OPTISCAN IMAGING LIMITED

ABN : 81 077 771 987

APPENDIX 4D

Report for the Half Year ended

31 December 2009

Previous corresponding period : Half year ended 31 December 2008

This half year report is to be read in conjunction with the company's 2009 annual report

CONTENTS

1. Results for announcement to the market

The results of Optiscan Imaging Limited for the half year ended 31 December 2009 are as follows:

Results

(Previous corresponding period: Half year ended 31 December 2008)

- Total revenues from ordinary activities down 72% from $2,627,253 to $738,779.
- Loss from ordinary activities after tax attributable to members down 89% from $5,618,778 to $598,331.
- Net loss after tax attributable to members down 89% to $598,331, (2008: loss $5,618,778).
- Net loss 2008 included impairment losses of $3,930,220. The net loss excluding impairment was down 65% from $1,688,558 to $598,331.

Dividends

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

2. Commentary on result

Optiscan reported a net loss after tax of $598,331 for the half year to 31 December 2009. Revenue during the period was derived from:

- neurosurgery trial services provided under collaboration with Zeiss;
- support services supplied to Hoya regarding their installed base of generation 1 flexible endomicroscopes;
- sales of Five-1 research instruments;
- patent infringement royalties;
- export grant income and interest received; and
- settlement on termination of Hoya agreements.

Gross monthly operating costs are running at less than $250,000 per month, with the Company's present infrastructure considered appropriate given current and projected sales levels, product development demands, clinical trial activity and the Company's financial position.

Going forward, Optiscan continues to generate revenue in the aforementioned areas with the exception of patent infringement royalties and the one off Hoya settlement. Patent infringement royalties will taper off to zero in the current half following the expiration of the relevant patents. It is important to note that infringing products are not in competition with Optiscan's current or envisaged product lines.

Neurosurgery Trials (Zeiss)
Trials of our confocal imaging technology are being conducted at the Barrow Neurological Institute (BNI) in Phoenix, USA. BNI researchers and clinicians have extensively used both the Five-1 (in animal studies) and clinical endomicroscopes in multiple human brain (tumour) surgeries. This has already resulted in important publications in Neurosurgery and we are hopeful of further significant publications in the near term demonstrating the progress and momentum this project has gathered.

Flexible Endomicroscope and Generation 2
Following the settlement with Hoya in August 2009, Optiscan regained unfettered access to the flexible endomicroscope arena and the very large gastrointestinal (GI) diagnostics market, estimated to have generated US$2.4 billion in sales in 2009.

Subject to regulatory clearance, the Company's second generation scanner is now ready to transfer to production and the accompanying second generation processing unit (or control box) is complete save for final software specifications.

Two clinical grade, second generation high definition endomicroscope systems should be placed at key European and US GI sites in the latter stages of this half. The use of these units is an important step in the Company's re-entry into the GI diagnostic market along with the intensification of discussions with key Japanese players and emerging European, US and Chinese endoscope suppliers.

Along with the Company's activities in neurosurgery, Optiscan's re-entry into the GI diagnostics market is expected to produce material benefits this calendar year.

Support Services to Hoya
Optiscan continues to provide support services to Hoya in relation to their installed base of ISC-1000's, being the first generation endomicroscope. Present servicing arrangements expire on 31 March 2010, with Optiscan likely to continue to provide relevant services beyond that date subject to appropriate pricing.

Five-1
Two Five-1 units were sold during the December half year, one in Canada and the other in China. The worldwide installed base of 23 Five-1 systems spans North America, Europe and Asia, including several recent sales in China.

Since the end of the half year, the Company has received a confirmed purchase order from Japan that will be fulfilled in the first half of March. There is increasing evidence of a meaningful sales pipeline from Japan, China and the US. As a premium research product, the lead time from expression of interest to fulfilment of sale can be significant and unpredictable, with sales not expected to vary greatly in the present half.

Summary
The key items expected to provide material benefits to the Company and thus shareholders this calendar year are the Company's activities in neurosurgery and a re-entry into the GI diagnostics market.

Beyond neurosurgery and GI diagnostics, the Company's technology has many applications, some of which have already been extensively explored by Optiscan. These blue sky applications include endometriosis, cervical cancer, ENT and spine (Zeiss), lung and respiratory disease, pancreatic cancer, liver disease, prostate and general surgery and ovarian cancer. Blue sky opportunities will be pursued subject to appropriate success in neurosurgery and GI diagnostics.

