Optiscan Imaging Limited

ABN 81 077 771 987

Annual Financial Report

for the year ended 30 June 2014

Contents

Corporate Information

ABN 81 077 771 987

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

A description of the Group's operations is included in the Operating and Financial Review in the directors' report on pages 4 to 19. 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

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Australia

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Solicitors

HWL Ebsworth Lawyers
6530 Collins Street
Melbourne VIC 3000

Auditors

Ernst & Young
Melbourne

Bankers

National Australia Bank

Directors' Report

The Board of Directors of Optiscan Imaging Limited has pleasure in submitting its report in respect of the financial year ended 30 June 2014.

Directors

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

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

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

Angus M. Holt
B Com
Age 43

Mr Holt has a Commerce degree from the University of Melbourne and has over 15 years experience in funds management, private equity and early stage biotech ventures.

Mr Holt was a director of Equity Life during the 90's, at the time Australia's leading provider of regulated short term annuity investments. Mr Holt was Investment Director at Equity Life overseeing in excess of $200m invested in a range of hybrid securities, smaller companies and the leaders. Following the sale of Equity Life to Challenger International in 1997 Mr Holt has focussed on private equity opportunities funded by a few select individuals. Those opportunities have been dominated by smaller companies (<$500m) across many fields ranging from toll roads, mezzanine infrastructure debt, waste to energy, plumbing supplies and biotechs, including in imaging, surgery navigation and immunology. Mr Holt has lived in the US where he established the local operations for a surgical navigation start up.

Mr Holt has 15 years experience as a public company director in Australia and was appointed to the Board of Optiscan in February 2009 and later Chairman in May 2009. Mr Holt assumed the role of Executive Chairman in January 2010.

Mr Holt held no other directorships of public companies during the past three years.

Peter M. Delaney
BSc(Pharm) (Hons.)
Age 46

Peter Delaney, Director of Technology, completed a science degree with honours in Pharmacology at Monash University in 1989. He has played a major role in the refinement of the fibre optic approach to produce a commercial instrument which received an R&D 100 Award in 1991. In 1993, Mr Delaney received the Victorian Young Achiever Award (Science and Technology) for his development of the company strategy and infrastructure. Mr Delaney was appointed a director of Optiscan Pty Ltd in March 1994, and was Managing Director until December 2002, at which time he assumed the role of Director of Technology. In April 2007, Peter Delaney was awarded a prestigious ATSE Clunies Ross award for excellence in the innovation and commercialisation of scientific endeavours.

Mr Delaney held no other directorships of public companies during the past three years.

Directors' Report (continued)

Directors (continued)

Bruce R. Andrew
B Bus, CPA
Age 60

Mr Andrew is an accountant with extensive corporate experience in both listed and unlisted entities.

Mr Andrew was appointed Company Secretary when Optiscan listed in 1997. After several years in a part time role, Mr Andrew was appointed Chief Financial Officer in 2001, and has been a member of the executive management team since that time. Mr Andrew was appointed to the board in January 2010.

Mr Andrew held no other directorships of public companies during the past three years.

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

Directors' Interests

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

Director	**Shares**	**Options**
Angus Holt	14,739,957	-
Peter Delaney	3,501,349	-
Bruce Andrew	90,000	-

Other Interests of Directors

Peter Delaney
Related parties to Peter Delaney hold a combined total of 270,090 ordinary shares (2013: 270,090 ordinary shares).

Angus Holt
Related parties to Angus Holt hold a combined total of 11,566,298 ordinary shares (2013: 10,710,070 ordinary shares) and no options (2013: 1,500,000).

Directors' Report (continued)

Directors' Meetings

The company held nine (9) Directors' meetings during the year. The attendances of the directors at meetings of the Board were:

	Board of Directors	
Director	Attended	Held
Angus Holt	9	9
Peter Delaney	9	9
Bruce Andrew	9	9

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

Principal Activities

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

Corporate Structure

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

Trading Results

The consolidated loss of the consolidated entity for the financial year was $1,417,712 (2013, $643,950) after income tax.

Operating and Financial Review

Introduction

<u>Background and Recent History</u>

Optiscan's core technology of live micro imaging was first released to market in 2006, under a collaboration with Pentax. During the following two years more than 130 clinical systems were sold to Pentax. Over time the technology has been embraced by key opinion leaders in gastroenterology, and it is now well established and widely accepted as a valuable medical imaging modality.

In 2008 the global financial crisis led to very difficult trading conditions, particularly for companies in the biotech sector. Optiscan moved quickly to scale down its activities in an effort to ride out the financial storm that followed and endured for a number of years. Operations and staff numbers were significantly reduced. In 2009 the Pentax supply agreement came to an end, and the relationship now involves only a small royalty income stream derived from the first generation technology. At this point, Optiscan focussed on the development of its second generation platform and in particular on the collaboration established in 2007 with Carl Zeiss Meditech ("Zeiss") for applications in neurosurgery.

Directors' Report (continued)

Operating and Financial Review (continued)

Background and Recent History (continued)

Since the onset of the global financial crisis, the Group has maintained tight control of costs, and has continued to operate within the parameters established in 2008. This strategy has been successful in ensuring the continuing development of the core technology and the important collaboration with Zeiss. That said, operating in an environment of significantly reduced resources has required both careful planning and considerable patience. Resource constraints have necessarily reduced capacity and output.

There have been two key operational activities in the Group since 2008. The first was the development of a second generation imaging platform, comprising a miniaturised scanner and processor, which was largely completed by 2011.

The second activity was that directed at tailoring that generic platform to the specific requirements of the Zeiss collaboration. This has required both hardware and software applications and refinements to ensure the new system is optimally designed and configured for the intended use in neurosurgery.

Operations

During 2014, the priority of management was to maintain focus on near term product opportunities. These were the completion of the Zeiss project in neurosurgery, and the development of a research instrument based on the second generation platform.

There were two fundamental activities on the Zeiss project during the year, being system refinement and completion of the sterility solution. The latter task was the final major design challenge in the project and had a higher risk profile, so most effort was directed to this activity. Although some setbacks were encountered that extended timelines, the challenges were overcome and the sterility solution is now virtually complete. As announced on 27 August 2014, passes were achieved in all levels of an exhaustive pre-clinical testing regime.

While this successful sheath outcome was being achieved, considerable effort was also invested in software and other documentation required for testing, validation and regulatory submissions.

The careful management of R&D resources during the year enabled some secondary projects to be advanced as R&D skill sets moved in and out of the critical path. Management continually assessed and balanced the varying resource demands with the cash constraints within which the business has had to operate. During the year, prudent capacity utilisation enabled the refinement of the new second generation research system being developed as a product for MR Solutions. However, cost containment measures did result in some reduction of capacity in parts of the R&D team, particularly software resources, despite our efforts to contain such measures to administration costs where possible.

There was a low level of production activity during the year. A production run of twelve processors was commenced in 2013. This run has been paused prior to completion, pending the purchase of higher cost parts and greater visibility on purchase orders and sales prospects. Once reinitiated, the completion of these processors will be rapid, as they are at an advanced stage of assembly.

Financial Results

The net loss for the year was $1,417,712, compared to a loss of $643,950 in 2013. The increased loss was primarily caused by a fall in revenue and other income in 2014.

Directors' Report (continued)

Operating and Financial Review (continued)

Financial Results (continued)

Sales revenue and other income both declined in the current year, by a total of $1,466,307, emphasising the lumpy nature of these cash inflows. Sales in 2014 were $71,883, compared to sales in 2013 of $931,920, which included a one off order for the first pre-production systems for Carl Zeiss Meditec, amounting to more than $900,000.

Other income in 2013 included R&D tax incentive income of $1,480,355, which represented the entitlements for both 2013 and 2012. In 2014, the amount recorded for the year is $652,416. The reduction in reported income is largely due to the previous year including two years of entitlement. There is also an underlying movement, where R&D spend has declined in 2014, so the incentive, which is based on R&D expenditure, declined correspondingly.

In order to mitigate the impact of the downturn in revenue and other income, the Group raised $328,541 from the issue of convertible notes in 2014.

In cash flow terms, cash received from sales, grants and equity and note issues declined by $1,370,749 in 2014 compared to 2013. The residual shortfall necessarily flowed through to cuts in expenditure, where cash payments in 2014 were reduced by $1,205,293.

Total expenses in the Statement of Comprehensive Income were reduced by 26% from $3,116,653 to $2,315,322. Administration costs were reduced by $502,786 (33%), and R&D expenses were reduced by $263,947 (17%).

The balance sheet pressure encountered by the Group during the year was reflected in the cash position. Cash at June 2013 was $429,927, and at June 2014 was $74,942. After balance date, this increased following an issue of convertible notes and equity in July, with net proceeds of $500,000, and a further equity and note issue in September which will raise $750,000.

Near term Strategy - 2015

The interplay between funding and time to market will continue to dominate execution of strategy.

In the short term, the current strategy remains unchanged. The Group will continue to advance toward completion of the Zeiss project (clinical trial, regulatory clearance and product launch) and to release of a research product with MR Solutions.

We have reported on various occasions that the research market has lower regulatory hurdles than the clinical (human use) applications. In order to achieve release of a research market product with MR Solutions, we need to complete software documentation and verification and validation testing. The software work is estimated to be approximately six man months of effort. If we are resource limited, we might engage only one software engineer over the six months in order to alleviate cash flow pressure. Without such constraints, we could contract in additional resources so that the project might be completed, for example, by three engineers over two months.

Directors' Report (continued)

Operating and Financial Review (continued)

Near term Strategy – 2015 (continued)

The outstanding activity on the Zeiss project is subject to similar factors. Resolution of the sterility issue means the final stage to be completed is regulatory clearance. The key steps to achieve this outcome are:

- A small clinical trial of 20 patients to be conducted in France jointly by Zeiss and Optiscan to validate the usability of the new system versus the previous model used in earlier, larger trials
- Completion of software documentation
- Completion of system verification and validation testing, including the sterility solution
- Finalisation of the regulatory clearance strategy
- Preparation of regulatory applications
- Managing the convergence of these inputs into a final regulatory submission.

