



31 August 2012

Company Announcement Office
Australian Securities Exchange

Optiscan strengthens balance sheet and cash flows in lead up to commercial sales launch in 2014

- ***Operational highlights***
- ***Capital Raising***
- ***Financial results***
- ***Outlook***
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Operational Highlights

The 2012 financial year was significant for Optiscan in a manner that is not reflected in the Company's financial statements.

Major events in the evolution of Optiscan over the past year include:

- The approval of three category 1 CPT codes regarding the use of optical endomicroscopy in the gastrointestinal tract, with those codes scheduled for implementation in January 2013. CPT codes are the most widely accepted nomenclature used to report medical procedures and services under US private and public health insurance programs, often referred to as reimbursement. (field – flexible endomicroscopy)
- The completion of the International Multi Centre Trial and delivery of the study findings around the use of Optiscan's technology into the detection of Barrett's Esophagus Neoplasia. Findings highlight the demonstrable patient, clinician and healthcare system benefits of Optiscan's technology for earlier and better disease detection. (field - flexible endomicroscopy)
- The delivery of the first flexible endomicroscopy system incorporating Optiscan's second generation technology. (field - flexible endomicroscopy).
- The first purchase order from Carl Zeiss for pre-production models of Optiscan's neurosurgery systems. (field - rigid endomicroscopy)
- The further development of our probe-based systems and successful imaging leading to the potential for a stand-alone Optiscan system within gastroenterology. (field - flexible endomicroscopy)
- Continued R&D into further proprietary miniaturisation and image enhancement and delivery of future generations of Optiscan technology in live micro imaging.

Capital Raising

Optiscan is delighted to announce it has today successfully closed a \$1 million placement to professional and sophisticated investors. The placement has been well supported by a number of the Company's long term shareholders, with allotment and quotation expected to take place within days.

Details of the placement are as follows:

- 13,333,333 new fully paid ordinary shares to rank pari passu with existing shares
- Issue price of 7.5 cents per share

The proceeds from this capital raising, together with other near term income anticipated from sales, milestones and grants will place the company on a sound commercial footing, which will provide the platform to:

- enhance the Company's operational efficiency by virtue of the stronger balance sheet and simplified cash flow management;
- invest more heavily in regulatory resources in order to facilitate the near term (2014) sale of commercial product in both the rigid and flexible endoscopy markets;
- invest in appropriate levels of stock and related commitments to allow delivery into future orders on time and in volume; and
- take advantage of the significant technology and market developments that have taken place over the past 18 months as mentioned above.

The improved financial status of the Company has also allowed the repositioning of the Company's funding facility with Bergen Global Opportunity Fund, announced to the market on 30 March 2012. The Company and Bergen have terminated the facility by mutual consent. In order to maximise the benefit of the Company's improved cash position and cash flow profile, Bergen's outstanding convertible security with the face value of \$200,000 has been increased to \$250,000 in consideration of Bergen agreeing to certain conditions around the sale of the shares that would be received by Bergen in conversion of the convertible security. Importantly, Bergen has agreed not to sell any such shares for two months and to certain limits on any subsequent sale of such shares.

In March, Optiscan and Bergen came together in a funding arrangement that allowed Optiscan to significantly reduce the risk associated with its cash flow profile at the time and consequently to continue its efforts to move to commercial product with Zeiss, in the first instance. Bergen's contribution has been invaluable and has facilitated the development of the Company to its now considerably more robust stature. The Company acknowledges Bergen's flexibility in winding down the facility before the end of its contractual term.

Financial Results

The net loss for 2012 was \$2,502,450 compared to a profit of \$14,405 in 2011.

It is a common characteristic of companies in the medical device development industry, and in the stage of development we currently experience, that revenue, expenses and cash flow can be lumpy and uneven. As a consequence, year on year comparison of financial results requires detailed analysis of a range of issues to identify the underlying operational trends and directions.

In the current year, sales revenue declined 25% to \$381,791, mainly due to fewer sales of the Five 1 research instrument. This reflects, in some respects, the emergence of Optiscan's second generation platform and the interest of research customers in the latest available technology.

Other income, including grants and design and development income decreased by 76% to \$456,350 as 2011 included large one off milestone payments of \$1,267,918, not repeated in 2012.

Total expenses increased 50%, from \$2,152,934 to \$3,238,912. The primary factors were costs associated with funding facilities (including share based payments of \$475,717), increased investment in R&D, and professional fees associated with the strategic review process.

These movements, together with the year on year decline in income from design and development are the major causes of the change in reported results.

Outlook

With an improved financial outlook and the numerous important developments over the past 18 months, Optiscan is well placed to independently move to commercial sales in the 2014 financial year and to gain financial independence. Initial clinical commercial sales are likely to commence via the neurosurgery system to Carl Zeiss.

In flexible endoscopy, with the ability to offer either an integrated or stand alone system the Company has a range of modalities to consider around its re-entry to this very large market. We are many months into the investigation of various means of re-entry to flexible endoscopy and will move on the appropriate opportunity at the appropriate time.

Angus Holt
Executive Chairman

OPTISCAN IMAGING LIMITED

ABN 81 077 771 987

ANNOUNCEMENT OF RESULTS AND PRELIMINARY FINAL REPORT FOR YEAR ENDED 30 JUNE 2012

OPTISCAN IMAGING LIMITED

ABN : 81 077 771 987

APPENDIX 4E

Preliminary Final Report

Year ended 30 June 2012

Previous corresponding period: Year ended 30 June 2011

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

The results of Optiscan Imaging Limited for the year ended 30 June 2012 are as follows:

Results

Sales revenue declined 25% to \$381,791, mainly due to fewer sales of the Five 1 research instrument.

Other income, including grants and design and development income decreased by 76% to \$456,350 as 2011 included large one off milestone payments not repeated in 2012.

Total expenses increased 50%, from \$2,152,934 to \$3,238,912. The major factors were costs associated with funding facilities, increased investment in R&D, and professional fees associated with the strategic review process.

Net loss after tax attributable to members was \$2,502,450 compared to a profit of \$14,405 in 2011.

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

During the early stages of 2011/2012, Optiscan achieved a stable cash and funding position from sales and grant income that enabled a modest increase in R&D resources to accelerate progress on the Zeiss collaboration and second generation platform. It also provided the opportunity engage in a strategic review process. Early in 2012 the company moved to secure its future funding position by negotiating the mandatory conversion of \$500,000 in convertible notes due to expire in May 2012. The Company also established a new convertible note funding agreement with Bergen Global Opportunity Fund from New York. Whilst these were prudent measures, there were costs amounting to \$475,717 in share based payments. These costs have no impact on cash balances, but they are the largest single factor in a substantial increase in reported expenses.

In summary, the cost increased investment in R&D, the strategic review and share based payments are the primary causes of the increased level of expenses in 2012. Other income, primarily design and development income decreased by 76% in 2012 to \$456,350 as the previous year included large one off milestone payments not repeated in 2012. These movements in expenses and other income are the major causes of the change in reported results year on year.

