Optiscan Imaging Limited

ABN 81 077 771 987

Annual Financial Report

for the year ended 30 June 2011

Contents

Corporate Information

ABN 81 077 771 987

This annual report covers both Optiscan Imaging Limited as an individual entity and the consolidated entity comprising Optiscan Imaging Limited and its subsidiaries. The Group's functional and presentation currency is Australian Dollars AUD ($).

A description of the Group's operations and of its principal activities is included in the review of operations and activities in the directors' report on pages 4 to 17. The directors' report is not part of the financial report.

Directors

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

Company Secretary

B.R. Andrew

Registered office

15-17 Normanby Road
Notting Hill Vic 3168
Australia

Principal place of business
15-17 Normanby Road
Notting Hill Vic 3168
Australia
T 61 3 9538 3333
F 61 3 9562 7742
www.optiscan.com

Share Register

Computershare Registry Services
Yarra Falls
452 Johnston Street
Abbotsford Vic 3067
Australia
T 61 3 9415 5000

Solicitors

Lander & Rogers
600 Bourke Street
Melbourne VIC 3000

Auditors

Ernst & Young
Melbourne

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 financial year ended 30 June 2011.

Directors

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

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

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

Angus M. Holt B Com *Age 40*	Mr Holt has a Commerce degree from the University of Melbourne and has over 15 years experience in funds management, private equity and early stage biotech ventures. Mr Holt was a director of Equity Life during the 90's, at the time Australia's leading provider of regulated short term annuity investments. Mr Holt was Investment Director at Equity Life overseeing in excess of $200m invested in a range of hybrid securities, smaller companies and the leaders. Following the sale of Equity Life to Challenger International in 1997 Mr Holt has focussed on private equity opportunities funded by a few select individuals. Those opportunities have been dominated by smaller companies (<$500m) across many fields ranging from toll roads, mezzanine infrastructure debt, waste to energy, plumbing supplies and biotechs, including in imaging, surgery navigation and immunology. Mr Holt has lived in the US where he established the local operations for a surgical navigation start up. Mr Holt has 13 years experience as a public company director in Australia and was appointed to the Board of Optiscan in February 2009 and later Chairman in May 2009. Mr Holt assumed the role of Executive Chairman in January 2010. Mr Holt held no other directorships of public companies during the past three years.
Peter M. Delaney *BSc(Pharm) (Hons.)* *Age 43*	Peter Delaney, Director of Technology, completed a science degree with honours in Pharmacology at Monash University in 1989. He has played a major role in the refinement of the fibre optic approach to produce a commercial instrument which received an R&D 100 Award in 1991. In 1993, Mr Delaney received the Victorian Young Achiever Award (Science and Technology) for his development of the company strategy and infrastructure. Mr Delaney was appointed a director of Optiscan Pty Ltd in March 1994, and was Managing Director until December 2002, at which time he assumed the role of Director of Technology. In April 2007, Peter Delaney was awarded a prestigious ATSE Clunies Ross award for excellence in the innovation and commercialisation of scientific endeavours. Mr Delaney held no other directorships of public companies during the past three years.

Directors' Report (continued)

Directors (continued)

Bruce R. Andrew B Bus, CPA *Age 57*	Mr Andrew is an accountant with extensive corporate experience in both listed and unlisted entities. Mr Andrew was appointed Company Secretary when Optiscan listed in 1997. After several years in a part time role, Mr Andrew was appointed Chief Financial Officer in 2001, and has been a member of the executive management team since that time. Mr Andrew was appointed to the board in January 2010.During the past three years, Mr Andrew served as a director of Orpheus Energy Limited

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

Directors' Interests

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

Director	Balance at date of this report	**Employee Options**
Angus Holt	8,308,875	-
Peter Delaney	3,501,349	-
Bruce Andrew	90,000	-

Other Interests of Directors

Peter Delaney
Related parties to Peter Delaney hold a combined total of 270,090 ordinary shares (2010: 270,090 ordinary shares).

Directors' Meetings

The company held eight (8) Directors' meetings during the year. The attendances of the directors at meetings of the Board were:

	Board of Directors	
Director	Attended	Held
Angus Holt	8	8
Peter Delaney	8	8
Bruce Andrew	8	8

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

Directors' Report (continued)

Principal Activities

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

Corporate Structure

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

Trading Results

The consolidated profit of the consolidated entity for the financial year was $15,879 (2010, loss 1,649,910) after income tax.

Review of Operations

Key Highlights for 2010/2011

- Carl Zeiss collaboration advances from clinic to product development phase
- A modest, inaugural annual profit reflects achievement of a stable financial position and outlook
- Sound cash position
- Strategic review process implemented

Financial result 2010/2011

Optiscan reported a profit of $14,405 for the year to 30 June 2011. This is the first annual profit for Optiscan, and it is derived from four key drivers:

- Tight control of costs
- Milestone payments received from the Carl Zeiss collaboration amounting to $1,267,918
- Continuing steady sales of Five 1 research instruments
- Grant income of $636,000 receivable from the R&D Tax Concession tax offset regime

Sales and other income

There were four system sales during the year, in Europe, China and Australia, in addition to modest revenues from service, warranty and sales of parts. Other income was derived from the milestones noted above under the Zeiss agreement, and, importantly, the Australian Government's "Research and Development Tax Concession". This significant government initiative will for the first time provide Optiscan with a substantial cash grant that will fund further development of our technology.

Design and development

Research and development remained the company's core activity during the year. Research efforts were centred mainly on design of smaller probes, while development activity was directed toward continuing refinement of the second generation platform and the associated miniaturised scanners. In the latter part of the year, design and development activity increasingly focused on product specification for the Zeiss neurosurgery application. When a final design specification is settled, we will proceed with assembly of pre production prototypes, as well as the associated documentation and regulatory processes which are necessary steps in the progression to final product release.

Directors' Report (continued)

Review of Operations (continued)

Intellectual property
Management of the company's intellectual property portfolio remains a high priority. During the year, after some rigorous examination processes, a number of new patent families were granted in key jurisdictions. While there is some cost associated with this activity, particularly when provisional patents reach examination stage, the company remains firmly of the view that this represents core intellectual property that must be protected.

Corporate
There was little change in staff numbers during the year, and a freeze on salaries remained in place, setting the scene for continuing cost containment throughout the year. Expenses were reduced by 36% compared to 2010 (29% when adjusted for redundancies in 2010). Short term skills requirements in R&D have been accommodated by engaging contractors, rather than full time employees.

Cash Position
At 30 June 2011, the cash balance was $1.078 million. Trade and other receivables amount to more than $800,000, which, together with orders in hand for research instruments and further entitlements to the R&D tax concession, will increase the cash and receivable balance to around $2 million by September. Also, later in the new financial year, additional revenue will be derived from the sale of pre production prototype units, and as the Zeiss collaboration approaches product release, there will be further milestone payments to be received. These factors underline a sound forward cash position.

