Optiscan Imaging Limited

ABN 81 077 771 987

Annual Financial Report

for the year ended 30 June 2012

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 15. 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

HWL Ebsworth Lawyers
6530 Collins 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 2012.

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 41

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 44

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 58*	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 date of this report are:

Director	**Shares**	**Options**
Angus Holt	13,883,729	1,500,000
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 (2011: 270,090 ordinary shares).

Angus Holt
Related parties to Angus Holt hold a combined total of 10,710,070 ordinary shares (2011: 6,132,000 ordinary shares) and 1,500,000 options (2011: Nil).

Directors' Report (continued)

Directors' Meetings

The company held seven (7) Directors' meetings during the year. The attendances of the directors at meetings of the Board were:

	Board of Directors	
Director	Attended	Held
Angus Holt	7	7
Peter Delaney	7	7
Bruce Andrew	7	7

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.

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 loss of the consolidated entity for the financial year was $2,502,450 (2011, profit 14,405) after income tax.

Directors' Report (continued)

Review of Operations

Operational Highlights

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

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

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

Capital Raising

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

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

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

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

Directors' Report (continued)

Review of Operations (continued)

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

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

Financial Results

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

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

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

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

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

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

Outlook

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

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

Directors' Report (continued)

Dividends

No dividends have been paid or declared since the beginning of the financial year by the Company (2011, 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, other than:

- Convertible notes with a face value of $100,000 have been converted to equity by the holder
- A placement of 13,333,333 shares on 31 August 2012 to raise $1 million for working capital
- Following completion of the placement the parties to the Bergen financing facility reached mutual agreement to terminate the facility

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 22 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. Since the end of the financial year, and up to the date of this report, no new options have been issued, and no options have expired. The total number of options outstanding at the date of this report is 7,050,000.

Indemnification and Insurance

During the financial year ended 30 June 2012, 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 2012. 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 2011/2012.

The remuneration of directors for the years ended 30 June 2012 and 30 June 2011 is detailed in Table 1 and Table 2 on page 14 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. Thereafter, remuneration reverted to cash.

The fixed remuneration component of executives for the years ended 30 June 2012 and 30 June 2011 is detailed in Table 1 and Table 2 on page 14 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 2011/2012.

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 2011/2012
The board suspended LTI arrangements during 2009/2010 due to the difficult economic circumstances confronting the Group. No LTI entitlements were granted and no issues were made to staff during 2011/2012.

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 Board of Directors has determined that the performance of the group is best reviewed in the context of achievement of key milestones.

Incentive Payments and Performance Conditions 2011/2012

During the year ended 30 June 2012, 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 2012

	Short-Term			Long Term	Post Employment	Total	Total Performance Related
30 June 2012	*Salary & fees*	*Directors fees and expenses $*	*Share based payments $*	*Long Service Leave*	*Superannuation $*	*$*	*%*
Directors							
A. Holt	6,250	^^105,755	40,619++	330	4,163	157,117	-
P. Delaney	103,500	40,000	-	-	3,600	147,100	-
B. Andrew	52,500	40,000	-	330	8,325	101,155	-
	162,250	185,755	40,619	660	16,088	405,372	-

^^ Comprises directors fees of $40,000 and the reimbursement of travel and office expenses of $65,755.

++ Shareholders approved a share based payment arrangement in lieu of cash remuneration at the AGM in November 2010.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 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 2010.The fair value of the shares granted is equal to the cash remuneration foregone.

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 22 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 2012 and 30 June 2011.

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:

R&D tax services	$9,900

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 2012, 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

Joanne Lonergan
Partner
31 August 2012

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

BRUCE ANDREW, Director
Melbourne, 31 August, 2012

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	3.5 years
Peter M Delaney	Executive	15 years
Bruce R Andrew	Executive	2.5 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 the minimum level of three as part of the overall downsizing of Optiscan that followed the global financial crisis. 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, skills, diversity 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 2009, there is no Nomination Committee or 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 2012