3. Commentary on result

Sales revenue of \$381,791 was down 25% on the previous year (2011: \$509,036), mainly due to fewer sales of the Five 1 research instrument.

Other income declined from \$1,903,918 to \$456,350, as 2011 included Design and Development income of \$1,267,918 as a result of milestones which attracted nearly €1 million in payments under the Zeiss collaboration agreement. There were no milestone payments in 2012. There was also a small decrease in the R&D tax concession grant in 2012.

Expenses increased from \$2,152,934 to \$3,238,912 in 2012. Share based payments, mostly related to financing facilities, increased \$475,717, and R&D increased \$170,760. Other cost increases related to the strategic review activity, and some further impairment of obsolete first generation inventory.

Cash at bank at June 2012 was \$578,900, which together with \$67,000 in a term deposit classified as a receivable under accounting standards, results in a total of \$645,900 in bank accounts. This compares with \$1,078,694 in June 2011. Another perspective on the reported results for 2012 is revealed in the Statement of Cash Flows. The net cash used in operating activities increased from \$468,579 to \$793,545, a modest movement of \$324,966, and substantially less than the loss for the year. This remains an important and objective indicator of performance for this company.

4. Other information to be included in Appendix 4E

Net Tangible Assets per ordinary Security

Net tangible assets per ordinary security at 30 June 2012 amount to \$0.002 (2011: \$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 20 November 2012 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 4 to 5 of this report.

6. Financial information

Audited financial information is set out on pages 6 to 57 of this report.

A handwritten signature in blue ink, appearing to read "Bruce Andrew".

Bruce Andrew

Director

31 August 2012

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

Report on the financial report

We have audited the accompanying financial report of Optiscan Imaging Limited, which comprises the consolidated statement of financial position as at 30 June 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

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

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

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

Independence

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

Opinion

In our opinion:

- a. the financial report of Optiscan Imaging Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Material uncertainty regarding continuation as a going concern

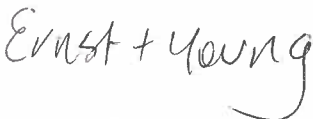
Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of matters described in Note 2 'Going Concern' to the financial report, there is material uncertainty whether the consolidated entity will be able to continue as a going concern and therefore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

Report on the remuneration report

We have audited the Remuneration Report included in pages 8 to 12 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Optiscan Imaging Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.



Ernst & Young



Joanne Lonergan
Partner
Melbourne
31 August 2012

Optiscan Imaging Limited
ABN 81 077 771 987

Financial Statements

for the year ended 30 June 2012

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Statement of Financial Position

AS AT 30 JUNE 2012

	<i>Notes</i>	<i>CONSOLIDATED</i>	
		<i>2012</i>	<i>2011</i>
		\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents	9	578,900	1,078,694
Trade and other receivables	10	162,687	835,191
Inventories	11	153,075	197,100
Prepayments	12	143,391	50,112
Total Current Assets		<u>1,038,053</u>	<u>2,161,097</u>
Non-current Assets			
Prepayments	12	101,401	-
Plant and equipment	13	41,217	38,553
Total Non-current Assets		<u>142,618</u>	<u>38,553</u>
TOTAL ASSETS		<u>1,180,671</u>	<u>2,199,650</u>
LIABILITIES			
Current Liabilities			
Trade and other payables	14	469,175	180,397
Interest bearing loans and borrowings	15	210,414	484,485
Provisions	17	174,201	179,958
Total Current Liabilities		<u>853,790</u>	<u>844,840</u>
Non-current Liabilities			
Trade and other payables	14	-	2,575
Provisions	17	13,571	9,521
Total Non-current Liabilities		<u>13,571</u>	<u>12,096</u>
TOTAL LIABILITIES		<u>867,361</u>	<u>856,936</u>
NET ASSETS		<u>313,310</u>	<u>1,342,714</u>
EQUITY			
Contributed equity	18	45,710,667	45,016,281
Accumulated losses	18	(46,893,271)	(44,390,821)
Reserves	18	1,495,914	717,254
TOTAL EQUITY		<u>313,310</u>	<u>1,342,714</u>

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

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2012

	Notes	CONSOLIDATED	
		2012 \$	2011 \$
Sale of goods		381,791	509,036
Other revenue	6(a)	43,380	41,985
Revenue		425,171	551,021
Cost of sales		(145,059)	(287,600)
Gross Profit		280,112	263,421
Other income	6(b)	456,350	1,903,918
Research & development expenses		(1,193,643)	(1,022,883)
Administrative expenses		(1,870,318)	(1,117,563)
Other expenses		(174,951)	(12,488)
Loss before income tax		(2,502,450)	14,405
Income tax expense	7	-	-
Net profit (loss) for the year		(2,502,450)	14,405
Other comprehensive income			
Foreign currency translation of net investment in foreign subsidiary		60	1,474
Total comprehensive profit (loss) for the period		(2,502,390)	15,879
Earnings (loss) per share (cents per share)	8		
- basic earnings (loss) per share for the year		(0.19)	0.01
- diluted earnings (loss) per share for the year		(0.19)	0.01

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 2012

	CONSOLIDATED				
	Ordinary shares \$	Accumulated Losses \$	Share Based Payments \$	Foreign Currency Translation Reserve \$	\$
At 1 July 2011	45,016,281	(44,390,821)	707,061	10,193	1,342,714
Loss for the year	-	(2,502,450)	-	-	(2,502,450)
Other comprehensive income	-	-	-	60	60
Total comprehensive income (loss) for the year	-	(2,502,450)	-	60	(2,502,390)
Transactions with owners in their capacity as owners:					
Shares issued on conversion of notes	629,298	-	-	-	629,298
Equity component of convertible notes	65,088	-	-	-	65,088
Share based payments	-	-	778,600	-	778,600
At 30 June 2012	45,710,667	(46,893,271)	1,485,661	10,253	313,310
At 1 July 2010	45,016,281	(44,405,226)	680,488	8,719	1,300,262
Profit for the year	-	14,405	-	-	14,405
Other comprehensive income	-	-	-	1,474	1,474
Total comprehensive income for the year	-	14,405	-	1,474	15,879
Transactions with owners in their capacity as owners:					
Share based payments	-	-	26,573	-	26,573
At 30 June 2011	45,016,281	(44,390,821)	707,061	10,193	1,342,714

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

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2012

	Notes	CONSOLIDATED	
		2012	2011
		\$	\$
Cash flows from operating activities			
Receipts from customers		711,729	1,692,450
Payments to suppliers and employees		(2,594,254)	(2,197,288)
Royalties received		1,509	5,167
Interest received		42,519	37,250
Receipt of government grants		1,092,350	-
Interest paid		(47,398)	(6,158)
Net cash used in operating activities	9	<u>(793,545)</u>	<u>(468,579)</u>
Cash flows from investing activities			
Cash placed on deposit	10	(67,000)	-
Purchase of plant and equipment	13	(28,776)	(19,140)
Net cash used in investing activities		<u>(95,776)</u>	<u>(19,140)</u>
Cash flows from financing activities			
Proceeds from issue of convertible notes, net of transaction costs	15	398,000	-
Net cash flows from financing activities		<u>398,000</u>	<u>-</u>
Net decrease in cash and cash equivalents		(491,321)	(487,719)
Net foreign exchange differences		(8,473)	11,012
Cash and cash equivalents at beginning of period		1,078,694	1,555,401
Cash and cash equivalents at end of period	9	<u>578,900</u>	<u>1,078,694</u>

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2012

1 CORPORATE INFORMATION

The financial report of Optiscan Imaging Limited (the Company) for the year ended 30 June 2012 was authorised for issue in accordance with a resolution of the directors on 31 August 2012.

