to suppliers and employees		(3,609,443)	(7,136,616)
Royalties received		402,444	728,037
Interest received		35,915	116,764
Receipt of government grants		67,877	188,958
Income tax paid		(29,545)	(74,934)
Net cash used in operating activities	9	(1,227,864)	(3,189,129)
Cash flows from investing activities			
Purchase of plant and equipment	12	(2,384)	(95,302)
Purchase of intangible assets - software	13	-	(25,770)
Proceeds from sale of plant and equipment		-	15,068
Net cash used in investing activities		(2,384)	(106,004)
Cash flows from financing activities			
Proceeds from issue of shares	18	1,159,701	450,103
Proceeds from issue of convertible notes	15	-	500,000
Transaction costs relating to issue of shares	18	(56,980)	(3,348)
Net cash flows from financing activities		1,102,721	946,755
Net decrease in cash and cash equivalents		(127,527)	(2,348,378)
Net foreign exchange differences		31,822	8,962
Cash and cash equivalents at beginning of period		1,651,106	3,990,520
Cash and cash equivalents at end of period	9	1,555,401	1,651,106

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

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2010

1 CORPORATE INFORMATION

The financial report of Optiscan Imaging Limited (the Company) for the year ended 30 June 2010 was authorised for issue in accordance with a resolution of the directors on 30 August 2010.

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

Table of contents

a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001,* Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report is presented in Australian dollars and has been prepared on a historical cost basis, except for derivative financial instruments which have been measured at fair value.

Compliance with IFRS

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

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

Basis of preparation (continued)

Going Concern (Significant Uncertainty as at 30 June 2010)
In common with many entities in the biotechnology sector, the company's operations are subject to considerable risk due to the nature of the development and commercialisation being undertaken. A part of this risk relates to funding of the Company's activities, and related issues including the conditions prevailing in local and international financial markets. In the context of this operating environment, it is likely that the company will need to raise additional capital in order to execute its near term and medium term plans for expansion of its product portfolio.

As at 30 June 2010, the financial position of the consolidated entity as disclosed in the financial statements reflects a net asset position of 1,300,262 (2009: $1,757,167). This balance has been determined after a consolidated net loss for the year of $1,650,799 (2009: loss $6,413,370), and a net cash outflow from operations of $1,227,864 (2009: $3,189,129).

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 2010 is $1,555,401 (2009: $1,651,106), which includes cash raised through the issue of shares in November 2009 totalling $1,159,701
- Additional cashflow is expected to be received in the 2011 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.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New accounting standards and interpretations

(i) Changes in accounting policy and disclosures

The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 January 2009.

- AASB 2008-1 Amendments to Australian Accounting Standard - Share-based Payments: Vesting Conditions and Cancellations effective 1 January 2009
- AASB 7 Financial Instruments: Disclosures effective 1 January 2009
- AASB 8 Operating Segments effective 1 January 2009
- AASB 101 Presentation of Financial Statements (revised 2007) effective 1 January 2009
- AASB 123 Borrowing Costs (revised 2007) effective 1 January 2009
- AASB Interpretation 16 Hedges of a Net Investment in a Foreign Operation effective 1 October 2008
- AASB 2008-1 Amendments to Australian Accounting Standard – Share-based Payment: Vesting Conditions and Cancellations [AASB 2] effective 1 January 2009
- AASB 2008-5 Amendments to Australian Accounting Standards arising from the Annual Improvements Project effective 1 January 2009
- AASB 2008-7 Amendments to Australian Accounting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate effective 1 January 2009
- AASB 2009-3 Amendments to Australian Accounting Standards - Embedded Derivatives [AASB 139 and Interpretation 9] effective 30 June 2009
- AASB 2009-6 Amendments to Australian Accounting Standards operative for periods beginning on or after 1 January 2009 that end on or after 30 June 2009

When the adoption of the Standard or Interpretation is deemed to have an impact on the financial statements or performance of the Group, its impact is described below:

AASB 8 Operating Segments
AASB 8 replaced AASB 114 *Segment Reporting* upon its effective date. The Group concluded that the operating segments determined in accordance with AASB 8 are the same as the business segments previously identified under AASB 114. AASB 8 disclosures are shown in note 5, including the related revised comparative information.

AASB 101 Presentation of Financial Statements
The revised Standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with non-owner changes in equity presented in a reconciliation of each component of equity and included in the new statement of comprehensive income. The statement of comprehensive income presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one statement.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting standards and interpretations

(i) Changes in accounting policy and disclosures (continued)

Annual Improvements Project
In May 2008 and April 2009 the AASB issued omnibus of amendments to its Standards as part of the Annual Improvements Project, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions and application dates for each amendment. The adoption of the following amendments resulted in changes to accounting policies but did not have any impact on the financial position or performance of the Group.

- AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in AASB 5. The disclosure requirements of other Accounting Standards only apply if specifically required for such non-current assets or discontinued operations. As a result of this amendment, the Group amended its disclosures in note 11.
- AASB 8 *Operating Segments*: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker. As the Group's chief operating decision maker does review segment assets and liabilities, the Group has continued to disclose this information in note 5.
- AASB 101 *Presentation of Financial Statements*: assets and liabilities classified as held for trading in accordance with AASB 139 *Financial Instruments: Recognition and Measurement* are not automatically classified as current in the statement of financial position. The Group amended its accounting policy accordingly and analysed whether management's expectation of the period of realisation of financial assets and liabilities is in accordance with AASB 101. This did not result in any re-classification of financial instruments between current and non-current in the statement of statement of financial position.
- AASB 116 *Property, Plant and Equipment:* replace the term "net selling price" with "fair value less costs to sell". The Group amended its accounting policy accordingly, which did not result in any change in the financial position.
- AASB 120 *Accounting for Government Grants and Disclosures of Government Assistance*: loans granted with no or low interest will not be exempt from the requirement to impute interest. Interest is to be imputed on loans granted with below-market interest rates. This amendment did not impact the Group as the government assistance received is not loans but direct grants.
- AASB 123 *Borrowing Costs*: the definition of borrowing costs is revised to consolidate the two types of items that are considered components of “borrowing costs” into one - the interest expense calculated using the effective interest rate method calculated in accordance with AASB 139. The Group has amended its accounting policy accordingly which did not result in any change in its statement of financial position.
- AASB 128 *Investment in Associates*: an investment in an associate is a single asset for the purpose of conducting the impairment test, including any reversal of impairment. Any impairment is not separately allocated to the goodwill included in the investment balance. Any impairment is reversed if the recoverable amount of the associate increases. The Group has amended its impairment accounting policy accordingly. The amendment had no impact on the Group’s financial position or performance. The Group has amended its impairment accounting policy accordingly.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New accounting standards and interpretations

(i) Changes in accounting policy and disclosures (continued)

Annual Improvements Project (continued)

- AASB 136 *Impairment of Assets*: when discounted cash flows are used to estimate "fair value less cost to sell" additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate "value in use". The Group has amended its disclosures accordingly in note 23. The amendment also clarified that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in AASB 8 before aggregation for reporting purposes. The amendment has no impact on the Group as the annual impairment test is performed before aggregation.
- AASB 138 *Intangible Assets*: expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service. This amendment has no impact on the Group because it does not enter into such promotional activities.

Other amendments resulting from the Annual Improvements Project to the following Standards did not have any impact on the accounting policies, financial position or performance of the Group:

- AASB 2 *Share-based Payment*
- AASB 108 *Accounting Policies, Change in Accounting Estimates and Error*
- AASB 110 *Events after the Reporting Period*
- AASB 117 *Leases*
- AASB 118 *Revenue*
- AASB 119 *Employee Benefits*
- AASB 131 *Interests in Joint Ventures*
- AASB 138 *Intangible Assets*
- AASB 140 *Investment Property*

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Statement of compliance (continued)

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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 30 June 2010. These are outlined in the table below.

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2008	Operating Segments	*Disclosure of information about segment assets*: Segment assets and liabilities need only be reported when those assets and liabilities are included in measures used by the chief operating decision maker.	31 Dec 2010	The new disclosure requirement will not impact on the Group's financial report as it reports in this manner.	I July 2011
AASB 9	Financial Instruments	The amended standard simplifies the classifications of financial assets into those to be carried at amortised cost and those to be carried at fair value. The amended standard also simplifies (i) requirements for embedded derivatives (b) removes the tainting rules associated with held-to-maturity assets (iii) provides an opportunity to fair value investments in equity instruments to other comprehensive income, with no separate impairment test, whilst taking dividends to income (iv) requires entities to reclassify their financial assets when there is a change in the entity's business model. The standard is available for early adoption ending on or after 31 December 2009 and is applicable to annual reporting periods beginning on or after 1 January 2013.	1 Jan 2013	The Group has not assessed the impact of the new standard on its financial report	1 July 2013
AASB 101	Presentation of Financial Statements	*Current / non-current classification of convertible instruments*: The terms of a liability that could at anytime result in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.	31 Dec 2010	This could have an impact in the Group's future reporting periods	1 July 2011

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Statement of compliance (continued)

(ii) Accounting standards and interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 107	Statement of Cash Flows	*Classification of expenditure on unrecognised assets*: Only expenditure that results in a recognised asset can be classified as a cash flow from investing activities.	31 Dec 2010	This could have an impact in the Group's future reporting periods.	1 July 2011
AASB 117	Leases	*Classification of land and buildings*: The revised standard no longer provides specific guidance on the classification of land as a lease and only the general guidance remains.	31 Dec 2010	This could have an impact in the Group's future reporting periods.	1 July 2011
AASB 136	Impairment of Assets	*Unit of accounting for goodwill impairment testing*: The largest unit permitted for allocating goodwill acquired in a business combination is the operating segment defined in AASB 8 before aggregation for reporting purposes.	31 Dec 2010	This amendment will not have an impact on the Group's financial report.	1 July 2011
AASB 139	Financial Instruments: Recognition and Measurement	The three amendments relate to the assessment of loan prepayment penalties being considered as embedded derivatives, scope exemption for business combination contracts and cash flow hedge accounting.	31 Dec 2010	The amendments do not have any impact on the Group's financial report as it does not conduct transactions in derivative instruments.	1 July 2011