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

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

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2012

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

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

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2012

	CONSOLIDATED				
	Ordinary shares $	*Accumulated Losses* $	*Share Based Payments* $	*Foreign Currency Translation Reserve* $	$
At 1 July 2011	45,016,281	(44,390,821)	707,061	10,193	1,342,714
Loss for the year	-	(2,502,450)	-	-	(2,502,450)
Other comprehensive income	-	-	-	60	60
Total comprehensive income (loss) for the year	-	(2,502,450)	-	60	(2,502,390)
Transactions with owners in their capacity as owners:					
Shares issued on conversion of notes	629,298	-	-	-	629,298
Equity component of convertible notes	65,088	-	-	-	65,0886
Share based payments	-	-	778,600	-	778,600
At 30 June 2012	45,710,667	(46,893,271)	1,485,661	10,253	313,310
At 1 July 2010	45,016,281	(44,405,226)	680,488	8,719	1,300,262
Profit for the year	-	14,405	-	-	14,405
Other comprehensive income	-	-	-	1,474	1,474
Total comprehensive income for the year	-	14,405	-	1,474	15,879
Transactions with owners in their capacity as owners:					
Share based payments	-	-	26,573	-	26,573
At 30 June 2011	45,016,281	(44,390,821)	707,061	10,193	1,342,714

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

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2012

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

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

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

1 CORPORATE INFORMATION

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Optiscan Imaging Limited is, for the purposes of preparing these financial statements, a for-profit entity.

Compliance with IFRS

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

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

a) Basis of preparation (continued)

Going Concern (Significant Uncertainty as at 30 June 2012)

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

As at 30 June 2012, the financial position of the consolidated entity as disclosed in the financial statements reflects a net asset position of $313,310 (2011: $1,342,714). This balance has been determined after a consolidated net loss for the year of $2,502,450 (2011: profit $14,405), and a net cash outflow from operations of $793,545 (2011: $468,579).

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

- Cash on hand at 30 June 2012 is $578,900 (2011: $1,078,694)
- Additional cashflow is expected to be received in the 2013 financial year under the agreement with Carl Zeiss
- The Company has established a $2 million convertible note funding facility
- The directors believe the Company has the ability to raise additional capital from existing and new investors
- The Company has a successful track record in raising capital to fund its operations
- The Company may have the ability to raise additional income, or accelerate forecast cash flows if required

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New accounting standards and interpretations

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

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

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2011-9	Amendments to Australian Accounting Standards – Presentation of Other Comprehensive Income	This Standard requires entities to group items presented in other comprehensive income on the basis of whether they might be reclassified subsequently to profit or loss and those that will not.	1 July 2012	The Group has considered the impact of this amendment and determined that there will be no impact on the Group's financial report	1 July 2012
AASB 10	Consolidated Financial Statements	AASB 10 establishes a new control model that applies to all entities. **It replaces parts of** AASB 127 *Consolidated and Separate Financial Statements* dealing with the accounting for consolidated financial statements and UIG-112 *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. Consequential amendments were also made to other standards via AASB 2011-7.	1 January 2013	The Group has not yet considered the impact of the standard on its financial report	1 July 2013

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New accounting standards and interpretations

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New accounting standards and interpretations

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New accounting standards and interpretations

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

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
Annual Improvements 2009–2011 Cycle ****	Annual Improvements to IFRSs 2009–2011 Cycle	This standard sets out amendments to International Financial Reporting Standards (IFRSs) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB. The following items are addressed by this standard: IFRS 1 First-time Adoption of International Financial Reporting Standards • Repeated application of IFRS 1 • Borrowing costs IAS 1 Presentation of Financial Statements • Clarification of the requirements for comparative information IAS 16 Property, Plant and Equipment • Classification of servicing equipment IAS 32 Financial Instruments: Presentation • Tax effect of distribution to holders of equity instruments IAS 34 Interim Financial Reporting • Interim financial reporting and segment information for total assets and liabilities	1 January 2013	The Group has not yet considered the impact of the standard on its financial report	1 July 2013
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	This Amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies.	1 July 2013	The Group has not yet considered the impact of the standard on its financial report	1 July 2013

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New accounting standards and interpretations

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New accounting standards and interpretations