Strategic review process
The company announced in June 2011 that it has instigated a strategic review process. The legacy of difficult financial and operational conditions has shadowed the company in recent years, but a period of financial stability has now been achieved. This has occurred at a time when international markets are increasingly demonstrating their appreciation and understanding of the future of endomicroscopy. The most recent and salient event was the IPO in July 2011 of Mauna Kea Technologies (NYSE Euronext: MKEA), the only other relevant player in the endomicroscopy space, valuing that company at approximately US$311 million and demonstrating a pronounced valuation anomaly in existence between Mauna Kea and Optiscan. Whilst the board of Optiscan had implemented the review process prior to this IPO, the existence of such a valuation anomaly highlighted the need for Optiscan to canvass opportunities to take its technology into broader global markets.

Outlook
Optiscan has achieved a steady state of operational and financial stability. Over the next year, the Zeiss collaboration will progress toward product release, which is expected to eventuate in 2012/2013. There will be continuing sales of research instruments, and ongoing control of costs through to the period when revenues from product sales can be achieved. This stable operating environment and outlook provides an appropriate window to explore strategic opportunities. The new generation of technology is nearly complete, and the first path to market with Carl Zeiss is now in process. There are a host of other opportunities in applications that were placed on hold during the challenging period of the past few years. Furthermore, the leading field of application in "GI" (gastroenterology) remains open for exploitation, and significant latent demand for confocal technology exists. The company is now in a position to revisit these opportunities through the strategic review process, which is expected to offer up new directions to consider over the remainder of 2011. These could span a range of options, from licensing opportunities to new collaborations, joint ventures or new investors.

Directors' Report (continued)

Dividends

No dividends have been paid or declared since the beginning of the financial year by the Company (2010, Nil).

Significant Changes in the State of Affairs

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

Significant Events After Balance Date

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

Likely Developments and Future Results

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

Environmental Regulations

The Group is not subject to significant environmental regulations.

Share Options

Details of movements in share options are set out in Note 21 in the financial statements

Since the end of the financial year, and up to the date of this report, no new shares have been issued as a consequence of the exercise of employee options which were on issue at year end. No new options have been issued, and no options have expired. The total number of options outstanding at the date of this report is 303,500.

Indemnification and Insurance

During the financial year ended 30 June 2011, the company indemnified its directors, the company secretary and executive officers in respect of any acts or omissions giving rise to a liability to another person (other than the company or a related party) unless the liability arose out of conduct involving a lack of good faith. In addition, the company indemnified the directors, the company secretary and executive officers against any liability incurred by them in their capacity as directors, company secretary or executive officers in successfully defending civil or criminal proceedings in relation to the company. No monetary restriction was placed on this indemnity. The Company has insured its directors, the company secretary and executive officers for the financial year ended 30 June 2011. Under the company's Directors' and Officers' Liabilities Insurance Policy, the Company shall not release to any third party or otherwise publish details of the nature of the liabilities insured by the policy or the amount of the premium. Accordingly, the company relies on section 300(9) of the *Corporations Act 2001* to exempt it from the requirement to disclose the nature of the liability insured against and the premium amount of the relevant policy.

Directors' Report (continued)

Remuneration Report (Audited)

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

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

Details of Key Management Personnel in office during the year

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

Remuneration Philosophy

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

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

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

Objective of Remuneration Policy

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

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

Non-executive Director Remuneration

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

Directors' Report (continued)

Remuneration Report (Audited) (continued)

Non-executive Director Remuneration (continued)

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

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

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

As a consequence of a reduction in the size of the board in May 2009, there were no non-executive directors in office during 2010/2011.

The remuneration of directors for the years ended 30 June 2011 and 30 June 2010 is detailed in Table 1 and Table 2 on page 13 of this report.

Executive Remuneration

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

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

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

<u>Fixed Remuneration</u>

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

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

The fixed remuneration component of executives for the years ended 30 June 2011 and 30 June 2010 is detailed in Table 1 and Table 2 on page 13 of this report.

Directors' Report (continued)

Remuneration Report (Audited) (continued)

Executive Remuneration (continued)

Variable Remuneration - Short Term Incentive (STI)

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

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

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

STI Arrangements
The board suspended STI arrangements for all staff during 2009/2010 due to the difficult economic circumstances confronting the Group. No STI entitlements were accrued and no payments were made to staff during 2010/2011.

Variable Remuneration - Long Term Incentive (LTI)
Long term incentives are delivered to executives and employees by way of grant of options under the Employee Share Option Plan.

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

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

LTI Arrangements in 2010/2011
The board suspended LTI arrangements during 2009/2010 due to the difficult economic circumstances confronting the Group. No LTI entitlements were accrued and no payments were made to staff during 2010/2011.

Directors' Report (continued)

Remuneration Report (Audited) (continued)

Incentives and Company Performance

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

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

In view of the limited relevance of financial measurement tools, the Remuneration Committee has determined that the performance of the group is best reviewed in the context of achievement of key milestones, as such milestones have been a key determinant of the company's share price, which is the primary indicator of shareholder wealth.

Incentive Payments and Performance Conditions 2010/2011

During the year ended 30 June 2011, no short or long term incentive payments were made to staff.

Employment Contracts

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

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

Directors' Report (continued)

Remuneration Report (Audited) (continued)

Compensation of Key Management Personnel

Table 1: Compensation of Key Management Personnel for the year ended 30 June 2011

	Short-Term			Post Employment	Total	Total Performance Related
30 June 2011	*Salary & fees*	*Directors fees $*	*Share based payments $*	*Superannuation $*	*$*	*%*
Directors						
A. Holt	6,250	40,000	50,000++	4,163	100,413	-
P. Delaney	84,500	40,000	-	3,600	128,100	-
B. Andrew	52,500	40,000	-	8,325	100,825	-
	143,250	120,000	50,000	16,088	329,338	-

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

Table 2: Compensation of Key Management Personnel for the year ended 30 June 2010

	Short-Term	Post Employment		Long-Term		Total	Total Performance Related
30 June 2010	*Salary & Fees $*	*Superannuation $*	*Termination $*	*Long Service Leave $*	*Share based payments $*	*$*	*%*
Directors							
A. Holt	68,340	6,151	-	-	-	74,491	-
V Tutungi*	149,024	13,412	137,614	-	82,450	382,500	21.6
P. Delaney^	188,572	15,171	91,251^	-	-	294,994	-
B. Andrew	112,555	2,081	-	-	-	114,636	-
	518,491	36,815	228,865	-	82,450	866,621	9.5

** These KMPs were not in employment for a full year*
^Mr Delaney's services are now retained under a sub-contract arrangement

Compensation Options Granted and Vested During the Year

During the current financial year, and the previous financial year, no options were granted as equity compensation benefits under the long-term incentive plan. For further details relating to the options on issue, refer to note 21 in the financial statements.

Shares Issued on Exercise of Compensation Options

No shares have been issued as a result of the exercise of options granted as compensation to key management personnel during the years ended 30 June 2011 and 30 June 2010.