Optiscan Imaging Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange. The nature of the operations and principal activities of the Group are described in note 5, Segment Information.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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a) Basis of preparation

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

Compliance with IFRS

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

a) Basis of preparation (continued)

Going Concern (Significant Uncertainty as at 30 June 2012)

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 2012, the financial position of the consolidated entity as disclosed in the financial statements reflects a net asset position of \$313,310 (2011: \$1,342,714). This balance has been determined after a consolidated net loss for the year of \$2,502,450 (2011: profit \$14,405), and a net cash outflow from operations of \$793,545 (2011: \$468,579).

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 2012 is \$578,900 (2011: \$1,078,694)
- Additional cashflow is expected to be received in the 2013 financial year under the agreement with Carl Zeiss
- The Company has established a \$2 million convertible note funding facility
- 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 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New accounting standards and interpretations

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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ending 30 June 2012. These are outlined in the table below.

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2011-9	Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income	This Standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not.	1 July 2012	The Group has considered the impact of this amendment and determined that there will be no impact on the Group's financial report	1 July 2012
AASB 10	Consolidated Financial Statements	<p>AASB 10 establishes a new control model that applies to all entities. It replaces parts of AASB 127 Consolidated and Separate Financial Statements dealing with the accounting for consolidated financial statements and <i>UIG-112 Consolidation – Special Purpose Entities</i>.</p> <p>The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control. Consequential amendments were also made to other standards via AASB 2011-7.</p>	1 January 2013	The Group has not yet considered the impact of the standard on its financial report	1 July 2013

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New accounting standards and interpretations

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

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 11	Joint Arrangements	<p>AASB 11 replaces AASB 131 <i>Interests in Joint Ventures</i> and UIG-113 <i>Jointly-controlled Entities – Non-monetary Contributions by Ventures</i>. AASB 11 uses the principle of control in AASB 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition it removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, accounting for a joint arrangement is dependent on the nature of the rights and obligations arising from the arrangement. Joint operations that give the venturers a right to the underlying assets and obligations themselves is accounted for by recognising the share of those assets and obligations. Joint ventures that give the venturers a right to the net assets is accounted for using the equity method.</p> <p>Consequential amendments were also made to other standards via AASB 2011-7 and amendments to AASB 128.</p>	1 January 2013	The Group has not yet considered the impact of the standard on its financial report	1 July 2013
AASB 12	Disclosure of Interests in Other Entities	<p>AASB 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. New disclosures have been introduced about the judgments made by management to determine whether control exists, and to require summarised information about joint arrangements, associates and structured entities and subsidiaries with non-controlling interests.</p>	1 January 2013	The Group has not yet considered the impact of the standard on its financial report	1 July 2013
AASB 13	Fair Value Measurement	<p>AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets.</p> <p>AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.</p> <p>Consequential amendments were also made to other standards via AASB 2011-8.</p>	1 January 2013	The Group has not yet considered the impact of the standard on its financial report	1 July 2013

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New accounting standards and interpretations

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

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 119	Employee Benefits	<p>The main change introduced by this standard is to revise the accounting for defined benefit plans. The amendment removes the options for accounting for the liability, and requires that the liabilities arising from such plans is recognized in full with actuarial gains and losses being recognized in other comprehensive income. It also revised the method of calculating the return on plan assets.</p> <p>The revised standard changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date.</p> <p>Consequential amendments were also made to other standards via AASB 2011-10.</p>	1 January 2013	The Group has considered the impact of this amendment and determined that there will be no impact on the Group's financial report	1 July 2013

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New accounting standards and interpretations

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

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
Annual Improvements 2009–2011 Cycle ****	Annual Improvements to IFRSs 2009–2011 Cycle	<p>This standard sets out amendments to International Financial Reporting Standards (IFRSs) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB.</p> <p>The following items are addressed by this standard:</p> <p>IFRS 1 First-time Adoption of International Financial Reporting Standards</p> <ul style="list-style-type: none"> • Repeated application of IFRS 1 • Borrowing costs <p>IAS 1 Presentation of Financial Statements</p> <ul style="list-style-type: none"> • Clarification of the requirements for comparative information <p>IAS 16 Property, Plant and Equipment</p> <ul style="list-style-type: none"> • Classification of servicing equipment <p>IAS 32 Financial Instruments: Presentation</p> <ul style="list-style-type: none"> • Tax effect of distribution to holders of equity instruments <p>IAS 34 Interim Financial Reporting</p> <ul style="list-style-type: none"> • Interim financial reporting and segment information for total assets and liabilities 	1 January 2013	The Group has not yet considered the impact of the standard on its financial report	1 July 2013
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	This Amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies.	1 July 2013	The Group has not yet considered the impact of the standard on its financial report	1 July 2013

Notes to the Financial Statements (continued) FOR THE YEAR ENDED 30 JUNE 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New accounting standards and interpretations

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

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 1053	Application of Tiers of Australian Accounting Standards	<p>This Standard establishes a differential financial reporting framework consisting of two Tiers of reporting requirements for preparing general purpose financial statements:</p> <p>(a) Tier 1: Australian Accounting Standards</p> <p>(b) Tier 2: Australian Accounting Standards – Reduced Disclosure Requirements</p> <p>Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements.</p> <p>The following entities apply Tier 1 requirements in preparing general purpose financial statements:</p> <p>(a) For-profit entities in the private sector that have public accountability (as defined in this Standard)</p> <p>(b) The Australian Government and State, Territory and Local Governments</p> <p>The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements:</p> <p>(a) For-profit private sector entities that do not have public accountability</p> <p>(b) All not-for-profit private sector entities</p> <p>(c) Public sector entities other than the Australian Government and State, Territory and Local Governments.</p> <p>Consequential amendments to other standards to implement the regime were introduced by AASB 2010-2, 2011-2, 2011-6, 2011-11 and 2012-1.</p>	1 July 2013	The Group has considered the impact of this amendment and determined that there will be no impact on the Group's financial report	1 July 2013
AASB 2012-2	Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities	<p>AASB 2012-2 principally amends AASB 7 Financial Instruments: Disclosures to require disclosure of information that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position.</p>	1 January 2013	The Group has not yet considered the impact of the standard on its financial report	1 July 2013