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Statement of compliance (continued)

(ii) Accounting standards and interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 124	Related Party Disclosures (December 2009)]	The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including: (a) the definition now identifies a subsidiary and an associate with the same investor as related parties of each other; (b) entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other; and (c) the definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other. A partial exemption is also provided from the disclosure requirements for government-related entities. Entities that are related by virtue of being controlled by the same government can provide reduced related party disclosures.	1 Jan 2011	Where applicable, additional disclosures may be required.	1 July 2011

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Statement of compliance (continued)

(ii) Accounting standards and interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2009-5	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 & 139]	The amendments to some Standards result in accounting changes for presentation, recognition or measurement purposes, while some amendments that relate to terminology and editorial changes are expected to have no or minimal effect on accounting except for the following: The amendment to AASB 101 stipulates that the terms of a liability that could result, at any time, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification. The amendment to AASB 107 explicitly states that only expenditure that results in a recognised asset can be classified as a cash flow from investing activities. The amendment to AASB 118 provides additional guidance to determine whether an entity is acting as a principal or as an agent. The features indicating an entity is acting as a principal are whether the entity: ► has primary responsibility for providing the goods or service; ► has inventory risk; ► has discretion in establishing prices; ► bears he credit risk;	1 Jan 2010	As there is a low probability of the Group entering into such transactions, the amendments are expected to have little or no impact.	I July 2010

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Statement of compliance (continued)

(ii) Accounting standards and interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2009-8	Group Cash-settled Share-based Payment Transactions (amendments to AASB 2)	The three amendments which have been made relates to the definition of share based transactions and arrangements, the scope of AASB 2 and the guidance on the accounting for group cash-settled share-based payment transactions.	31 Dec 2010	The Group does not have any cash-based share payment transactions and these amendments do not have any impact on the Group's financial report.	1 Jul 2011
AASB 2009-9	Additional exemptions for First-time Adopters of IFRS	AASB 1 has been amended to provide additional exemptions from full retrospective application of IFRS for the measurement of oil and gas assets and leases.	31 Dec 2010	The amendments do not have any impact on the Group's financial report.	1 Jul 2011

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Statement of compliance (continued)

(ii) Accounting standards and interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12	The revised Standard introduces a number of changes to the accounting for financial assets, the most significant of which includes: ► two categories for financial assets being amortised cost or fair value ► removal of the requirement to separate embedded derivatives in financial assets ► strict requirements to determine which financial assets can be classified as amortised cost or fair value, Financial assets can only be classified as amortised cost if (a) the contractual cash flows from the instrument represent principal and interest and (b) the entity's purpose for holding the instrument is to collect the contractual cash flows ► an option for investments in equity instruments which are not held for trading to recognise fair value changes through other comprehensive income with no impairment testing and no recycling through profit or loss on derecognition ► reclassifications between amortised cost and fair value no longer permitted unless the entity's business model for holding the asset changes ► changes to the accounting and additional disclosures for equity instruments classified as fair value through other comprehensive income	1 Jan 2013	The amendments are expected to have little or no impact on the Group's financial report.	1 July 2013

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Statement of compliance (continued)

(ii) Accounting standards and interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2009-12	Amendments to Australian Accounting Standards [AASBs 5, 8, 108, 110, 112, 119, 133, 137, 139, 1023 & 1031 and Interpretations 2, 4, 16, 1039 & 1052]	This amendment makes numerous editorial changes to a range of Australian Accounting Standards and Interpretations. In particular, it amends AASB 8 Operating Segments to require an entity to exercise judgement in assessing whether a government and entities known to be under the control of that government are considered a single customer for the purposes of certain operating segment disclosures. It also makes numerous editorial amendments to a range of Australian Accounting Standards and Interpretations, including amendments to reflect changes made to the text of IFRSs by the IASB	1 Jan 2011	Where applicable, additional disclosures may be required.	1 July 2011
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments. Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions	1 Jan 2011	Additional disclosures may be required if relevant transactions eventuate.	1 July 2011

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Statement of compliance (continued)

(ii) Accounting standards and interpretations issued but not yet effective (continued)

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
Interpretation 19	Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	This interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are "consideration paid" in accordance with paragraph 41 of IAS 39. As a result, the financial liability is derecognised and the equity instruments issued are treated as consideration paid to extinguish that financial liability. The interpretation states that equity instruments issued in a debt for equity swap should be measured at the fair value of the equity instruments issued, if this can be determined reliably. If the fair value of the equity instruments issued is not reliably determinable, the equity instruments should be measured by reference to the fair value of the financial liability extinguished as of the date of extinguishment.	1 Jan 2011	Additional disclosures may be required if relevant transaction eventuate.	1 July 2011

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

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 2010

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 2010

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 2010

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 2010

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) Intangible assets

The only intangible assets other than goodwill recognised by the group are software assets. The amounts capitalised (refer note 13) 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.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Research and development costs

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

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

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

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

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.

s) Provisions and employee leave benefits

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

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

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

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

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

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

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

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

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled (the vesting period), ending on the date on which the relevant employees become fully entitled to the award (the vesting date).