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

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2012-4	Amendments to Australian Accounting Standards – Government Loans	AASB 2012-4 adds an exception to the retrospective application of Australian Accounting Standards under AASB 1 First-time Adoption of Australian Accounting Standards to require that first-time adopters apply the requirements in AASB 139 Financial Instruments: Recognition and Measurement (or AASB 9 Financial Instruments) and AASB 120 Accounting for Government Grants and Disclosure of Government Assistance prospectively to government loans (including those at a below-market rate of interest) existing at the date of transition to Australian Accounting Standards.	1 January 2013	The Group has not yet considered the impact of the standard on its financial report	1 July 2013
AASB 2012-5	Amendments to Australian Accounting Standards arising from Annual Improvements 2009–2011 Cycle; and	AASB 2012-5 makes amendments resulting from the 2009-2011 Annual Improvements Cycle. The Standard addresses a range of improvements, including the following: • repeat application of AASB 1 is permitted (AASB 1); and • clarification of the comparative information requirements when an entity provides a third balance sheet (AASB 101 Presentation of Financial Statements).	1 January 2013	The Group has not yet considered the impact of the standard on its financial report	1 July 2013
AASB 2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities;	AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of “currently has a legally enforceable right of set-off” and that some gross settlement systems may be considered equivalent to net settlement.	1 January 2014	The Group has not yet considered the impact of the standard on its financial report	1 July 2015

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) New accounting standards and interpretations

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

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below. (a) Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. (b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. (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. (d) Where the fair value option is used for financial liabilities the change in fair value is to be 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 If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10.	1 January 2015***	The Group has not yet considered the impact of the standard on its financial report	1 July 2015

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Basis of consolidation

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

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

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

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

d) Revenue recognition

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

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

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

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

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

e) Government grants

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Leases

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

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

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

g) Cash and cash equivalents

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

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

h) Trade and other receivables

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

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

i) Inventories

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Derivative financial instruments and hedging

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

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

k) Foreign currency translation

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

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

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

l) Income tax

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

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

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

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Income tax (continued)

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

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

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

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

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

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

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

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

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

m) Other taxes

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Other taxes (continued)

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

n) Plant and equipment

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

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

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 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Intangible assets (continued)

Research and development costs

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

q) Trade and other payables

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

r) Interest bearing loans and borrowings

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

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

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

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

s) Provisions and employee leave benefits

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s) Provisions and employee benefits (continued)

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

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

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

t) Share-based payment transactions

(i) *Equity settled transactions with employees*

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

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Share-based payment transactions (continued)

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

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

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

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

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

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

u) Contributed equity

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

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

v) Earnings (Loss) per share

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

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

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

w) Segment reporting

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

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

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

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

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

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

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

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk Exposures and Responses

Interest rate risk

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

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

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

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

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

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

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

Interest rates were generally stable during 2011/2012, with official rates moving shifting downwards. The global economic outlook remained subdued, with sentiment biased toward downward movement in rates rather than further upward pressure. On this basis, a possible movement in rates from +0.25% to -0.75% has been adopted as a reasonably possible movement in rates. The movements in net profit are due to higher and lower amounts of interest received from interest bearing cash balances. There is no movement in other comprehensive income as there are no derivative instruments designated as cash flow hedges.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

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

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

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

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

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

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

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

There is no currency exposure in the parent entity

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

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

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

Liquidity risk and capital management

The Group's objective is to maintain adequate funding of its activities. Prior to May 2009, all capital financing has been derived from issues of equity. In May 2009, and in March 2012, the Group issued convertible notes, introducing debt finance to the funding mix. Capital management is a process of monitoring cash reserves and forecast cash requirements, and there are no externally imposed capital requirements.

The table below reflects all contractually fixed pay-offs and receivables for settlement from recognised financial assets and liabilities, as of 30 June 2012. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2012.

	Consolidated		
	<6 months	1-5 years	Total
Year ended 30 June 2012			
Liquid financial assets			
Cash and cash equivalents	578,900	-	578,900
Trade and other receivables	162,687	-	162,687
Financial liabilities			
Trade and other payables	266,490	-	266,490
Convertible notes	300,000	-	300,000
Net maturity	175,097	-	175,097
Year ended 30 June 2011			
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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk and capital management (continued)

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

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

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

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

Fair value

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

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

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

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

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (cont)