Directors' Report (continued)

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

Non-Audit Services

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

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

Other tax services	$6,750

Auditor Independence

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

ERNST & YOUNG

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

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

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

In relation to our audit of the financial report of Optiscan Imaging Limited for the financial year ended 30 June 2011, 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
Melbourne
30 August 2011

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

BRUCE ANDREW, Director
Melbourne, 30 August, 2011

Corporate Governance Statement

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

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

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

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

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

Director	Status	Term in office
Angus M Holt (Chairman)	Executive	2.5 years
Peter M Delaney	Executive	14 years
Bruce R Andrew	Executive	1.5 years

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

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

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

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

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

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

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

Corporate Governance Statement (continued)

With the reduction in the size of the Board in May 2009, the Group no longer has a Nomination Committee or an Audit Committee. In both cases the Board has assumed the responsibilities of the committees.

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

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

Remuneration

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

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

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

Statement of Financial Position

AS AT 30 JUNE 2011

	Note	CONSOLIDATED 2011 $	2010 $
ASSETS			
Current Assets			
Cash and cash equivalents	9	1,078,694	1,555,401
Trade and other receivables	10	835,191	129,363
Inventories	11	197,100	367,075
Prepayments		50,112	37,645
Total Current Assets		2,161,097	2,089,484
Non-current Assets			
Plant and equipment	12	38,553	102,917
Total Non-current Assets		38,553	102,917
TOTAL ASSETS		2,199,650	2,192,401
LIABILITIES			
Current Liabilities			
Trade and other payables	13	180,397	206,519
Borrowings	14	484,485	-
Provisions	16	179,958	183,314
Total Current Liabilities		844,840	389,833
Non-current Liabilities			
Trade and other payables	13	2,575	7,181
Borrowings	14	-	472,460
Provisions	16	9,521	22,665
Total Non-current Liabilities		12,096	502,306
TOTAL LIABILITIES		856,936	892,139
NET ASSETS		1,342,714	1,300,262
EQUITY			
Contributed equity	17	45,016,281	45,016,281
Accumulated losses	17	(44,390,821)	(44,405,226)
Reserves	17	717,254	689,207
TOTAL EQUITY		1,342,714	1,300,262

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 2011

	Note	*CONSOLIDATED*	
		2011 *$*	*2010* *$*
Sale of goods		509,036	822,642
Rendering of services		-	143,170
Other revenue	6(a)	41,985	277,617
Revenue		551,021	1,243,429
Cost of sales		(287,600)	(528,970)
Gross Profit		263,421	714,459
Other income	6(b)	1,903,918	1,045,733
Marketing expenses		-	(101,567)
Research & development expenses		(1,022,883)	(1,509,047)
Administrative expenses		(1,117,563)	(1,651,388)
Other expenses		(12,488)	(119,444)
Loss before income tax		14,405	(1,621,254)
Income tax benefit (expense)	7	-	(29,545)
Net profit (loss) for the year		14,405	(1,650,799)
Other comprehensive income			
Foreign currency translation of net investment in foreign subsidiary		1,474	889
Total comprehensive profit (loss) for the period		15,879	(1,649,910)
Earnings (loss) per share (cents per share)	8		
- basic earnings (loss) per share for the year		0.01	(1.34)
- diluted earnings (loss) per share for the year		0.01	(1.34)

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 2011

	CONSOLIDATED				
	Ordinary shares $	*Accumulated Losses* $	*Employee Equity Benefits Reserve* $	*Foreign Currency Translation Reserve* $	$
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 2010	45,016,281	(44,390,821)	707,061	10,193	1,342,714
At 1 July 2008	43,913,560	(42,754,427)	590,204	7,830	1,757,167
Loss for the year	-	(1,650,799)	-	-	(1,650,799)
Other comprehensive income	-	-	-	889	889
Total comprehensive income for the year	-	(1,650,799)	-	8,719	(1,649,910)
Transactions with owners in their capacity as owners:					
Shares issued	1,159,701	-	-	-	1,159,701
Transaction costs on shares issued	(56,980)	-	-	-	(56,980)
Share based payments	-	-	90,284	-	90,284
At 30 June 2010	45,016,281	(44,405,226)	680,488	8,719	1,300,262

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 2011

	Note	CONSOLIDATED	
		2011	2010
		$	$
Cash flows from operating activities			
Receipts from customers		1,692,450	1,904,888
Payments to suppliers and employees		(2,203,446)	(3,609,443)
Royalties received		5,167	402,444
Interest received		37,250	35,915
Receipt of government grants		-	67,877
Income tax paid		-	(29,545)
Net cash used in operating activities	9	(468,579)	(1,227,864)
Cash flows from investing activities			
Purchase of plant and equipment	12	(19,140)	(2,384)
Net cash used in investing activities		(19,140)	(2,384)
Cash flows from financing activities			
Proceeds from issue of shares	17	-	1,159,701
Transaction costs relating to issue of shares	17	-	(56,980)
Net cash flows from financing activities		-	1,102,721
Net decrease in cash and cash equivalents		(487,719)	(127,527)
Net foreign exchange differences		11,012	31,822
Cash and cash equivalents at beginning of period		1,555,401	1,651,106
Cash and cash equivalents at end of period	9	1,078,694	1,555,401

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 2011

1 CORPORATE INFORMATION

The financial report of Optiscan Imaging Limited (the Company) for the year ended 30 June 2011 was authorised for issue in accordance with a resolution of the directors on 30 August 2011.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Table of contents

a) Basis of preparation

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

Compliance with IFRS

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

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2011

Basis of preparation (continued)

Going Concern (Significant Uncertainty as at 30 June 2011)
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 2011, the financial position of the consolidated entity as disclosed in the financial statements reflects a net asset position of 1,342,714 (2010: $1,300,262). This balance has been determined after a consolidated net profit for the year of $14,405 (2010: loss $1,650,799), and a net cash outflow from operations of $468,579 (2010: $1,227,864).

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 2011 is $1,078,694 (2010: $1,555,40) which does not include $636,000 expected to be received early in the new financial year from the R&D tax concession
- Additional cashflow is expected to be received in the 2012 financial year under the agreement with Carl Zeiss
- The directors believe the Company has the ability to raise additional capital from existing and new investors
- The Company has a successful track record in raising capital to fund its operations
- The Company may have the ability to raise additional income, or accelerate forecast cash flows if required

The directors cannot be certain of the Company's ability to achieve success in its activities, as these are dependent on future events. Thus, should these activities result in a position where there are insufficient funds to allow continuation of current activities, the directors will consider scaling back activities until further funding is obtained, or undertake a reassessment of the company's activities. The strategy for any potential future capital raising and its timing will be determined by the directors based upon an assessment of the financial and operational circumstances of the consolidated entity at the time.

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

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 2010. These are outlined in the table below.