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New accounting standards and interpretations

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

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2012-4	Amendments to Australian Accounting Standards – Government Loans	AASB 2012-4 adds an exception to the retrospective application of Australian Accounting Standards under AASB 1 First-time Adoption of Australian Accounting Standards to require that first-time adopters apply the requirements in AASB 139 Financial Instruments: Recognition and Measurement (or AASB 9 Financial Instruments) and AASB 120 Accounting for Government Grants and Disclosure of Government Assistance prospectively to government loans (including those at a below-market rate of interest) existing at the date of transition to Australian Accounting Standards.	1 January 2013	The Group has not yet considered the impact of the standard on its financial report	1 July 2013
AASB 2012-5	Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle; and	AASB 2012-5 makes amendments resulting from the 2009-2011 Annual Improvements Cycle. The Standard addresses a range of improvements, including the following: <ul style="list-style-type: none"> • repeat application of AASB 1 is permitted (AASB 1); and • clarification of the comparative information requirements when an entity provides a third balance sheet (AASB 101 Presentation of Financial Statements). 	1 January 2013	The Group has not yet considered the impact of the standard on its financial report	1 July 2013
AASB 2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities;	AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of “currently has a legally enforceable right of set-off” and that some gross settlement systems may be considered equivalent to net settlement.	1 January 2014	The Group has not yet considered the impact of the standard on its financial report	1 July 2015

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New accounting standards and interpretations

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

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 statement of financial position 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 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Leases

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

(i) Group as lessor

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

(ii) Group as lessee

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

g) Cash and cash equivalents

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

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

h) Trade and other receivables

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

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

i) Inventories

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

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

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Derivative financial instruments and hedging

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

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

k) Foreign currency translation

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

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

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

l) Income tax

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

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

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Income tax (continued)

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

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

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

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

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

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

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

Tax consolidation

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

m) Other taxes

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

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Other taxes (continued)

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

n) Plant and equipment

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

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

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

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

Disposal

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

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

o) Investments and other financial assets

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

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

p) Intangible assets

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Intangible assets (continued)

Research and development costs

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

q) Trade and other payables

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

r) Interest bearing loans and borrowings

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

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

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

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

s) Provisions and employee leave benefits

Provisions

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s) Provisions and employee benefits (continued)

Provisions (continued)

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

Employee leave benefits

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

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

(ii) Long service leave

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

t) Share-based payment transactions

(i) Equity settled transactions with employees

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

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

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

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Share-based payment transactions (continued)

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

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

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

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

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

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

u) Contributed equity

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

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

v) Earnings (Loss) per share

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

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

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

w) Segment reporting

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

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

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

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

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk Exposures and Responses

Interest rate risk

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

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

	Consolidated	
	2012	2011
<u>Financial Assets</u>	\$	\$
Cash and cash equivalents *	551,014	1,076,768
Other receivables	67,000	-
<u>Financial Liabilities</u>		
Convertible notes	(210,414)	(500,000)
Accrued note interest	-	(30,914)
Net exposure	<u>407,600</u>	<u>545,854</u>

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

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

At 30 June 2012, if interest rates had moved throughout the year, as illustrated in the table below, with all other variables held constant, post tax loss and equity would have been affected as follows:

Judgements of reasonably possible movements in interest rates:	Net Profit Higher (Lower)		Other Comprehensive Income Higher (Lower)	
	2012 \$	2011 \$	2012 \$	2011 \$
Consolidated				
+0.25% (25 basis points)	495	1,748	-	-
-0.75% (75 basis points)	(1,484)	(5,243)	-	-

Interest rates were generally stable during 2011/2012, with official rates moving shifting downwards. The global economic outlook remained subdued, with sentiment biased toward downward movement in rates rather than further upward pressure. On this basis, a possible movement in rates from +0.25% to -0.75% has been adopted as a reasonably possible movement in rates. The movements in net profit 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 2012

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

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

At 30 June 2012, there were no economic hedges in place in respect of net foreign currency exposures, as the balances outstanding were below the materiality threshold.

At 30 June 2012, the Group had the following exposure to foreign currency (US\$ and Euro) that is not designated in cash flow hedges:

	Consolidated	
	2012	2011
	\$	\$
<u>Financial Assets</u>		
Cash and cash equivalents US\$	6,476	71,980
Cash and cash equivalents Euro	19,627	4,489
Trade and other receivables US\$	265	2,109
Trade and other receivables Euro	2,802	-
<u>Financial Liabilities</u>		
Trade and other payables	-	-
Net exposure US\$	<u>6,741</u>	<u>74,089</u>
Net exposure Euro	<u>136,929</u>	<u>4,489</u>

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

At 30 June 2012, had the Australian Dollar moved by the same amount illustrated in the table below, with all other variables held constant, post tax loss and equity would have been affected as follows:

Judgements of reasonably possible movements in A\$ exchange rates:	Net Loss (Higher) Lower		Equity Higher (Lower)	
	2012 \$	2011 \$	2012 \$	2011 \$
<u>Consolidated</u>				
AUD/USD +5.0%	(316)	(1,052)	-	-
AUD/USD - 5.0%	349	1,588	-	-
AUD/EURO + 7.1%	(1,853)	(3,288)	-	-
AUD/EURO - 7.1%	2,138	3,525	-	-

There is no currency exposure in the parent entity

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

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

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

Liquidity risk and capital management

The Group's objective is to maintain adequate funding of its activities. Prior to May 2009, all capital financing has been derived from issues of equity. In May 2009, and in March 2012, 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 2012. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2012.

	<u><6 months</u>	<u>Consolidated 1-5 years</u>	<u>Total</u>
Year ended 30 June 2012			
<u>Liquid financial assets</u>			
Cash and cash equivalents	578,900	-	578,900
Trade and other receivables	162,687	-	162,687
<u>Financial liabilities</u>			
Trade and other payables	266,490	-	266,490
Convertible notes	300,000	-	300,000
Net maturity	175,097	-	175,097
Year ended 30 June 2011			
<u>Liquid financial assets</u>			
Cash and cash equivalents	1,078,694	-	1,078,694
Trade and other receivables	835,191	-	835,191
<u>Financial liabilities</u>			
Trade and other payables	180,397	-	180,397
Convertible notes	500,000	-	500,000
Net maturity	1,233,488	-	1,233,488

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk and capital management (continued)

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

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

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

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

Fair value

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

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Net realisable value of inventory

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

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

Long service leave provision

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

Share based payment valuation

The valuation of share based payments requires calculations, judgments and estimations of share price volatility, expected exercise periods and other factors. The assumptions are detailed in Note 22.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (cont)