In an ideal funding environment, many of these activities could be run concurrently. For example, regulatory consultants could be engaged to form strategy and commence dialogue with relevant authorities at the same time that software resources were being deployed to fast track preparation of the documentation required for submission. Production and electronics engineers could be conducting the verification and validation tests contemporaneously, and overall project management could be orchestrating timing so that these concurrent activities could converge seamlessly, resulting in the earliest possible filing of regulatory submissions.

As is the case with the research instrument project, if resource constraints prevail, these activities will have to be carried out over a period of time by our limited, internal resources. Testing procedures may have to be conducted one at a time, and only after software documentation has been completed. Regulatory strategy and the development of the documentation for the submission may have to await completion of all other inputs to the process. This is the reality under which we have been working for some years, and the implications are increasingly highlighted as we approach the final stages of these projects.

Although the Zeiss collaboration has been significantly de-risked by the engineering achievements in recent times, the timelines on the closing stages remain difficult to predict and manage. The clinical trial is funded by Zeiss and its management is largely outside the control of Optiscan. Such trials invariably require ethics approvals and the process can be affected by availability of key physicians and the frequency of ethics committee meetings. Patient recruitment can be unpredictable, and depend on patient profiles, willingness to participate and other variables. At the other end of the regulatory clearance process, authorities such as the FDA may accept a well documented submission without query. On the other hand, it is entirely within their authority to question and query aspects of a submission and this process can extend the timeline by several months.

Prudent risk management in these circumstances would dictate that controllable timelines should be managed as efficiently as possible, and in the context of the earlier remarks about funding, the Board will seek to ensure that the Group is adequately resourced to mitigate controllable timeline risk. If this can be achieved, we would expect to see release of a research product with MR Solutions in the March quarter 2015, and achievement of regulatory clearance of the Zeiss neurosurgery product by the September quarter 2015. These outcomes would, in turn, see a ramp up of inventory build and production activity during 2015 which would create a further impost on the funding base. That said, it would also be the precursor to recurring sales revenue.

Directors' Report (continued)

Operating and Financial Review (continued)

Medium Term strategy - 2016

The vision beyond the next twelve months is all about flexible endoscopy and the "GI" (gastrointestinal) market.

The GI market for endomicroscopy is large, and Optiscan's technology has seen extensive application since the launch of its pioneering clinical technology in 2006, through the Pentax ISC-1000.

The main flexible endoscopy applications are presently:

- Biopsy targeting during gastroscopy and colonoscopy,
- Biopsy targeting and 'see and treat' workflows in Barrett's Esophagus),
- Cancer detection in long term Ulcerative Colitis sufferers, and
- Margin assessment in colorectal and gastric cancer.

These applications alone represent annual addressable markets in excess of US$1billion. There are numerous additional, although less mature GI applications, including inflammation, microscopic colitis, epithelial healing, bacterial colonization and drug and other therapeutic responses.

The ISC-1000 flexible endomicroscopy platform has now generated level one evidence in an international multicentre study led by Johns Hopkins Hospital in Baltimore, the number one rated hospital in the USA. The published results have created further demand from the established market for a more sophisticated second generation endomicroscopy system which can be incorporated into contemporary medical practice guidelines.

While these advances in market development in GI endomicroscopy have been evolving, Optiscan has advanced its development of a probe based product over the past year, resulting in a significantly smaller super hi-resolution prototype probe. This is very important development in the context of the commercial emergence of the endomicroscopy market.

The Pentax collaboration was founded on embedding Optiscan's miniaturised scanner into a video endoscope. This required a formal and exclusive commercial collaboration, and a very considerable engineering effort on the part of both parties to build the new technology into existing endoscopes. It also required the full process of regulatory clearance of the total integrated system, which was achieved in 2006.

Optiscan's development of a probe based scanner would enable our second generation miniaturised high magnification scanner to be used with any existing endoscope, by simply inserting an "accessory" scanner into the existing working channels in conventional endoscopes. This will dispense with the need to collaborate with any particular endoscope manufacturer, and open up a wide range of market distribution channels, resulting in reduced commercial risk and the potential for much wider market penetration.

The broadening of our capabilities to include probe (pCLE, probe based Confocal Laser Endoscopy) as well as the highly regarded supremacy of the endoscope based system (eCLE, embedded Confocal Laser Endoscopy) creates a single platform which could service the entire GI market for endomicroscopy.

There are more opportunities in the medium term, including for example, ENT (Ear, Nose and Throat) rights held by Zeiss, and our earlier interest in Women's Health imaging needs. The pursuit of these, and a range of other opportunities, is again a function of financial and management capacity to research and assess the medical needs and economics.

Directors' Report (continued)

Operating and Financial Review (continued)

Outlook

The Group has navigated the extraordinarily difficult challenges of the post GFC market conditions, and has emerged with a new technology platform, crafted from a powerful technology and IP position by a small, tight and committed team of long term employees. It is now preparing for the imminent release of product for sophisticated applications in neurosurgery and research. Beyond these opportunities, there remains the large market opportunity in GI, with a multi platform product offering.

There are many promising opportunities beckoning for Optiscan. The future is full of possibilities that have the potential to reward long term supporters, believers and shareholders. More importantly, we can deliver a technology that can improve patient outcomes and heath care economics around the globe. The challenge for the Group is to maintain a funding base and tight management focus that will deliver this vision.

Dividends

No dividends have been paid or declared since the beginning of the financial year by the Company (2013: Nil).

Significant Changes in the State of Affairs

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

Significant Events After Balance Date

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

> The directors reported on 14 July 2014 that the Group has entered into a $500,000 Convertible Debt Facility secured against the R&D tax incentive receivable outstanding at balance date. The Group also effected a placement of 5,341,938 shares to raise $135,000. The proceeds of the placement were used to repay in full the outstanding balance of convertible notes on issue at balance date, and;
>
> The directors reported on 23 September 2014 that the Group has raised $750,000 by way of a share placement and note issue. The placement will raise $450,000, including $63,000 from directors which will require prior approval by shareholders before allotment can take place. The issue price was $0.03 per share. In combination with the placement the Group issued a convertible note of $300,000, which carries interest of 15% per annum.

Likely Developments and Future Results

The Directors have outlined in The Operating and Financial Review that they expect in the next year to release the new research product with MR Solutions, and to be near completion of the regulatory requirements for the Zeiss neurosurgery collaboration. Beyond the next twelve months the Group will be focussed on returning to the gastrointestional ("GI") market where its technology is well established. In the short term, the expected future results may not change significantly, but when there is active product in two markets, the revenue streams will see a steady improvement in the financial performance and state of affairs of the Group.

Directors' Report (continued)

Environmental Regulations

The Group is not subject to significant environmental regulations.

Share Options

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

Since the end of the financial year, and up to the date of this report, no new shares have been issued as a consequence of the exercise of employee options which were on issue at year end. Since the end of the financial year, and up to the date of this report, no new options have been issued, and no options have expired. The total number of options outstanding at the date of this report is 1,900,000.

Indemnification and Insurance

During the financial year ended 30 June 2014, the company indemnified its directors, the company secretary and executive officers in respect of any acts or omissions giving rise to a liability to another person (other than the company or a related party) unless the liability arose out of conduct involving a lack of good faith. In addition, the company indemnified the directors, the company secretary and executive officers against any liability incurred by them in their capacity as directors, company secretary or executive officers in successfully defending civil or criminal proceedings in relation to the company. No monetary restriction was placed on this indemnity. The Company has insured its directors, the company secretary and executive officers for the financial year ended 30 June 2014. Under the company's Directors' and Officers' Liabilities Insurance Policy, the Company shall not release to any third party or otherwise publish details of the nature of the liabilities insured by the policy or the amount of the premium. Accordingly, the company relies on section 300(9) of the *Corporations Act 2001* to exempt it from the requirement to disclose the nature of the liability insured against and the premium amount of the relevant policy.

Indemnification of auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

Directors' Report (continued)

Remuneration Report (Audited)

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

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

Details of Key Management Personnel in office during the year

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

Remuneration Philosophy

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

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

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

Objective of Remuneration Policy

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

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

Non-executive Director Remuneration

The Constitution of the company and the ASX Listing Rules establish an aggregate or maximum level of remuneration available to non-executive directors, to be divided amongst the directors as agreed. The aggregate amount approved by shareholders to be available for remuneration of non-executive directors is $400,000 per annum. There are currently no non-executive directors in office.

Directors' Report (continued)

Remuneration Report (Audited) (continued)

Non-executive Director Remuneration (continued)

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

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

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

As a consequence of a reduction in the size of the board in May 2009, there were no non-executive directors in office during 2013/2014.

The remuneration of directors for the years ended 30 June 2014 and 30 June 2013 is detailed in Table 1 and Table 2 on page 17 of this report.

Executive Remuneration

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

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

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

<u>Fixed Remuneration</u>

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

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

The fixed remuneration component of executives for the years ended 30 June 2014 and 30 June 2013 is detailed in Table 1 and Table 2 on page 17 of this report.

Directors' Report (continued)

Remuneration Report (Audited) (continued)

Executive Remuneration (continued)

Variable Remuneration - Short Term Incentive (STI)

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

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

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

STI Arrangements
The board suspended STI arrangements for all staff during 2009/2010 due to the difficult economic circumstances confronting the Group. No STI entitlements were accrued and no payments were made to key management personnel during 2013/2014.

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

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

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

LTI Arrangements in 2013/2014
The board suspended LTI arrangements during 2009/2010 due to the difficult economic circumstances confronting the Group. No LTI entitlements were granted and no issues were made to staff during 2013/2014.

Directors' Report (continued)

Remuneration Report (Audited) (continued)

Incentives and Company Performance

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

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

In view of the limited relevance of financial measurement tools, the Board of Directors has determined that the performance of the group is best reviewed in the context of achievement of key milestones.

Incentive Payments and Performance Conditions 2013/2014

During the year ended 30 June 2014, no short or long term incentive payments were made to staff.