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets resulting from the first part of Phase 1 of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement (AASB 139 Financial Instruments: Recognition and Measurement). The main changes from AASB 139 are described below. (a) Financial assets are 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. This replaces the numerous categories of financial assets in AASB 139, each of which had its own classification criteria. (b) AASB 9 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. (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.	1 January 2013	The Group has not assessed the impact of the new standard on its financial report	1 July 2013

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Statement of compliance (continued)

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

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2009-11	Amendments to Australian Accounting Standards arising from AASB 9 [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 121, 127, 128, 131, 132, 136, 139, 1023 & 1038 and Interpretations 10 & 12]	► These amendments arise from the issuance of AASB 9 *Financial Instruments* that sets out requirements for the classification and measurement of financial assets. The requirements in AASB 9 form part of the first phase of the International Accounting Standards Board's project to replace IAS 39 *Financial Instruments: Recognition and Measurement*. ► This Standard shall be applied when AASB 9 is applied.	1 January 2013	The Group has not assessed the impact of the new standard on its financial report	1 July 2013
AASB 124 (Revised)	Related Party Disclosures (December 2009)	The revised AASB 124 simplifies the definition of a related party, clarifying its intended meaning and eliminating inconsistencies from the definition, including: (a) The definition now identifies a subsidiary and an associate with the same investor as related parties of each other (b) Entities significantly influenced by one person and entities significantly influenced by a close member of the family of that person are no longer related parties of each other (c) The definition now identifies that, whenever a person or entity has both joint control over a second entity and joint control or significant influence over a third party, the second and third entities are related to each other .	1 January 2011	The Group has considered the impact of this amendment and have determined that there will be no impact on the Group's financial report	1 July 2011

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Statement of compliance (continued)

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

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 1054	Australian Additional Disclosures	This standard is as a consequence of phase 1 of the joint Trans-Tasman Convergence project of the AASB and FRSB. This standard relocates all Australian specific disclosures from other standards to one place and revises disclosures in the following areas: (a) Compliance with Australian Accounting Standards (b) The statutory basis or reporting framework for financial statements (c) Whether the financial statements are general purpose or special purpose (d) Audit fees (e) Imputation credits	1 July 2011	The Group has considered the impact of this amendment and have determined that there will be no impact on the Group's financial report	1 July 2011
AASB 2010-4	Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 1, AASB 7, AASB 101, AASB 134 and Interpretation 13]	Emphasises the interaction between quantitative and qualitative AASB 7 disclosures and the nature and extent of risks associated with financial instruments. Clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. Provides guidance to illustrate how to apply disclosure principles in AASB 134 for significant events and transactions.	1 January 2011	The Group has considered the impact of this amendment and have determined that there will be no impact on the Group's financial report	1 July 2011

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Statement of compliance (continued)

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

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2010-7	Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) [AASB 1, 3, 4, 5, 7, 101, 102, 108, 112, 118, 120, 121, 127, 128, 131, 132, 136, 137, 139, 1023, & 1038 and interpretations 2, 5, 10, 12, 19 & 127]	The requirements for classifying and measuring financial liabilities were added to AASB 9. The existing requirements for the classification of financial liabilities and the ability to use the fair value option have been retained. However, where the fair value option is used for financial liabilities the change in fair value is accounted for as follows: ► The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ► The remaining change is presented in profit or loss	1 January 2013	The Group has not assessed the impact of the new standard on its financial report	1 July 2013
IFRS 10	Consolidated Financial Statements	IFRS 10 establishes a new control model that applies to all entities. It replaces parts of IAS 27 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities.* 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. This is likely to lead to more entities being consolidated into the group.	1 January 2013	The Group has not assessed the impact of the new standard on its financial report	1 July 2013

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Statement of compliance (continued)

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

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
IFRS 11	Joint Arrangements	IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Ventures.* IFRS 11 uses the principle of control in IFRS 10 to define joint control, and therefore the determination of whether joint control exists may change. In addition IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation.	1 January 2013	The Group has not assessed the impact of the new standard on its financial report	1 July 2013
IFRS 12	Disclosure of Interests in Other Entities	IFRS 12 includes all disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structures entities. New disclosures have been introduced about the judgements 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.	1 January 2013	The Group has not assessed the impact of the new standard on its financial report	1 July 2013
IFRS 13	Fair Value Measurement	IFRS 13 establishes a single source of guidance under IFRS for determining the fair value of assets and liabilities. IFRS 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value under IFRS when fair value is required or permitted by IFRS.	1 January 2013	The Group has not assessed the impact of the new standard on its financial report	1 July 2013

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Basis of consolidation

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

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

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

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

d) Revenue recognition

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

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

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

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

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

e) Government grants

Government grants are recognised in the balance sheet as a liability when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where expenditure has been incurred that gives rise to an entitlement under a grant agreement, the grant income is accrued.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Leases

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

(i) Group as lessor

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

(ii) Group as lessee

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

g) Cash and cash equivalents

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

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

h) Trade and other receivables

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

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

i) Inventories

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

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

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Derivative financial instruments and hedging

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

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

k) Foreign currency translation

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

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

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

l) Income tax

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

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

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

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or

- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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

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

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

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

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

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

m) Other taxes

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

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

- receivables and payables, which are stated with the amount of GST included.

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other taxes (continued)

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

n) Plant and equipment

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

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

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

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

Disposal

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

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

o) Investments and other financial assets

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

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

p) Intangible assets

The only intangible assets 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 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Research and development costs

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

q) Trade and other payables

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

r) Interest bearing loans and borrowings

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

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

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

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

s) Provisions and employee leave benefits

Provisions

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

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

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

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

Employee leave benefits

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

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

(ii) Long service leave

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

t) Share-based payment transactions

(i*) Equity settled transactions:*

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

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

In 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, in the absence of further specific approval, fixed remuneration will revert 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 the income statement is the product of (i) the grant date fair value of the award; (ii) the current best estimate of the number of equity instruments that will ultimately vest, taking into account such factors as the likelihood of employee turnover during the vesting period, and the likelihood of non market performance conditions being met, and (iii) the expired portion of the vesting period.The charge to the income statement for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

Until an award has vested, any amounts recorded are contingent and will be adjusted if more or fewer awards vest than were originally anticipated to do so. Any award subject to a market condition is considered to vest irrespective of whether or not that market condition is fulfilled, provided all other conditions are satisfied.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions (continued)

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. An additional expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

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

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

u) Contributed equity

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

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

v) Earnings (Loss) per share

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

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

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

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

w) Segment reporting

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

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

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

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

Risk Exposures and Responses

Interest rate risk
The Group's exposure to market interest rates relates primarily to the Group's cash and cash equivalents, and to Convertible notes issued in 2009. As cash on deposit is expected to exceed the amount of interest bearing liabilities, a climate of increasing interest rates will increase net income and conversely, falling rates will reduce income. However, the impact of movements in interest rates is not material in the context of the Group's operations or trading results.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

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

	Consolidated	
	2011	2010
Financial Assets	$	$
Cash and cash equivalents *	1,076,768	1,552,611
Financial Liabilities		
Convertible notes	(500,000)	(500,000)
Accrued note interest	(30,914)	(17,466)
Net exposure	545,854	1,035,145

