OPTISCAN IMAGING LIMITED

ABN : 81 077 771 987

APPENDIX 4D

Report for the Half Year ended

31 December 2012

Previous corresponding period : Half year ended 31 December 2011

This half year report is to be read in conjunction with the company's 2012 annual report

CONTENTS

1. Results for announcement to the market

The results of Optiscan Imaging Limited for the half year ended 31 December 2012 are as follows:

Results

(Previous corresponding period: Half year ended 31 December 2011)

- Total revenues from ordinary activities up 223% from $289,632 to $936,025.
- Profit from ordinary activities after tax attributable to members of $136,344, compared to a loss of $841,337 in the previous corresponding period
- Net profit after tax attributable to members of $136,344, compared to a net loss of $841,337 in the previous corresponding 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. Review of operations and commentary on result

Optiscan reported a net profit after tax of $136,344 for the half year to 31 December 2012. This represents a turnaround of $977,681 from the loss of the previous corresponding period. Sales revenue and development income arising from the Zeiss collaboration were higher, while administration and R&D expenses were tightly controlled and reduced below the level of the previous corresponding period. The only adverse movement was an increase in finance costs arising from the termination of the convertible note facility following the placement in August 2012.

3. Brief explanation of financial results

Optiscan recorded a net profit after tax of $136,344 for the half year ended 31 December 2012. This compares with a loss of $841,337 in the corresponding period last year.

Cash on hand, inclusive of a term deposit, at 31 December 2012 amounted to $821,194. Trade receivables of $569,395 were received shortly after balance date, taking cash reserves to more than $1.3 million, with an additional receivable of $614,000 in relation to the R&D tax incentive credit scheme due to be received in coming months.

There were some significant variances from the previous half year in respect of both revenues and expenses.

During the half year, Optiscan shipped the first pre-production systems of the new second generation platform (CIS2) to Zeiss. This milestone event underscored a 267% increase in sales revenue.

Other income also increased, with design and development income of $389,995 in the current period, as well as an increase in the R&D tax incentive of $157,650.

3. Brief explanation of financial results (continued)

Administration and other expenses remained tightly controlled and were marginally lower than the 2011 half year. R&D expense was lower by $57,169 compared to the corresponding period, reflecting the continuing progress toward completion of development of the CIS2 platform. However, in the current half year there were increased finance costs associated with the convertible note facility. In August, Optiscan successfully completed a placement that raised $1,003,875. The improved funding position which resulted, when combined with the higher revenues and income described earlier, enabled the company to reach agreement to unwind the convertible note facility. This resulted in the write off of certain costs that would otherwise have been amortised over the life of the facility. As a result, finance expenses in the current period amounted to $304,284, with no expense in the previous corresponding period.

Operations and Outlook

Optiscan is pleased to have reported a profit of $136,344 for the half year to 31 December 2012. Subject to timing sensitivities, the Board expects a similar result in the second half as a precursor to commercial (regulatory cleared) sales that should more than make up for the diminishing milestone revenue in subsequent periods.

This half year was marked by the sale of the first pre-production rigid neuro-endomicroscopy systems to Carl Zeiss Meditec (CZM). This marks one of the key steps in the path to fully fledged commercial sales in the rigid clinical endomicroscopy space.

Optiscan's imaging capabilities are perfectly suited to rigid endomicroscopy visualisation where imaging resolution, depth and field of view are critical to extracting optimal intra-operative imaging value. Optiscan is unique in this imaging class and hence is on its own in what is expected to be a large and enduring medical imaging market.

Optiscan's capabilities within rigid endomicroscopy are underscored by its relationship with CZM, the world leader in neurosurgery visualisation equipment. Within CZM's microsurgery business unit (CZM sales 2012FY approximately $500 million), in addition to neurosurgery, CZM is a significant player in the ENT (Ear, Nose and Throat) surgical space and also has promising future technology for intra-operative radiation therapy. CZM is also a major global player in the ophthalmic systems and surgical ophthalmology markets. CZM ophthalmology related sales were approximately $630 million for 2012FY. Optiscan is CZM's exclusive endomicroscopy partner in the fields within which CZM operates. CZM infrastructure includes a powerful global distribution and training network covering not only the key established markets, but also the large emerging medical markets such as China.