Financial Results
Optiscan recorded a net loss after tax of $598,331 for the half year ended 31 December 2009. The loss for the corresponding period last year included one off impairment losses of $3,932,220. The loss excluding impairment was down 65% from $1,688,558 to $598,331. Cash on hand at 31 December 2009 amounts to $2,351,722.

3. Brief explanation of financial results

Optiscan's cost base was substantially reduced in the December 2009 half year. Total expenses (excluding impairment losses) were reduced by $1,656,270, and the cash flow used in operations was reduced from $1,846,767 to $432,762.

These expense reduction initiatives were implemented between October 2008 and March 2009, and the full impact is now flowing through to operating results.

Sales revenue in the current half year related mainly to Five 1 sales. The year on year comparison shows a fall of $692,828 in product sales, representing final sales to Hoya in 2008. Offsetting this decline in sales revenue from Hoya was the recognition in August 2009 of $709,920 in income from termination of the Hoya collaboration.

Revenue from royalties declined 31% reflecting the expiry of the underlying patents in the current half year, and income from design and development revenue was down from $1,147,674 to $116,233, as the 2008 result included a number of one off milestone payments.

Expense levels have been reduced across the company. Administration expenses were down 38% on last year, R&D down 55% and marketing expenses were down 81%, resulting in an overall reduction in expenses of 47%.

In common with previous periods, income tax of $27,600 represents the write off of withholding tax deductions from royalty receipts (2008, $41,444).

4. Other information to be included in Appendix 4D

Net Tangible Assets per ordinary Security
Net tangible assets per ordinary security at 31 December 2009 amount to $0.02 (2008: $0.02).

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

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

5. Financial information

The Interim condensed Financial Report for the half year ended 31 December 2009 is set out on pages 5 to 25 of this report.

Angus Holt
Director

26 February 2010

Optiscan Imaging Limited
ABN 81 077 771 987

Interim Condensed Financial Report

for the half year ended 31 December 2009

Contents

Corporate Information

ABN 81 077 771 987

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

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

Directors

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

Company Secretary

B.R. Andrew

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Notting Hill Vic 3168
Australia

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Australia
T 61 3 9415 5000

Solicitors

Lander & Rogers
600 Bourke Street
Melbourne VIC 3000

Auditors

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000

Bankers

ANZ Banking Group
National Australia Bank

Directors' Report

The Board of Directors of Optiscan Imaging Limited has pleasure in submitting its report in respect of the half year ended 31 December 2009.

Directors

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

Mr Angus Holt, Chairman
Ms Vicki Tutungi, Chief Executive Officer (resigned 20 January 2010)
Mr Peter Delaney, Director of Technology
Mr Bruce Andrew, Chief Financial Officer (appointed to the board 20 January 2010)

Review of Operations

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Directors' Report (continued)

Review of Operations (continued)

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Revenue from royalties declined 31% reflecting the expiry of the underlying patents in the current half year, and income from design and development revenue was down from $1,147,674 to $116,233, as the 2008 result included a number of one off milestone payments.

Expense levels have been reduced across the company. Administration expenses were down 38% on last year, R&D down 55% and marketing expenses were down 81%, resulting in an overall reduction in expenses of 47%.

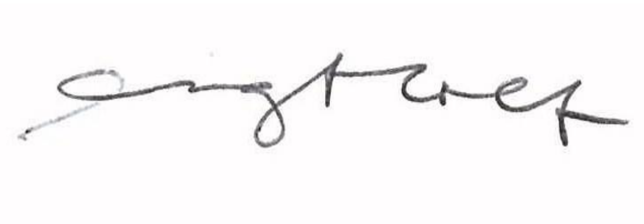
Directors' Report (continued)

Review of Operations (continued)

Auditor independence

The directors have obtained a declaration of independence from Ernst & Young, the group's auditors, which is attached to this report.