Employment Contracts

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

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

Directors' Report (continued)

Remuneration Report (Audited) (continued)

Compensation of Key Management Personnel

Table 1: Compensation of Key Management Personnel for the year ended 30 June 2014

	Short-Term			Long Term	Post Employment	Total	Total Performance Related
30 June 2014	*Salary & fees*	*Directors fees and expenses $*	*Office Expenses Reimbursed $*	*Long Service Leave*	*Superannuation $*	*$*	*%*
Directors							
A. Holt	52,500	40,000	-	1,494	8,556	102,550	-
P. Delaney	104,625	40,000	-	-	3,700	148,325	-
B. Andrew	52,500	40,000	-	1,494	8,556	102,550	-
	209,625	120,000	-	2,988	20,812	353,425	-

Table 2: Compensation of Key Management Personnel for the year ended 30 June 2013

	Short-Term			Long Term	Post Employment	Total	Total Performance Related
30 June 2013	*Salary & fees*	*Directors fees and expenses $*	*Office Expenses Reimbursed $*	*Long Service Leave*	*Superannuation $*	*$*	*%*
Directors							
A. Holt	52,500	40,000	62,000	633	8,325	163,458	-
P. Delaney	109,375	40,000	-	-	3,600	152,975	-
B. Andrew	52,500	40,000	-	633	8,325	101,458	-
	214,375	120,000	62,000	1,266	20,250	417,891	-

Compensation Options Granted and Vested During the Year

During the current financial year, and the previous financial year, no options were granted as equity compensation benefits under the long-term incentive plan. For further details relating to the options on issue, refer to note 22 in the financial statements.

Shares Issued on Exercise of Compensation Options

No shares have been issued as a result of the exercise of options granted as compensation to key management personnel during the years ended 30 June 2014 and 30 June 2013.

Directors' Report (continued)

Remuneration Report (Audited) (continued)

Option holdings of Key Management Personnel

Options holdings of Key Management Personnel for the year ended 30 June 2014

						Vested at 30 June 2014		
30 June 2014	*Balance at beginning of period 01-Jul-13*	*Held at date of appointment to board of holder*	*Options Exercised*	*Options Expired Forfeited*	*Balance at end of period 30-Jun-13*	*Total Vested*	*Exercisable*	*Not Exercisable*
Directors								
A. Holt								
-direct	-	-	-	-	-	-	-	-
-indirect	1,500,000	-	-	1,500,000	-	-	-	-
P. Delaney	-	-	-	-	-	-	-	-
B. Andrew	-	-	-	-	-	-	-	-
Total	1,500,000	-	-	1,500,000	-	-	-	-

No options were issued to, or exercised by key management personnel during the year ended 30 June 2014.

Shareholdings of Key Management Personnel

Shares held in Optiscan Imaging Limited for the year ended 30 June 2014 (number)

30 June 2014	*Balance at beginning of period 01-Jul-13*	*Purchased*	*Holding at Date of Appointment to Board of Holder*	*Balance at end of period 30-Jun-14*
Directors				
A. Holt				
-direct	3,173,659	-	-	3,173,659
-indirect	10,710,070	856,228	-	11,566,298
P. Delaney				
-direct	3,231,259	-	-	3,231,259
-indirect	270,090	-	-	270,090
B. Andrew				
-indirect	90,000	-	-	90,000
Total	17,475,078	856,228	-	18,331,306

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

Directors' Report (continued)

AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

Non-Audit Services
There were no non-audit services provided by Ernst & Young.

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

Building a better working world

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

As the Lead Audit Partner for the audit of the financial report of Optiscan Imaging Limited for the financial year ended 30 June 2014, I declare that to the best of my knowledge and belief, the only contravention of:

(a) the auditor independence requirements of the Corporations Act 2001 ("the Act") in relation to the 31 December 2013 review; and

(b) any applicable code of professional conduct in relation to the 31 December 2013 review;

are those set out in this declaration.

The review auditor performed a quality review of the December 2013 half year review in circumstances where the review auditor should have rotated off the engagement at the conclusion of the audit for the financial year ending 30 June 2013.

Having considered the circumstances identified above I do not believe that the independence of Ernst & Young in relation to the audit for the financial year ending 30 June 2014 has been impaired.

Ernst + Young

Ernst & Young

Joanne Lonergan
Partner
29 September 2014

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

ANGUS HOLT, Director, 29 September 2014

Corporate Governance Statement

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

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

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

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

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

Director	Status	Term in office
Angus M Holt (Chairman)	Executive	5.5 years
Peter M Delaney	Executive	17 years
Bruce R Andrew	Executive	4.5 years

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

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

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

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

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

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

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

Corporate Governance Statement (continued)

With the reduction in the size of the Board in 2009, there is no Nomination Committee or Audit Committee. In both cases the Board has assumed the responsibilities of the committees.

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

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

Diversity

The company has not established a policy on diversity at this time and the company has not established measurable objectives for achieving gender diversity. The board considers that adoption of a policy on diversity at this time is impractical for a small organisation comprising less than ten full time equivalent (FTE) staff. The company's policy on equal opportunity provides relevant guidance on issues of diversity in the current circumstances of the company. In relation to gender of employees, the company currently has two women employees (1.4 FTE), representing 15% of total staff.

Remuneration

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

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

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

Statement of Financial Position

AS AT 30 JUNE 2014

	Notes	CONSOLIDATED 2014 $	2013 $
ASSETS			
Current Assets			
Cash and cash equivalents	9	74,942	429,927
Trade and other receivables	10	657,164	939,569
Inventories	11	43,700	89,832
Prepayments	12	15,924	9,681
Total Current Assets		791,730	1,469,009
Non-current Assets			
Plant and equipment	13	24,622	41,424
Total Non-current Assets		24,622	41,424
TOTAL ASSETS		816,352	1,510,433
LIABILITIES			
Current Liabilities			
Trade and other payables	14	644,624	317,544
Interest bearing loans and borrowings	15	126,466	-
Provisions	17	212,926	229,799
Total Current Liabilities		984,016	547,343
Non-current Liabilities			
Provisions	17	16,998	10,634
Total Non-current Liabilities		16,998	10,634
TOTAL LIABILITIES		1,001,014	557,977
NET ASSETS / (LIABILITIES)		(184,662)	952,456
EQUITY			
Contributed equity	18	47,279,893	46,993,580
Accumulated losses	18	(48,954,933)	(47,537,221)
Reserves	18	1,490,378	1,496,097
TOTAL EQUITY / (DEFICIENCY)		(184,662)	952,456
TOTAL EQUITY AND LIABILITIES		816,352	1,510,433

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

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2014

	Notes	*CONSOLIDATED*	
		2014 *$*	*2013* *$*
Sale of goods		71,883	931,920
Other revenue	6(a)	16,633	52,806
Revenue		88,516	984,726
Cost of sales		(37,690)	(363,803)
Gross Profit		50,826	620,923
Other income	6(b)	846,784	1,851,780
Research & development expenses		(1,255,457)	(1,519,404)
Administrative expenses		(1,021,804)	(1,524,590)
Other expenses		(38,061)	(72,659)
Loss before income tax		(1,417,712)	(643,950)
Income tax expense	7	-	-
Net profit (loss) for the year		(1,417,712)	(643,950)
Other comprehensive income			
Items that may be subsequently recycled through profit and loss:			
Foreign currency translation of net investment in foreign subsidiary		(5,719)	183
Items that will not be subsequently recycled through profit and loss:		-	-
Other comprehensive income for the period net of tax		(5,719)	183
TOTAL COMPREHENSIVE INCOME (LOSS) FOR PERIOD		(1,423,431)	(643,767)
Earnings (loss) per share (cents per share)	8		
- basic earnings (loss) per share for the year		(0.87)	(0.4)
- diluted earnings (loss) per share for the year		(0.87)	(0.4)

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

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2014

	CONSOLIDATED				
	Ordinary shares $	*Accumulated Losses* $	*Share Based Payments* $	*Foreign Currency Translation Reserve* $	*Total* $
At 1 July 2013	46,993,580	(47,537,221)	1,485,661	10,436	952,456
Loss for the year	-	(1,417,712)	-	-	(1.417,712)
Other comprehensive income	-	-	-	(5,719)	(5,719)
Total comprehensive income (loss) for the year	-	(1,417,712)	-	(5,719)	(1,423,431)
Transactions with owners in their capacity as owners:					
Shares based payments	24,075	-	-	-	24,075
Shares issued on conversion of notes	262,238	-	-	-	262,238
At 30 June 2014	47,279,893	(48,954,933)	1,485,661	4,717	(184,662)
At 1 July 2012	45,710,667	(46,893,271)	1,485,661	10,253	313,310
Loss for the year	-	(643,950)	-	-	(643,950)
Other comprehensive income	-		-	183	183
Total comprehensive income (loss) for the year	-	(643,950)	-	183	(643,767)
Transactions with owners in their capacity as owners:					
Shares issued on placement	1,003,875	-	-	-	1,003,875
Equity component of convertible notes	7,002	-	-	-	7,002
Shares issued on conversion of notes	272,036	-	-	-	272,036
At 30 June 2013	46,993,580	(47,537,221)	1,485,661	10,436	952,456

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

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2014

	Notes	*CONSOLIDATED*	
		2014	*2013*
		$	*$*
Cash flows from operating activities			
Receipts from customers		264,015	1,176,324
Payments to suppliers and employees		(1,832,030)	(3,037,323)
Royalties received		12,794	34,641
Interest received		3,865	18,899
Receipt of government grants		866,167	614,189
Other income		1,797	-
Net cash used in operating activities	9	(683,392)	(1,193,270)
Cash flows from investing activities			
Cash (to) from deposit		-	67,000
Purchase of plant and equipment	13	-	(30,548)
Net cash used in investing activities		-	36,452
Cash flows from financing activities			
Proceeds from share placement	18	-	1,003,875
Proceeds from issue of convertible notes, net of transaction costs	15	328,541	-
Net cash flows from financing activities		328,541	1,003,875
Net decrease in cash and cash equivalents		(354,851)	(152,943)
Net foreign exchange differences		(134)	3,970
Cash and cash equivalents at beginning of period		429,927	578,900
Cash and cash equivalents at end of period	9	74,942	429,927

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

Notes to the Financial Statements
FOR THE YEAR ENDED 30 JUNE 2014

1 CORPORATE INFORMATION

The consolidated financial statements of Optiscan Imaging Limited and its subsidiaries (collectively the Group) for the year ended 30 June 2014 was authorised for issue in accordance with a resolution of the directors on 28 August 2014.

