OPTISCAN IMAGING LIMITED

ABN : 81 077 771 987

APPENDIX 4D

Report for the Half Year ended

31 December 2007

Previous corresponding period : Half year ended 31 December 2006

This half year report is to be read in conjunction with the company's 2007 annual report

CONTENTS

1. Results for announcement to the market

The results of Optiscan Imaging Limited for the half year ended 31 December 2007 are as follows:

Results

- Total revenues from ordinary activities down 51% to $2,687,775. An analysis of movement in revenues is detailed under Item 2 below.
- Loss from ordinary activities after tax attributable to members $1,952,148, (2006, profit $102,008).
- Net loss after tax attributable to members $1,952,148, (2006, profit $102,008).

Dividends

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

2. Commentary on result

The results for the half year to 31 December 2007 are below our expectations after the strong start to the financial year. In July, Optiscan made a significant commercial advance, with Pentax committing to a second generation instrument for flexible endoscopy.

We also reached an agreement with Carl Zeiss for our first collaborative development in rigid endoscopy.

Pentax

In August, Pentax advised that the sales outlook for the ISC-1000 was softening, and it now seems that Pentax are holding sufficient inventory to make it unlikely there would be any further ISC-1000 sales in 2007/2008.

There has however been a sustained demand for scanners and we expect that orders will continue at current levels for the remainder of the fiscal year.

There is no doubt in our view that the current takeover of Pentax by HOYA Corporation of Japan has significantly distracted Pentax focus and marketing effort.

Optiscan has had several meetings with Pentax and more recently with Hoya. Hoya have advised that they are taking action to address our concerns and there are further negotiations underway with regard to restructuring the ongoing relationship.

Optiscan FIVE 1

We have made very strong progress with the Optiscan FIVE 1 research confocal microscope during the half year to December. This instrument was designed to service niche research applications and it has performed beyond expectations. A number of orders were received for sales in Asia and USA, and distributors have been appointed in China, Taiwan, Korea, Japan and Europe. In addition, we attended selected international exhibitions and conventions, and extensively promoted the instrument into its target market. We have a large number of sales leads and enquiries, and are confident of converting many of these into firm orders.

New Business Developments

The development collaboration with Carl Zeiss has made significant progress since its inception in July. The project committee has completed extensive planning and analysis of the design parameters of a prototype instrument. The first clinical trials are now being prepared and are expected to be completed over the next few months. We expect to report in more detail at the conclusion of these initial trials. In the interim, we are maintaining commercial confidentiality at the request of Zeiss.

Management

Vicki Tutungi commenced employment with Optiscan as the CEO on 4 February 2008

Vicki has had an outstanding career with CSIRO, most recently as Director of the Niche Manufacturing Flagship, where she was responsible for the investment of more than $36 million in research directed to assist the Australian Manufacturing Industry. Prior to this role, Vicki was Chief of CSIRO's division of Manufacturing and Materials Technology, a $50 million CSIRO business unit. Vicki has commercialised a number of technologies, and has been involved in establishing spin-off companies and negotiating multi-million dollar licensing and sale agreements.

Financial Results

Optiscan recorded a net loss after tax of $1,952,148 with total revenue for the half year down on last year.

The main factors were the decline in orders from Pentax in the current half year, and the effect of the large infringement settlement last year included in revenue last year. The declines were offset by increases from FIVE 1 sales, and revenue from development activities.

The net loss after tax of $1,952,148, is a turnaround from the previous corresponding period, and is largely attributable to the effect of the infringement settlements last year. The result for the previous corresponding period, excluding this item, is a loss of $1,974,959, which was 16.5% lower than the current period loss.

Outlook for 2008

Pentax sales on the ISC-1000 will remain soft until the inventory build is reduced, while scanner sales are expected to continue at current levels. Pentax is committed to the technology as evidenced by their financial support for development of the Generation 2 system. We are confident that HOYA's highly regarded marketing and management skills will result in a renewed drive to place confocal at the forefront of the Pentax Life Care business.

We continue to generate income from R&D activities and this will continue to underpin activities as sales revenue builds.

Animal studies completed with Zeiss in December exceeded expectations and consolidated the decision by both parties to fast track the release of first product

3. Brief explanation of financial results

Revenues

Total revenue for the half year was $2,687,775, down 51% on last year. The main factors were the effect of the large infringement settlement last year, and the decline in orders from Pentax in the current half year. The declines were offset by increases from FIVE 1 sales, and revenue from development activities.