At each reporting date until vesting the cumulative charge to 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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions (continued)

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).

u) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds (net of tax).

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

v) Earnings (Loss) per share

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

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

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

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

w) Segment reporting

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

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

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

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.

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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

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	
	2010	2009
Financial Assets	$	$
Cash and cash equivalents *	1,552,611	1,628,558
Financial Liabilities		
Convertible notes	500,000	500,000
Accrued note interest	17,466	4,786
Net exposure	1,035,145	1,123,772

*These amounts differ from the balance sheet due to non interest bearing cash on hand

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

At 30 June 2010, 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		Other Comprehensive Income Higher (Lower)	
	2010	2009	2010	2009
	$	$	$	$
Consolidated				
+0.25% (25 basis points)	3,339	4,262	-	-
-0.75% (75 basis points)	(10,016)	(16,032)	-	-

During 2008/2009, official interest rates in Australia were reduced from 7.25% to 3.0% as a consequence of the global financial crisis. During 2009/2010, official rates were increased on six occasions, lifting the official rate at June 2010 to 4.5%. These were significant movements in historical terms, and not representative of ordinary annual movements in official interest rates. In forming a view on what reasonably possible rate movements might have occurred in 2009/2010, it is unlikely that upward movement beyond 1.75% would have occurred, and therefore a factor of 0.25% has been adopted as the upside factor on rates. As to downside movement, it is conceivable that had there not been strong global factors impacting the rise in Australian official interest rates, the upward movement could have been more restrained, and an increase of only 0.75% may have eventuated. This rate has been adopted as the downside rate adjustment.

The movements in net loss are due to higher and lower amounts of interest received from interest bearing cash balances. There is no movement in other comprehensive income as there are no derivative instruments designated as cash flow hedges.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

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 2010, 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 2010, the Group had the following exposure to US$ foreign currency that is not designated in cash flow hedges:

	Consolidated	
	2010	2009
	$	$
Financial Assets		
Cash and cash equivalents	72,827	11,806
Trade and other receivables	1,680	25,732
Financial Liabilities		
Trade and other payables	-	(15,271)
Net exposure	74,507	22,267

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

At 30 June 2010, 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)	
	2010	2009	2010	2009
	$	$	$	$
Consolidated				
AUD/USD +4.6%	(3,848)	(1,216)	-	-
AUD/USD - 4.6%	4,221	1,334	-	-
Parent				
AUD/USD +4.6%	-	-	-	-
AUD/USD - 4.6%	-	-	-	-

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 2010

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 2010. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2010.

	Consolidated		
	<6 months	1-5 years	Total
Year ended 30 June 2010			
Liquid financial assets			
Cash and cash equivalents	1,555,401	-	1,555,401
Trade and other receivables	129,363	-	129,363
Financial liabilities			
Trade and other payables	(56,691)	-	(56,691)
Convertible notes	-	(500,000)	(500,000)
Net maturity	1,628,073	(500,000)	1,128,073
Year ended 30 June 2009			
Liquid financial assets			
Cash and cash equivalents	1,651,106	-	1,651,106
Trade and other receivables	250,987	-	250,987
Financial liabilities			
Trade and other payables	(33,376)	-	(33,376)
Convertible notes	-	(500,000)	(500,000)
Net maturity	1,868,717	(500,000)	1,368,717

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

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:

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (cont)

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 modest and is monitored by management on an ongoing basis to assess the adequacy of the provision.

Capitalisation of research and development expenditure

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

Recognition of deferred tax assets

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

Useful lives of assets

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

Impairment of loans to, and investment in, subsidiaries

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

5 SEGMENT INFORMATION

The Group has identified its operating segments based on the internal reports that are reviewed and used by management and the board (the chief decision makers) in assessing performance and in determining the allocation of resources. The operating segments are identified by management based on the activities undertaken. Financial information about each of these operating activities is reported to management on a monthly basis.