Warranty provision

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

Capitalisation of research and development expenditure

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

Recognition of deferred tax assets

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

Useful lives of assets

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

Impairment of loans to, and investment in, subsidiaries

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

5 SEGMENT INFORMATION

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

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

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

Major customers

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

5 SEGMENT INFORMATION (continued)

	<i>Trading</i>	<i>R&D</i>	<i>Unallocated</i>	<i>Total</i>
	\$	\$	\$	\$
Year ended 30 June 2012				
Revenue				
Sales to external customers	381,791	-	-	381,791
Inter segment revenue	-	-	-	-
Total segment revenue	381,791	-	-	381,791
Other revenues	-	-	43,380	43,380
Total consolidated revenue	381,791	-	43,380	425,171
Result				
Net profit (loss) for year by segment	236,732	(737,293)	-	(500,561)
Unallocated items	-	-	(2,001,889)	(2,001,889)
Consolidated net profit (loss)	236,732	(737,293)	(2,001,889)	(2,502,450)
Assets and liabilities				
Segment assets *	232,589	1,319	946,763	1,180,671
Segment liabilities	(38,250)	(76,538)	(752,573)	(867,361)
Segment net assets	194,339	(75,219)	194,190	313,310
Cash flow				
Segment net cash flow from operating activities	390,249	(116,292)	(1,067,502)	(793,545)
Investing cash flows	-	-	(28,776)	(28,776)
Financing cash flows	-	-	331,000	331,000
Net cash flow for year	390,249	(116,292)	(765,278)	(491,321)
Other Segment information				
Non cash expenses				
Depreciation and amortisation	9,019	1,400	15,693	26,112
Share based payments	-	-	778,600	778,600
Amortised cost adjustment of convertible notes	-	-	22,314	22,314
Impairment of inventory	148,330	-	-	148,330
Foreign exchange differences	-	-	8,533	8,533
Revenue by geographic segment (location of customer)				
Asia	86,015	-	-	86,015
Australia	203,833	-	43,380	247,213
Europe	88,373	-	-	88,373
USA & Canada	3,570	-	-	3,570
Total	381,791	-	43,380	425,171

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

5 SEGMENT INFORMATION (continued)

	<i>Trading</i>	<i>R&D</i>	<i>Unallocated</i>	<i>Total</i>
	\$	\$	\$	\$
Year ended 30 June 2011				
Revenue				
Sales to external customers	509,036	-	-	509,036
Inter segment revenue	-	-	-	-
Total segment revenue	509,036	-	-	509,036
Other revenues	-	-	41,986	41,986
Total consolidated revenue	509,036	-	41,986	551,022
Result				
Net profit (loss) for year by segment	164,764	975,231	-	1,139,995
Unallocated items	-	-	(1,125,590)	(1,125,590)
Consolidated net profit (loss)	164,764	975,231	(1,125,590)	14,405
Assets and liabilities				
Segment assets *	394,275	638,719	1,166,656	2,199,650
Segment liabilities	(76,699)	(105,091)	(675,286)	(856,936)
Segment net assets	317,716	533,628	491,370	1,342,714
Cash flow				
Segment net cash flow from operating activities	201,347	393,859	(1,063,784)	(468,579)
Investing cash flows	-	(3,110)	(16,030)	(19,140)
Financing cash flows	-	-	-	-
Net cash flow for year	201,347	390,749	(1,047,754)	(487,719)
Other Segment information				
Non cash expenses				
Depreciation and amortisation	25,809	39,592	18,103	83,504
Share based payments	-	-	26,573	26,573
Amortised cost adjustment of convertible notes	-	-	12,025	12,025
Impairment of inventory	89,911	-	-	89,911
Foreign exchange differences	-	-	(9,539)	(9,539)
Revenue by geographic segment (location of customer)				
Asia	87,704	-	-	87,704
Australia	278,242	-	36,818	315,060
Europe	123,919	-	-	123,919
USA & Canada	19,171	-	5,168	24,339
Total	509,036	-	41,986	551,022

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

6 REVENUES AND EXPENSES

	<i>CONSOLIDATED</i>	
	2012	2011
	\$	\$
(a) Other revenue		
Royalty revenue	1,509	5,167
Finance revenue – bank interest received	41,871	36,818
Total Other revenue	<u>43,380</u>	<u>41,985</u>
(b) Other income		
Design and development income	-	1,267,918
Government grants – R&D Tax incentive	456,350	636,000
Total Other income	<u>456,350</u>	<u>1,903,918</u>
(c) Depreciation and amortisation		
- Depreciation included in cost of sales	9,019	25,809
- Depreciation included in R&D expenses	1,400	39,592
- Depreciation included in administration expenses	15,693	18,103
	<u>26,112</u>	<u>83,504</u>
(d) Employee benefits expense		
Wages and salaries	778,742	788,781
Workers' compensation costs	7,930	1,664
Defined contribution plan expense	69,939	68,106
Annual leave expense	11,125	26,221
Long service leave expense	12,435	2,912
Share-based payments expense - employees	41,280	51,573
	<u>921,451</u>	<u>939,257</u>
(e) Cost of inventories recognised as an expense		
Consumed in production – cost of goods sold	71,550	85,094
Consumed in R&D	-	77,749
Write down inventory to net realisable value	148,330	89,911
	<u>219,880</u>	<u>252,754</u>
(f) Finance costs		
Interest on convertible notes	37,706	44,606
Amortised cost adjustment of convertible notes	22,314	12,025
(g) Share based payment expense		
Share-based payments expense - employees	41,280	51,573
Share-based payments expense – non-employees		
– funding facility costs	23,619	-
– options issued	452,098	-
	<u>516,997</u>	<u>51,573</u>

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

7 INCOME TAX

	<i>CONSOLIDATED</i>	
	<i>2012</i>	<i>2011</i>
	<i>\$</i>	<i>\$</i>
	<hr/>	<hr/>
The components of income tax expense are:		
Income Statement		
<i>Current income tax</i>		
Current income tax charge	-	-
Adjustments in respect of current income tax of previous year:		
Withholding tax deducted from royalty revenue	-	-
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	-	-
Income tax (expense) benefit reported in the income statement	<hr/>	<hr/>
	<hr/> <hr/>	<hr/> <hr/>

Tax Losses

The Group has unconfirmed, unrecouped tax losses in Australia of \$40,086,601 (2011: \$39,329,282) which have not been brought to account. The ability to be able to recognise a deferred tax asset in respect of these tax losses will be dependent upon the probability that future taxable profit will be available against which the unused tax losses can be utilised and the conditions for deductibility imposed by Australian tax authorities will be complied with.