A detailed analysis is as follows:

		2007	2006
		$	$
Sales revenue - Pentax	Down	526,463	2,500,745
Sales revenue – FIVE 1	Up	177,532	-
Recurring royalty revenue	Down	175,025	182,695
Patent infringement income	Down	383,022	2,076,957
Revenues from Zeiss and Pentax for design and development activities	Up	738,488	-
Other income from grants and interest	Down	675,196	681,104
Other revenue	Up	12,049	8,330
		2,687,775	5,449,831

Sales revenue from Pentax declined because there has been a reduction in the sales rate following initial product release in 2006. Pentax have advised they have an inventory build that needs to be cleared before additional orders are placed on Optiscan. The reported sales relate to supply of miniaturised scanners which are not subject to the same slowing of demand as is the case with the ISC-1000 control units.

The patent infringement revenue relates to settlement of claims for back royalties from licensees. In the previous corresponding period, there was a significant once off settlement, and although a smaller matter was concluded in the current period, there is a large reported decrease in revenue from this source.

The evolving nature of Optiscan's business model has given rise to two new sources of revenue in recent times. The FIVE 1 product is a confocal microscope designed for the research market, and additional sales of this instrument were achieved during the reporting period. In addition, as the company engages in the development of new products with its collaboration partners, it is deriving revenue from the provision of design and development activities performed on their behalf. In the current period, revenue has been received from both Pentax and Carl Zeiss in accordance with our collaborative development agreements.

Other revenues from recurring royalties, grants and interest have been generally steady and in line with the previous corresponding period.

Results

The net loss after tax of $1,952,148, is a significant turnaround from the previous corresponding period, and is largely attributable to the effect of the once off infringement settlements. The result for the previous corresponding period, excluding this item is a loss of $1,974,959, in line with the current period result.

An analysis of the result compared to the previous period is as follows:

	2007	2006
	$	$
Net profit (loss) before tax	(1,909,679)	162,791
Infringement receipts	383,022	2,076,957
Pre tax result excluding infringement receipts	(2,292,701)	(1,914,166)
Being:		
Gross margin	(51,746)	711,020
Expenses	(3,829,664)	(3,488,985)
Other revenues	1,588,709	863,799
Pre tax result excluding infringement receipts	(2,292,701)	(1,914,166)

Margins reduced in line with the lower level of sales to Pentax. Expenses increased with additional staff required for design and development activities, as well as some costs associated with market research on new product initiatives. Other revenues increased due to the design and development revenues discussed above.

Income tax of $42,469 represents the write off of withholding tax deductions (2006, $60,783).

4. Other information to be included in Appendix 4D

Net Tangible Assets per ordinary Security
Net tangible assets per ordinary security at 31 December 2007 amount to $0.06 (2006, $0.08).

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

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

5. Financial information

Financial information is set out on pages 6 to 24 of this report.

Bruce Andrew
Company Secretary

28 February 2008

Optiscan Imaging Limited

ABN 81 077 771 987

Interim Condensed Financial Report

for the half year ending 31 December 2007

Contents

Corporate Information

ABN 81 077 771 987

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

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

Directors

G. F. Latta (Chairman)
V. L. Tutungi
K.P. Daniel
P. M. Delaney
A. W. Rogers

Company Secretary

B.R. Andrew

Registered office

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Notting Hill Vic 3168
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452 Johnston Street
Abbotsford Vic 3067
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T 61 3 9415 5000

Solicitors

Lander & Rogers
600 Bourke Street
Melbourne VIC 3000

Auditors

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000

Bankers

ANZ Banking Group
National Australia Bank

Directors' Report

The Board of Directors of Optiscan Imaging Limited has pleasure in submitting its report in respect of the half year ended 31 December 2007.

Directors

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

Mr Grant Latta, Chairman
Mr Matthew Barnett, Chief Executive Officer (Resigned 31 December 2007)
Ms Vicki Tutungi, Chief Executive Officer (Appointed 12 February 2008)
Mr Keith Daniel, Non-executive Director
Mr Peter Delaney, Director of Technology
Mr Antony Rogers, Non-executive Director

Review of Operations

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Animal studies completed with Zeiss in December exceeded expectations and consolidated the decision by both parties to fast track the release of first product

Auditor independence and non-audit services

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

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

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

In relation to our review of the financial report of Optiscan Imaging Limited for the half-year ended 31 December 2007, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Don Brumley
Partner
Melbourne
28 February 2008

Liability limited by a scheme approved under Professional Standards Legislation.