As Optiscan sales to CZM grow, the revenue mix will change from the initial systems to be more heavily weighted to disposable and semi-disposable items.

Beyond CZM, there are further significant market opportunities for Optiscan's rigid endomicroscopy systems. These applications include robotic general surgery and women's health related imaging. Lung and pleural imaging is an application where a combination of flexible (bronchoscopy) and rigid endomicroscopy may be used in tandem. Pleural imaging is currently being undertaken in studies at the Austin Hospital in Melbourne, exhibiting Optiscan's leading imaging capabilities with stunning images.

While Optiscan is approaching commercial sales with its rigid endomicroscopy system, incorporating its second generation technology, the gastrointestinal (flexible) medical market is primed for Optiscan's entry. The gastrointestinal (GI) space is well trodden with Optiscan's first generation technology, many hundreds of relevant publications, thousands of procedures and compelling level 1 evidence from a recently completed multi-centre trial led by Johns Hopkins Hospital in Baltimore. In addition to the clinical development of endomicroscopy within GI, the technology has been duly recognised with the recent granting of three CPT codes in USA.

3. Brief explanation of financial results (continued)

Within GI, there are two forms of endomicroscopy, probe based (pCLE) and endoscope based (eCLE). Unlike rigid endomicroscopy, within flexible endomicroscopy there is competition albeit from only one external party. Mauna Kea Technologies is a pCLE technology and while the imaging capability is compromised compared to Optiscan's, the pCLE approach does have the benefit of being a more accessible imaging modality than eCLE, as it is capable of use with all existing GI endoscopes. Optiscan's eCLE capabilities currently reside within Pentax's ISC-1000 endoscopy system using Optiscan's generation-1 technology. The ISC-1000 is estimated to have a worldwide footprint of approximately 150 systems. While the imaging capabilities and benefits exhibited by the ISC-1000 are immense, there are significant impediments to the mass adoption of the eCLE modality, particularly when dealing exclusively with a party with around 11% of a market worth approximately $3 billion annually. Optiscan has successfully integrated its second generation technology into the three leading brands within flexible endoscopy, being Olympus (71% market share), Fujinon (14%) and Pentax (11%). Further, two second generation endomicroscopes have been integrated into Olympus High Definition flexible endoscopes for clinical and animal use under federally funded programs with two leading Australian research institutions. While the eCLE market has significant potential, the real market opportunity exists with pCLE. To that end, Optiscan has developed important new IP for it's initial probe based systems with unrivalled imaging capabilities. However, in order to properly penetrate the pCLE market space, Optiscan's probe based capabilities must expand, an area that has been a major focus of our highly skilled and experienced R&D team over the past couple of years. The team has made several significant and promising developments that could see dramatically smaller high performing probes. In addition to developing the high specification probes, Optiscan is also looking to lower specification probes in the near term to facilitate early entry to the pCLE market, alongside its gold standard eCLE offering.

In addition to these clinical markets for Optiscan's products, there is a significant international research market where Optiscan is already active, with an installed base of more than 50 sites. As the operations of Optiscan gain mass, this market will be more aggressively addressed with Optiscan's second generation technology. The annual research endomicroscopy market is estimated to be worth $500 million and growing at 10% per year.

In order to take full advantage of the opportunities in both rigid and flexible endomicroscopy and indeed in the research market, further investment in personnel and inventory is required. Appropriate capital management is at the forefront of the Board's objectives, in order to ensure this does not restrict the current growth opportunities and the pace with which Optiscan is able to embrace them. The Board will continue to monitor the capital requirements of the business and invest and spend if and when appropriate, with the expectation of a steadily climbing expense rate that will allow Optiscan to capitalise on the near term growth opportunities.