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

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

At 30 June 2011, 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)	
	2011	2010	2011	2010
	$	$	$	$
Consolidated				
+0.25% (25 basis points)	1,748	3,339	-	-
-0.75% (75 basis points)	(5,243)	(10,016)	-	-

Interest rates were stable during 2010/2011, with official rates moving from 4.5% to 4.75%. Notwithstanding this movement, the global economic outlook softened during the second half of the year, with sentiment moving 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 2011

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 balance sheet 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 2011, 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 2011, the Group had the following exposure to foreign currency (US$ and Euro) that is not designated in cash flow hedges:

	Consolidated	
	2011 $	2010 $
Financial Assets		
Cash and cash equivalents US$	71,980	72,827
Cash and cash equivalents Euro	4,489	-
Trade and other receivables US$	2,109	1,680
Financial Liabilities		
Trade and other payables	-	-
Net exposure	78,578	74,507

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

At 30 June 2011, had the Australian Dollar moved by the same amount experienced during the past year, as illustrated in the table below, with all other variables held constant, post tax loss and equity would have been affected as follows:

Judgements of reasonably possible movements in A$ exchange rates:	Net Loss (Higher) Lower		Equity Higher (Lower)	
Consolidated	2011 $	2010 $	2011 $	2010 $
AUD/USD +23.6%	(1,052)	(3,848)	-	-
AUD/USD - 23.7%	1,588	4,221	-	-
AUD/EURO + 4.9%	(3,288)	-	-	-
AUD/EURO – 4.9%	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 2011

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables and derivative instruments. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note. The Group does not hold any credit derivatives to offset its credit exposure.

The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer, and are regularly monitored. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

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

Liquidity risk and capital management

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

The table below reflects all contractually fixed pay-offs and receivables for settlement from recognised financial assets and liabilities, as of 30 June 2011. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2010.

	Consolidated		
	<6 months	1-5 years	Total
Year ended 30 June 2011			
Liquid financial assets			
Cash and cash equivalents	1,078,694	-	1,078,694
Trade and other receivables	835,191	-	835,191
Financial liabilities			
Trade and other payables	180,397	-	180,397
Convertible notes	500,000	-	500,000
Net maturity	1,233,488	-	1,233,488
Year ended 30 June 2010			
Liquid financial assets			
Cash and cash equivalents	1,555,401	-	1,555,401
Trade and other receivables	129,363	-	129,363
Financial liabilities			
Trade and other payables	(56,691)	-	(56,691)
Convertible notes	-	(500,000)	(500,000)
Net maturity	1,628,073	(500,000)	1,128,073

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

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 17). 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 17.

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

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Net realisable value of inventory
Most of the inventory held by the Group is the first generation confocal imaging platform, relating to FIVE 1 products and accessories.

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

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 2011

5 SEGMENT INFORMATION (continued)

		Trading *$*	*R&D* *$*	*Unallocated* *$*	*Total* *$*
Year ended 30 June 2011					
Revenue					
	Sales to external customers	509,036	-	-	509,036
	Other revenues	-	-	41,986	41,986
	Inter segment revenue	-	-	-	-
	Total consolidated revenue	509,036	-	41,986	551,022
Result					
	Net profit (loss) for year by segment	164,764	975,231	(1,125,589)	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 2011

5 SEGMENT INFORMATION (continued)

	Trading $	*R&D $*	*Unallocated $*	*Total $*
Year ended 30 June 2010				
Revenue				
Sales to external customers	965,812	-	-	965,812
Other revenues	-	-	277,617	277,617
Inter segment revenue	-	-	-	-
Total consolidated revenue	965,812	-	277,617	1,243,429
Result				
Net profit (loss) for year by segment	403,153	(1,394,696)	(659,256)	(1,650,799)
Assets and liabilities				
Segment assets *	509,546	39,201	1,643,654	2,192,401
Segment liabilities	(131,420)	(134,270)	(626,449)	(892,139)
Segment net assets	378,126	(95,069)	1,017,205	1,300,262
Cash flow				
Segment net cash flow from operating activities	515,709	(1,400,739)	(342,834)	(1,227,864)
Investing cash flows	-	-	(2,384)	(2,384)
Financing cash flows	-	-	1,102,721	1,102,721
Net cash flow for year	515,709	(1,400,739)	757,503	(127,527)
Other Segment information				
Non cash expenses				
Depreciation and amortisation	121,109	120,674	123,161	364,944
Share based payments	-	-	90,284	90,284
Amortised cost adjustment of convertible notes	-	-	10,851	10,851
Profit (loss) on sale of assets	-	-	19,450	19,450
Foreign exchange differences	-	-	(30,934)	(30,934)
Revenue by geographic segment (location of customer)				
Asia	467,012	-	36,286	503,298
Australia	68,747	-	36,827	105,574
Europe	301,874	-	160,355	462,229
USA & Canada	128,179	-	44,149	172,328
Total	965,812	-	277,617	1,243,429

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

6 REVENUES AND EXPENSES

		CONSOLIDATED	
		2011 *$*	*2010* *$*
(a)	**Other revenue**		
	Royalty revenue	5,167	240,790
	Finance revenue – bank interest received	36,818	36,829
	Total other revenue	41,985	277,619
(b)	**Other income**		
	Settlement on termination of Hoya agreement	-	709,920
	Design and development income	1,267,918	267,936
	Government grants	636,000	67,877
	Total Other Income	1,903,918	1,045,733
(c)	**Depreciation and amortisation**		
	-Depreciation included in Cost of sales	25,809	46,405
	- Depreciation included in Marketing expenses	-	74,704
	- Depreciation included in R&D expenses	39,592	120,674
	- Depreciation included in Administration expenses	18,103	93,218
		83,504	335,001
	- Amortisation of software included in Administration expenses	-	29,943
		83,504	364,944
(d)	**Employee benefits expense**		
	Wages and salaries	788,781	1,166,309
	Redundancies	-	341,929
	Workers' compensation costs	1,664	2,695
	Defined contribution plan expense	68,106	123,263
	Annual leave provision	26,221	3,263
	Long service leave provision	2,912	7,728
	Share-based payments expense	51,573	90,284
		939,257	1,735,471
(e)	**Cost of inventories recognised as an expense**		
	Consumed in production – cost of goods sold	85,094	119,965
	Consumed in R&D	77,749	53,860
	Write down inventory to net realisable value	89,911	25,265
		252,754	199,090
(f)	**Finance costs**		
	Interest on convertible notes	44,606	39,511
	Amortised cost adjustment of convertible notes	12,025	10,851

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

7 INCOME TAX

	CONSOLIDATED	
	2011 *$*	*2010* *$*
The components of income tax expense are:		
Income Statement		
Current income tax		
Current income tax charge	-	-
Adjustments in respect of current income tax of previous year:	-	-
Withholding tax deducted from royalty revenue	-	(29,545)
Deferred income tax		
Relating to origination and reversal of temporary differences	-	-
Income tax (expense) benefit reported in the income statement	-	(29,545)

Tax Losses
The Group has unconfirmed, unrecouped tax losses in Australia of $39,329,282 (2010: $40,139,327) which have not been brought to account. The ability to be able to recognise a deferred tax asset in respect of these tax losses will be dependent upon the extent that probable that future taxable profit will be available against which the unused tax losses can be utilised and the conditions for deductibility imposed by Australian tax authorities will be complied with.