The group has two separate business segments, being product realisation (trading), where activities comprise manufacturing and sales of confocal imaging products, and research and development, where activities include design and development of new products and technologies, including related income from customers. Unallocated amounts relate mainly to central costs and overheads

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

5 SEGMENT INFORMATION (continued)

Major customers

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

		Trading $	*R&D* $	*Unallocated* $	*Total* $
Year ended 30 June 2010					
Revenue					
	Sales to external customers	965,812	-	-	965,812
	Other revenues	-	-	277,617	277,617
	Inter segment revenue				
	Total consolidated revenue	965,812	-	277,617	1,243,129
Result					
	Net profit (loss) for year by segment	403,153	(1,394,696)	(659,256)	(1,650,799)
Assets and liabilities					
	Segment assets *	509,546	39,201	1,643,654	2,192,401
	Segment liabilities	(131,420)	(134,270)	(626,449)	(892,139)
	Segment net assets	378,126	(95,069)	1,017,205	1,300,262
Cash flow					
	Segment net cash flow from operating activities	515,709	(1,400,739)	(342,834)	(1,227,864)
	Investing cash flows	-	-	(2,384)	(2,384)
	Financing cash flows	-	-	1,102,721	1,102,721
	Net cash flow for year	515,709	(1,400,739)	757,503	(127,527)
Other Segment information					
Non cash expenses					
	Depreciation and amortisation	121,109	120,674	123,161	364,944
	Share based payments	-	-	90,284	90,284
	Amortised cost adjustment of convertible notes	-	-	10,851	10,851
	Profit (loss) on sale of assets	-	-	19,450	19,450
	Foreign exchange differences	-	-	(30,934)	(30,934)
Revenue by geographic segment (location of customer)					
	Asia	467,012	-	36,286	503,298
	Australia	68,747	-	36,827	105,574
	Europe	301,874	-	160,355	462,229
	USA & Canada	128,179	-	44,149	172,328
	Total	965,812	-	277,617	1,243,129

* Unallocated segment assets include cash, unallocated costs and revenues unrelated to the operating segments

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

5 SEGMENT INFORMATION (continued)

		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, unallocated costs and revenues unrelated to the operating segments

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

6 REVENUES AND EXPENSES

		CONSOLIDATED	
		2010	*2009*
		$	*$*
(a)	**Other revenue**		
	Royalty revenue	240,790	754,862
	Finance revenue – bank interest received	36,829	108,126
	Total other revenue	277,619	862,988
(b)	**Other income**		
	Settlement on termination of Hoya agreement	709,920	-
	Design and development income	267,936	1,386,703
	Lease income	-	11,776
	Government grants	67,877	99,605
	Net gain on disposal of plant and equipment	-	13,263
	Total Other Income	1,045,733	1,511,347
(c)	**Depreciation and amortisation**		
	-Depreciation included in Cost of sales	46,405	61,252
	- Depreciation included in Marketing expenses	74,704	65,432
	- Depreciation included in R&D expenses	120,674	193,148
	- Depreciation included in Administration expenses	93,218	113,623
		335,001	433,455
	- Amortisation of software included in Administration expenses	29,943	45,192
		364,944	478,647
(d)	**Employee benefits expense**		
	Wages and salaries	1,166,309	2,971,437
	Redundancies	341,929	695,132
	Workers' compensation costs	2,695	37,095
	Defined contribution plan expense	123,263	270,545
	Annual leave provision	3,263	23,113
	Long service leave provision	7,728	25,337
	Share-based payments expense	90,284	(26,884)
		1,735,471	3,995,774
(e)	**Cost of inventories recognised as an expense**		
	Consumed in production – cost of goods sold	119,965	476,723
	Consumed in R&D	53,860	2,216
	Write down inventory to net realisable value	25,265	1,142,408
		199,090	1,621,347
(f)	**Finance costs**		
	Interest on convertible notes	39,511	4,786
	Amortised cost adjustment of convertible notes	10,851	-
(g)	**Other expenses included in income statement**		
	Minimum lease payments – operating lease	132,000	238,500
	Warranty provision (Note 19)	(26,081)	(33,683)
(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

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

7 INCOME TAX

	CONSOLIDATED	
	2010 *$*	*2009* *$*
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	(29,545)	(74,934)
Deferred income tax		
Relating to origination and reversal of temporary differences	-	-
Income tax expense reported in the income statement	(29,545)	(74,934)

Tax Losses
The Group has unconfirmed, unrecouped tax losses in Australia of $40,139,327 (2009: $39,817,348) 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 $343,100 (2009, $392,148) 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 2010

7 INCOME TAX (continued)

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

	CONSOLIDATED 2010 $	CONSOLIDATED 2009 $
Accounting loss before income tax	(1,621,254)	(6,338,436)
Prima facie income tax (benefit) at the Parent entity's statutory income tax rate of 30% (2009: 30%)	(486,376)	(1,901,531)
Adjustments in respect of current income tax of previous years	-	227,311
Non assessable gains	(2,840)	-
Share based payments not deductible	27,085	(8,065)
R&D Tax Concession allowance	509,700	-
Impairment losses not deductible	-	594,440
Expenditure not allowable for income tax purposes	3,255	11,372
Deductible movements through equity	(17,094)	(1,004)
Deferred tax assets (recognised) / not recognised	(33,730)	1,077,477
Foreign withholding tax deductions from royalties	29,545	74,934
Income tax expense	29,545	74,934