4. Other information

Net Tangible Assets per ordinary Security
Net tangible assets per ordinary security at 31 December 2012 amount to $0.01 (30 June 2012: $0.002).

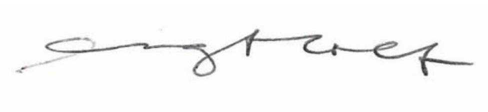
Earnings per ordinary share
Basic earnings per ordinary share, in cents per share, for the half year ended 31 December 2012 amount to 0.089 (31 December 2011 loss 0.64)

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 2012 is set out on pages 6 to 28 of this report.



Angus Holt
Director

28 February 2013

Optiscan Imaging Limited

ABN 81 077 771 987

Interim Financial Report

for the half year ended 31 December 2012

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 in the directors' report on pages 3-5. 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
530 Collins Street
Melbourne VIC 3000

Auditors

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000

Bankers

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 2012.

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

Financial Results

Optiscan recorded a net profit after tax of $136,344 for the half year ended 31 December 2012. This compares with a loss of $841,337 in the corresponding period last year.

Cash on hand, inclusive of a term deposit, at 31 December 2012 amounted to $821,194. Trade receivables of $569,395 were received shortly after balance date, taking cash reserves to more than $1.3 million, with an additional receivable of $614,000 in relation to the R&D tax incentive credit scheme due to be received in coming months.

There were some significant variances from the previous half year in respect of both revenues and expenses.

During the half year, Optiscan sold the first pre-production systems of the new second generation platform (CIS2) to Zeiss. This milestone event underscored a 267% increase in sales revenue.

Other income also increased, with design and development income of $389,995 in the current period, as well as an increase in the R&D tax incentive of $157,650.

Administration and other expenses remained tightly controlled and were marginally lower that the 2011 half year. R&D expense was lower by $57,169 compared to the corresponding period, reflecting the continuing progress toward completion of development of the CIS2 platform. However, in the current half year there were increased finance costs associated with the convertible note facility. In August 2012, Optiscan successfully completed a placement that raised $1,003,875. The improved funding position which resulted, when combined with the higher revenues and income described earlier, enabled the company to reach agreement to unwind the convertible note facility. This resulted in the write off of certain costs that would otherwise have been amortised over the life of the facility. As a result, finance expenses in the current period amounted to $304,284, with no expense in the previous corresponding period.

Operations and Outlook

Optiscan is pleased to have reported a profit of $136,344 for the half year to 31 December 2012. Subject to timing sensitivities, the Board expects a similar result in the second half as a precursor to commercial (regulatory cleared) sales that should more than make up for the diminishing milestone revenue in subsequent periods.

This half year was marked by the sale of the first pre-production rigid neuro-endomicroscopy systems to Carl Zeiss Meditec (CZM). This marks one of the key steps in the path to fully fledged commercial sales in the rigid clinical endomicroscopy space.

Directors' Report (continued)

Operations and Outlook (continued)

Optiscan's imaging capabilities are perfectly suited to rigid endomicroscopy visualisation where imaging resolution, depth and field of view are critical to extracting optimal intra-operative imaging value. Optiscan is unique in this imaging class and hence is on its own in what is expected to be a large and enduring medical imaging market.

Optiscan's capabilities within rigid endomicroscopy are underscored by its relationship with CZM, the world leader in neurosurgery visualisation equipment. Within CZM's microsurgery business unit (CZM sales 2012FY approximately $500 million), in addition to neurosurgery, CZM is a significant player in the ENT (Ear, Nose and Throat) surgical space and also has promising future technology for intra-operative radiation therapy. CZM is also a major global player in the ophthalmic systems and surgical ophthalmology markets. CZM ophthalmology related sales were approximately $630 million for 2012FY. Optiscan is CZM's exclusive endomicroscopy partner in the fields within which CZM operates. CZM infrastructure includes a powerful global distribution and training network covering not only the key established markets, but also the large emerging medical markets such as China.

As Optiscan sales to CZM grow, the revenue mix will change from the initial systems to be more heavily weighted to disposable and semi-disposable items.