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 the directors' report. Information on the Group's structure is provided in Note 20.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Table of contents

a) Basis of preparation

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

Compliance with IFRS

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

a) Basis of preparation (continued)

Going Concern (Significant Uncertainty as at 30 June 2014)

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

As at 30 June 2014, the financial position of the consolidated entity as disclosed in the financial statements reflects a net asset deficiency position of $184,662 (2013: net assets $952,456). This balance has been determined after a consolidated net loss for the year of $1,417,712 (2013: $643,950), and a net cash outflow from operations of $683,392 (2013: $1,193,270).

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

- Cash on hand at 30 June 2014 is $74,942 (2013: $429,927);
- Additional fundraising in July and September 2014 as highlighted in Note 24;
- Additional cashflow is expected to be received in the 2015 financial year under the agreement with Carl Zeiss;
- The directors believe the Company has the ability to raise additional capital from existing and new investors;
- The Company has a successful track record in raising capital to fund its operations;
- The Company may have the ability to raise additional income, or accelerate forecast cash flows if required.

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

b) Changes in Accounting Policy, disclosures, standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year.

New and amended standards and interpretations

The Group has adopted the following new and amended Australian Accounting Standards and AASB Interpretations as of 1 July 2013.

AASB 10 - Consolidated Financial Statements

AASB 10 establishes a new control model that applies to all entities. The new control model broadens the situations when an entity is considered to be controlled by another entity and includes new guidance for applying the model to specific situations, including when acting as a manager may give control, the impact of potential voting rights and when holding less than a majority voting rights may give control.

AASB 13 - Fair Value Measurement

AASB 13 establishes a single source of guidance for determining the fair value of assets and liabilities. AASB 13 does not change when an entity is required to use fair value, but rather, provides guidance on how to determine fair value when fair value is required or permitted. Application of this definition may result in different fair values being determined for the relevant assets. AASB 13 also expands the disclosure requirements for all assets or liabilities carried at fair value. This includes information about the assumptions made and the qualitative impact of those assumptions on the fair value determined.

AASB 119 - Employee Benefits

The main change introduced by this standard is to revise accounting for defined benefit plans, which do not currently apply to the Group. The revised standard also changes the definition of short-term employee benefits. The distinction between short-term and other long-term employee benefits is now based on whether the benefits are expected to be settled wholly within 12 months after the reporting date.

AASB 2011-4 - Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]

This amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies. It also removes the individual KMP disclosure requirements for all disclosing entities in relation to equity holdings, loans and other related party transactions.

The above new and amended Australian Accounting Standards and AASB Interpretation did not have a material impact on the accounting policies, financial position or performance of the Group.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Changes in Accounting Policy, disclosures, standards and interpretations

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

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Group for the annual reporting period ended 30 June 2014. These are outlined in the table below.

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2012-3	Amendments to Australian Accounting Standards - *Offsetting Financial Assets and Financial Liabilities*	AASB 2012-3 adds application guidance to AASB 132 *Financial Instruments: Presentation* to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.	1 Jan 2014	The Group has considered the impact of this standard and determined that there will be no impact on the Group's financial report	1 July 2014
Inter-pretation 21	*Levies*	This Interpretation confirms that a liability to pay a levy is only recognised when the activity that triggers the payment occurs. Applying the going concern assumption does not create a constructive obligation.	1 January 2014	The Group has considered the impact of this standard and determined that there will be no impact on the Group's financial report	1 July 2014
AASB 2013-3	*Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*	AASB 2013-3 amends the disclosure requirements in AASB 136 *Impairment of Assets*. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.	1 January 2014	The Group has considered the impact of this standard and will amend disclosures as required to comply with the standard	1 July 2014
AASB 2013-4	Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting [AASB 139]	AASB 2013-4 amends AASB 139 to permit the continuation of hedge accounting in specified circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations.	1 January 2014	The Group has considered the impact of this standard and determined that there will be no impact on the Group's financial report	1 July 2014

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Changes in Accounting Policy, disclosures, standards and interpretations

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

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 9/IFRS 9	*Financial Instruments*	On 24 July 2014 The IASB issued the final version of **IFRS 9 which replaces IAS 39 and includes a logical model for classification and measurement, a single, forward-looking 'expected loss' impairment model and a substantially-reformed approach to hedge accounting.** IFRS 9 is effective for annual periods beginning on or after 1 January 2018. However, the Standard is available for early application. The own credit changes can be early applied in isolation without otherwise changing the accounting for financial instruments. The final version of IFRS 9 introduces a new expected-loss impairment model that will require more timely recognition of expected credit losses. Specifically, the new Standard requires entities to account for expected credit losses from when financial instruments are first recognised and to recognise full lifetime expected losses on a more timely basis. The AASB is yet to issue the final version of AASB 9. A revised version of AASB 9 (AASB 2013-9) was issued in December 2013 which included the new hedge accounting requirements, including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures. AASB 9 includes requirements for a simplified approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below. a. Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. c. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.	1 January 2018	The Group has considered the impact of this standard and will amend disclosures as required to comply with the standard	1 July 2018

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Changes in Accounting Policy, disclosures, standards and interpretations

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

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 9/IFRS 9 (Cont)	*Financial Instruments (Continued)*	d. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. e. Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: ► The change attributable to changes in credit risk are presented in other comprehensive income (OCI) ► The remaining change is presented in profit or loss AASB 9 also removes the volatility in profit or loss that was caused by changes in the credit risk of liabilities elected to be measured at fair value. This change in accounting means that gains caused by the deterioration of an entity's own credit risk on such liabilities are no longer recognised in profit or loss. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7, AASB 2010-10 and AASB 2014-1 – Part E.			
AASB 2013-5	Amendments to Australian Accounting Standards – Investment Entities [AASB 1, AASB 3, AASB 7, AASB 10, AASB 12, AASB 107, AASB 112, AASB 124, AASB 127, AASB 132, AASB 134 & AASB 139]	These amendments define an investment entity and require that, with limited exceptions, an investment entity does not consolidate its subsidiaries or apply AASB 3 *Business Combinations* when it obtains control of another entity. These amendments require an investment entity to measure unconsolidated subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. These amendments also introduce new disclosure requirements for investment entities to AASB 12 and AASB 127.	1 January 2014	The Group has considered the impact of this standard and determined that there will be no impact on the Group's financial report	1 July 2014

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Changes in Accounting Policy, disclosures, standards and interpretations

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

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2014-1 Part A -Annual Improvements 2010–2012 Cycle	Amendments to Australian Accounting Standards - Part A Annual Improvements to IFRSs 2010–2012 Cycle	AASB 2014-1 Part A: This standard sets out amendments to Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards (IFRSs) *Annual Improvements to IFRSs 2010–2012 Cycle* and *Annual Improvements to IFRSs 2011–2013 Cycle.* Annual Improvements to IFRSs 2010–2012 Cycle addresses the following items: ► AASB 2 - Clarifies the definition of 'vesting conditions' and 'market condition' and introduces the definition of 'performance condition' and 'service condition'. ► AASB 3 - Clarifies the classification requirements for contingent consideration in a business combination by removing all references to AASB 137. ► AASB 8 - Requires entities to disclose factors used to identify the entity's reportable segments when operating segments have been aggregated. An entity is also required to provide a reconciliation of total reportable segments' asset to the entity's total assets. ► AASB 116 & AASB 138 - Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts. ► AASB 124 - Defines a management entity providing KMP services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of AASB 124 for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be separately disclosed.	1 July 2014	The Group has considered the impact of this standard and will amend disclosures as required to comply with the standard	1 July 2014

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Changes in Accounting Policy, disclosures, standards and interpretations

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

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
AASB 2014-1 Part A -Annual Improvements 2011–2013 Cycle	Amendments to Australian Accounting Standards - Part A Annual Improvements to IFRSs 2011–2013 Cycle	Annual Improvements to IFRSs 2011–2013 Cycle addresses the following items: ► AASB13 - Clarifies that the portfolio exception in paragraph 52 of AASB 13 applies to all contracts within the scope of AASB 139 or AASB 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in AASB 132. ► AASB40 - Clarifies that judgment is needed to determine whether an acquisition of investment property is solely the acquisition of an investment property or whether it is the acquisition of a group of assets or a business combination in the scope of AASB 3 that includes an investment property. That judgment is based on guidance in AASB 3.	1 July 2014	The Group has The Group has considered the impact of this standard and will amend disclosures as required to comply with the standard	1 July 2014
AASB 1031	*Materiality*	The revised AASB 1031 is an interim standard that cross-references to other Standards and the F*ramework (*issued December 2013) that contain guidance on materiality. AASB 1031 will be withdrawn when references to AASB 1031 in all Standards and Interpretations have been removed. AASB 2014-1 Part C issued in June 2014 makes amendments to eight Australian Accounting Standards to delete their references to AASB 1031. The amendments are effective from 1 July 2014*.	1 January 2014	The Group has considered the impact of this standard and determined that there will be no impact on the Group's financial report	1 July 2014
AASB 2013-9	*Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments*	The Standard contains three main parts and makes amendments to a number Standards and Interpretations. Part A of AASB 2013-9 makes consequential amendments arising from the issuance of AASB CF 2013-1. Part B makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 and also makes minor editorial amendments to various other standards. Part C makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 *Hedge Accounting* into AASB 9 *Financial Instruments*.	1 January 2014	The Group has considered the impact of this standard and determined that there will be no impact on the Group's financial report	1 July 2014

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b) Changes in Accounting Policy, disclosures, standards and interpretations

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

Reference	Title	Summary	Application date of standard*	Impact on Group financial report	Application date for Group*
Amendments to IAS 16 and IAS 38	**Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)**	IAS 16 and IAS 38 both establish the principle for the basis of depreciation and amortisation as being the expected pattern of consumption of the future economic benefits of an asset. The IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This presumption, however, can be rebutted in certain limited circumstances.	1 January 2016	The Group has considered the impact of this standard and determined that there will be no material impact on the Group's financial report	1 July 2016
IFRS 15	**Revenue from Contracts with Customers**	In May 2014, the IASB issued IFRS 15 *Revenue from Contractswith Customers*, which replaces IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related Interpretations (**IFRIC *13 Customer Loyalty Programmes*, IFRIC 15 *Agreements for the Construction of Real Estate,* IFRIC 18 *Transfers of Assets from Customers* and SIC-31 *Revenue—Barter Transactions Involving Advertising Services***) **The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity recognises revenue in accordance with that core principle by applying the following steps:** **(a) Step 1: Identify the contract(s) with a customer** **(b) Step 2: Identify the performance obligations in the contract** **(c) Step 3: Determine the transaction price** **(d) Step 4: Allocate the transaction price to the performance obligations in the contract** **(e) Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation** **Early application of this standard is permitted.**	1 January 2017	The Group has not yet considered the impact of this standard on the Group's financial report	1 July 2017

