OPTISCAN IMAGING LIMITED

ABN : 81 077 771 987

APPENDIX 4D

Report for the Half Year ended

31 December 2010

Previous corresponding period : Half year ended 31 December 2009

This half year report is to be read in conjunction with the company's 2010 annual report

CONTENTS

1. Results for announcement to the market

The results of Optiscan Imaging Limited for the half year ended 31 December 2010 are as follows:

Results

(Previous corresponding period: Half year ended 31 December 2009)

- Total revenues from ordinary activities up 94% from $738,779 to $1,436,008.
- Profit from ordinary activities after tax attributable to members up $913,531 from a loss of $598,331 to a profit of $315,200 in the current period
- Net profit after tax attributable to members up $913,531 from a loss of $598,331 to a profit of $315,200 in the current period

Dividends

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

2. Commentary on result

Optiscan reported a net profit after tax of $315,200 for the half year to 31 December 2010.

The profit is largely attributable to the Company's ongoing and expanded activities with Carl Zeiss and the associated development of second generation confocal solutions for neurosurgery. While our costs are highly predictable and controlled, revenue in coming periods is likely to be lumpy in the lead up to the release of the Company's neurosurgery line. In addition to future neurosurgery sales, material revenue is presently derived from sales of the FIVE-1 research unit with continuing interest out of China and from custom miniaturised confocal orders.

The Company's focus remains our world leading technology and the intellectual property that underlies that technology. Over the past 12 months patent activity and associated costs have increased and will remain a high priority along with the research and development of the Company's significant intellectual property pipeline.

In addition to the continual enhancement of the Company's IP, attention is being directed to unlocking further applications for the Company's second generation microscopy system. These applications include the already established (Optiscan's generation-1 technology) flexible endomicroscope applications in gastroenterology via both integrated endoscopes and standalone probe systems. Imaging of the liver has demonstrated good efficacy presenting significant potential with particular reference to the large and growing incidence of liver disease in Asia.

Optiscan's technology is highly portable across many applications and the investigation of these applications, the continual development of our technology and our activities with Zeiss are at the forefront for 2011.

3. Brief explanation of financial results

Optiscan recorded a net profit after tax of $315,200 for the half year ended 31 December 2010. The loss for the corresponding period last year amounted to $598,331. Cash on hand at 31 December 2010 amounted to $1,984,834.

The key contributor to this result was the revenue received under the Zeiss collaboration amounting to $1,267,919. Other revenue from sales, interest, royalties and sundry income amounted to $168,089.

Optiscan's cost base was substantially reduced during the first half of 2010, and costs were tightly controlled throughout the reporting period. As a result, expenses in the December 2010 half year were 43% lower than the previous corresponding period. Total expenses were reduced by $793,983, which was the primary factor in an increase in cash flow from operations of $848,603.

4. Other information to be included in Appendix 4D

Net Tangible Assets per ordinary Security

Net tangible assets per ordinary security at 31 December 2010 amount to $0.01 (30 June 2010: $0.01).

Subsidiaries, associates and joint ventures

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

Status of review of accounts

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

5. Financial information

The Interim condensed Financial Report for the half year ended 31 December 2010 is set out on pages 5 to 25 of this report.

Angus Holt
Director

23 February 2011

Optiscan Imaging Limited

ABN 81 077 771 987

Interim Financial Report

for the half year ended 31 December 2010

Contents

Corporate Information

ABN 81 077 771 987

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

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

Directors

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

Company Secretary

B.R. Andrew

Registered office

15-17 Normanby Road
Notting Hill Vic 3168
Australia

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

Share Register

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

Solicitors

Lander & Rogers
600 Bourke Street
Melbourne VIC 3000

Auditors

Ernst & Young
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 2010.

Directors

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

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

Review of Operations

Optiscan recorded a net profit after tax of $315,200 for the half year to 31 December 2010. The profit is largely attributable to the Company's ongoing and expanded activities with Carl Zeiss and the associated development of second generation confocal solutions for neurosurgery. While our costs are highly predictable and controlled, revenue in coming periods is likely to be lumpy in the lead up to the release of the Company's neurosurgery line. In addition to future neurosurgery sales, material revenue is presently derived from sales of the FIVE-1 research unit with continuing interest out of China and from custom miniaturised confocal orders.