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

Vicki Tutungi

Director

Melbourne
28 February, 2008

Income Statement
FOR THE HALF YEAR ENDED 31 DECEMBER 2007

	Note	*CONSOLIDATED*	
		2007 *$*	*2006* *$*
Continuing operations			
Sale of goods		701,568	2,482,707
Rendering of services		14,476	26,368
Royalty revenue	4(a)	558,047	2,259,652
Revenue		1,274,091	4,768,727
Cost of sales		(767,790)	(1,798,055)
Gross Profit		506,301	2,970,672
Other income	4(b)	1,413,684	681,104
Administrative expenses		(1,703,526)	(1,588,696)
Research & development expenses		(1,786,355)	(1,668,100)
Marketing expenses		(278,534)	(219,509)
Other expenses		(61,249)	(12,680)
(Loss) Profit before income tax		(1,909,679)	162,791
Income tax expense	5	(42,469)	(60,783)
(Loss) Profit attributable to members of the parent		(1,952,148)	102,008
Profit (Loss) per share (cents per share)			
- basic profit (loss) per share for the year attributable to ordinary equity holders of the parent		(0.19)	0.01
- diluted profit (loss) per share for the year attributable to ordinary equity holders of the parent		(0.19)	0.01

Balance Sheet
AS AT 31 DECEMBER 2007

	Note	*CONSOLIDATED* *December 2007* *$*	*June 2007* *$*
ASSETS			
Current Assets			
Cash and cash equivalents	6	4,562,799	5,936,573
Trade and other receivables		560,152	1,588,094
Inventories		1,592,942	1,358,327
Prepayments		124,907	44,754
Derivatives		-	2,874
Total Current Assets		6,840,800	8,930,622
Non-current Assets			
Plant and equipment		708,000	615,594
Intangible assets - Software		61,129	76,621
Goodwill		1,981,467	1,981,467
Total Non-current Assets		2,750,596	2,673,682
TOTAL ASSETS		9,591,396	11,604,304
LIABILITIES			
Current Liabilities			
Trade and other payables		510,150	758,108
Provisions		746,571	820,916
Total Current Liabilities		1,256,721	1,579,024
Non-current Liabilities			
Provisions		181,202	92,113
Total Non-current Liabilities		181,202	92,113
TOTAL LIABILITIES		1,437,923	1,671,137
NET ASSETS		8,153,473	9,933,167
EQUITY			
Equity attributable to equity holders of the parent			
Contributed equity	7	40,886,444	40,773,321
Retained earnings		(33,308,865)	(31,356,717)
Reserves		575,894	516,563
TOTAL EQUITY		8,153,473	9,933,167

Statement of Changes in Equity
FOR THE HALF YEAR ENDED 31 DECEMBER 2007

	Ordinary Shares $	Accumulated Losses $	Employee Equity Benefits Reserve $	Total $
Half Year Ended 31 December 2007				
At 1 July 2007	40,773,321	(31,356,717)	516,563	9,933,167
Issue of shares pursuant to exercise of employee options	113,123	-	-	113,123
Loss for half year	-	(1,952,148)	-	(1,952,148)
Share based payment	-	-	59,331	59,331
At 31 December 2007	40,886,444	(33,308,865)	575,894	8,153,473
Half Year Ended 31 December 2006				
At 1 July 2006	39,142,650	(29,217,236)	388,080	10,313,494
Issue of shares pursuant to exercise of employee options	3,900	-	-	3,900
Profit for half year	-	102,008	-	102,008
Share based payment	-	-	86,536	86,536
At 31 December 2006	39,146,550	(29,115,228)	474,616	10,505,938

Cash Flow Statement
FOR THE HALF YEAR ENDED 31 DECEMBER 2007

	Note	*CONSOLIDATED*	
		2007	*2006*
		$	*$*
Cash flows from (used in) operating activities			
Receipts from customers (inclusive of GST)		2,645,182	2,516,776
Payments to suppliers and employees (inclusive of GST)		(4,829,362)	(5,667,313)
Royalties received		487,690	1,578,009
Interest received		184,492	176,198
Income tax paid		(42,469)	(60,783)
Receipt of government grants		379,093	204,512
Net cash flows from (used in) operating activities	6	(1,175,374)	(1,252,601)
Cash flows from investing activities			
Purchase of plant and equipment		(273,703)	(363,942)
Purchase of intangible assets - software		(5,850)	(17,366)
Net cash flows (used in) investing activities		(279,553)	(381,308)
Cash flows from financing activities			
Proceeds from issue of shares	7	113,123	3,900
Net cash flows from (used in) financing activities		113,123	3,900
Net increase (decrease) in cash and cash equivalents		(1,341,804)	(1,630,009)
Net foreign exchange differences		(31,970)	(61,558)
Cash and cash equivalents at beginning of period		5,936,573	6,651,382
Cash and cash equivalents at end of period	6	4,562,799	4,959,815