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2014. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the noncontrolling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- De-recognises the assets (including goodwill) and liabilities of the subsidiary
- De-recognises the carrying amount of any non-controlling interests
- De-recognises the cumulative translation differences recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Revenue recognition

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

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

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

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

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

e) Government grants

When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where expenditure has been incurred that gives rise to an entitlement under a grant agreement, the grant income is accrued. Revenue is recognised only to the extent that there is reasonable assurance that the grant will be received and conditions attached will be complied with.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Leases

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

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

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

g) Cash and cash equivalents

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

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

h) Trade and other receivables

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

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

i) Inventories

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

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

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Derivative financial instruments and hedging

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

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

k) Foreign currency translation

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

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

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

l) Income tax

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

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

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

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l) Income tax (continued)

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

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

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

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

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

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

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

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

m) Other taxes

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

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Other taxes (continued)

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

n) Plant and equipment

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

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

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

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

Disposal

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

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

o) Investments and other financial assets

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

The carrying values of investments in controlled entities are reviewed for impairment at each reporting date.

p) Intangible assets

The only intangible assets recognised by the group are software assets. The amounts capitalised represent the acquisition cost of software used in the design, development and administrative activities of the group. These amounts are amortised over a period of no more than three years, and are assessed for impairment on an annual basis. At present intangible software assets are fully written down, with zero carrying value.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p) Intangible assets (continued)

Research and development costs

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

q) Trade and other payables

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

r) Interest bearing loans and borrowings

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

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

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

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

s) Provisions and employee leave benefits

Provisions

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

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

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

s) Provisions and employee benefits (continued)

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

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

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

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

t) Share-based payment transactions

(i) *Equity settled transactions with employees*

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

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

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

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

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

t) Share-based payment transactions (continued)

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

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

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

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

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

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

u) Contributed equity

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

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

v) Earnings (Loss) per share

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

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

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

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

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2014

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

w) Segment reporting

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

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

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

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

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

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Risk Exposures and Responses

Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's cash and cash equivalents. The impact of movements in interest rates is not material in the context of the Group's operations or trading results.

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

	Consolidated 2014	Consolidated 2013
Financial Assets	$	$
Cash and cash equivalents *	69,147	401,335
Financial Liabilities	-	-
Net exposure	69,147	401,335

*These amounts differ from the balance sheet due to non- interest bearing cash on hand and foreign currency balances, and convertible notes with fixed interest rates.

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

At 30 June 2014, if interest rates had moved throughout the year, as illustrated in the table below, with all other variables held constant, post tax loss and equity would have been affected as follows:

Judgements of reasonably possible movements in interest rates:	Net Profit Higher (Lower)		Other Comprehensive Income Higher (Lower)	
	2014 $	2013 $	2014 $	2013 $
Consolidated				
+0.50% (50 basis points)	503	845	-	-
-0.25% (25 basis points)	(252)	(2,536)	-	-

Interest rates were steady during 2013/2014, with official rates remaining at historical lows at year end. At balance date, the economic outlook in Australia is similarly steady, with sentiment on future interest rates favouring the prospect of modest increases in the medium term. On this basis, a possible movement in rates from -0.25% to +0.50% has been adopted as a reasonably possible movement in rates. The movements in net loss are due to higher and lower amounts of interest received from interest bearing cash balances. There is no movement in other comprehensive income as there are no derivative instruments designated as cash flow hedges.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2014

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

As nearly all of the Group's sales revenue, as well as some expenses and inventory purchases, are denominated in United States Dollars and Euro, the Group's statement of financial position can be affected by significant movements in these exchange rates. Subject to the availability of finance facilities, Group policy is to hedge a minimum of 50% of any individual transactions in excess of a materiality threshold of $100,000 for which payment or receipt is anticipated more than one month after the Group has entered into a firm commitment for a sale or purchase. It is the Group's policy not to enter into forward contracts until a firm commitment is in place and to negotiate the terms of the economic hedge to match the terms of the hedged item. At 30 June 2014, there were no economic hedges in place in respect of net foreign currency exposures, as there were no bank facilities in place.

At 30 June 2014, the Group had the following exposure to foreign currency (US$ and Euro) that is not designated in cash flow hedges:

Consolidated	2014 $	2013 $
Financial Assets		
Cash and cash equivalents US$	690	12,186
Cash and cash equivalents Euro	1,799	8,708
Trade and other receivables US$	15,000	334
Trade and other receivables Euro	2,500	2,318
Financial Liabilities		
Trade and other payables US$	(40,167)	(3,640)
Borrowings (Convertible Notes) US$^	(125,000)	-
Trade and other payables Euro	-	(220)
Net exposure US$	(149,477)	8,880
Net exposure Euro	4,299	10,806

^ Not hedged at balance date as no bank facility available

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

At 30 June 2014, had the Australian Dollar moved by the same amount illustrated in the table below, with all other variables held constant, post tax loss and equity would have been affected as follows:

Judgements of reasonably possible movements in A$ exchange rates:	Net Loss (Higher) Lower		Equity Higher (Lower)	
	2014	2013	2014	2013
Consolidated	$	$	$	$
AUD/USD +1.5%	2,437	(766)	-	-
AUD/USD - 1.5%	(2,515)	913	-	-
AUD/EURO + 2.6%	(162)	(1,651)	-	-
AUD/EURO – 2.6%	170	2,108	-	-
Parent Entity				
AUD/USD +1.5%	2,038	-	-	-
AUD/USD - 1.5%	(2,103)	-	-	-

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

Credit risk arises from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables and derivative instruments. The Group's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments. Exposure at balance date is addressed in each applicable note. The Group does not hold any credit derivatives to offset its credit exposure. The Group trades only with recognised, creditworthy third parties, and as such collateral is not requested nor is it the Group's policy to securitise its trade and other receivables. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation. Risk limits are set for each individual customer, and are regularly monitored. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant. There is no significant concentration of credit risk in the Group's current trading position. With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, the Group's exposure to credit risk arises from the possibility of default of the counter party. This is considered unlikely as the Group places cash and cash equivalents only with recognised Australian trading banks.

Liquidity risk and capital management

The Group's objective is to maintain adequate funding of its activities. Prior to May 2009, all capital financing has been derived from issues of equity. Since May 2009, the Group has from time to time, issued convertible notes, introducing debt finance to the funding mix. Capital management is a process of monitoring cash reserves and forecast cash requirements, and there are no externally imposed capital requirements. The table below reflects all contractually fixed pay-offs and receivables for settlement from recognised financial assets and liabilities, as of 30 June 2014. Cash flows for financial assets and liabilities without fixed amount or timing are based on the conditions existing at 30 June 2014.

	Consolidated		
	<6 months	1-5 years	Total
Year ended 30 June 2014			
Liquid financial assets			
Cash and cash equivalents	74,942	-	74,942
Trade and other receivables	657,164	-	657,164
Financial liabilities			
Trade and other payables	644,624	-	644,624
Convertible notes	126,466	-	126,466
Callable bank guarantee	45,500		45,500
Net maturity	(84,484)	-	(84,484)
Year ended 30 June 2013			
Liquid financial assets			
Cash and cash equivalents	429,927	-	429,927
Trade and other receivables	939,569	-	939,569
Financial liabilities			
Trade and other payables	317,544	-	317,544
Convertible notes	-	-	-
Callable bank guarantee	45,500		45,500
Net maturity	1,006,452	-	1,006,452

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

3 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk and capital management (continued)

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

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

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

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

Fair value of financial assets and liabilities

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

The fair value of financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation transaction. Management has assessed that the fair value of cash and short term deposits, trade receivables, and trade payables approximate their carrying amount due to the short term nature of the instruments.

Fair value measurement of interest bearing borrowings
Interest bearing borrowings disclosed in note 15 are carried at fair value. This valuation at balance date was based on an exit price that established by reference to significant observable inputs (level 2 under AASB 13), being the amount paid shortly after balance date to extinguish the liability (refer notes 15 and 24).

Fair value measurement hierarchy

The following table outlines the fair value measurement hierarchy for the liabilities carried at fair value:

			Fair value measurement using		
Liability	Date of Valuation	Total	Quoted prices in active markets	Significant observable inputs	Significant unobservable inputs
		$	$	$	$
Interest bearing loans					
Convertible notes	30 June 2014	126,466	-	126,466	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

4 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Net realisable value of inventory
Most of the inventory held by the Group is materials for second generation processors, scanners and probes. Inventory relating to the first generation confocal imaging platform, including FIVE 1 products and accessories, remains on hand but is carried at zero value. The rate of future sales, and the usage of parts for service and support are uncertain, and as a consequence the Group's ability to realise the carrying value of inventory is similarly uncertain.

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

Recognition of grant receivable for R&D Tax Incentive
The Group has established a precedent for entitlement to grant income from the R&D Tax incentive in prior periods. This experience supports the assumption that eligibility for the grant will continue on the same basis, and accordingly, it is appropriate to recognise entitlement to the income in the current period.

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

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

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

Fair value of financial liabilities
When the fair values of financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the DCF model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility and other external inputs. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

5 SEGMENT INFORMATION

The Group has identified its operating segments based on the internal reports that are reviewed and used by management and the board (the chief decision makers) in assessing performance and in determining the allocation of resources. The operating segments are identified by management based on the activities undertaken. Financial information about each of these operating activities is reported to management on a monthly basis. The group has two separate business segments, being product realisation (trading), where activities comprise manufacturing and sales of confocal imaging products, and research and development, where activities include design and development of new products and technologies, including related income from customers. Unallocated amounts relate mainly to central costs and overheads, and include unallocated revenues and other income. The accounting policies used by the group in reporting segments internally are the same as those contained in note 2 to the accounts and in the prior period.