The Company's focus remains our world leading technology and the intellectual property that underlies that technology. Over the past 12 months patent activity and associated costs have increased and will remain a high priority along with the research and development of the Company's significant intellectual property pipeline.

In addition to the continual enhancement of the Company's IP, attention is being directed to unlocking further applications for the Company's second generation microscopy system. These applications include the already established (Optiscan's generation-1 technology) flexible endomicroscope applications in gastroenterology via both integrated endoscopes and standalone probe systems. Imaging of the liver has demonstrated good efficacy presenting significant potential with particular reference to the large and growing incidence of liver disease in Asia.

Optiscan's technology is highly portable across many applications and the investigation of these applications, the continual development of our technology and our activities with Zeiss are at the forefront for 2011.

<u>Financial Results</u>
Optiscan recorded a net profit after tax of $315,200 for the half year ended 31 December 2010. The loss for the corresponding period last year amounted to $598,331. Cash on hand at 31 December 2010 amounted to $1,984,834.

Optiscan's cost base was substantially reduced during the first half of 2010, and costs were tightly controlled throughout the reporting period. As a result, expenses in the December 2010 half year were 43% lower than the previous corresponding period. Total expenses were reduced by $793,983, which was the primary factor in an increase in cash flow from operations of $848,603.

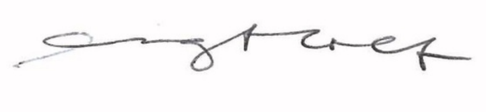
Directors' Report (continued)

Review of Operations (continued)

Auditor independence

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

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



Angus Holt

Director

Melbourne
23 February, 2011

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

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

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 2010, 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
23 February 2011

Consolidated Statement of Financial Position
AS AT 31 DECEMBER 2010

	Note	*CONSOLIDATED* *December 2010* *$*	*June 2010* *$*
ASSETS			
Current Assets			
Cash and cash equivalents	6	1,984,834	1,555,401
Trade and other receivables		122,331	129,363
Inventories		374,030	367,075
Prepayments		27,437	37,645
Total Current Assets		2,508,632	2,089,484
Non-current Assets			
Plant and equipment		36,284	102,917
Total Non-current Assets		36,284	102,917
TOTAL ASSETS		2,544,916	2,192,401
LIABILITIES			
Current Liabilities			
Trade and other payables		215,170	206,519
Provisions		200,695	183,314
Total Current Liabilities		415,865	389,833
Non-current Liabilities			
Trade and other payables		10,740	7,181
Interest bearing loans and borrowings		474,402	472,460
Provisions		24,133	22,665
Total Non-current Liabilities		509,275	502,306
TOTAL LIABILITIES		925,140	892,139
NET ASSETS		1,619,776	1,300,262
EQUITY			
Equity attributable to equity holders of the parent			
Contributed equity	7	45,016,281	45,016,281
Retained earnings		(44,090,026)	(44,405,226)
Reserves		693,521	689,207
TOTAL EQUITY		1,619,776	1,300,262

Consolidated Statement of Comprehensive Income
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	Note	*CONSOLIDATED*	
		December 2010 $	*December 2009 $*
Continuing operations			
Sale of goods		95,704	294,850
Rendering of services		34,694	102,008
Other revenue	4(a)	1,305,610	341,921
Revenue		1,436,008	738,779
Cost of sales		(81,390)	(236,029)
Gross Profit		1,354,618	502,750
Other income	4(b)	-	759,920
Administrative expenses		(627,970)	(890,260)
Research & development expenses		(396,147)	(786,998)
Marketing expenses		-	(57,651)
Other expenses		(15,301)	(98,492)
Profit (loss) before income tax		315,200	(570,731)
Income tax expense	5	-	(27,600)
Profit (loss) for the period		315,200	(598,331)
Other comprehensive income			
Foreign currency translation		1,228	1,417
Income tax on items of other comprehensive income		-	-
Other comprehensive income for the period net of tax		1,228	1,417
TOTAL COMPREHENSIVE INCOME (LOSS) FOR PERIOD		316,428	(596,914)
Earnings (loss) per share (cents per share)			
- basic earnings (loss) per share for the period		0.24	(0.5)
- diluted earnings (loss) per share for the period		0.24	(0.5)