Beyond CZM, there are further significant market opportunities for Optiscan's rigid endomicroscopy systems. These applications include robotic general surgery and women's health related imaging. Lung and pleural imaging is an application where a combination of flexible (bronchoscopy) and rigid endomicroscopy may be used in tandem. Pleural imaging is currently being undertaken in studies at the Austin Hospital in Melbourne, exhibiting Optiscan's leading imaging capabilities with stunning images.

While Optiscan is approaching commercial sales with its rigid endomicroscopy system, incorporating its second generation technology, the gastrointestinal (flexible) medical market is primed for Optiscan's entry. The gastrointestinal (GI) space is well trodden with Optiscan's first generation technology, many hundreds of relevant publications, thousands of procedures and compelling level 1 evidence from a recently completed multi-centre trial led by Johns Hopkins Hospital in Baltimore. In addition to the clinical development of endomicroscopy within GI, the technology has been duly recognised with the recent granting of three CPT codes in USA.

Within GI, there are two forms of endomicroscopy, probe based (pCLE) and endoscope based (eCLE). Unlike rigid endomicroscopy, within flexible endomicroscopy there is competition albeit from only one external party. Mauna Kea Technologies is a pCLE technology and while the imaging capability is compromised compared to Optiscan's, the pCLE approach does have the benefit of being a more accessible imaging modality than eCLE, as it is capable of use with all existing GI endoscopes. Optiscan's eCLE capabilities currently reside within Pentax's ISC-1000 endoscopy system using Optiscan's generation-1 technology. The ISC-1000 is estimated to have a worldwide footprint of approximately 150 systems. While the imaging capabilities and benefits exhibited by the ISC-1000 are immense, there are significant impediments to the mass adoption of the eCLE modality, particularly when dealing exclusively with a party with around 11% of a market worth approximately $3billion annually. Optiscan has successfully integrated its second generation technology into the three leading brands within flexible endoscopy, being Olympus (71% market share), Fujinon (14%) and Pentax (11%). Further, two second generation endomicroscopes have been integrated into Olympus High Definition flexible endoscopes for clinical and animal use under federally funded programs with two leading Australian research institutions. While the eCLE market has significant potential, the real market opportunity exists with pCLE. To that end, Optiscan has developed important new IP for it's initial probe based systems with unrivalled imaging capabilities. However, in order to properly penetrate the pCLE market space, Optiscan's probe based capabilities must expand, an area that has been a major focus of our highly skilled and experienced R&D team over the past couple of years. The team has made several significant and promising developments that could see dramatically smaller high performing probes. In addition to developing the high specification probes, Optiscan is also looking to lower specification probes in the near term to facilitate early entry to the pCLE market, alongside its gold standard eCLE offering.

Directors' Report (continued)

Operations and Outlook (continued)

In addition to these clinical markets for Optiscan's products, there is a significant international research market where Optiscan is already active, with an installed base of more than 50 sites. As the operations of Optiscan gain mass, this market will be more aggressively addressed with Optiscan's second generation technology. The annual research endomicroscopy market is estimated to be worth $500 million and growing at 10% per year.

In order to take full advantage of the opportunities in both rigid and flexible endomicroscopy and indeed in the research market, further investment in personnel and inventory is required. Appropriate capital management is at the forefront of the Board's objectives, in order to ensure this does not restrict the current growth opportunities and the pace with which Optiscan is able to embrace them. The Board will continue to monitor the capital requirements of the business and invest and spend if and when appropriate, with the expectation of a steadily climbing expense rate that will allow Optiscan to capitalise on the near term growth opportunities.

Auditor independence

The directors have obtained a declaration of independence from Ernst & Young, the group's auditors, which is set out below.