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



Angus Holt

Director

Melbourne
26 February, 2010

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

In relation to our review of the financial report of Optiscan Imaging Limited for the half-year ended 31 December 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Don Brumley
Partner
18 February 2010

Statement of Comprehensive Income
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

	Note	*CONSOLIDATED* *December 2009* *$*	*December 2008* *$*
Continuing operations			
Sale of goods		294,850	987,678
Rendering of services		102,008	95,955
Other revenue	4(a)	341,921	1,543,620
Revenue		738,779	2,627,253
Cost of sales		(236,029)	(836,627)
Gross Profit		502,750	1,790,626
Other income	4(b)	759,920	51,929
Administrative expenses		(890,260)	(1,430,572)
Research & development expenses		(786,998)	(1,740,073)
Marketing expenses		(57,651)	(309,024)
Other expenses		(98,492)	(3,940,220)
Loss before income tax		(570,731)	(5,577,334)
Income tax expense	5	(27,600)	(41,444)
Loss for the period		(598,331)	(5,618,778)
Other comprehensive income			
Foreign currency translation		1,417	27,162
Income tax on items of other comprehensive income		-	-
Other comprehensive income for the period net of tax		**1,417**	**27,162**
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(596,914)	(5,591,616)
Loss per share (cents per share)			
- basic loss per share for the period		(0.5)	(4.8)
- diluted loss per share for the period		(0.5)	(4.8)

Statement of Financial Position
AS AT 31 DECEMBER 2009

	Note	CONSOLIDATED December 2009 $	June 2009 $
ASSETS			
Current Assets			
Cash and cash equivalents	6	2,351,722	1,651,106
Trade and other receivables		413,221	250,987
Inventories		405,088	436,881
Prepayments		44,811	52,496
Total Current Assets		3,214,842	2,391,470
Non-current Assets			
Plant and equipment		241,423	454,982
Intangible assets - Software		15,807	29,944
Total Non-current Assets		257,230	484,926
TOTAL ASSETS		3,472,072	2,876,396
LIABILITIES			
Current Liabilities			
Trade and other payables		191,962	258,765
Provisions		389,013	362,969
Total Current Liabilities		580,975	621,734
Non-current Liabilities			
Trade and other payables		34,448	11,260
Interest bearing loans and borrowings		464,602	461,609
Provisions		29,030	24,626
Total Non-current Liabilities		528,080	497,495
TOTAL LIABILITIES		1,109,055	1,119,229
NET ASSETS		2,363,017	1,757,167
EQUITY			
Equity attributable to equity holders of the parent			
Contributed equity	7	45,022,630	43,913,560
Retained earnings		(43,352,758)	(42,754,427)
Reserves		693,145	598,034
TOTAL EQUITY		2,363,017	1,757,167

Condensed Statement of Changes in Equity
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

	Ordinary Shares $	Accumulated Losses $	Reserves $	Total $
Half Year Ended 31 December 2009				
At 1 July 2009	43,913,560	(42,754,427)	598,034	1,757,167
Foreign exchange gains on translation of foreign subsidiary taken to equity	-	-	1,417	1,417
Total income/expense recognised directly in equity	-	-	1,417	1,417
Loss for half year	-	(598,331)	-	(598,331)
Total recognised income/expense for the period	-	(598,331)	1,417	(596,914)
Issue of shares pursuant to placement	1,159,700	-	-	1,159,700
Costs of share issue	(50,630)	-	-	(50,630)
Share based payment	-	-	93,694	93,694
At 31 December 2009	45,022,630	(43,352,758)	693,145	2,363,017
Half Year Ended 31 December 2008				
At 1 July 2008	43,428,415	(36,341,057)	616,156	7,703,514
Foreign exchange gains on translation of foreign subsidiary taken to equity	-	-	27,162	27,162
Total income/expense recognised directly in equity	-	-	27,162	27,162
Loss for half year	-	(5,618,778)	-	(5,618,778)
Total recognised income/expense for the period	-	(5,618,778)	27,162	(5,591,616)
Issue of shares pursuant to placement	450,102	-	-	450,102
Costs of share issue	(3,348)	-	-	(3,348)
Share based payment	-	-	9,365	9,365
At 31 December 2008	43,875,169	(41,959,835)	652,683	2,568,017