Withholding tax

A total of \$52,288, (2011, \$338,020) 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 it is 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 2012

	CONSOLIDATED	
	2012	2011
	\$	\$
7 INCOME TAX (continued)		
A reconciliation between tax expense and the product of accounting loss before income tax multiplied by the Group's applicable income tax rate is as follows:		
Accounting profit (loss) before income tax	(2,502,450)	14,405
Prima facie income tax (benefit) at the Parent entity's statutory income tax rate of 30% (2011: 30%)	(750,735)	4,322
Adjustments in respect of current income tax of previous years	-	(536)
Non assessable gains	(136,905)	(200,645)
Share based payments not deductible	155,100	15,472
R&D Tax Concession deductions foregone for tax offset	402,888	376,478
Expenditure not allowable for income tax purposes	55,290	3,695
Deferred tax assets (recognised) / not recognised	265,509	(198,786)
Income tax expense	-	-

Statement of financial position		Statement of comprehensive income	
2012	2011	2012	2011
\$	\$	\$	\$

Deferred income tax - not brought to account

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

CONSOLIDATED

Deferred tax assets

Undeducted patent costs	175,514	166,763	8,752	27,745
Employee benefit & warranty provisions	56,331	56,844	(513)	(4,950)
Expenses not yet deductible	9,888	21,416	(11,528)	(10,701)
Inventory impairment provision	424,683	380,184	44,499	40,349
Deferred deductible equity issue costs	8,238	11,136	(2,898)	(8,216)
Tax Losses available	12,025,980	11,798,785	227,195	(243,013)
Foreign tax credits	52,288	338,020	-	-
Gross deferred income tax assets	<u>12,752,922</u>	<u>12,773,148</u>		
Less amounts not recognised in accounts	<u>(12,752,922)</u>	<u>(12,773,148)</u>		
Gross deferred income tax assets	-	-		
Deferred tax income/ (expense) incurred			<u>265,507</u>	<u>(198,786)</u>
Less deferred income tax not recognised in accounts			<u>(265,507)</u>	<u>(198,736)</u>
Deferred tax income/ (expense)			-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

8 EARNINGS (LOSS) PER SHARE

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

	<i>CONSOLIDATED</i>	
	<i>2012</i>	<i>2011</i>
	\$	\$
Net profit (loss)	<u>(2,502,450)</u>	<u>14,405</u>
	<i>2012</i>	<i>2011</i>
	<i>Number</i>	<i>Number</i>
Weighted average number of ordinary shares for basic earnings per share	132,121,706	129,711,705
Effects of dilution:		
Share options	<u>-</u>	<u>-</u>
Weighted average number of ordinary shares adjusted for the effect of dilution	<u>132,121,706</u>	<u>129,711,705</u>
Weighted average number of converted, lapsed or cancelled potential ordinary shares included in diluted earnings per share	-	-

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

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

- the issue of shares upon conversion of convertible notes with a face value of \$100,000 (refer note 15).
- A placement of 13,333,333 shares on 31 August 2012 to raise \$1 million for working capital

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

9 CASH AND CASH EQUIVALENTS

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and six months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. At balance date the bank balance interest rate is 3.25% (2011: 2.89%), and the balances are at call. The fair value of cash at bank approximates the carrying amount.

Reconciliation to Statement of Cash Flows

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

	<i>CONSOLIDATED</i>	
	<i>2012</i>	<i>2011</i>
	\$	\$
Cash at bank and in hand	578,900	878,069
Short-term deposits	-	200,625
	<u>578,900</u>	<u>1,078,694</u>
 Reconciliation of net profit (loss) after tax to net cash flows from operations		
Net profit (loss)	(2,502,450)	14,405
<i>Adjustments for:</i>		
Depreciation and amortisation	26,112	83,504
Amortised cost adjustment of convertible notes	22,314	12,025
Impairment of assets	148,330	89,911
Net exchange differences	8,473	(11,015)
Shares based payments expensed	778,600	26,573
Exchange differences recognised in equity	60	1,474
 <i>Changes in assets and liabilities</i>		
(Increase)/decrease in trade and other receivables	739,503	(705,827)
(Increase)/decrease in inventories	(104,305)	80,064
(Increase)/decrease in prepayments	(194,680)	(12,466)
(Decrease)/increase in trade and other payables	103,853	1,111
(Decrease)/increase in deferred revenue	182,352	(31,839)
(Decrease)/increase in provisions	(1,707)	(16,500)
Net cash used in operating activities	<u>(793,545)</u>	<u>(468,579)</u>

Disclosure of financing facilities - Refer to note 16.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

10 TRADE AND OTHER RECEIVABLES

	<i>CONSOLIDATED</i>	
	2012 \$	2011 \$
CURRENT		
Trade receivables	77,635	186,276
GST refund receivable	15,492	3,073
Interest receivable	514	1,162
R&D Tax incentive grant receivable	-	636,000
Cash on term deposit	67,000	-
Other receivables	2,046	8,680
	162,687	835,191
Net carrying amount	162,687	835,191

At balance date the term deposit interest rate is 4.0%, and the weighted average term to maturity is 84 days. The fair value of cash deposit approximates the carrying amount, in view of the short term to maturity. Term deposits amounting to \$67,000 are subject to a charge which secure banking facilities made available to the group (refer note 16).

Ageing Analysis of Receivables

	Total	0-30 Days	31-60 Days	61-90 Days PDNI*	90+ Days PDNI*
Consolidated – 2012	162,687	87,448	3,526	67,514	4,199
Consolidated – 2011	835,191	825,511	260	-	9,420

* Past due not impaired ("PDNI")

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

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

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

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

11 INVENTORIES

	<i>CONSOLIDATED</i>	
	2012	2011
	\$	\$
Raw materials (at net realisable value)	-	17,402
Work in progress (at net realisable value)	87,430	90,798
Finished goods (at cost)	65,645	88,900
Total inventories at the lower of cost and net realisable value	<u>153,075</u>	<u>197,100</u>
Write down to net realisable value (refer note 6)	148,330	89,911

12 PREPAYMENTS

Current		
Finance facility costs	135,201	-
Other prepaid expenses	8,190	50,112
	<u>143,391</u>	-
Non-current		
Finance facility costs	101,401	-
Total prepayments	<u>244,792</u>	<u>50,112</u>

13 PLANT AND EQUIPMENT

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

13 PLANT AND EQUIPMENT (continued)

YEAR ENDED 30 JUNE 2011	<i>Office Furniture & Equipment 2011 \$</i>	<i>Production Equipment 2011 \$</i>	<i>R&D Equipment 2011 \$</i>	<i>Total Plant & Equipment 2011 \$</i>
Opening balance, net of accumulated depreciation and impairment	27,008	36,708	39,201	102,917
Additions	16,030	-	3,110	19,140
Disposals	-	-	-	-
Depreciation charge for the year	(18,103)	(25,809)	(39,592)	(83,504)
At 30 June 2011, net of accumulated depreciation and impairment	<u>24,935</u>	<u>10,899</u>	<u>2,719</u>	<u>38,553</u>
At 1 July 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	<u>27,008</u>	<u>36,708</u>	<u>39,201</u>	<u>102,917</u>
At 30 June 2011				
Cost	548,693	258,483	413,461	1,220,637
Accumulated depreciation and impairment	(523,758)	(247,584)	(410,742)	(1,181,814)
Net carrying amount	<u>24,935</u>	<u>10,899</u>	<u>2,719</u>	<u>38,553</u>

14 TRADE AND OTHER PAYABLES

	<i>CONSOLIDATED</i>	
	<i>2012 \$</i>	<i>2011 \$</i>
Current		
Trade payables (i)	117,056	43,146
Accrued expenses	149,434	119,493
Deferred revenue	202,685	17,758
	<u>469,175</u>	<u>180,397</u>
Non current		
Deferred revenue	-	2,575