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 review of the financial report of Optiscan Imaging Limited for the half-year ended 31 December 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
Melbourne
28 February 2013

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

Angus Holt
Director, 28 February, 2013

Consolidated Statement of Financial Position
AS AT 31 DECEMBER 2012

	Notes	CONSOLIDATED	
		December 2012 $	June 2012 $
ASSETS			
Current Assets			
Cash and cash equivalents	6	753,071	578,900
Trade and other receivables	7	1,309,367	162,687
Inventories		56,110	153,075
Prepayments		10,531	143,391
		2,129,079	1,038,053
Non-current Assets			
Prepayments		-	101,401
Plant and equipment		43,914	41,217
		43,914	142,618
TOTAL ASSETS		2,172,993	1,180,671
LIABILITIES			
Current Liabilities			
Trade and other payables		249,052	469,175
Interest bearing loans and borrowings	8	102,970	210,414
Provisions		175,643	174,201
Total Current Liabilities		527,665	853,790
Non-current Liabilities			
Provisions		16,714	13,571
Total Non-current Liabilities		16,714	13,571
TOTAL LIABILITIES		544,379	867,361
NET ASSETS		1,628,614	313,310
EQUITY			
Equity attributable to equity holders of the parent			
Contributed equity	9	46,889,669	45,710,667
Retained earnings		(46,756,927)	(46,893,271)
Reserves		1,495,872	1,495,914
TOTAL EQUITY		1,628,614	313,310
TOTAL EQUITY AND LIABILITIES		2,172,993	1,180,671

Consolidated Statement of Comprehensive Income
FOR THE HALF YEAR ENDED 31 DECEMBER 2012

	Notes	*CONSOLIDATED*	
		December 2012	*December 2011*
		$	*$*
Continuing operations			
Sale of goods		910,024	247,762
Other revenue	4(a)	26,001	41,870
Revenue		936,025	289,632
Cost of sales		(149,528)	(174,662)
Gross Profit		786,497	114,970
Other income	4(b)	1,018,144	456,350
Administrative expenses		(726,604)	(704,198)
Research & development expenses		(637,227)	(694,396)
Finance expenses		(304,284)	-
Other expenses		(182)	(14,063)
Profit (loss) before income tax		136,344	(841,337)
Income tax expense	5	-	-
Profit (loss) for the period		136,344	(841,337)
Other comprehensive income			
Items that may be subsequently recycled through profit and loss:			
Foreign currency translation		(42)	(32)
Income tax on items of other comprehensive income		-	-
Items that will not be subsequently recycled through profit and loss:		-	-
Other comprehensive income for the period net of tax		(42)	(32)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR PERIOD		136,302	(841,369)
Earnings (loss) per share (cents per share)			
- basic earnings (loss) per share for the period		0.089	(0.64)
- diluted earnings (loss) per share for the period		0.088	(0.64)

Consolidated Statement of Changes in Equity
FOR THE HALF YEAR ENDED 31 DECEMBER 2012

	CONSOLIDATED				
	Ordinary Shares	*Accumulated Losses*	*Employee Equity Benefits Reserve*	*Foreign Currency Translation Reserve*	
	$	*$*	*$*	*$*	*$*
At 1 July 2012	45,710,667	(46,893,271)	1,485,661	10,253	313,310
Profit for the half year	-	136,344	-	-	136,344
Other comprehensive income	-	-	-	(42)	(42)
Total comprehensive income for the half year	-	136,344	-	(42)	136,302
Transactions with owners in their capacity as owners:					
Shares issued for cash	1,003,875	-	-	-	1,003,875
Shares issued on conversion of notes	168,125	-	-	-	168,125
Equity component of convertible notes	7,002	-	-	-	7,002
At 31 December 2012	46,889,669	(46,756,927)	1,485,661	10,211	1,628,614
At 1 July 2011	45,016,281	(44,390,821)	707,061	10,193	1,342,714
Loss for the half year	-	(841,337)	-	-	(841,337)
Other comprehensive income	-	-	-	(32)	(32)
Total comprehensive income for the half year	-	(841,337)	-	(32)	(841,369)
Transactions with owners in their capacity as owners:					
Share based payments	-	-	66,279	-	66,279
At 31 December 2011	45,016,281	(45,232,158)	773,340	10,161	567,624