Major customers

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

5 SEGMENT INFORMATION (continued)

		Trading *$*	*R&D* *$*	*Unallocated* *$*	*Total* *$*
Year ended 30 June 2014					
Revenue					
	Sales to external customers	71,883	-	-	71,883
	Inter segment revenue	-	-	-	-
	Total segment revenue	71,883	-	-	71,883
	Other revenues	-	-	16,633	16,663
	Total consolidated revenue	71,883	-	16,633	88,516
Result					
	Net profit (loss) for year by segment	34,193	(410,469)	-	(376,276)
	Unallocated items	-	-	(1,041,436)	(1,041,436)
	Consolidated net profit (loss)	34,193	(410,469)	(1,041,436)	(1,417,712)
Assets and liabilities					
	Segment assets *	47,320	652,416	116,616	816,352
	Segment liabilities	(88,987)	(74,080)	(837,947)	(1,001,014)
	Segment net assets (deficiency)	(41,667)	578,336	(721,331)	(184,662)
Cash flow					
	Segment net cash flow from operating activities	78,138	(217,730)	(543,800)	(683,392)
	Investing cash flows	-	-	-	-
	Financing cash flows	-	-	328,541	328,541
	Net cash flow for year	78,138	(217,730)	(215,259)	(354,851)
Other Segment information					
Non cash expenses					
	Depreciation and amortisation	-	-	16,802	16,802
	Amortised cost adjustment of convertible notes	-	-	63,791	63,791
	Impairment of inventory	47,826	-	-	47,826
	Share based payments	-	-	24,075	24,075
	Foreign exchange differences	-	-	(9,213)	(9,213)
Revenue by geographic segment (location of customer)					
	Asia	39,375	-	12,794	52,169
	Australia	5,284	-	3,839	9,123
	Europe	27,224	-	-	27,224
	USA & Canada	-	-	-	-
	Total	71,883	-	16,633	88,516

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

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2014

5 SEGMENT INFORMATION (continued)

		Trading $	*R&D* $	*Unallocated* $	*Total* $
Year ended 30 June 2013					
Revenue					
	Sales to external customers	931,920	-	-	931,920
	Inter segment revenue	-	-	-	-
	Total segment revenue	931,920	-	-	931,920
	Other revenues	-	-	52,806	52,806
	Total consolidated revenue	931,920	-	52,806	984,726
Result					
	Net profit (loss) for year by segment	568,116	332,377	-	900,493
	Unallocated items	-	-	(1,544,443)	(1,544,443)
	Consolidated net profit (loss)	568,116	332,377	(1,544,443)	(643,950)
Assets and liabilities					
	Segment assets *	92,484	866,167	551,782	1,510,433
	Segment liabilities	(90,207)	(95,093)	(372,677)	(557,977)
	Segment net assets	2,277	771,074	179,105	952,456
Cash flow					
	Segment net cash flow from operating activities	526,989	(515,401)	(1,204,858)	(1,193,270)
	Investing cash flows	-	-	36,452	36,452
	Financing cash flows	-	--	1,003,875	1,003,875
	Net cash flow for year	526,989	(515,401)	(164,531)	(152,943)
Other Segment information					
Non cash expenses					
	Depreciation and amortisation	-	-	30,341	30,341
	Amortised cost adjustment of convertible notes		-	68,624	68,624
	Impairment of inventory	109,158	-	-	109,158
	Foreign exchange differences	-	-	(3,788)	(3,788)
Revenue by geographic segment (location of customer)					
	Asia	1,083	-	34,641	35,724
	Australia	206,810	-	18,165	224,975
	Europe	718,247	-	-	718,247
	USA & Canada	5,780	-	-	5,780
	Total	931,920	-	52,806	984,726

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

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2014

6 REVENUES AND EXPENSES

		CONSOLIDATED	
		2014 $	2013 $
(a)	**Other revenue**		
	Royalty revenue	12,794	34,641
	Finance revenue – bank interest received	3,839	18,165
	Total Other revenue	16,633	52,806
(b)	**Other income**		
	Design and development income	192,572	371,425
	Government grants – R&D Tax incentive	652,416	1,480,355
	Insurance claim proceeds	1,796	-
	Total Other income	846,784	1,851,780
(c)	**Depreciation and amortisation**		
	-Depreciation included in cost of sales	-	1,879
	- Depreciation included in R&D expenses	-	1,319
	- Depreciation included in administration expenses	16,802	27,143
		16,802	30,341
(d)	**Employee benefits expense**		
	Wages and salaries	971,571	1,034,550
	Workers' compensation costs	8,357	5,725
	Superannuation contribution expense	88,258	93,031
	Annual leave expense	(9,095)	22,810
	Long service leave expense	14,426	17,630
		1,073,517	1,173,746
(e)	**Cost of inventories recognised as an expense**		
	Consumed in production – cost of goods sold	-	145,706
	Consumed in R&D	-	43
	Write down inventory to net realisable value	47,826	109,158
		47,826	254,907
(f)	**Finance costs**		
	Interest on convertible notes	8,017	18,624
	Fair value adjustment of convertible notes	63,791	-
	Bergen facility termination costs :		
	- termination fee settled by note issue	-	50,000
	– prepaid facility costs written off on termination	-	236,601
		71,808	305,255
(g)	**Share based payment expense**		
	Share-based payments expense – non-employees		
	– funding facility costs	22,289	-
	– interest	1,786	-
		24,075	-

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2014

7 INCOME TAX

	CONSOLIDATED	
	2014 *$*	*2013* *$*
The components of income tax expense are:		
Income Statement		
Current income tax		
Current income tax charge	-	-
Adjustments in respect of current income tax of previous year:	-	-
Withholding tax deducted from royalty revenue	-	-
Deferred income tax		
Relating to origination and reversal of temporary differences	-	-
Income tax (expense) benefit reported in the income statement	-	-

Tax Losses
The Group has unconfirmed, unrecouped tax losses in Australia of $40,252,368 (2013: $39,720,634) which have not been brought to account. The ability to be able to recognise a deferred tax asset in respect of these tax losses will be dependent upon the probability that future taxable profit will be available against which the unused tax losses can be utilised and the conditions for deductibility imposed by Australian tax authorities will be complied with.

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

7 INCOME TAX (continued)

	CONSOLIDATED 2014 $	CONSOLIDATED 2013 $
A reconciliation between tax expense and the product of accounting loss before income tax multiplied by the Group's applicable income tax rate is as follows:		
Accounting loss before income tax	(1,417,712)	(643,950)
Prima facie income tax (benefit) at the Parent entity's statutory income tax rate of 30% (2012: 30%)	(425,314)	(193,185)
Adjustments in respect of current income tax of previous years	-	6,570
Non assessable gains	(203,951)	(444,550)
Share based payments not deductible	-	-
R&D Tax Incentive deductions foregone for tax offset	434,944	577,445
Expenditure not allowable for income tax purposes	26,360	85,980
Deferred tax assets recognised /(not recognised)	(167,961)	(32,260)
Income tax expense	-	-

	Statement of financial position 2014 $	Statement of financial position 2013 $	Statement of comprehensive income 2014 $	Statement of comprehensive income 2013 $
Deferred income tax - not brought to account Deferred income tax at 30 June relates to the following items and has not been brought to account (Refer note 2(l):				
CONSOLIDATED				
Deferred tax assets				
Undeducted patent costs	214,193	200,799	13,393	25,285
Employee benefit & warranty provisions	68,978	72,130	(3,152)	15,799
Expenses not yet deductible	9,360	9,000	360	(888)
Inventory impairment provision	468,095	473,783	(5,688)	49,100
Deferred deductible equity issue costs	-	3,419	(3,419)	(4,819)
Tax Losses available	12,075,710	11,909,243	166,467	(116,737)
Foreign tax credits	-	-	-	-
Gross deferred income tax assets	12,836,336	12,668,374		
Less amounts not recognised in accounts	(12,836,336)	(12,668,374)		
Gross deferred income tax assets	-	-		
Deferred tax income/ (expense) incurred			167,961	(32,260)
Less deferred income tax (expense) not recognised in accounts			(167,961)	32,260
Deferred tax income/ (expense)			-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

8 EARNINGS (LOSS) PER SHARE

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

	CONSOLIDATED	
	2014	*2013*
	$	*$*
Net loss	(1,417,712)	(643,950)

	2014	*2013*
	Number	*Number*
Weighted average number of ordinary shares for basic earnings per share	163,733,749	156,055,723
Effects of dilution:		
Share options	-	-
Weighted average number of ordinary shares adjusted for the effect of dilution	163,733,749	156,055,723
Weighted average number of converted, lapsed or cancelled potential ordinary shares included in diluted earnings per share	-	-

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

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements, other than a placement of in July 2014 to raise funds applied to the repayment of convertible notes outstanding at balance date (refer notes 15 and 24).

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

9 CASH AND CASH EQUIVALENTS

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. At balance date the bank balance interest rate is 2.35% (2013: 2.35%), and the balances are at call. The fair value of cash at bank approximates the carrying amount.

At balance date the term deposit interest rate is 3.25%, and the weighted average term to maturity is 47 days. The fair value of cash deposit approximates the carrying amount, in view of the short term to maturity. Term deposits amounting to $65,500 are subject to a charge which secures banking facilities made available to the group (refer note 16).

Reconciliation to Statement of Cash Flows

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

	CONSOLIDATED	
	2014 *$*	*2013* *$*
Cash at bank and in hand	6,970	364,292
Short-term deposits	67,972	65,635
	74,942	429,927

Reconciliation of net profit (loss) after tax to net cash flows from operations		
Net profit (loss)	(1,417,712)	(643,950)
Adjustments for:		
Depreciation and amortisation	16,804	30,341
Fair value adjustment of convertible notes represented by:		
Interest and fair value adjustment on convertible notes	63,791	18,624
Termination fee settled by note issue	-	50,000
Impairment of assets	47,826	109,158
Net exchange differences	(9,213)	(3,788
Shares based payments expensed	24,075	-
Changes in assets and liabilities		
(Increase)/decrease in trade and other receivables	282,405	(843,882)
(Increase)/decrease in inventories	(1,694)	(45,915)
(Increase)/decrease in prepayments	(6,245)	235,112
(Decrease)/increase in trade and other payables	327,080	51,054
(Decrease)/increase in deferred revenue	-	(202,685)
(Decrease)/increase in provisions	(10,509)	52,661
Net cash used in operating activities	(683,392)	(1,193,270)

Disclosure of financing facilities - Refer to note 16.