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):

	Statement of financial position 2010 $	Statement of financial position 2009 $	Statement of comprehensive income 2010 $	Statement of comprehensive income 2009 $
CONSOLIDATED				
Deferred tax liability				
Accrued income not yet assessable	-	-	-	23,945
Deferred tax assets				
Undeducted patent costs	139,018	141,227	(2,209)	3,277
Employee benefit & warranty provisions	61,794	116,279	(54,485)	(159,233)
Expenses not yet deductible	32,117	20,359	11,758	(30,233)
Inventory impairment provision	339,835	434,102	(94,267)	342,722
Deferred deductible equity issue costs	19,352	10,473	8,879	(19,817)
Tax Losses available	12,041,798	11,945,205	96,594	916,816
Foreign tax credits	343,100	392,148	-	-
Gross deferred income tax assets	12,977,014	13,059,793		
Less amounts not recognised in accounts	(12,977,014)	(13,059,793)		
Gross deferred income tax assets	-	-		
Deferred tax income/ (expense) incurred			(33,730)	1,077,477
Less deferred income tax not recognised in accounts			(33,730)	(1,077,477)
Deferred tax income/ (expense)			-	-

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

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	
	2010	*2009*
	$	*$*
Net loss	(1,650,799)	(6,413,370)
	2010 Number	*2009 Number*
Weighted average number of ordinary shares for basic earnings per share	122,749,454	116,932,459
Effects of dilution:		
Share options	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	122,749,454	116,932,459
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 2010

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	
	2010 *$*	*2009* *$*
Cash at bank and in hand	1,363,799	1,466,434
Short-term deposits	191,602	184,672
	1,555,401	1,651,106

Reconciliation of net loss after tax to net cash flows from operations		
Net loss	(1,650,799)	(6,413,370)
Adjustments for:		
Depreciation and amortisation	364,944	478,647
Net (gain) loss on disposal of plant and equipment	19,450	(12,909)
Net fair value change	10,851	-
Impairment of non current assets	-	3,123,875
Net exchange differences	(31,823)	(8,963)
Shares and options expensed	90,284	(26,884)
Exchange differences recognised in equity	889	8,762
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	121,624	231,504
(Increase)/decrease in inventories	69,806	305,979
(Increase)/decrease in prepayments	14,851	(6,824)
(Increase)/decrease in derivatives	-	-
(Decrease)/increase in trade and other payables	(89,645)	(357,017)
(Decrease)/increase in unearned income	33,320	18,852
(Decrease)/increase in provisions	(181,616)	(530,781)
Net cash from / (used in) operating activities	(1,227,864)	(3,189,129)

Disclosure of financing facilities - Refer to note 16.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

10 TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	2010 *$*	*2009* *$*
CURRENT		
Trade receivables	105,764	26,772
Royalties receivable	-	161,654
GST refund receivable	21,554	34,721
Interest receivable	1,594	682
Other receivables	451	27,158
Net carrying amount	129,363	250,987

<u>Ageing Analysis of Receivables</u>

	Total	0-30 Days	31-60 Days	61-90 Days PDNI*	90+ Days PDNI*
Consolidated – 2010	129,363	24,436	21,153	14,257	69,517
Consolidated – 2009	250,987	231,474	-	-	19,513

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

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

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

(vi) For terms and conditions relating to related party receivables refer to note 20.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

11 INVENTORIES

	CONSOLIDATED	
	2010 *$*	*2009* *$*
Raw materials (at net realisable value)	113,008	136,482
Work in progress (at net realisable value)	40,840	84,796
Finished goods (at cost)	213,227	215,603
Total inventories at the lower of cost and net realisable value	367,075	436,881
Write down to net realisable value (refer note 6))	25,265	1,142,408

12 PLANT AND EQUIPMENT

Consolidated * **YEAR ENDED 30 JUNE 2010**	*Office Furniture & Equipment 2010 $*	*Production Equipment 2010 $*	*R&D Equipment 2010 $*	*Total Plant & Equipment 2010 $*
Opening balance, net of accumulated depreciation and impairment	192,545	83,113	179,324	454,982
Additions	2,385	-	-	2,385
Disposals	-	-	(19,449)	(19,449)
Depreciation charge for the year	(167,922)	(46,405)	(120,674)	(335,001)
At 30 June 2009, net of accumulated depreciation and impairment	27,008	36,708	39,201	102,917
At 1 July 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
At 30 June 2010				
Cost	532,663	258,483	410,351	1,201,497
Accumulated depreciation and impairment	(505,655)	(221,775)	(371,150)	(1,098,580)
Net carrying amount	27,008	36,708	39,201	102,917

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

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

12 PLANT AND EQUIPMENT (continued)

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

The useful lives of the assets for both for 2010 and 2009 are estimated to be between two and five years.