Consolidated Statement of Cash Flows
FOR THE HALF YEAR ENDED 31 DECEMBER 2012

	Note	*CONSOLIDATED*	
		December 2012 $	*December 2011 $*
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		593,514	609,979
Payments to suppliers and employees (inclusive of GST)		(1,425,845)	(1,509,199)
Royalties received		16,550	-
Interest received		9,354	14,409
Receipt of government grants		-	636,000
Net cash flows used in operating activities	6	(806,427)	(248,811)
Cash flows from investing activities			
Purchase of plant and equipment		(20,780)	(20,583)
Net cash flows used in investing activities		(20,780)	(20,583)
Cash flows from financing activities			
Proceeds from issue of shares		1,003,875	-
Net cash flows from financing activities		1,003,875	-
Net (decrease) increase in cash and cash equivalents		176,668	(269,394)
Net foreign exchange differences		(2,497)	770
Cash and cash equivalents at beginning of period		578,900	1,078,694
Cash and cash equivalents at end of period	6	753,071	810,070

Notes to the Consolidated Financial Statements
FOR THE HALF YEAR ENDED 31 DECEMBER 2012

1 CORPORATE INFORMATION

The financial report of Optiscan Imaging Limited ("the Company") for the half year ended 31 December 2012 was authorised for issue in accordance with a resolution of the directors on 28 February 2013.

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 2012, and considered together with any public announcements made by Optiscan Imaging Limited and its controlled entities during the half-year ended 31 December 2012 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 2012 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

Going Concern (Significant Uncertainty as at 31 December 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 31 December 2012, the financial position of the consolidated entity as disclosed in the financial statements reflects a net asset position of $1,628,614 (2011: $567,624). This balance has been determined after a consolidated net profit for the half year of $136,344 (2011: loss $841,337), and a net cash outflow from operations of $806,427 (2011: $248,811).

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 2012 is $753,071 (2011: $810,070);
- Receivables at 31 December 2012 amount to $1,309,367 (2011: $532,102);
- Additional cashflow is expected to be received in the 2013 financial year under the agreement with Carl Zeiss;
- The directors believe the Company has the ability to raise additional capital from existing and new investors;
- The Company has a successful track record in raising capital to fund its operations; and
- The Company may have the ability to raise additional income, or accelerate forecast cash flows if required.

Notes to the Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2012

b) Basis of preparation (continued)

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.

c) 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 2012.

d) Significant Accounting Policies

The accounting policies and methods of computation are the same as those adopted in the most recent annual financial report. Other standards issued as of 1 July 2012 do not have a significant impact on the consolidated financial report of Optiscan Imaging Limited. The Group has not elected to early adopt any other new standards, amendments of interpretations that are issued but not yet effective.

Notes to the Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2012

3 SEGMENT INFORMATION

Identification of reportable segments

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

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

Types of products and services

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

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

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments are the same as those contained in Note 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 2012

3 SEGMENT INFORMATION (continued)

	Trading $	*R&D* $	*Segment Total* $	*Unallocated* $	*Total* $
Half year ended 31 December 2012					
Revenue					
Sales to external customers	910,024	-	910,024	-	910,024
Other revenues	-	-	-	26,001	26,001
Total consolidated revenue	910,024	-	910,024	26,001	936,025
Result					
Net profit (loss) for the period by segment	760,497	366,768	1,127,265	(990,920)	136,344
Assets and liabilities					
Segment assets	646,435	614,336	1,260,771	912,222	2,172,993
Segment liabilities	(66,516)	(82,630)	(149,146)	(395,233)	(544,379)
Segment net assets	579,919	531,706	1,111,625	516,989	1,628,614
Cash flow					
Segment net cash flow from (used in) operating activities	150,672	(240,323)	(89,651)	(716,776)	(806,427)
Investing cash flows	-	-	-	(20,780)	(20,780)
Financing cash flows	-	-	-	1,003,875	1,003,875
Net cash flow for the period	150,672	(240,323)	(89,651)	266,319	176,668
Other Segment information					
Non- cash expenses					
Depreciation	9,019	983	10,002	8,082	18,084
Amortised cost adjustment of convertible notes	-	-	-	67,683	67,683
Foreign exchange differences	-	-	-	2,455	2,455
Revenue by geographic segment (location of customer)					
Asia	-	-	-	16,550	16,550
Australia	205,820	-	205,820	9,451	215,271
Europe	698,128	-	698,128	-	698,128
USA & Canada	6,076	-	6,076	-	6,076
Total	910,024	-	910,024	26,001	936,025