Consolidated Statement of Changes in Equity
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	CONSOLIDATED				
	Ordinary shares $	*Accumulated Losses* $	*Employee Equity Benefits Reserve* $	*Foreign Currency Translation Reserve* $	$
At 1 July 2010	45,016,281	(44,405,226)	680,488	8,719	1,300,262
Profit for the half year	-	315,200	-	-	315,200
Other comprehensive income	-	-	-	1,228	1,228
Total comprehensive income for the half year	-	315,200	-	1,228	316,428
Transactions with owners in their capacity as owners:					
Share based payments	-	-	3,086	-	3,086
At 31 December 2010	45,016,281	(44,090,026)	683,574	9,947	1,619,776
At 1 July 2009	43,913,560	(42,754,427)	590,204	7,830	1,757,167
Loss for the half year	-	(598,331)	-	-	(598,331)
Other comprehensive income	-	-	-	1,417	1,417
Total comprehensive income for the half year	-	(598,331)	-	1,417	(596,914)
Transactions with owners in their capacity as owners:					
Shares issued	1,159,700	-	-	-	1,159,700
Transaction costs on shares issued	(50,630)	-	-	-	(50,630)
Share based payments	-	-	93,694	-	93,694
At 31 December 2009	45,022,630	(43,352,758)	683,898	9,247	2,363,017

Consolidated Statement of Cash Flows
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

	Note	*CONSOLIDATED*	
		December 2010 $	*December 2009 $*
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		1,399,645	480,081
Payments to suppliers and employees (inclusive of GST)		(1,006,539)	(1,787,757)
Settlement from termination of Hoya agreement		-	586,468
Royalties received		5,168	251,636
Interest received		17,567	14,410
Income tax paid		-	(27,600)
Receipt of government grants		-	50,000
Net cash flows from (used in) operating activities	6	415,841	(432,762)
Cash flows from investing activities			
Purchase of plant and equipment		(1,647)	(2,386)
Net cash flows used in investing activities		(1,647)	(2,386)
Cash flows from financing activities			
Proceeds from issue of shares	7	-	1,159,700
Share issue costs	7	-	(50,630)
Net cash flows from financing activities		-	1,109,070
Net increase in cash and cash equivalents		414,194	673,922
Net foreign exchange differences		15,239	26,694
Cash and cash equivalents at beginning of period		1,555,401	1,651,106
Cash and cash equivalents at end of period	6	1,984,834	2,351,722

Notes to the Consolidated Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2010

1 CORPORATE INFORMATION

The financial report of Optiscan Imaging Limited ("the Company") for the half year ended 31 December 2010 was authorised for issue in accordance with a resolution of the directors on 23 February 2011.

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The half year financial report should be read in conjunction with the annual Financial Report of Optiscan Imaging Limited as at 30 June 2010, and considered together with any public announcements made by Optiscan Imaging Limited and its controlled entities during the half-year ended 31 December 2010 in accordance with the continuous disclosure obligations of the ASX listing rules.

a) Basis of preparation

This general purpose condensed financial report for the half year ended 31 December 2010 has been prepared in accordance with AASB 134 *Interim Financial Reporting* the *Corporations Act 2001*.

Going Concern (Significant Uncertainty as at 31 December 2010)

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

As at 31 December 2010, the financial position of the consolidated entity as disclosed in the financial statements reflects a net asset position of $1,619,776. This balance has been determined after a consolidated profit for the half year of $315,200 (2009: loss $598,331), and a net cash flow from operations for the half year of $415,841 (2009: net cash outflow $432,762).

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

- Cash on hand at 31 December 2010 is $1,984,834
- The Company has the potential to raise additional income, or accelerate forecast cash flows and manage cash flows if required

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

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Basis of preparation (continued)

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

b) Basis of consolidation

The half-year consolidated financial statements comprise the financial statements of Optiscan Imaging Limited and its subsidiaries as at and throughout 31 December 2010.

c) Significant Accounting Policies

The accounting policies and methods of computation are the same as those adopted in the most recent annual financial report. There have been no new accounting standards or interpretations issued since the financial year ended 30 June 2010 that will affect the Group for the half year ended 31 December 2010.