Notes to the Financial Statements
FOR THE HALF YEAR ENDED 31 DECEMBER 2007

1 CORPORATE INFORMATION

The financial report of Optiscan Imaging Limited (the Company) for the half year ended 31 December 2007 was authorised for issue in accordance with a resolution of the directors on 28 February 2008.

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 3.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The half-year financial report should be read in conjunction with the annual Financial Report of Optiscan Imaging Limited as at 30 June 2007.

It is also recommended that the half-year financial report be considered together with any public announcements made by Optiscan Imaging Limited and its controlled entities during the half-year ended 31 December 2007 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

a) Basis of preparation

The half-year condensed financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, AASB 134 Interim Financial Reporting and other mandatory professional reporting requirements. The half-year condensed financial report has been prepared on a historical cost basis. The financial report is presented in Australian dollars, and for the purpose of preparing the half-year financial report, the half-year has been treated as a discrete reporting period.

b) Significant Accounting Policies

The half-year consolidated financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2007.

c) Basis of consolidation

The half-year consolidated financial statements comprise the financial statements of Optiscan Imaging Limited and its subsidiaries as at 31 December 2007 ('the Group').

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2007

3 SEGMENT INFORMATION

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.

The Group's primary segment reporting format is business segments. The group does not operate in multiple geographic segments, as all activities are conducted in Australia.

Business segments

The following table presents revenue and profit/(loss) information for business segments for the half years ended 31 December 2007 and 31 December 2006

		Trading	*R&D*	*Unallocated*	*Total*
		2007 *$*	*2007* *$*	*2007* *$*	*2007* *$*
Half year ended 31 December2007					
Revenue					
	Sales to external customers	716,044	-	-	716,044
	Other revenues from external customers	-	738,488	738,613	1,477,101
	Inter segment revenue	-	-	-	-
	Total consolidated revenue	716,044	738,488	738,613	2,193,145
Result					
	Net profit (loss)	(464,422)	(712,313)	(775,413)	(1,952,148)
Assets and liabilities					
	Segment assets *	3,868,623	382,631	5,340,142	9,591,396
	Segment liabilities	(392,512)	(518,220)	(527,191)	(1,437,923)
	Segment net assets	3,476,111	(135,589)	4,812,951	8,153,473
Cash flow					
	Segment net cash flow from operating activities	325,920	(675,864)	(825,428)	(1,175,372)
	Capital expenditure	(2,835)	(143,066)	(133,654)	(279,555)
	Financing cash flows	-	-	113,123	113,123
	Net cash flow	323,085	(818,930)	(845,959)	(1,341,804)

* Unallocated segment assets include cash

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2007

3 SEGMENT INFORMATION (continued)

		Trading	*R&D*	*Unallocated*	*Total*
		2006 *$*	*2006* *$*	*2006* *$*	*2006* *$*
Half year ended 31 December 2006					
Revenue					
	Sales to external customers	2,509,075	-		2,509,075
	Other revenues from external customers	-	-	2,434,225	2,434,225
	Inter segment revenue	-	-	-	-
	Total consolidated revenue	2,509,075	-	2,434,225	4,943,300
Result					
	Net profit (loss)	478,831	(1,161,569)	784,746	102,008
Assets and liabilities					
	Segment assets *	5,169,595	426,881	6,415,221	12,011,697
	Segment liabilities	(585,546)	(507,524)	(412,689)	(1,505,759)
	Segment net assets	4,584,049	(80,643)	6,002,532	10,505,938
Cash flow					
	Segment net cash flow from operating activities	238,898	(1,407,732)	(83,766)	(1,252,601)
	Capital expenditure	(88,206)	(50,103)	(242,999)	(381,308)
	Financing cash flows	-	-	3,900	3,900
	Net cash flow	150,692	(1,457,835)	(322,865)	(1,630,009)

* Unallocated segment assets include cash

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2007

4 REVENUES AND EXPENSES

		CONSOLIDATED	
		2007 *$*	*2006* *$*
(a)	**Other revenue**		
	Finance income – bank interest received	180,566	174,573
	Research and development fee income	738,488	-
	Royalty revenue		
	Recurring royalty revenue	175,025	182,695
	Royalty entitlement settlements	383,022	2,076,957
		558,047	2,259,652

Movement in sales revenue
Sales revenue and Trade Debtors have declined compared to the previous corresponding period. The primary cause of the movement is the reduced orders received from Pentax, who have advised that sales have slowed, and they are holding inventory that needs to be cleared before there is a resumption of orders for new product.