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

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

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

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

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

5 SEGMENT INFORMATION

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

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

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

Major customers

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

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

5 SEGMENT INFORMATION (continued)

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

5 SEGMENT INFORMATION (continued)

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

6 REVENUES AND EXPENSES

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

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

7 INCOME TAX

	CONSOLIDATED	
	2012 *$*	*2011* *$*
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	-	-
Deferred income tax		
Relating to origination and reversal of temporary differences	-	-
Income tax (expense) benefit reported in the income statement	-	-

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

Withholding tax
A total of $52,288, (2011, $338,020) has been deducted from remittances of royalties to the group in accordance with the withholding tax obligations of the payers. These deductions represent foreign tax credits which may be available to reduce Australian income tax payable in future years. The ability to be able to recognise a deferred tax asset in respect of these tax losses will be dependent upon the extent it is probable that future taxable profit will be available against which the unused tax losses can be utilised and the conditions for deductibility imposed by Australian tax authorities will be complied with.

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

7 INCOME TAX (continued)

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

	Statement of financial position 2012 $	2011 $	Statement of comprehensive income 2012 $	2011 $
Deferred income tax - not brought to account Deferred income tax at 30 June relates to the following items and has not been brought to account (Refer note 2(l):				
CONSOLIDATED				
Deferred tax assets				
Undeducted patent costs	175,514	166,763	8,752	27,745
Employee benefit & warranty provisions	56,331	56,844	(513)	(4,950)
Expenses not yet deductible	9.888	21,416	(11,528)	(10,701)
Inventory impairment provision	424,683	380,184	44,499	40,349
Deferred deductible equity issue costs	8,238	11,136	(2,898)	(8,216)
Tax Losses available	12,025,980	11,798,785	227,195	(243,013)
Foreign tax credits	52,288	338,020	-	-
Gross deferred income tax assets	12,752,922	12,773,148		
Less amounts not recognised in accounts	(12,752,922)	(12,773,148)		
Gross deferred income tax assets	-	-		
Deferred tax income/ (expense) incurred			265,507	(198,786)
Less deferred income tax not recognised in accounts			(265,507)	(198,736)
Deferred tax income/ (expense)			-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

8 EARNINGS (LOSS) PER SHARE

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

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

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

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

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

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

9 CASH AND CASH EQUIVALENTS

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

Reconciliation to Statement of Cash Flows

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

	CONSOLIDATED	
	2012 *$*	*2011* *$*
Cash at bank and in hand	578,900	878,069
Short-term deposits	-	200,625
	578,900	1,078,694

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

Disclosure of financing facilities - Refer to note 16.

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

10 TRADE AND OTHER RECEIVABLES

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

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

<u>Ageing Analysis of Receivables</u>

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

* Past due not impaired (“PDNI”)

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

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

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

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

11 INVENTORIES

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

12 PREPAYMENTS

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

13 PLANT AND EQUIPMENT

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

13 PLANT AND EQUIPMENT (continued)

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

14 TRADE AND OTHER PAYABLES

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

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

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

15 INTEREST BEARING LOANS AND BORROWINGS

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

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

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

(c) Assets pledged as security
The amounts payable under the convertible notes deed are secured by a charge over the assets of Optiscan Pty Ltd.

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

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

16 FINANCING FACILITIES

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

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

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

17 PROVISIONS

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

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

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

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

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

18 CONTRIBUTED EQUITY AND RESERVES

	CONSOLIDATED	
	2012 *$*	*2011* *$*
Ordinary shares - Issued and fully paid	45,710,667	45,016,281

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

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

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

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

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

18 CONTRIBUTED EQUITY AND RESERVES (continued)

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

Nature and purpose of reserves

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

19 PARENT ENTITY INFORMATION

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

20 RELATED PARTY DISCLOSURE

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

		% Equity interest		*Investment $*	
Name	*Country of incorporation*	*2012*	*2011*	*2012*	*2011*
At cost:					
Optiscan Pty Ltd	Australia	100	100	6,605,396	6,605,396
Optiscan Inc	United States	100	100	2,002	2,002
Accumulated impairment				(6,328,116)	(5,484,875)
				279,282	1,122,523

Optiscan Imaging Limited is the ultimate Australian parent entity.