13 INTANGIBLE ASSETS – SOFTWARE

	CONSOLIDATED *2010 $*	*2009 $*
Opening balance net of accumulated amortisation and impairment	29,944	49,366
Additions during year	-	25,770
Amortisation	(29,944)	(45,192)
Net carrying amount	-	29,944
At cost	101,128	101,128
Accumulated amortisation	(101,128)	(71,184)
Net carrying amount	-	29,944

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

14 TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2010 *$*	*2009* *$*
Current		
Trade payables (i)	37,676	33,376
Accrued expenses	122,198	211,130
Other payables	1,654	6,667
Deferred revenue	44,991	7,592
	206,519	258,765
Non current		
Deferred revenue	7,181	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.

15 INTEREST BEARING LOANS AND BORROWINGS

	CONSOLIDATED	
	2010 *$*	*2009* *$*
Non current		
Convertible notes	472,460	461,609

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

(b) Interest rate
Details regarding interest rate and liquidity risk are detailed in Note 3.

(c) Assets pledged as security
The amounts payable under the convertible notes deed 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 2010

16 BANK FACILITIES

	CONSOLIDATED	
	2010 *$*	*2009* *$*
Bank Facilities		
Total facilities provided by the group's bankers:		
- credit cards	20,000	40,000
- bank guarantees and indemnities	91,500	91,500
-bills negotiated under credit	-	-
- electronic transaction facility	50,000	50,000
	161,500	181,500
Facilities used at reporting date:		
- credit cards	866	1,211
- bank guarantees and indemnities	48,500	48,500
- electronic transaction facility	50,000	50,000
	99,366	99,711
Facilities unused at reporting date:		
- foreign currency hedging	-	-
- credit cards	39,134	38,789
- bank guarantees and indemnities	43,000	43,000
-bills negotiated under credit	-	-
- electronic transaction facility	-	-
	82,134	81,789
Total facilities	181,500	181,500
Facilities used at reporting date	99,366	99,711
Facilities unused at reporting date	82,134	81,789
Assets pledged as security		
The bank facilities are secured by charges over specific term deposits on an ongoing floating basis	181,500	181,500

Terms of Security
The bank has a charge over term deposits amounting to $181,500 (2009, $181,500) 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.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

17 PROVISIONS

	Annual Leave $	*Long Service Leave* $	*Warranty* $	*Total* $
*CONSOLIDATED **				
At 1 July 2009	176,858	151,954	58,783	387,595
Arising during the year	3,263	7,731	25,531	36,525
Utilised	(96,736)	(69,793)	(51,612)	(218,141)
At 30 June 2010	83,385	89,892	32,702	205,979
Current 2010	83,385	67,227	32,702	183,314
Non-current 2010	-	22,665	-	22,665
	83,385	89,892	32,702	205,979
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

* 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 2010

18 CONTRIBUTED EQUITY AND RESERVES

	CONSOLIDATED	
	2010 *$*	*2009* *$*
Ordinary shares - Issued and fully paid	45,016,281	43,913,560

	No of Shares	*$*
Movement in ordinary shares on issue		
At 1 July 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
Issued for cash on placement	11,597,000	1,159,700
Transaction costs on share issue	-	(56,979)
Issue to former CEO under incentive agreement	850,000	-
Equity component of convertible notes	-	-
At 30 June 2010	129,680,531	45,016,281

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	
	2010 *$*	*2009* *$*
Accumulated losses		
Movements in accumulated losses were as follows:		
Balance 1 July	(42,754,427)	(36,341,057)
Net loss for the year	(1,650,799)	(6,413,370)
Balance 30 June	(44,405,226)	(42,754,427)

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

18 CONTRIBUTED EQUITY AND RESERVES (continued)

	CONSOLIDATED 2010 $	*CONSOLIDATED 2009 $*
Reserves		
Movements in reserves were as follows:		
Employee Equity Benefits Reserve		
Balance 1 July	590,204	617,088
Share based payments	90,284	(26,884)
Balance 30 June	680,488	590,204
Foreign Currency Translation Reserve		
Balance 1 July	7,830	(932)
Foreign currency translation difference	889	8,762
Balance 30 June	8,719	7,830
Total reserves	689,207	598,034

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.

19 PARENT ENTITY INFORMATION

	2010 $	*2009 $*
Information relating to Optiscan Imaging Ltd:		
Current assets	1,296,090	722,992
Total assets	1,790,188	2,223,562
Current liabilities	17,466	4,786
Total liabilities	489,926	466,395
Issued capital	45,016,281	43,913,560
Accumulated losses	(44,396,507)	(42,746,597)
Employee equity benefits reserve	680,488	590,204
Total shareholders' equity	1,300,262	1,757,167
Loss of the parent entity	(1,649,910)	(6,404,608)
Other comprehensive income of the parent entity	-	-
Total comprehensive income of the parent entity	(1,649,910)	(6,404,608)
Parent entity guarantees for debts of subsidiaries	-	-
Contingent liabilities of parent entity	-	-
Contractual commitments of parent entity	-	-

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

20 RELATED PARTY DISCLOSURE

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

Name	*Country of incorporation*	*% Equity interest 2010*	*% Equity interest 2009*	*Investment $ 2010*	*Investment $ 2009*
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				(6,113,300)	(5,106,828)
				494,098	1,500,570

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 $441,527 (2009, $3,111,029). 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.