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

15 INTEREST BEARING LOANS AND BORROWINGS

	<i>CONSOLIDATED</i>	
	<i>2012</i>	<i>2011</i>
	\$	\$
Current		
Convertible notes	210,414	484,485
 Movement in convertible note liabilities		
Notes issued May 2009		
Opening balance	484,485	472,460
Amortised cost adjustment of convertible notes	15,515	12,025
Convertible notes converted to equity by noteholders	(500,000)	-
Closing balance	-	484,485
Notes issued 2012		
Opening balance	-	-
New convertible notes issued at face value	470,000	-
Transaction costs	(72,000)	-
Equity component of new convertible notes	(65,088)	-
Amortised cost adjustment of convertible notes	6,800	-
Convertible notes converted to equity by noteholders	(129,298)	-
Closing balance	210,414	-

- (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 secured by a charge over the assets of Optiscan Pty Ltd.
- (d) Terms and conditions of convertible notes
At balance date, the parent entity has on issue two convertible notes with a total face value of \$300,000. The book value after allocation of the equity component and adjustment to amortised cost amounts to \$210,414. The notes have a 2 year term and are convertible at the option of the holder, at 90% of the five consecutive daily volume-weighted average share price of the Group's shares. No interest is payable on the notes on issue.

Since balance date, the holder has converted notes with a face value of \$100,000.
- (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 2012

16 FINANCING FACILITIES

	<i>CONSOLIDATED</i>	
	<i>2012</i>	<i>2011</i>
	\$	\$
Bank Facilities		
- credit cards	20,000	20,000
- bank guarantees and indemnities	45,500	91,500
- electronic transaction facility	-	50,000
	<u>65,500</u>	<u>161,500</u>
Facilities used at reporting date:		
- credit cards	4,984	8,987
- bank guarantees and indemnities	45,500	45,500
- electronic transaction facility	-	50,000
	<u>50,484</u>	<u>104,487</u>
Facilities unused at reporting date:		
- credit cards	15,016	11,013
- bank guarantees and indemnities	-	46,000
	<u>15,016</u>	<u>57,013</u>
Total bank facilities	65,500	161,500
Facilities used at reporting date	<u>50,484</u>	<u>104,487</u>
Facilities unused at reporting date	<u>15,016</u>	<u>57,013</u>
Assets pledged as security		
The bank facilities are secured by charges over specific term deposits	<u>67,000</u>	<u>181,500</u>
Convertible Note Funding Facility[^]		
Total facility	2,000,000	-
Facilities used at reporting date	<u>470,000</u>	-
Facilities unused at reporting date*	<u>1,530,000</u>	-

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

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

17 PROVISIONS

	<i>Annual Leave</i> \$	<i>Long Service Leave</i> \$	<i>Warranty</i> \$	<i>Total</i> \$
At 30 June 2011	76,200	92,804	20,475	189,479
Arising during the year	11,125	12,435	11,302	34,862
Utilised	(8,257)	(15,459)	(12,853)	(36,569)
At 30 June 2012	<u>79,068</u>	<u>89,780</u>	<u>18,924</u>	<u>187,772</u>
Current 2012	79,068	76,209	18,924	174,201
Non-current 2012	-	13,571	-	13,571
	<u>79,068</u>	<u>89,780</u>	<u>18,924</u>	<u>187,772</u>
Current 2011	76,200	83,283	20,475	179,958
Non-current 2011	-	9,521	-	9,521
	<u>76,200</u>	<u>92,804</u>	<u>20,475</u>	<u>189,479</u>

Annual Leave Provision

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

Long Service Leave

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

Warranty

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

18 CONTRIBUTED EQUITY AND RESERVES

	CONSOLIDATED	
	2012 \$	2011 \$
Ordinary shares - Issued and fully paid	45,710,667	45,016,281
	<i>No of Shares</i>	<i>\$</i>
<i>Movement in ordinary shares on issue</i>		
At 1 July 2010	129,680,531	45,016,281
Shares issued in lieu of cash remuneration	405,259	-
At 30 June 2011	130,085,790	45,016,281
Shares issued in lieu of cash remuneration	996,784	-
Bergen funding facility fees settled by issue of shares	979,756	-
Shares issued upon conversion of notes	11,965,588	629,298
Equity component of convertible notes	-	65,088
At 30 June 2012	144,027,918	45,710,667

Ordinary shares

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

Share options

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

	CONSOLIDATED	
	2012 \$	2011 \$
<u><i>Accumulated losses</i></u>		
Movements in accumulated losses were as follows:		
Balance 1 July	(44,390,821)	(44,405,226)
Net profit (loss) for the year	(2,502,450)	14,405
Balance 30 June	(46,893,271)	(44,390,821)

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

18 CONTRIBUTED EQUITY AND RESERVES (continued)

	CONSOLIDATED	
	2012	2011
	\$	\$
<u>Reserves</u>		
Movements in reserves were as follows:		
Share Based Payments Reserve		
Balance 1 July	707,061	680,488
Share based payments:		
Employee benefits in lieu of cash remuneration	65,620	26,573
Options issued in consideration for mandatory conversion of convertible notes	433,100	-
Share and options issued in respect of Bergen funding facility	279,219	-
Employee share option plan	661	-
Balance 30 June	<u>1,485,661</u>	<u>707,061</u>
Foreign Currency Translation Reserve		
Balance 1 July	10,193	8,719
Foreign currency translation difference	60	1,474
Balance 30 June	<u>10,253</u>	<u>10,193</u>
Total reserves	<u>1,495,914</u>	<u>717,254</u>

Nature and purpose of reserves

Share based payments reserve

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

Foreign currency translation reserve

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

19 PARENT ENTITY INFORMATION

	2012 \$	2011 \$
Information relating to Optiscan Imaging Ltd:		
Current assets	265,662	780,590
Total assets	544,944	1,883,113
Current liabilities	231,634	540,399
Total liabilities	231,634	540,399
Issued capital	45,710,667	45,016,281
Accumulated losses	(46,883,018)	(44,380,628)
Share based payments reserve	1,485,661	707,061
Total shareholders' equity	<u>313,310</u>	<u>1,342,714</u>
Profit (Loss) of the parent entity	(2,502,390)	15,879
Other comprehensive income of the parent entity	-	-
Total comprehensive income of the parent entity	<u>(2,502,390)</u>	<u>15,879</u>
Parent entity guarantees for debts of subsidiaries	-	-
Contingent liabilities of parent entity	-	-
Contractual commitments of parent entity	-	-

20 RELATED PARTY DISCLOSURE

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

Name	Country of incorporation	% Equity interest		Investment \$	
		2012	2011	2012	2011
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				<u>(6,328,116)</u>	<u>(5,484,875)</u>
				<u>279,282</u>	<u>1,122,523</u>

Optiscan Imaging Limited is the ultimate Australian parent entity.