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

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

21 KEY MANAGEMENT PERSONNEL

Details of Key Management Personnel

(i) Board of Directors

Executive Directors

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

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

Compensation of Key Management Personnel

Table 1: Compensation of Key Management Personnel for the year ended 30 June 2012

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

There were no other transactions and balances with Key Management Personnel

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

21 KEY MANAGEMENT PERSONNEL (continued)

Option holdings of Key Management Personnel

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

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

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

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

						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 to, or exercised by key management personnel during the year ended 30 June 2011.

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

21 KEY MANAGEMENT PERSONNEL (continued)

Shareholdings of Key Management Personnel

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

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

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

30 June 2011	*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					
-direct	1,431,816	339,800	405,259	-	2,176,875
-indirect	6,247,375	-	-	-	6,247,375
P. Delaney					
-direct	3,231,259	-	-	-	3,231,259
-indirect	270,090	-	-	-	270,090
B. Andrew					
-indirect	90,000	-	-	-	90,000
Total	11,270,540	339,800	405,259	-	12,015,599

All equity transactions with Key Management Personnel other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

22 SHARE-BASED PAYMENT PLANS

Types of share based payments

(i) Employee Share Option Plan

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

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

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

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

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

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

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

The weighted average remaining contractual life for the share options outstanding as at 30 June 2012 is 6 months. No options were granted during the year. The fair value of the equity-settled share options granted under the option plan is estimated as at the date of grant using a Black Scholes valuation model taking into account the terms and conditions upon which the options were granted.

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2012

22 SHARE BASED PAYMENT PLANS (continued)

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

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

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

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

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

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

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

Options issued to parties other than employees	No. Options 2012	WAEP 2012	No. Options 2011	WAEP 2011
Outstanding at the beginning of the year	-		-	-
Granted during the year	6,900,000	0.118	-	-
Exercised during the year	-	-	-	-
Outstanding at the end of the year	6,900,000	0.118	-	-
Exercisable at the end of the year	6,900,000	0.118	-	-

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

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

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

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

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

22 SHARE BASED PAYMENT PLANS (continued)

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

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

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

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

(iii) Issue of shares in lieu of cash remuneration

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

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

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

23 DERIVATIVES AND HEDGING

Economic hedging activities
At 30 June 2012 and 30 June 2011, there were no currency option contracts or forward exchange contracts in existence.

24 COMMITMENTS AND CONTINGENCIES

Operating lease commitments – Group as lessee

The previous property lease over the premises occupied by the Group expired in September 2007. The Group currently occupies the premises on a monthly tenancy. There are no future minimum rentals payable under non-cancellable operating leases as at 30 June 2012.

Capital commitments

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

Contingent Liabilities

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

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

25 EVENTS AFTER THE BALANCE SHEET DATE

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

26 AUDITORS' REMUNERATION

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

	CONSOLIDATED	
	2012	*2011*
	$	*$*
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	57,618	47,202
• Other services in relation to the entity and any other entity in the consolidated group		
- R&D tax services	9,900	6,750
	67,518	53,952

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 2012 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 ended 30 June 2012.

On behalf of the Board

BRUCE ANDREW

Director

Melbourne, 31 August 2012

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 2012, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

ERNST & YOUNG

Opinion

In our opinion:

a. the financial report of Optiscan Imaging Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Material uncertainty regarding continuation as a going concern