21 KEY MANAGEMENT PERSONNEL

Details of Key Management Personnel

(i) Board of Directors

Executive Directors

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

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

Compensation of Key Management Personnel

Table 1: Compensation of Key Management Personnel for the year ended 30 June 2010

	CONSOLIDATED 2010 $	*CONSOLIDATED 2009 $*
Short term employee benefits	600,941	1,151,442
Post Employment benefits	36,815	93,767
Termination payments	228,865	191,978
Other Long-Term	-	7,016
Share-based payment	82,450	(11,114)#
	949,071	1,433,089

 # 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 2010

21 KEY MANAGEMENT PERSONNEL (continued)

Option holdings of Key Management Personnel

Options holdings of Key Management Personnel for the year ended 30 June 2010

						Vested at 30 June 2010		
30 June 2010	*Balance at beginning of period 01-Jul-09*	*Granted as Remuneration*	*Options Exercised*	*Options Expired Forfeited*	*Balance at end of period 30-Jun-10*	*Total Vested*	*Exercisable*	*Not Exercisable*
Directors								
A. Holt	-	-	-	-	-	-	-	-
P. Delaney	450,000	-	-	-	450,000	450,000	450,000	-
B. Andrew	-	-	-	-	-	-	-	-
Total	450,000	-	-	-	450,000	450,000	450,000	-

No options were issued or exercised during the year ended 30 June 2010.

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 issued or exercised during the year ended 30 June 2009.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

21 KEY MANAGEMENT PERSONNEL (continued)

Shareholdings of Key Management Personnel

Shares held in Optiscan Imaging Limited for the year ended 30 June 2010 (number)

30 June 2010	*Balance at beginning of period 01-Jul-09*	*Purchased*	*CEO Incentive Allotment*	*Holding at Date of Appointment / Resignation*	*Balance at end of period 30-Jun-10*
Directors					
A. Holt	6,107,000	1,456,816	-	-	7,563,816
P. Delaney	3,476,349	25,000	-	-	3,501,349
V. Tutungi	217,400	25,000	850,000	(1,092,400)	-
B. Andrew	-	50,000	-	40,000	90,000
Total	9,800,749	1,556,816	850,000	(1,052,400)	11,155,165

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*	*Purchased*	*Held at Date of Appointment*	*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	4,181,349	1,956,966	6,107,000	2,444,566	9,800,749

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 2010

22 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 6(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 2010	WAEP 2010	No. Options 2009	WAEP 2009
Outstanding at the beginning of the year	1,860,275	0.38	5,140,242	0.39
Granted during the year	-	-	-	-
Forfeited during the year	(811,200)	0.35	(2,845,317)	0.38
Exercised during the year	-	-	-	-
Expired during the year	(172,000)	0.40	(434,650)	0.45
Outstanding at the end of the year	877,075	0.37	1,860,275	0.38
Exercisable at the end of the year	672,010	0.36	1,297,342	0.37

The outstanding balance as at 30 June 2010 is represented by:

Options expiring in the year :	No Options	WAEP $
- 2010/2011	441,875	0.32
- 2011/2012	255,200	0.50
- 2012/2013	180,000	0.31
	877,075	0.37

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2010

22 SHARE BASED PAYMENT PLANS (continued)

The weighted average remaining contractual life for the share options outstanding as at 30 June 2010 is 1 year, 3 months (15 months). No options were granted during the year.

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 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.

23 DERIVATIVES AND HEDGING

Economic hedging activities
At 30 June 2010 and 30 June 2009, there were no currency option contracts or forward exchange contracts in existence.

24 COMMITMENTS AND CONTINGENCIES

Operating lease commitments – Group as lessee

The previous property lease over the premises occupied by the Group expired in September 2007. The Group currently occupies the premises on a monthly tenancy. There are no future minimum rentals payable under non-cancellable operating leases as at 30 June 2010.

Capital commitments
At 30 June 2010 there were no material capital commitments outstanding (2009: Nil).

Contingent Liabilities
The group has contingent liabilities in relation to bank guarantees on issue at balance date amounting to $48,500 (2009: $48,500).

25 EVENTS AFTER THE BALANCE SHEET DATE

The directors are not aware of any events after balance date that would have a material on the financial statements at 30 June 2010.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2010

26 AUDITORS' REMUNERATION

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

	CONSOLIDATED	
	2010	*2009*
	$	*$*
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	45,748	58,038
• Other services in relation to the entity and any other entity in the consolidated group		
- tax compliance	-	3,264
- other advisory services	-	25,647
- other assurance services	-	3,011
	45,748	89,960