(b)	**Other income**		
	Government grants	494,630	506,531
(c)	**Depreciation and amortisation**		
	Depreciation of plant and equipment	181,297	132,918
	Amortisation of software included in Administration expenses	21,342	15,181
		202,639	148,099
(d)	**Employee benefits expense**		
	Wages and salaries	2,284,570	2,157,583
	Workers' compensation costs	22,737	13,274
	Defined contribution plan expense	209,634	194,150
	Long service leave provision	40,990	(49,075)
	Share-based payments expense	59,331	86,536
		2,617,262	2,402,468
(e)	**Specific Items**		
	Royalty revenue includes proceeds from patent infringement actions settled during the period	383,022	2,076,957

(f) Seasonality of operations
There is no inherent seasonality in the operations of the company.

Notes to the Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2007

5 INCOME TAX

	CONSOLIDATED	
	2007 *$*	*2006* *$*
Income Statement		
Current income tax		
Current income tax charge	-	-
Withholding tax deducted from royalty revenue	42,469	60,783
Income tax reported in income statement	42,469	60,783

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

6 CASH AND CASH EQUIVALENTS

Reconciliation to Cash Flow Statement

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

	CONSOLIDATED	
	2007 *$*	*2006* *$*
Cash at bank and in hand	3,024,155	2,542,557
Short-term deposits	1,538,644	2,417,258
	4,562,799	4,959,815

Reconciliation of net profit (loss) after tax to net cash flows from operations

Net profit (loss)	(1,952,148)	102,008
Adjustments for:		
Depreciation	202,639	148,099
Net exchange differences	31,970	61,558
Share options expensed	59,331	86,536
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	1,027,942	(1,001,850)
(Increase)/decrease in inventories	(234,615)	(259,021)
(Increase)/decrease in prepayments	(80,153)	(231,364)
(Increase)/decrease in derivatives	2,874	-
(Decrease)/increase in trade and other payables	(247,958)	(202,406)
(Decrease)/increase in unearned income	-	(9,549)
(Decrease)/increase in provisions	14,744	53,388
Net cash used in operating activities	(1,175,374)	(1,252,601)

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2007

7 CONTRIBUTED EQUITY AND RESERVES

	CONSOLIDATED	
	Half Year Ended December 2007 $	*Year Ended June 2007 $*
Ordinary shares - Issued and fully paid	40,886,444	40,773,321

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

Movement in issued capital	*$*	*$*
Opening Balance	40,773,321	39,142,650
Issued for cash pursuant to Share Purchase Plan	-	1,668,940
Transaction costs on share issue	-	(68,644)
Issued upon exercise of employee options	113,123	30,375
Closing Balance	40,886,444	40,773,321

Movement in ordinary shares on issue	*No of Shares*	*No of Shares*
Opening Balance	103,868,954	100,159,573
Issued for cash pursuant to Share Purchase Plan	-	3,628,131
Issued for cash upon exercise of employee options	320,958	81,250
Closing Balance	104,189,912	103,868,954

8 EVENTS AFTER THE BALANCE SHEET DATE

The directors are not aware of any events after balance date that would have a material impact on the financial statements at 31 December 2007.

9 COMMITMENTS AND CONTINGENCIES

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

Directors' Declaration

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

1 In the opinion of the directors:

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

i giving a true and fair view of the financial position as at 31 December 2007 and the performance for the half year ended on that date of the consolidated entity; and

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

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

On behalf of the Board

Vicki Tutungi

Director

Melbourne, 28 February 2008

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To the members of Optiscan Imaging Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Optiscan Imaging Limited and the entities its controlled during the period, which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the six months ended on that date, other selected explanatory notes, and the directors declaration.

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

Auditor's Responsibility
Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2007 and its performance for the period ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*, other mandatory financial reporting requirements in Australia. As the auditor of Optiscan Imaging Limited and the entities it controlled during the period, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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

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Conclusion
Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Optiscan Imaging Limited and the entities it controlled during the period is not in accordance with:

(a) the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the company's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and

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

(b) other mandatory financial reporting requirements in Australia

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Don Brumley
Partner
Melbourne
28 February 2008