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2012

3 SEGMENT INFORMATION (continued)

	Trading $	*R&D* $	*Segment Total* $	*Unallocated* $	*Total* $
Half year ended 31 December 2011					
Revenue					
Sales to external customers	247,762	-	247,762	-	247,762
Other revenues	9,300	-	9,300	32,570	41,870
Total consolidated revenue	257,062	-	257,062	32,570	289,632
Result					
Net profit (loss) for the period by segment	106,564	(335,844)	(229,280)	(612,057)	(841,337)
Assets and liabilities					
Segment assets	231,092	458,328	689,420	895,513	1,584,933
Segment liabilities	278,056	135,119	413,175	604,133	1,017,309
Segment net assets	(46,964)	323,209	276,245	291,380	567,624
Cash flow					
Segment net cash flow from (used in) operating activities	472,843	(113,575)	359,268	(608,078)	(248,811)
Investing cash flows	-	-	-	(20,583)	(20,583)
Net cash flow for the period	472,843	(113,575)	359,268	(628,661)	(269,394)
Other Segment information					
Non- cash expenses					
Depreciation	7,651	741	8,392	7,410	15,802
Share based payments	-	-	-	66,279	66,279
Amortised cost adjustment of convertible notes	-	-	-	8,107	8,107
Inventory impairment provision	142,868	-	142,868	-	142,868
Foreign exchange differences	-	-	-	(803)	(803)
Revenue by geographic segment (location of customer)					
Asia	86,015	-	86,015	-	86,015
Australia	116,760	-	116,760	32,570	149,330
Europe	51,260	-	51,260	-	51,260
USA & Canada	3,027	-	3,027	-	3,027
Total	257,062	-	257,062	32,570	289,632

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2012

4 REVENUES AND EXPENSES

		CONSOLIDATED	
		December 2012 $	*December 2011 $*
(a)	**Other revenue**		
	Finance income – interest received	9,451	30,170
	Royalty revenue	16,550	-
	Warranty revenue	-	9,300
	Sundry revenue	-	2,400
		26,001	41,870
(b)	**Other income**		
	Design and development revenue	389,995	-
	Government grants – R&D Tax Incentive	614,000	456,350
	Foreign exchange gain, net	8,980	-
	Sundry income	5,169	-
		1,018,144	456,350
(c)	**Depreciation**		
	Depreciation of plant and equipment	18,084	15,802
(d)	**Finance costs**		
	Interest on convertible notes	-	22,298
	Finance facility costs expensed	236,601	-
	Other finance facility costs	50,000	-
	Amortised cost adjustment on convertible notes	17,683	8,107
		304,284	30,405
(e)	**Employee benefits expense**		
	Wages and salaries	481,739	365,998
	Defined contribution plan expense	43,278	32,866
	Annual leave provision	3,254	8,117
	Long service leave provision	7,066	5,801
	Share-based payments expense	-	41,279
		535,336	454,061

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2012

5 INCOME TAX

	CONSOLIDATED	
	December 2012 $	*December 2011 $*
Statement of comprehensive income		
Income tax expense reported in the statement of comprehensive income	-	-

There is no current income tax charge due to the availability of carry forward losses, which amounted to $40,086,601 at 30 June 2012.