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

Report on the remuneration report

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

Opinion

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

Ernst + Young

Ernst & Young

J Lonergan

Joanne Lonergan
Partner
Melbourne
31 August 2012

Patent Information

Summary of Key Optiscan Patents

Patent Title	Countries Applied	Countries Granted	Expiry Date
Scanning Microscope with Miniature Head	Germany 19882512.9	UK 2340332 USA 6967772	15 Jul 2018 16 Jul 2018
Compact Confocal Endoscope and Endomicroscope	Germany 19940421.6 USA 11/142449	UK 2341943	25 Aug 2019
Electrically Operated Tuning Fork		Australia 759742 USA 7010978 France 1192497 UK 1192497 Italy 1192497 Germany 60040223.1 Japan 4171597	8 Jun 2020
Z Sharpening for Fibre Confocal Microscope		UK 2363025 USA 6567585	3 Apr 2021
Objective Lens Unit – For Endoscope		USA 7695431	
Scanning Method & Apparatus	Germany 10393608.4 Japan P2004-547279	UK 2411071 USA 7123790 Japan 4718184	29 Oct 2023
Light Scanning Device *	Germany 103924426	USA 7248390	10 Jun 2023
Condensing Optical System, Confocal Optical System and Scanning Type Confocal System *	USA 2005/0052753	Japan 4475912	17 Oct 2023
Laser Scanning Confocal Microscope with Fibre Bundle Return		USA 7330305	15 Jan 2024
Method & Apparatus for Providing Depth Control for Z Actuation *	Germany 102004018110.1 Japan P2004-118579	USA 7294102	13 Apr 2024
Tuning Fork-Type Scanning Apparatus with a Counterweight	Germany 11200500322.2	USA 7532375	23 Sep 2025
Optical Fibre Scanning Apparatus	Japan 2007-238297 Hong Kong 11108509.4	USA 7920312	17 Nov 2028
Fibre Bundle Confocal Endomicroscope	USA 11/795421 Germany 06704775.3		20 Jan 2026
Optical Connector *	Germany 102004024396.4	USA 7401984 Japan 4603816	23 Mar 2026 14 May 2024
Objective Lens Unit *	Japan 4320184 Germany 05804562.6	USA 7695431	13 April 2024
Confocal Optical Systems *	Japan P2003-314204 Japan P2003-357896 Germany 102004043049.7	USA 7338439	11 Feb 2030
Actuation Control Switch *	Japan P2005-182150 USA 60/462324		
Endoscope	USA 11/753506 Germany 05804562.6 Japan 2007-541585		
Endoscope *	Japan 2007-541585 USA 11/753506 Germany 102004006541.1		24 Nov 2025
Scanning Apparatus	PCT/AU20050/01466		

* Indicates patents that have been filed in the joint names of Optiscan Pty Ltd and Pentax Corporation. Patent applications that are in earlier stages of filing or where the specifications have not been published have not been included in the above list.

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 25 September 2012.

(a) Distribution of equity securities

158,913,815 fully paid ordinary shares are held by 3,608 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	823	496,051
1,001 – 5,000	1,229	3,548,936
5,001 – 10,000	446	3,723,201
10,001 – 100,000	912	30,896,581
100,001 – and over	198	120,249,046
	3,608	158,913,815
Holding less than a marketable parcel	1,871	3,139,987

(b) Substantial shareholders

Name	Number	Percentage
Ibsen Pty Ltd <Narula Family Set No3 A/>	9,626,667	6.06
Circadian Technologies Limited	8,285,151	5.21

(c) Twenty largest holders of quoted equity securities

	Ordinary shareholders	Fully Paid Number	Fully Paid Percentage
1.	Ibsen Pty Ltd <Narula Family Set No3 A/>	9,626,667	6.06
2.	Circadian Technologies Limited	8,285,151	5.21
3.	CGS Holdings Pty Ltd	7,000,000	4.40
4.	Gralaw Pty Ltd	5,976,000	3.76
5.	Dixson Trust Pty Limited	4,476,020	2.82
6.	Ixohoxi Pty Ltd	4,081,277	2.57
7.	Mr Alfred Winkelmeier & Mrs Christine Winkelmeier <Winkelmeier Super Fund a/c>	3,600,000	2.27
8.	Carlisle Lavelle Pty Ltd	3,442,695	2.17
9.	Asahi Optical Company Limited	3,330,000	2.10
10.	Mr Peter Maxwell Delaney	3,231,259	2.03
11.	Mr Angus Matthew Holt	3,173,659	2.00
12.	Harech Pty Ltd <Porter Super Fund A/c>	2,233,334	1.41
13.	Semblance Pty Ltd <Graeme Mutton Retirement Super Fund>	2,000,000	1.26
14.	Mr Vaughan Corps	1,750,571	1.10
15.	Mr Chris Graham <Graham Family Super Fund A/c>	1,700,000	1.07
16.	Syngene Ltd	1,640,438	1.03
17.	Portorose Pty Ltd <R J Porter Family Fund A/c>	1,600,000	1.01
18.	Eryri Pty Ltd	1,341,000	0.84
19.	Project Management Pty Ltd <D&K Corps Family S/F A/c>	1,260,000	0.79
20.	Cullymurra Pty Ltd	1,142,482	0.72
		70,890,553	44.61