Withholding tax
A total of $338,020 (2010, $343,100) has been deducted from remittances of royalties to the group in accordance with the withholding tax obligations of the payers. These deductions represent foreign tax credits which may be available to reduce Australian income tax payable in future years. The ability to be able to recognise a deferred tax asset in respect of these tax losses will be dependent upon the extent that probable that future taxable profit will be available against which the unused tax losses can be utilised and the conditions for deductibility imposed by Australian tax authorities will be complied with.

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

	CONSOLIDATED 2011 $	CONSOLIDATED 2010 $

7 INCOME TAX (continued)

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

	2011 $	2010 $
Accounting loss before income tax	(621,595)	(1,621,254)
Prima facie income tax (benefit) at the Parent entity's statutory income tax rate of 30% (2010: 30%)	(186,478)	(486,376)
Adjustments in respect of current income tax of previous years	(536)	-
Non assessable gains	(9,845)	(2,840)
Share based payments not deductible	15,472	27,085
R&D Tax Concession deductions foregone for tax offset	376,478	509,700
Expenditure not allowable for income tax purposes	3,695	3,255
Deductible movements through equity	-	(17,094)
Deferred tax assets (recognised) / not recognised	(198,786)	(33,730)
Foreign withholding tax deductions from royalties	-	29,545
Income tax expense	-	29,545

	Statement of financial position		*Statement of comprehensive income*	
	2011 *$*	*2010* *$*	*2011* *$*	*2010* *$*
Deferred income tax - not brought to account				
Deferred income tax at 30 June relates to the following items and has not been brought to account (Refer note 2(l):				
CONSOLIDATED				
Deferred tax liability				
Accrued income not yet assessable	-	-	-	-
Deferred tax assets				
Undeducted patent costs	166,763	139,018	27,745	(2,209)
Employee benefit & warranty provisions	56,844	61,794	(4,950)	(54,485)
Expenses not yet deductible	21,416	32,117	(10,701)	11,758
Inventory impairment provision	380,184	339,835	40,349	(94,267)
Deferred deductible equity issue costs	11,136	19,352	(8,216)	8,879
Tax Losses available	11,798,785	12,041,798	(243,013)	96,594
Foreign tax credits	338,020	343,100	-	-
Gross deferred income tax assets	12,773,148	12,977,014		
Less amounts not recognised in accounts	(12,773,148)	(12,977,014)		
Gross deferred income tax assets	-	-		
Deferred tax income/ (expense) incurred			(198,786)	(33,730)
Less deferred income tax not recognised in accounts			(198,736)	(33,730)
Deferred tax income/ (expense)			-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

8 EARNINGS (LOSS) PER SHARE

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

	CONSOLIDATED	
	2011	*2010*
	$	*$*
Net profit (loss)	14,405	(1,650,799)

	2011	*2010*
	Number	*Number*
Weighted average number of ordinary shares for basic earnings per share	129,711,705	122,749,454
Effects of dilution:		
Share options	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	129,711,705	122,749,454
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 price of 31 cents significantly exceeds 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 to Angus Holt as disclosed in note 2 (t) and note 21.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2011

9 CASH AND CASH EQUIVALENTS

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. At balance date the weighted average interest rate is 2.89% (2010: 1.83%), and the weighted average term to maturity is 22 days (2010: 16 days). The fair value of cash at bank and on deposit approximates the carrying amount, in view of the short term to maturity. Term deposits amounting to $181,500 are subject to a charge which secure banking facilities made available to the group (refer note 15).

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

	CONSOLIDATED	
	2011 *$*	*2010* *$*
Cash at bank and in hand	878,069	1,363,799
Short-term deposits	200,625	191,602
	1,078,694	1,555,401

Reconciliation of net loss after tax to net cash flows from operations		
Net profit (loss)	14,405	(1,650,799)
Adjustments for:		
Depreciation and amortisation	83,504	364,944
Net (gain) loss on disposal of plant and equipment	-	19,450
Net fair value change	12,025	10,851
Impairment of assets	89,911	-
Net exchange differences	(11,015)	(31,823)
Shares and options expensed	26,573	90,284
Exchange differences recognised in equity	1,474	889
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	(705,827)	121,624
(Increase)/decrease in inventories	80,064	69,806
(Increase)/decrease in prepayments	(12,466)	14,851
(Decrease)/increase in trade and other payables	1,111	(89,645)
(Decrease)/increase in unearned income	(31,839)	33,320
(Decrease)/increase in provisions	(16,500)	(181,616)
Net cash from / (used in) operating activities	(468,579)	(1,227,864)

Disclosure of financing facilities - Refer to note 15.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

10 TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	2011 *$*	*2010* *$*
CURRENT		
Trade receivables	186,276	105,764
GST refund receivable	3,073	21,554
Interest receivable	1,162	1,594
Tax credit receivable	636,000	-
Other receivables	8,680	451
Net carrying amount	835,191	129,363

Ageing Analysis of Receivables

	Total	0-30 Days	31-60 Days	61-90 Days PDNI*	90+ Days PDNI*
Consolidated – 2011	835,191	825,511	260	-	9,420
Consolidated – 2010	129,363	24,436	21,153	14,257	69,517

* Past due not impaired (“PDNI”)

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

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

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

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

11 INVENTORIES

	CONSOLIDATED	
	2010 *$*	*2010* *$*
Raw materials (at net realisable value)	17,402	113,008
Work in progress (at net realisable value)	90,798	40,840
Finished goods (at cost)	88,900	213,227
Total inventories at the lower of cost and net realisable value	197,100	367,075
Write down to net realisable value (refer note 6))	89,911	25,265

12 PLANT AND EQUIPMENT

Consolidated *

YEAR ENDED 30 JUNE 2011	*Office Furniture & Equipment 2011 $*	*Production Equipment 2011 $*	*R&D Equipment 2011 $*	*Total Plant & Equipment 2011 $*
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	24,935	10,899	2,719	38,553
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	27,008	36,708	39,201	102,917
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	24,935	10,899	2,719	38,553

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

12 PLANT AND EQUIPMENT (continued)

Consolidated * **YEAR ENDED 30 JUNE 2010**	*Office Furniture & Equipment 2010 $*	*Production Equipment 2010 $*	*R&D Equipment 2010 $*	*Total Plant & Equipment 2010 $*
Opening balance, net of accumulated depreciation and impairment	192,545	83,113	179,324	454,982
Additions	2,385	-	-	2,385
Disposals	-	-	(19,449)	(19,449)
Depreciation charge for the year	(167,922)	(46,405)	(120,674)	(335,001)
At 30 June 2009, net of accumulated depreciation and impairment	27,008	36,708	39,201	102,917
At 1 July 2009				
Cost	530,278	258,483	410,351	1,199,112
Accumulated depreciation and impairment	(337,733)	(175,370)	(231,027)	(744,130)
Net carrying amount	192,545	83,113	179,324	454,982
At 30 June 2010				
Cost	532,663	258,483	410,351	1,201,497
Accumulated depreciation and impairment	(505,655)	(221,775)	(371,150)	(1,098,580)
Net carrying amount	27,008	36,708	39,201	102,917