Cash Flow Statement
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

	Note	CONSOLIDATED December 2009 $	December 2008 $
Cash flows from (used in) operating activities			
Receipts from customers (inclusive of GST)		480,081	1,661,977
Payments to suppliers and employees (inclusive of GST)		(1,787,757)	(3,994,569)
Settlement from termination of Hoya agreement		586,468	-
Royalties received		251,636	397,033
Interest received		14,410	90,236
Income tax paid		(27,600)	(41,444)
Receipt of government grants		50,000	40,000
Net cash flows (used in) operating activities	6	(432,762)	(1,846,767)
Cash flows from investing activities			
Purchase of plant and equipment		(2,386)	(115,409)
Purchase of intangible assets - software		-	(34,235)
Net cash flows (used in) investing activities		(2,386)	(149,644)
Cash flows from financing activities			
Proceeds from issue of shares	7	1,159,700	450,102
Share issue costs	7	(50,630)	(3,348)
Net cash flows from financing activities		1,109,070	446,754
Net increase (decrease) in cash and cash equivalents		673,922	(1,549,657)
Net foreign exchange differences		26,694	(18,510)
Cash and cash equivalents at beginning of period		1,651,106	3,990,520
Cash and cash equivalents at end of period	6	2,351,722	2,422,353

Notes to the Financial Statements
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

1 CORPORATE INFORMATION

The financial report of Optiscan Imaging Limited ("the Company") for the half year ended 31 December 2009 was authorised for issue in accordance with a resolution of the directors on 26 February 2010.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The half year financial report should be read in conjunction with the annual Financial Report of Optiscan Imaging Limited as at 30 June 2009, and considered together with any public announcements made by Optiscan Imaging Limited and its controlled entities during the half-year ended 31 December 2009 in accordance with the continuous disclosure obligations of the ASX listing rules.

a) Basis of preparation

This general purpose condensed financial report for the half year ended 31 December 2009 has been prepared in accordance with AASB 134 *Interim Financial Reporting* the *Corporations Act 2001*.

Going Concern (Significant Uncertainty as at 31 December 2009)

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

As at 31 December 2009, the financial position of the consolidated entity as disclosed in the financial statements reflects a net asset position of $2,363,017. This balance has been determined after a consolidated net loss for the half year of $598,331 (2008/2009: loss $6,413,370), and a net cash outflow from operations for the half year of $432,762 (2008/2009: $3,189,129).

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

- Cash on hand at 31 December 2009 is $2,351,722,
- The Company has the potential 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 additional funding and its timing will be determined by the directors based upon an assessment of the financial and operational circumstances of the consolidated entity at the time.

Notes to the Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2009

Basis of preparation (continued)

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

b) Basis of consolidation

The half-year consolidated financial statements comprise the financial statements of Optiscan Imaging Limited and its subsidiaries as at and throughout 31 December 2009.

c) Significant Accounting Policies

Apart from the changes in accounting policies noted below, the accounting policies and methods of computation are the same as those adopted in the most recent annual financial report.

The following new Standards took effect and were adopted in the current reporting period:

Reference	Title
AASB Int. 16	Hedges of a Net Investment in a Foreign Operation
AASB 8 and AASB 2007-3	Operating Segments and consequential amendments to other Australian Accounting Standards
AASB 123 (Revised) and AASB 2007-6	Borrowing Costs and consequential amendments to other Australian Accounting Standards
AASB 101 (Revised), AASB 2007-8 and AASB 2007-10	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations
AASB 127 (Revised)	Consolidated and Separate Financial Statements
AASB 2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127
AASB 2008-7	Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
AASB 2008-8	Amendments to Australian Accounting Standards – Eligible Hedged Items
AASB 2009-2	Amendments to Australian Accounting Standards – Improving disclosures about Financial Instruments [AASB 4, AASB 7, AASB 1023 & AASB 1038]
AASB 2008-5	Amendments to Australian Accounting Standards arising from the Annual Improvements Project

The key changes from applying these accounting policies were additional disclosure requirements for Segment reporting and the statement of Comprehensive Income. All other standards that were adopted did not have a material impact in the financial report.

The Group has not elected to early adopt any other new Standards or amendments that are issued but not yet effective.

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

3 SEGMENT INFORMATION

Identification of reportable segments

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

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

Types of products and services

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

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

Accounting policies and inter-segment transactions

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

There are no inter-segment transactions or balances.

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

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

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

- Finance revenue and costs, including fair value adjustments
- Royalty revenue and associated withholding tax
- Foreign exchange differences
- Settlement on termination of Hoya agreement

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

3 SEGMENT INFORMATION (continued)

The following table presents revenue and profit/(loss) information for reportable segments for the half years ended 31 December 2009 and 31 December 2008.