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

10 TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	2014 *$*	*2013* *$*
CURRENT		
Trade receivables	3,620	2,652
GST refund receivable	874	51,798
Interest receivable	254	280
R&D Tax incentive grant receivable	652,416	866,167
Refund receivable	-	16,711
Other receivables	-	1,961
Net carrying amount	657,164	939,569

Ageing Analysis of Receivables

	Total	0-30 Days	31-60 Days	61-90 Days PDNI*	90+ Days PDNI*
Consolidated – 2014	657,164	657,164	-	-	-
Consolidated – 2013	939,569	936,637	280	-	2,652

* Past due not impaired (“PDNI”)

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

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

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

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

11 INVENTORIES

	CONSOLIDATED	
	2014 *$*	*2013* *$*
Raw materials (at net realisable value)	43,700	-
Work in progress (at net realisable value)	-	89,832
Finished goods (at cost)	-	-
Total inventories at net realisable value	43,700	89,832
Write down to net realisable value (refer note 6)	47,826	109,158

12 PREPAYMENTS

Current		
Prepaid expenses	15,924	9,681

13 PLANT AND EQUIPMENT

YEAR ENDED 30 JUNE 2014	*Office Furniture & Equipment 2014 $*	*Production Equipment 2014 $*	*R&D Equipment 2014 $*	*Total Plant & Equipment 2014 $*
Opening balance, net of accumulated depreciation	41,424	-	-	41,424
Additions	-	-	-	-
Disposals	-	-	-	-
Depreciation charge for the year	(16,802)	-	-	(16,802)
At 30 June 2014, net of accumulated depreciation	24,622	-	-	24,622
At 1 July 2014				
Cost	684,327	258,483	364,905	1,307,715
Accumulated depreciation	(659,705)	(258,483)	(364,905)	(1,283,093)
Net carrying amount	24,622	-	-	24,622
At 1 July 2013				
Cost	684,327	258,483	364,905	1,307,715
Accumulated depreciation	(642,903)	(258,483)	(364,905)	(1,266,291)
Net carrying amount	41,424	-	-	41,424

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

13 PLANT AND EQUIPMENT (continued)

YEAR ENDED 30 JUNE 2013	*Office Furniture & Equipment 2013 $*	*Production Equipment 2013$*	*R&D Equipment 2013 $*	*Total Plant & Equipment 2013 $*
Opening balance, net of accumulated depreciation	38,018	1,880	1,319	41,217
Additions	30,548	-	-	30,548
Disposals	-	-	-	-
Depreciation charge for the year	(27,142)	(1,880)	(1,319)	(30,341)
At 30 June 2013, net of accumulated depreciation	41,424	-	-	41,424
At 1 July 2013				
Cost	684,327	258,483	364,905	1,307,715
Accumulated depreciation	(642,903)	(258,483)	(364,905)	(1,266,291)
Net carrying amount	41,424	-	-	41,424
At 1 July 2012				
Cost	654,352	258,483	364,905	1,277,740
Accumulated depreciation	(616,334)	(256,603)	(363,586)	(1,236,523)
Net carrying amount	38,018	1,880	1,319	41,217

14 TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2014 $	*2013 $*
Current		
Trade payables (i)	281,814	128,657
Accrued expenses	360,900	188,887
Other creditors	1,910	-
	644,624	317,544

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

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2014

15 INTEREST BEARING LOANS AND BORROWINGS

	CONSOLIDATED	
	2014 *$*	*2013* *$*
Current		
Convertible notes	126,466	-
Movement in convertible note liabilities		
Opening balance	-	210,414
Convertible notes issued – 3 notes @ US$100,000	328,541	50,000
Equity component of convertible notes	-	(7,002)
Fair value adjustment of convertible notes	63,791	18,624
Convertible notes converted to equity by noteholders	(262,238)	(272,036)
Foreign currency revaluation at balance date	(3,628)	-
Closing balance	126,466	-

(a) Fair value
The convertible notes on issue are accounted for at fair value.

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

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

(d) Terms and conditions of convertible notes
The convertible note facility commenced on 30 August 2013. The agreement provides for the issue of convertible notes of US$100,000 each with a one year term, which can be converted to equity at the option of the holder. The amount payable upon conversion is 122% of face value, with the number of shares determined by reference to the daily volume-weighted average share price of the Group's shares. The notes carry interest at 8% per annum.

Repayment after balance date

In July 2014, the noteholder agreed to termination of the facility by repayment of the outstanding convertible notes with a face value of US$115,000 together with accrued interest for an aggregate amount of US$125,000. The fair value at balance date was determined by reference to this observable input.

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

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2014

16 FINANCING FACILITIES

	CONSOLIDATED	
	2014 *$*	*2013* *$*
Bank Facilities		
- credit cards	20,000	20,000
- bank guarantees and indemnities	45,500	45,500
- electronic transaction facility	-	-
	65,500	65,500
Facilities used at reporting date:		
- credit cards	3,527	12,000
- bank guarantees and indemnities	45,500	45,500
- electronic transaction facility	-	-
	49,027	57,500
Facilities unused at reporting date:		
- credit cards	16,473	8,000
- bank guarantees and indemnities	-	-
	16,473	8,000
Total bank facilities	65,500	65,500
Facilities used at reporting date	49,027	57,500
Facilities unused at reporting date	16,473	8,000
Assets pledged as security The bank facilities are secured by charges over specific term deposits	65,500	65,635
Convertible Note Funding Facility^		
	US$	
Total facility	1,000,000	-
Facilities used at reporting date	115,000	-
Facilities unused at reporting date*	885,000	-

^ In July 2014, the noteholder agreed to termination of the facility by repayment of the outstanding convertible notes with a face value of US$115,000 together with accrued interest for an aggregate amount of US$125,000.

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

17 PROVISIONS

	Annual Leave $	*Long Service Leave* $	*Warranty* $	*Total* $
At 30 June 2013	98,878	110,410	31,145	240,433
Arising during the year	78,083	14,424	(3,061)	89,446
Utilised	(99,955)	-	-	(99,955)
At 30 June 2014	77,006	124,834	28,084	229,924
Current 2014	77,006	107,836	28,084	212,926
Non-current 2014	-	16,998	-	16,998
	77,006	124,834	28,084	229,924
Current 2013	98,878	99,776	31,145	229,799
Non-current 2013	-	10,634	-	10,634
	98,878	110,410	31,145	240,433

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

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

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

18 CONTRIBUTED EQUITY AND RESERVES

	CONSOLIDATED	
	2014 *$*	*2013* *$*
Ordinary shares - Issued and fully paid	47,279,893	46,993,580

	No of Shares	*$*
Movement in ordinary shares on issue		
At 1 July 2012	144,027,918	45,710,667
Issued for cash in placement	13,385,001	1,003,875
Shares issued upon conversion of notes	4,675,199	272,036
Equity component of convertible notes	-	7,002
	-	
At 30 June 2013	162,088,113	46,993,580
Shares issued upon conversion of notes	4,741,960	24,594
Shares issued for facility costs and interest	395,428	261,719
At 30 June 2014	167,225,501	47,279,893

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

Share options
The company has a share based payment option plan under which options to subscribe for the company's shares have been granted to employees (refer note 21).

	CONSOLIDATED	
	2014 *$*	*2013* *$*
Accumulated losses		
Movements in accumulated losses were as follows:		
Balance 1 July	(47,537,221)	(46,893,271)
Net profit (loss) for the year	(1,417,712)	(643,950)
Balance 30 June	(48,954,933)	(47,537,221)

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

18 CONTRIBUTED EQUITY AND RESERVES (continued)

	CONSOLIDATED	
	2014	*2013*
	$	*$*
Reserves		
Movements in reserves were as follows:		
Share Based Payments Reserve		
Balance 30 June	1,485,661	1,485,661
Foreign Currency Translation Reserve		
Balance 1 July	10,436	10,253
Foreign currency translation difference	(5,719)	183
Balance 30 June	4,717	10,436
Total reserves	1,490,378	1,496,097

Nature and purpose of reserves

Share based payments reserve
This reserve is used to record the value of equity benefits provided to employees and other parties in consideration for services rendered. Refer to note 21 for further details of the employee share option plan and other share based payments.

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

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

19 PARENT ENTITY INFORMATION

	2014 *$*	*2013* *$*
Information relating to Optiscan Imaging Ltd:		
Current assets	1,174	340,823
Total assets	2,048	952,456
Current liabilities	186,710	-
Total liabilities	186,710	-
Issued capital	47,279,893	46,993,580
Accumulated losses	(48,950,216)	(47,526,785)
Share based payments reserve	1,485,661	1,485,661
Total equity / (deficiency)	(184,662)	952,456
Profit (Loss) of the parent entity	(1,423,431)	(643,767)
Other comprehensive income of the parent entity		-
Total comprehensive income of the parent entity	(1,423,431)	(643,767)
Parent entity guarantees for debts of subsidiaries	-	-
Contingent liabilities of parent entity	-	-
Contractual commitments of parent entity	-	-

20 RELATED PARTY DISCLOSURE

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

		% Equity interest		*Investment $*	
Name	*Country of incorporation*	*2014*	*2013*	*2014*	*2013*
At cost:					
Optiscan Pty Ltd	Australia	100	100	6,605,396	6,605,396
Optiscan Inc	United States	100	100	2,002	2,002
Accumulated impairment				(6,607,398)	(5,995,765)
				-	611,633

Optiscan Imaging Limited is the ultimate Australian parent entity.

Transactions with Subsidiaries
Inter-company transactions between the parent entity, Optiscan Imaging Limited and subsidiary, Optiscan Pty Ltd amounted to $573,428 (2013, $594,834). Outstanding balances at year-end are unsecured, interest free and settlement occurs in cash. The balances are classified current by the parent entity. An impairment assessment is undertaken each financial year by examining the financial position of the subsidiaries to determine whether there is objective evidence that a related party receivable is impaired. When such objective evidence exists, an impairment loss is recognised.