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

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

13 TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2011 $	*2010 $*
Current		
Trade payables (i)	43,146	37,676
Accrued expenses	119,493	122,198
Other payables	-	1,654
Deferred revenue	17,758	44,991
	180,397	206,519
Non current		
Deferred revenue	2,575	7,181

(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 2011

14 INTEREST BEARING LOANS AND BORROWINGS

	CONSOLIDATED	
	2011 *$*	*2010* *$*
Current		
Convertible notes	484,485	-
Non current		
Convertible notes	-	472,460

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

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

(c) Assets pledged as security
The amounts payable under the convertible notes deed are to be secured by a charge over the intellectual property assets of Optiscan Pty Ltd. These assets are not recognised in the financial statement and have a zero carrying amount.

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

(e) Potential Dilution
In the event that the notes are converted to ordinary shares, and in a circumstance where the Group generates a net profit, there will be potential dilution of earnings per share from the increased number of shares on issue as a consequence of the conversion of notes.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

15 BANK FACILITIES

	CONSOLIDATED	
	2011 *$*	*2010* *$*
Bank Facilities		
Total facilities provided by the group's bankers:		
- credit cards	20,000	20,000
- bank guarantees and indemnities	91,500	91,500
- electronic transaction facility	50,000	50,000
	161,500	161,500
Facilities used at reporting date:		
- credit cards	8,987	866
- bank guarantees and indemnities	45,500	48,500
- electronic transaction facility	50,000	50,000
	104,487	99,366
Facilities unused at reporting date:		
- foreign currency hedging	-	-
- credit cards	11,013	39,134
- bank guarantees and indemnities	46,000	43,000
-bills negotiated under credit	-	-
- electronic transaction facility	-	-
	57,013	82,134
Total facilities	161,500	161,500
Facilities used at reporting date	104,487	99,366
Facilities unused at reporting date	57,013	62,134
Assets pledged as security The bank facilities are secured by charges over specific term deposits on an ongoing floating basis	181,500	181,500

Terms of Security

The bank has a charge over term deposits amounting to $181,500 (2010, $181,500) which secures the facilities outlined above. The charge provides the bank with the right of set off any amounts owing under these facilities against the balance of the term deposit. The charge endures for as long as the group maintains its banking facilities.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

16 PROVISIONS

	Annual Leave $	*Long Service Leave $*	*Warranty $*	*Total $*
*CONSOLIDATED **				
At 1 July 2010	83,385	89,892	32,702	205,979
Arising during the year	26,221	2,912	13,947	43,080
Utilised	(33,406)	-	(26,174)	(59,580)
At 30 June 2011	76,200	92,804	20,475	189,479
Current 2011	76,200	83,283	20,475	179,958
Non-current 2011	-	9,521	-	9,521
	76,200	92,804	20,475	189,479
Current 2010	83,385	67,227	32,702	183,314
Non-current 2010	-	22,665	-	22,665
	83,385	89,892	32,702	205,979

* There are no provisions in the parent entity

Annual Leave Provision

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

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

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

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2011

17 CONTRIBUTED EQUITY AND RESERVES

	CONSOLIDATED	
	2011 $	2010 $
Ordinary shares - Issued and fully paid	45,016,281	45,016,281

	No of Shares	$
Movement in ordinary shares on issue		
At 1 July 2009	117,233,531	43,913,560
Issued for cash on placement	11,597,000	1,159,700
Transaction costs on share issue	-	(56,979)
Issue to former CEO under incentive agreement	850,000	-
At 30 June 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

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

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

	CONSOLIDATED	
	2011 $	2010 $
Accumulated losses		
Movements in accumulated losses were as follows:		
Balance 1 July	(44,405,226)	(42,754,427)
Net profit (loss) for the year	14,405	(1,650,799)
Balance 30 June	(44,390,821)	(44,405,226)

17 CONTRIBUTED EQUITY AND RESERVES (continued)

	CONSOLIDATED	
	2011	*2010*
	$	*$*
Reserves		
Movements in reserves were as follows:		
Employee Equity Benefits Reserve		
Balance 1 July	680,488	590,204
Share based payments	26,573	90,284
Balance 30 June	507,061	680,488
Balance 1 July	8,719	7,830
Foreign currency translation difference	1,474	889
Balance 30 June	10,193	8,719
Total reserves	717,254	689,207

Nature and purpose of reserves

Employee equity benefits reserve
This reserve is used to record the value of equity benefits provided to executives and employees as part of their remuneration. Refer to note 21 for further details of the option plan and 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.

18 PARENT ENTITY INFORMATION

	2011	*2010*
	$	*$*
Information relating to Optiscan Imaging Ltd:		
Current assets	780,590	1,296,090
Total assets	1,883,113	1,790,188
Current liabilities	540,399	17,466
Total liabilities	540,399	489,926
Issued capital	45,041,281	45,016,281
Accumulated losses	(44,380,628)	(44,396,507)
Employee equity benefits reserve	682,061	680,488
Total shareholders' equity	1,342,714	1,300,262
Profit (Loss) of the parent entity	15,879	(6,404,608)
Other comprehensive income of the parent entity	-	-
Total comprehensive income of the parent entity	15,879	(6,404,608)
Parent entity guarantees for debts of subsidiaries	-	-
Contingent liabilities of parent entity	-	-
Contractual commitments of parent entity	-	-

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2011

19 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 2011	% Equity interest 2010	Investment $ 2011	Investment $ 2010
At cost:					
Optiscan Pty Ltd	Australia	100	100	6,605,396	6,605,396
Optiscan Inc	United States	100	100	2,002	2,002
Accumulated impairment				(5,484,875)	(6,113,300)
				1,122,523	494,098

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 $357,070 (2010, $441,527). 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.

20 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 2010

	CONSOLIDATED 2011 $	CONSOLIDATED 2010 $
Short term employee benefits	263,250	518,491
Post Employment benefits	16,088	36,815
Termination payments	-	228,865
Share-based payment	50,000	82,450
	329,338	866,621

 # These are forfeitures for the year
There were no other transactions and balances with Key Management Personnel

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2011

20 KEY MANAGEMENT PERSONNEL (continued)

Option holdings of Key Management Personnel

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

						Vested at 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	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 or exercised during the year ended 30 June 2011.