3 SEGMENT INFORMATION

Identification of reportable segments

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

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

Types of products and services

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

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

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

3 SEGMENT INFORMATION (continued)

Accounting policies and inter-segment transactions

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

There are no inter-segment transactions or balances.

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

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

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

- Finance revenue and costs, including fair value adjustments
- Royalty revenue and associated withholding tax
- Foreign exchange differences
- Cash balances are unallocated

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 HALF YEAR ENDED 31 DECEMBER 2010

3 SEGMENT INFORMATION (continued)

	Trading $	*R&D* $	*Unallocated* $	*Total* $
Half year ended 31 December 2010				
Revenue				
Sales to external customers	143,167	-	-	143,167
Other revenues	-	1,267,919	24,922	1,292,841
Total consolidated revenue	143,167	1,267,919	24,922	1,436,008
Result				
Net profit (loss) for the period by segment	61,777	814,625	(561,201)	315,200
Assets and liabilities				
Segment assets	503,457	2,537	2,038,922	2,544,916
Segment liabilities	80,753	132,996	711,391	925,140
Segment net assets	422,704	(130,459)	1,327,531	1,619,776
Cash flow				
Segment net cash flow from (used in) operating activities	50,327	833,787	(480,955)	415,841
Investing cash flows	-	(1,647)	-	(1,647)
Net cash flow for the period	50,327	832,140	(480,955)	414,194
Other Segment information				
Non cash expenses				
Depreciation and amortisation	15,337	38,309	14,635	68,281
Share based payments	-	-	3,086	3,086
Amortised cost adjustment of convertible notes	-	-	1,942	1,942
Inventory impairment provision	4,387	-	-	4,387
Foreign exchange differences	-	-	(14,011)	(14,011)
Revenue by geographic segment (location of customer)				
Australia	93,320	-	19,754	113,074
Europe	30,023	1,267,919	-	1,297,942
USA & Canada	19,824	-	5,168	24,992
Total	143,167	1,267,919	24,922	1,436,008

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

3 SEGMENT INFORMATION (continued)

	Trading $	R&D $	Unallocated $	Total $
Half year ended 31 December 2009				
Revenue				
Sales to external customers	405,424	-	-	405,424
Other revenues	-	116,233	217,122	333,356
Total consolidated revenue	405,424	116,233	217,122	738,779
Result				
Net profit (loss) for the period by segment	(31,380)	(1,349,318)	782,167	(598,331)
Assets and liabilities				
Segment assets	585,537	114,506	2,772,029	3,472,072
Segment liabilities	169,765	295,858	634,432	1,109,055
Segment net assets	415,772	(181,352)	2,128,597	2,363,017
Cash flow				
Segment net cash flow from (used in) operating activities	(4,901)	(1,248,728)	817,874	(435,755)
Investing cash flows	-	-	(2,386)	(2,386)
Financing cash flows	-	-	1,109,070	1,109,070
Net cash flow for the period	(4,901)	(1,248,728)	1,924,558	670,929
Other Segment information				
Non cash expenses				
Depreciation and amortisation	52,346	77,395	80,892	210,633
Share based payments	-	-	93,694	93,694
Revenue by geographic segment (location of customer)				
Asia	215,927	-	7,416	223,343
Australia	65,738	-	16,140	81,878
Europe	11,041	116,233	159,432	286,706
USA	112,719	-	34,134	146,853
Total	405,424	116,233	217,122	738,779