Transactions with Subsidiaries

Inter-company transactions between the parent entity, Optiscan Imaging Limited and subsidiary, Optiscan Pty Ltd amounted to \$1,019,897 (2011, \$357,070). Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash. The balances are classified current by the parent entity. An impairment assessment is undertaken each financial year by examining the financial position of the subsidiaries to determine whether there is objective evidence that a related party receivable is impaired. When such objective evidence exists, an impairment loss is recognised.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

21 KEY MANAGEMENT PERSONNEL

Details of Key Management Personnel

(i) *Board of Directors*

Executive Directors

A. Holt	Chairman (Appointed to board 12 February 2009, Executive Chairman 14 May 2009)
P. Delaney	Director of Technology
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 2012

	<i>CONSOLIDATED</i>	
	2012	2011
	\$	\$
Short term employee benefits	282,250	263,250
Post Employment benefits	16,088	16,088
Office and travel expenses reimbursed	65,755	-
Other long term benefits	660	-
Share-based payment	40,619	50,000
	<u>405,372</u>	<u>329,338</u>

There were no other transactions and balances with Key Management Personnel

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

21 KEY MANAGEMENT PERSONNEL (continued)

Option holdings of Key Management Personnel

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

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

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

Options holdings of Key Management Personnel for the year ended 30 June 2011

30 June 2011	Balance at beginning of period 01-Jul-10	Granted as Remuneration	Options Exercised	Options Expired Forfeited	Balance at end of period 30-Jun-11	Vested at 30 June 2011		
						Total Vested	Exercisable	Not Exercisable
Directors								
A. Holt	-	-	-	-	-	-	-	-
P. Delaney	450,000	-	-	450,000	-	-	-	-
B. Andrew	-	-	-	-	-	-	-	-
Total	450,000	-	-	450,000	-	-	-	-

No options were issued to, or exercised by key management personnel during the year ended 30 June 2011.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

21 KEY MANAGEMENT PERSONNEL (continued)

Shareholdings of Key Management Personnel

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

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

Shares held in Optiscan Imaging Limited for the year ended 30 June 2011 (number)

30 June 2011	<i>Balance at beginning of period 01-Jul-10</i>	<i>Purchased</i>	<i>In lieu of cash remuneration</i>	<i>Holding at Date of Appointment / Resignation</i>	<i>Balance at end of period 30-Jun-11</i>
Directors					
A. Holt					
-direct	1,431,816	339,800	405,259	-	2,176,875
-indirect	6,247,375	-	-	-	6,247,375
P. Delaney					
-direct	3,231,259	-	-	-	3,231,259
-indirect	270,090	-	-	-	270,090
B. Andrew					
-indirect	90,000	-	-	-	90,000
Total	11,270,540	339,800	405,259	-	12,015,599

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 2012

22 SHARE-BASED PAYMENT PLANS

Types of share based payments

(i) Employee Share Option Plan

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

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

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

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

Employee Share Option Plan	No. Options 2012	WAEP 2012	No. Options 2011	WAEP 2011
Outstanding at the beginning of the year	361,200	0.44	877,075	0.36
Granted during the year	-	-	-	-
Forfeited during the year	-	-	(149,000)	0.37
Exercised during the year	-	-	-	-
Expired during the year	(211,200)	0.50	(366,875)	0.32
Outstanding at the end of the year	<u>150,000</u>	<u>0.31</u>	<u>361,200</u>	<u>0.42</u>
Exercisable at the end of the year	150,000	0.31	311,200	0.44

The outstanding balance as at 30 June 2012 is represented by:

Options expiring in the year :	No Options	WAEP \$
- 2012/2013	<u>150,000</u>	<u>0.31</u>

The weighted average remaining contractual life for the share options outstanding as at 30 June 2012 is 6 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.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

22 SHARE BASED PAYMENT PLANS (continued)

(ii) Issue of shares and options to parties other than employees

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

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

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

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

Details of options issues to parties other than employees during 2011/2012

The following table illustrates the number and weighted average exercise prices (WAEP) of, and movements in, share options issued to parties other than employees during the year:

Options issued to parties other than employees

	No. Options 2012	WAEP 2012	No. Options 2011	WAEP 2011
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	6,900,000	0.118	-	-
Exercised during the year	-	-	-	-
Outstanding at the end of the year	<u>6,900,000</u>	<u>0.118</u>	-	-
Exercisable at the end of the year	6,900,000	0.118	-	-

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

The following tables list the inputs to the model used for option issues during the year ended 30 June 2012:

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

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

22 SHARE BASED PAYMENT PLANS (continued)

(ii) Issue of shares and options to parties other than employees (continued)

The weighted average term to maturity for share options issued to other parties outstanding at 30 June 2012 is 22.6 months.

The outstanding balance as at 30 June 2012 is represented by:

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

(iii) Issue of shares in lieu of cash remuneration

In October 2010, following application by the parent entity, ASX issued a waiver from listing rules 10.13.3 and 10.13.5 to enable Executive Chairman, Angus Holt to be remunerated by issue of shares in lieu of cash that would otherwise be payable in respect of calendar year 2011. At the Annual General Meeting of shareholders in November 2010, approval was granted to implement this arrangement.

In accordance with the terms of the ASX waiver, the number of shares issued in respect of any quarter in 2011 is calculated by dividing the amount owed to the Chairman in respect of director's fees by the volume weighted average trading price of the Company's shares on ASX in the 3 month period preceding the end of each quarter.

In April 2011, an allotment of 405,259 shares representing 0.31% of issued capital was made in respect of the March quarter 2011. During 2012, 996,784 shares were allotted in respect of the June, September and December quarters. The arrangement concluded at December 2011.

23 DERIVATIVES AND HEDGING

Economic hedging activities

At 30 June 2012 and 30 June 2011, 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 2012.

Capital commitments

At 30 June 2012 there were no material capital commitments outstanding (2011: Nil).

Contingent Liabilities

The group has contingent liabilities in relation to bank guarantees on issue at balance date amounting to \$45,500 (2011: \$45,500).

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

25 EVENTS AFTER THE BALANCE SHEET DATE

The directors have reported that a private placement was concluded on 31 August 2012 for the issue of 13,333,333 shares at \$0.075 per share to raise working capital funds of \$1,000,000. This has in turn enabled the parties to the Bergen Financing Facility (refer note 16) to reach a mutual agreement to terminate that facility. Other than these matters, the directors are not aware of any events after balance date that would have a material impact on the financial statements at 30 June 2012.

26 AUDITORS' REMUNERATION

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

	<i>CONSOLIDATED</i>	
	<i>2012</i>	<i>2011</i>
	\$	\$
	<hr/>	
<i>Amounts received or due and receivable by Ernst & Young (Australia) for:</i>		
• An audit or review of the financial report of the entity and any other entity in the consolidated group	57,618	47,202
• Other services in relation to the entity and any other entity in the consolidated group		
- R&D tax services	9,900	6,750
	<hr/>	<hr/>
	<u>67,518</u>	<u>53,952</u>