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

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2011

20 KEY MANAGEMENT PERSONNEL (continued)

Shareholdings of Key Management Personnel

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

30 June 2011	*Balance at beginning of period 01-Jul-10*	*Purchased*	*In lieu of cash remuneration*	*Holding at Date of Appointment / Resignation*	*Balance at end of period 30-Jun-11*
Directors					
A. Holt	7,563,816	339,800	405,259	-	8,308,875
P. Delaney	3,501,349	-	-	-	3,501,349
B. Andrew	90,000	-	-	-	90,000
Total	11,155,165	339,800	405,259	-	11,900,224

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

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

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 2011

21 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 the income statement in relation to share-based payments is disclosed in note 6(d).

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

	No. Options 2011	WAEP 2011	No. Options 2010	WAEP 2010
Outstanding at the beginning of the year	877,075	0.36	1,860,275	0.38
Granted during the year	-	-	-	-
Forfeited during the year	(149,000)	0.37	(811,200)	0.35
Exercised during the year	-	-	-	-
Expired during the year	(366,875)	0.32	(172,000)	0.40
Outstanding at the end of the year	361,200	0.42	877,075	0.37
Exercisable at the end of the year	311,200	0.44	672,010	0.36

The outstanding balance as at 30 June 2011 is represented by:

Options expiring in the year :	No Options	WAEP $
- 2011/2012	211,200	0.50
- 2012/2013	150,000	0.31
	361,200	0.42

The weighted average remaining contractual life for the share options outstanding as at 30 June 2011 is 1 year, 2 months (14 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 2011

SHARE BASED PAYMENT PLANS (continued)

(ii) 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. In July 2011,(after balance date) an allotment of 474,440 shares representing 0.36% of issued capital was made in respect of the June quarter 2011.

22 DERIVATIVES AND HEDGING

Economic hedging activities
At 30 June 2011 and 30 June 2010, there were no currency option contracts or forward exchange contracts in existence.

23 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 2011.

Capital commitments

At 30 June 2011 there were no material capital commitments outstanding (2010: Nil).

Contingent Liabilities

The group has contingent liabilities in relation to bank guarantees on issue at balance date amounting to $45,500 (2010: $48,500).

24 EVENTS AFTER THE BALANCE SHEET DATE

The directors are not aware of any events after balance date that would have a material on the financial statements at 30 June 2011.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2011

25 AUDITORS' REMUNERATION

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

	CONSOLIDATED	
	2011	*2010*
	$	*$*
Amounts received or due and receivable by Ernst & Young (Australia) for:		
• An audit or review of the financial report of the entity and any other entity in the consolidated group	47,202	45,748
• Other services in relation to the entity and any other entity in the consolidated group		
- other advisory services	6,750	-
	53,952	45,748

Directors' Declaration

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

1 In the opinion of the directors:

(a) the financial report, and remuneration report included in the directors' report of the company and of the group are in accordance with the *Corporations Act 2001*, including:

i giving a true and fair view of the company's and group's financial position as at 30 June 2011 and of their performance for the year ended on that date; and

ii complying with Australian Accounting Standards and *Corporations Regulations 2001* and International Financial Reporting Standards (IFRS) as disclosed in note 2(a) of the financial statements; and

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

2 This declaration has been made after receiving the declarations required to be made to the directors in accordance with sections 295A of the *Corporations Act 2001* for the financial year ending 30 June 2011.

On behalf of the Board

BRUCE ANDREW

Director

Melbourne, 30 August 2011

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

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

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 2011, 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(a), 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.

Liability limited by a scheme approved
under Professional Standards Legislation

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 2011 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(a).

Significant Uncertainty Regarding Continuation as a Going Concern

Without qualifying our opinion, we draw attention to Note 2(a) in the financial report which indicates that the consolidated entity incurred a net profit of $14,405 during the year ended 30 June 2011. As outlined in Note 2(a) to the financial statements, in common with other biotechnology companies, the operations of the consolidated entity are subject to considerable risks due primarily to the nature of the product development and commercialisation being undertaken. The Directors cannot be certain of the success of any product development or commercialisation or any fund raising initiatives in the future. As a result of these factors, and unless the initiatives described in Note 2(a) are achieved, there is significant uncertainty whether the consolidated entity will be able to continue as a going concern, and therefore, whether the consolidated entity will be able to realise assets and extinguish its liabilities in the normal course of business at the amounts stated in the financial report. The financial report does not include adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts and classification of liabilities that might be necessary should the consolidated entity not continue as a going concern.

Report on the remuneration report

We have audited the Remuneration Report included in pages 8 to 12 of the directors' report for the year ended 30 June 2011. 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 2011, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Brumley

Don Brumley
Partner
Melbourne
30 August 2011

ASX Additional Information

Additional information required by the Australian Securities Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 27 September 2011.

(a) Distribution of equity securities

130,560,230 fully paid ordinary shares are held by 3,748 individual shareholders. All issued ordinary shares carry one vote per share and carry the rights to dividends.

The number of shareholders,by size of holding, in each class are:

	Total Holders	No of Fully paid ordinary shares
1 – 1,000	833	504,816
1,001 – 5,000	1,268	3,670,814
5,001 – 10,000	486	4,059,792
10,001 – 100,000	976	32,375,454
100,001 – and over	185	89,949,354
	3,748	130,560,230
Holding less than a marketable parcel	2,109	4,215,850

(b) Substantial shareholders

Name	Number	Percentage
Fibre Optics Pty Ltd	8,285,151	6.35
Ibsen Pty Ltd <Narula Family Set No3 A/>	7,165,000	5.49

(c) Twenty largest holders of quoted equity securities

	Ordinary shareholders	Fully Paid Number	Fully Paid Percentage
1.	Fibre Optics Pty Ltd	8,285,151	6.35
2.	Ibsen Pty Ltd <Narula Family Set No3 A/>	7,165,000	5.49
3.	Gralaw Pty Ltd	5,976,000	4.58
4.	Ixohoxi Pty Ltd	4,281,277	3.28
5.	Mr Alfred Winkelmeier & Mrs Christine Winkelmeier <Winkelmeier Super Fund a/c>	3,520,000	2.70
6.	Asahi Optical Company Limited	3,330,000	2.55
7.	Mr Peter Maxwell Delaney	3,231,259	2.47
8.	Dixson Trust Pty Limited	2,776,020	2.13
9.	Mr Angus Matthew Holt	2,651,315	2.03
10.	Eryri Pty Ltd	1,341,000	1.03
11.	Mrs Christine Harris-Nave	1,226,045	0.94
12.	Semblance Pty Ltd <Graeme Mutton Retirement Super Fund>	1,142,634	0.88
13.	Cullymurra Pty Ltd	1,142,482	0.88
14.	Hypatia Analytic Thought Pty Ltd <Hypatria Super Fund A/c>	1,132,500	0.87
15.	Ulsaa Creations Pty Ltd	1,020,026	0.78
16.	Traders Macquarie Pty Ltd	1,019,566	0.78
17.	Mr David Neville Colbran <Trading A/c>	1,000,000	0.77
18.	Mr Chris Graham <Graham Family Super Fund A/c>	850,000	0.65
19.	Laton Holdings Pty Ltd	700,000	0.54
20.	Mr Peter Leonard Druce	651,000	0.50
		52,441,275	40.17