		Continuing operations		
		Trading	*R&D*	*Total*
		2009 *$*	*2009* *$*	*2009* *$*
Half year ended 31 December 2009				
Revenue				
	Sales to external customers	405,424	-	405,424
	Other revenues from external customers		116,233	116,233
	Inter segment revenue	-	-	-
	Total segment revenue	405,424	116,233	521,657
	Other revenue not allocated			217,122
	Total revenue per the statement of comprehensive income			738,779
Result				
	Segment result /(loss)	(31,180)	(1,349,317)	(1,380,497)
	Reconciliation of segment result to net loss before tax			
	Income from termination of Hoya agreement			709,920
	Royalty revenue			200,982
	Finance revenue and costs (net)			(5,637)
	Foreign exchange loss			(95,499)
	Loss before income tax per the statement of comprehensive income			(570,731)
Segment assets				
	Segment operating assets	585,537	114,506	700,043
	Unallocated assets - cash			2,351,722
	Unallocated assets – other			420,307
	Total assets from continuing operations per the statement of financial position			3,472,072

Notes to the Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2009

3 SEGMENT INFORMATION (continued)

		Continuing operations		
		Trading	*R&D*	*Total*
		2008 *$*	*2008* *$*	*2008* *$*
Half year ended 31 December 2008				
Revenue				
	Sales to external customers	1,083,632	-	1,083,632
	Other revenues from external customers		1,147,674	1,147,674
	Inter segment revenue	-	-	-
	Total segment revenue	1,083,632	1,147,674	2,231,306
	Other revenue not allocated			395,947
	Total revenue per the statement of comprehensive income			2,627,253
Result				
	Segment result /(loss)	(596,110)	(1,446,950)	(2,043,060)
	Reconciliation of segment result to net loss before tax			
	Royalty revenue			310,115
	Finance revenue			85,831
	Impairment losses			(3,930,220)
	Loss before income tax per the statement of comprehensive income			(5,577,334)
Segment assets				
	Segment operating assets	987,759	44,714	1,032,473
	Unallocated assets - cash			2,422,353
	Unallocated assets – other			316,860
	Total assets from continuing operations per the statement of financial position			3,771,686

Notes to the Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2009

4 REVENUES AND EXPENSES

		CONSOLIDATED	
		December 2009 $	*December 2008 $*
(a)	**Other revenue**		
	Finance income – bank interest received	16,140	85,831
	Design and development revenue	116,233	1,147,674
	Royalty revenue	200,982	310,115
	Warranty revenue	8,566	-
		341,921	1,543,620
(b)	**Other income**		
	Government grants	50,000	51,929
	Settlement on termination of Hoya agreement	709,920	-
		759,920	51,929
(c)	**Depreciation and amortisation**		
	Depreciation of plant and equipment	196,497	236,551
	Amortisation of software included in Administration expenses	14,136	26,428
		210,633	262,979
(d)	**Finance costs**		
	Interest on convertible notes	18,784	-
	Fair value adjustment on convertible notes	2,993	-
		21,777	-
(e)	**Employee benefits expense**		
	Wages and salaries	755,724	2,283,366
	Workers' compensation costs	-	36,861
	Defined contribution plan expense	68,315	173,674
	Annual leave provision	34,460	(12,071)
	Long service leave provision	9,573	(21,104)
	Share-based payments expense	93,694	9,365
		961,766	2,470,091
(f)	**Specific Items**		
	Impairment losses included in Other expenses		
	- Goodwill	-	1,981,467
	- Inventory (raw materials)	-	1,354,846
	- Plant and equipment		
	- Office furniture and equipment	-	169,089
	- Production equipment	-	216,183
	- R&D equipment	-	208,635
		-	3,930,220

(g) Seasonality of operations

There is no inherent seasonality in the operations of the Group.