Notes to the Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2010

4 REVENUES AND EXPENSES

		CONSOLIDATED	
		December 2010 $	*December 2009 $*
(a)	**Other revenue**		
	Finance income – bank interest received	16,574	16,140
	Design and development revenue	1,267,919	116,233
	Royalty revenue	5,168	200,982
	Warranty revenue	12,769	8,566
	Sundry revenue	3,180	-
		1,305,610	341,921
(b)	**Other income**		
	Government grants	-	50,000
	Settlement on termination of Hoya agreement	-	709,920
		-	759,920
(c)	**Depreciation and amortisation**		
	Depreciation of plant and equipment	68,281	196,497
	Amortisation of software included in Administration expenses	-	14,136
		68,281	210,633
(d)	**Finance costs**		
	Interest on convertible notes	22,351	18,784
	Fair value adjustment on convertible notes	1,942	2,993
		24,293	21,777
(e)	**Employee benefits expense**		
	Wages and salaries	410,709	755,724
	Defined contribution plan expense	36,964	68,315
	Annual leave provision	21,895	34,460
	Long service leave provision	6,283	9,573
	Share-based payments expense	3,086	93,694
		478,937	961,766

(f) Seasonality of operations

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

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

5 INCOME TAX

	CONSOLIDATED	
	December 2010 $	*December 2009 $*
Statement of comprehensive income		
Current income tax		
Withholding tax deducted from royalty revenue	-	27,600
Income tax expense reported in the statement of comprehensive income	-	27,600

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

6 CASH AND CASH EQUIVALENTS

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

	CONSOLIDATED	
	Dec 2010 $	*June 2010 $*
Cash at bank and in hand	1,788,739	1,363,799
Short-term deposits	196,095	191,602
	1,984,834	1,555,401

Reconciliation of net profit (loss) after tax to net cash flows from operations	*Dec 2010 $*	*Dec 2009 $*
Net profit (loss) after tax	315,200	(598,331)
Adjustments for:		
Depreciation	68,281	210,633
Loss on disposal of plant and equipment	-	19,449
Impairment losses – inventory provision	4,387	-
Net exchange differences	(15,239)	(26,694)
Share based payments	3,086	93,694
Foreign exchange movements through equity	1,228	1,417
Fair value adjustments on convertible notes	1,942	2,993
Changes in assets and liabilities:		
Decrease/(Increase) in trade and other receivables	7,032	(162,234)
(Increase)/Decrease in inventories	(11,343)	31,793
Decrease in prepayments	10,208	7,685
Increase/(Decrease) in trade and other payables	31,460	(80,064)
(Decrease)/Increase in unearned income	(19,250)	36,449
Increase in provisions	18,849	30,448
Net cash flows from (used in) operating activities	415,841	(432,762)

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 December 2010

7 CONTRIBUTED EQUITY AND RESERVES

	CONSOLIDATED	
	Half Year Ended December 2010 $	*Year Ended June 2010 $*
Ordinary shares - Issued and fully paid		
Fully paid ordinary shares carry one vote per share and carry the right to dividends.		
Movement in issued capital		
Opening Balance	45,016,281	43,913,560
Issued for cash pursuant to Placement	-	1,159,700
Transaction costs on share issue	-	(56,979)
Closing Balance	45,016,281	45,016,281
Movement in number of ordinary shares on issue	*No of shares*	*No of shares*
Opening Balance	129,680,531	117,233,531
Issued for cash pursuant to Placement	-	11,597,000
Issue to former CEO under incentive agreement	-	850,000
Closing Balance	129,680,531	129,680,531
Movement in Share based payment reserve		
Opening Balance	680,488	590,204
Share based payment expense for the period	3,086	90,284
Closing balance	683,574	680,488
Movement in foreign currency translation reserve		
Opening Balance	8,719	7,830
Foreign currency translation for the period	1,228	889
Closing Balance	9,947	8,719

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2010

8 EVENTS AFTER THE BALANCE SHEET DATE

The directors are not aware of any events, matters or circumstances which have arisen after balance date that have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years

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 2010 and the performance for the half year ended on that date of the Group; and

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

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

On behalf of the Board

Angus Holt

Director

Melbourne, 23 February 2011

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

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

To the members of Optiscan Imaging Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half year financial report of Optiscan Imaging Limited, which comprises the condensed statement of financial position as at 31 December 2010, condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half year end or from time to time during the half year.

Directors' Responsibility for the half year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Optiscan Imaging Limited and the entities it controlled during the half year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half year ended on that date; and

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

Inherent Uncertainty Regarding Going Concern

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

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

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

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

Ernst & Young

Ernst & Young

Don Brumley
Partner
Melbourne
23 February 2011