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 2012 $	*June 2012 $*
Cash at bank and in hand	753,071	578,900

Reconciliation of net profit (loss) after tax to net cash flows from operations	*Dec 2012 $*	*Dec 2011 $*
Net profit (loss) after tax	136,344	(841,337)
Adjustments for:		
Depreciation	18,084	15,802
Impairment losses – inventory provision	-	142,868
Net exchange differences	2,497	(770)
Share based payments	-	66,279
Foreign exchange movements through equity	(42)	(32)
Amortised cost adjustments on convertible notes	17,683	8,107
Other finance facility costs	50,000	-
Changes in assets and liabilities:		
Decrease/(Increase) in trade and other receivables	(1,146,680)	303,088
(Increase)/Decrease in inventories	96,965	(106,845)
Decrease in prepayments	234,260	11,763
Increase/(Decrease) in trade and other payables	(17,438)	(27,825)
(Decrease)/Increase in unearned income	(202,685)	190,412
Increase in provisions	4,585	(10,321)
Net cash flows from (used in) operating activities	(806,427)	(248,811)

Notes to the Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2012

7 TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	Dec 2012 *$*	*June 2012* *$*
CURRENT		
Trade receivables	590,325	77,635
GST refund receivable	35,890	15,492
Interest receivable	612	514
R&D Tax incentive grant receivable	614,000	-
Cash on term deposit	68,123	67,000
Other receivables	417	2,046
Net carrying amount	1,309,367	162,687

8 INTEREST BEARING LOANS AND BORROWINGS

	CONSOLIDATED	
	Dec 2012 *$*	*June 2012* *$*
Current		
Convertible notes	102,970	210,414
Movement in convertible note liabilities		
Opening balance	210,414	-
New convertible notes issued at face value	50,000	470,000
Transaction costs	-	(72,000)
Equity component of new convertible notes	(7,002)	(65,088)
Amortised cost adjustment of convertible notes	17,683	6,800
Convertible notes converted to equity by noteholders	(168,125)	(129,298)
Closing balance	102,970	210,414

In September 2012, the Company and the facility provider mutually agreed to terminate the convertible note facility. This resulted in the write off of facility costs of $236,601 that would otherwise have been amortised over the life of the facility.

The convertible notes outstanding at 31 December 2012 were converted to Ordinary shares in January 2013.

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2012

9 CONTRIBUTED EQUITY AND RESERVES

	CONSOLIDATED	
	Half Year Ended December 2012 $	*Year Ended June 2012 $*
Ordinary share capital - Issued and fully paid	46,889,669	45,710,667

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

Movement in issued capital		
Opening Balance	45,710,667	45,016,281
Shares issued for cash in placement	1,003,875	-
Equity component of convertible notes	7,002	65,089
Shares issued upon conversion of notes	168,125	629,297
Closing Balance	46,889,669	45,710,667

Movement in number of ordinary shares on issue	*No of shares*	*No of shares*
Opening Balance	144,027,918	130,085,790
Shares issued for cash in placement	13,385,001	-
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	3,051,822	11,965,588
Closing Balance	160,464,741	144,027,918

	$	$
Movement in Share based payment reserve		
Opening Balance	1,485,661	707,061
Employee benefits in lieu of cash remuneration	-	65,620
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
Closing balance	1,485,661	1,485,661

Movement in foreign currency translation reserve		
Opening Balance	10,253	10,193
Foreign currency translation for the period	(42)	60
Closing Balance	10,211	10,253

Total Reserves	1,495,872	1,495,914

Notes to the Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2012

10 EVENTS AFTER BALANCE DATE

The convertible notes outstanding at 31 December 2012 amounting to $102,970 were converted to ordinary shares in January 2013.

Other than the matter noted above, 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.

11 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 2012 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

28 February 2013

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 statement of financial position as at 31 December 2012, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, 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 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 of the half-year 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 half-year financial report that is free from material misstatement, whether due to fraud or error.

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 a 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 consolidated entity's financial position as at half-year 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:

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the half-year ended on that date; and

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

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 Company 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 company not continue as a going concern.

Ernst + Young

Ernst & Young

JLonergan

Joanne Lonergan
Partner
Melbourne
28 February 2013