Notes to the Financial Statements (continued)
FOR THE YEAR ENDED 30 JUNE 2014

Details of Key Management Personnel

(i) Board of Directors

Executive Directors

A. Holt	Chairman (Appointed to board 12 February 2009, Executive Chairman 14 May 2009)
P. Delaney	Director of Technology (Appointed to board 21 March 1994)
B. Andrew	Chief Financial Officer (Appointed to board 20 January 2010)

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

Compensation of Key Management Personnel

Table 1: Compensation of Key Management Personnel for the year ended 30 June 2014

	CONSOLIDATED	
	2014	*2013*
	$	*$*
Short term employee benefits	329,625	334,375
Post Employment benefits	20,812	20,250
Office and travel expenses reimbursed	-	62,000
Other long term benefits	2,988	1,266
	353,425	417,891

There were no other transactions and balances with Key Management Personnel

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

21 SHARE-BASED PAYMENT PLANS

Types of share based payments

Employee Share Option Plan

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

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

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

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

Employee Share Option Plan	No. Options 2014	WAEP 2014	No. Options 2013	WAEP 2013
Outstanding at the beginning of the year	-	-	150,000	0.31
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	(150,000)	0.50
Outstanding at the end of the year	-	-	-	-
Exercisable at the end of the year	-	-	-	-

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

21 SHARE BASED PAYMENT PLANS (continued)

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

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

Details of option issues to parties other than employees

The following table illustrates the number and weighted average exercise prices (WAEP) of share options issued to parties other than employees outstanding at year end:

Options issued to parties other than employees	No. Options 2014	WAEP 2014	No. Options 2013	WAEP 2013
Outstanding at the beginning of the year	6,900,000	0.118	6,900,000	-
Granted during the year	-	-	-	0.118
Expired during the year	(5,000,000)	-	-	-
Outstanding at the end of the year	1,900,000	0.166	6,900,000	0.118
Exercisable at the end of the year	1,900,000	0.166	6,900,000	0.118

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

The following tables list the inputs to the model used for option issues outstanding at year end:

	2014
Number of options	1,900,000
Dividend yield (%)	-
Expected volatility (%)	110.00
Risk-free interest rate (%)	3.25
Expected life of option (years)	2.5
Option exercise price ($)	0.166
Share price at grant date ($)	0.135

The expected life of the options is based on historical data and is not necessarily indicative of exercise patterns that may occur. The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome. No other features of options granted were incorporated into the measurement of fair value. The weighted average term to maturity for share options issued to other parties outstanding at 30 June 2014 is 2.6 months.

The outstanding balance as at 30 June 2014 is represented by:

Options expiring in the year :	No Options	WAEP $
- 2014/2015	1,900,000	0.166

Notes to the Financial Statements (continued)

FOR THE YEAR ENDED 30 JUNE 2014

22 DERIVATIVES AND HEDGING

Economic hedging activities
At 30 June 2014 and 30 June 2013, there were no currency option contracts or forward exchange contracts in existence.

23 COMMITMENTS AND CONTINGENCIES

Operating lease commitments – Group as lessee

The previous property lease over the premises occupied by the Group expired in September 2007. The Group currently occupies the premises on a monthly tenancy. There are no future minimum rentals payable under non-cancellable operating leases as at 30 June 2014.

Capital commitments

At 30 June 2014 there were no material capital commitments outstanding (2013: Nil).

Contingent Liabilities

The group has contingent liabilities in relation to bank guarantees on issue at balance date amounting to $45,500 (2013: $45,500).

24 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 30 June 2014, other than:

- The directors reported on 14 July 2014 that the Group has entered into a $500,000 Convertible Debt Facility secured against the R&D tax incentive receivable outstanding at balance date. The Group also effected a placement of 5,341,938 shares to raise $135,000. The proceeds of the placement were used to repay in full the outstanding balance of convertible notes on issue at balance date.
- The directors reported on 23 September 2014 that the Group has raised $750,000 by way of a share placement and note issue. The placement will raise $450,000, including $63,000 from directors which will require prior approval by shareholders before allotment can take place. The issue price was $0.03 per share. In combination with the placement the Group issued a convertible note of $300,000, which carries interest of 15% per annum.

25 AUDITORS' REMUNERATION

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

	CONSOLIDATED	
	2014	*2013*
	$	*$*
Amounts received or due and receivable by Ernst & Young (Australia) for:		
• An audit or review of the financial report of the entity and any other entity in the consolidated group	54,425	55,993
• Other services in relation to the entity and any other entity in the consolidated group		
- R&D tax services	-	21,000
	54,425	76,993

Directors' Declaration

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

1 In the opinion of the directors:

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

i giving a true and fair view of the company's and group's financial position as at 30 June 2014 and of their performance for the year ended on that date; and

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

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

2 This declaration has been made after receiving the declarations required to be made to the directors in accordance with sections 295A of the *Corporations Act 2001* for the financial year ended 30 June 2014.

On behalf of the Board

ANGUS HOLT

Director

29 September 2014

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Independent auditor's report to the members of Optiscan Imaging Limited

Report on the financial report

We have audited the accompanying financial report of Optiscan Imaging Limited, which comprises the consolidated statement of financial position as at 30 June 2014, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

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Opinion

In our opinion:

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

   i giving a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

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

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

Material uncertainty regarding continuation as a going concern

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

Report on the remuneration report

We have audited the Remuneration Report included in pages 13 to 19 of the directors' report for the year ended 30 June 2014. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Optiscan Imaging Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

J Lonergan

Joanne Lonergan
Partner
Melbourne
29 September 2014

Patent Information

Summary of Key Optiscan Patents

Patent Title	Countries Pending Applications	Countries Granted Patents	Expiry Date
Scanning Microscope with Miniature Head	Germany 19882512.9	UK 2340332 USA 6967772	15 Jul 2018 16 Jul 2018
Compact Confocal Endoscope and Endomicroscope	Germany 19940421.6	UK 2341943 USA 8047985	25 Aug 2019 3 Aug 2024
Electrically Operated Tuning Fork		Australia 759742 USA 7010978 France 1192497 UK 1192497 Italy 1192497 Germany 60040223.1 Japan 4171597	8 Jun 2020
Z Sharpening for Fibre Confocal Microscopes		UK 2363025 USA 6567585	3 Apr 2021
Objective Lens Unit For Endoscope *		USA 7695431	1 Apr 2025
Scanning Method & Apparatus	Germany 10393608.4	UK 2411071 USA 7123790 Japan 4718184 Japan 5044027	29 Oct 2023
Light Scanning Device *		USA 7248390	10 Jun 2023
Condensing Optical System, Confocal Optical System and Scanning Type Confocal System *	USA 2005/0052753	Japan 4475912	17 Oct 2023
Laser Scanning Confocal Microscope with Fibre Bundle Return		USA 7330305	15 Jan 2024
Method & Apparatus for Providing Depth Control for Z Actuation *	Germany 102004018110.1	USA 7294102 Japan 4842518	13 Apr 2024 14 Apr 2024
Tuning Fork-Type Scanning Apparatus with a Counterweight	Germany 11200500322.2	USA 7532375	23 Sep 2025
Optical Fibre Scanning Apparatus	Japan 2012-262961 Hong Kong 11108509.4 Europe 07116499.0 Europe 10185839.7	USA 7920312 Japan 5371222	17 Nov 2028 13 Sep 2027
Fibre Bundle Confocal Endomicroscope	Europe 06704775.3	USA 8057083	29 March 2027
Optical Connector *	Germany 102004024396.4	USA 7401984 Japan 4603816 Japan 5232826	23 Mar 2026 14 May 2024 14 May 2024
Objective Lens Unit *	Japan 4320184	USA 7695431	13 April 2024
Confocal Optical Systems *	Japan P2003-314204 Japan P2003-357896 Germany 102004043049.7	USA 7338439	11 Feb 2030
Confocal Endoscope *	Japan 2005-182150		
Optical Element	USA 10/585565		
A scanner for an Endoscope	Australia 2011316479 Europe 11831848.4 Japan 2013-533054 USA 13/878729		

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

ASX Additional Information

Additional information required by the Australian Securities Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 26 September 2014.

(a) Distribution of equity securities

185,467,439 fully paid ordinary shares are held by 3,340 individual shareholders. All issued ordinary shares carry one vote per share and carry the rights to dividends.

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

	Total Holders	No of Fully paid ordinary shares
1 – 1,000	804	479,209
1,001 – 5,000	1,104	3,182,486
5,001 – 10,000	396	3,304,953
10,001 – 100,000	820	28,305,976
100,001 – and over	216	150,194,815
	3,340	185,467,439
Holding less than a marketable parcel	2,414	8,250,123

(b) Substantial shareholders

Name	Number	Percentage
Ibsen Pty Ltd <Narula Family Set No3 A/>	12,014,167	6.48

(c) Twenty largest holders of quoted equity securities

	Ordinary shareholders	Fully Paid Number	Fully Paid Percentage
1.	Ibsen Pty Ltd <Narula Family Set No3 A/>	12,014,167	6.48
2.	Circadian Technologies Limited	8,285,151	4.47
3.	CGS Holdings Pty Ltd	7,000,000	3.77
4.	Gralaw Pty Ltd	6,832,228	3.68
5.	Mr Alfred Winkelmeier & Mrs Christine Winkelmeier <Winkelmeier Super Fund A/c>	4,650,000	2.51
6.	Dixson Trust Pty Limited	4,476,020	2.41
7.	Mr Chris Graham <Graham Family Super Fund A/c>	4,400,000	2.37
8.	Carlisle Lavelle Pty Ltd	3,442,695	1.86
9.	National Nominees Limited	3,330,000	1.80
10.	Ixohoxi Pty Ltd	3,262,277	1.76
11.	Mr Peter Maxwell Delaney	3,321,259	1.74
12.	Mr Angus Matthew Holt	3,173,659	1.71
13.	Mr Vaughan Corps	3,120,000	1.68
14.	Semblance Pty Ltd <Graeme Mutton Retirement Super Fund>	2,716,667	1.46
15.	Harech Pty Ltd <Porter Super Fund A/C>	2,602,445	1.40
16.	Portorose Pty Ltd <R J Porter Family Fund A/c>	2,141,667	1.15
17.	Mr Henry Siwka	1,978,495	1.07
18.	Mrs Lila Wymant	1,716,667	0.93
19.	Project Management Pty Ltd <D&K Corps Family S/F A/c>	1,700,000	0.92
20.	Citycastle Pty Ltd	1,666,667	0.90
		81,740,064	44.07