Notes to the Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2009

5 INCOME TAX

	CONSOLIDATED	
	December 2009 $	*December 2008 $*
Income Statement		
Current income tax		
Current income tax charge	-	-
Withholding tax deducted from royalty revenue	27,600	41,444
Income tax expense reported in income statement	27,600	41,444

There is no current income tax charge due to the availability of carry forward losses

6 CASH AND CASH EQUIVALENTS

Reconciliation to Cash Flow Statement

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

	CONSOLIDATED	
	Dec 2009 $	*June 2009 $*
Cash at bank and in hand	2,164,019	1,466,434
Short-term deposits	187,703	184,672
	2,351,722	1,651,106

Reconciliation of net loss after tax to net cash flows from operations

Net loss after tax	(598,331)	(6,413,370)
Adjustments for:		
Depreciation	210,633	478,647
(Profit) loss on disposal of plant and equipment	19,449	(12,909)
Impairment losses	-	3,123,875
Net exchange differences	(26,694)	(8,963)
Share based payments	93,694	(26,884)
Foreign exchange movements through equity	1,417	8,762
Fair value adjustments	2,993	-
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	(162,234)	231,504
(Increase)/decrease in inventories	31,793	305,979
(Increase)/decrease in prepayments	7,685	(6,824)
(Decrease)/increase in trade and other payables	(80,064)	(357,017)
(Decrease)/increase in unearned income	36,449	18,852
(Decrease)/increase in provisions	30,448	(530,781)
Net cash used in operating activities	(432,762)	(3,189,129)

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2009

7 CONTRIBUTED EQUITY AND RESERVES

	CONSOLIDATED	
	Half Year Ended December 2009 *$*	*Year Ended June 2009* *$*
Ordinary shares - Issued and fully paid		

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

Movement in issued capital		
Opening Balance	43,913,560	43,428,415
Issued for cash pursuant to Placement	1,159,700	450,102
Transaction costs on share issue	(50,630)	(3,348)
Equity component of convertible notes	-	38,391
Closing Balance	45,022,630	43,913,560

Movement in number of ordinary shares on issue	*No of shares*	*No of shares*
Opening Balance	117,233,531	115,276,565
Issued for cash pursuant to Placement	11,597,000	1,956,966
Closing Balance	128,830,531	117,233,531

Movement in Share based payment reserve		
Opening Balance	590,204	619,088
Share based payment expense for the period	93,694	9,365
Closing balance	683,898	628,453

Movement in foreign currency translation reserve		
Opening Balance	7,830	(2,932)
Foreign currency translation for the period	1,417	27,162
Closing Balance	9,247	24,230

Notes to the Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2009

8 EVENTS AFTER THE BALANCE SHEET DATE

The directors are not aware of any events, matters or circumstances which have arisen after balance date that have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years, other than the departure of the Chief Executive Officer, Ms Vicki Tutungi, in January 2010. Ms Tutungi received a termination payment of $137,615. Ms Tutungi also received a share based payment pursuant to a CEO incentive arrangement, approved in General Meeting on 24 November 2009. A total of 850,000 ordinary shares were allotted to Ms Tutungi on 1 February 2010. The share based payment was valued at $82,450 and included in the results for the half year ended 31 December 2009.

9 COMMITMENTS AND CONTINGENCIES

Since the last annual reporting date, there have been no material changes in any commitments and contingencies.

Directors' Declaration

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

1 In the opinion of the directors:

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

i giving a true and fair view of the financial position as at 31 December 2009 and the performance for the half year ended on that date of the Group; and

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

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

On behalf of the Board

Angus Holt

Director

Melbourne, 26 February 2010

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To the members of Optiscan Imaging Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half year financial report of Optiscan Imaging Limited, which comprises the statement of financial position as at 31 December 2009, and the statement of comprehensive income, condensed statement of changes in equity and statement of cash flows for the half year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half year end or from time to time during the half year.

Directors' Responsibility for the half year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Optiscan Imaging Limited and the entities it controlled during the half year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report. The Auditor's Independence Declaration would have been expressed in the same terms if it had been given to the directors at the date this auditor's review report was signed.

Conclusion

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

i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half year ended on that date; and

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

Inherent Uncertainty Regarding Going Concern

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

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

The Directors cannot be certain of the success of any product development or commercialisation or any fund raising initiatives in the future. As a result of these factors, and unless the initiatives described in Note 2(a) are achieved, there is significant uncertainty whether the consolidated entity will be able to continue as a going concern, and therefore, whether the consolidated entity will be able to pay its debts as and when they become due and payable and realise its assets and extinguish its liabilities in the normal course of business at the amounts stated in the financial report.

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

Ernst & Young

Ernst & Young

Brumley

Don Brumley
Partner
Melbourne
26 February 2010