OPTISCAN IMAGING LIMITED

ABN : 81 077 771 987

APPENDIX 4D

Report for the Half Year ended

31 December 2013

Previous corresponding period : Half year ended 31 December 2012

This half year report is to be read in conjunction with the company's 2013 annual report

CONTENTS

1. Results for announcement to the market

The results of Optiscan Imaging Limited for the half year ended 31 December 2013 are as follows:

Results

(Previous corresponding period: Half year ended 31 December 2012)

- Total revenues from ordinary activities down 96% from $936,025 to $41,271.
- Loss from ordinary activities after tax attributable to members of $1,220,905, compared to a profit of $136,344 in the previous corresponding period
- Net loss after tax attributable to members of $1,220,905, compared to a net profit of $136,344 in the previous corresponding period

Dividends

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

2. Brief explanation of financial results

Optiscan recorded a net loss after tax of $1,220,905 for the half year ended 31 December 2013. This compares with a profit of $136,344 in the corresponding period last year.

The movement is largely attributable to lumpy income flows, all of which fell into the previous reporting period.

In the current year, sales revenue was $41,271, and other income was $3,603. However, during the previous corresponding half year, Optiscan received a one off order for the first pre-production systems for Zeiss. This single transaction accounted for sales revenue of more than $900,000. The previous year result also included a development milestone of $389,995 and grant income of $614,000 arising from the R&D Tax Incentive. These intermittent receipts did not occur in the current half year.

Expenses were again kept to a minimum. There was an overall reduction of 24% ($403,378) compared to last year, mainly in financing costs and administration expenses.

3. Commentary on Operations and Outlook

For some time now, Optiscan has been working to build a business structure capable of:

- sustaining the development of its world leading technology, and
- leveraging that technology to create multiple income streams,

in order to maximise the potential of our technology to penetrate ready markets.

In recent years, the neurosurgery product development collaboration with Carl Zeiss has been the sole formal focus of the business. The project is now approaching its final stage, with product development nearly complete. The only outstanding engineering task relates to the sterility solution, where several unforeseen technical challenges and supplier issues have prolonged the completion of this final component. We have resolved the issues and the path forward is now clear, but the timeline has moved out. When this is complete, the final stage of the project is regulatory clearance which will then enable product release by Zeiss.

It is important to note that the sterility issue is specific to the Zeiss collaboration, and that the core second generation platform is ready to advance into other product lines, creating multiple applications for our second generation technology. This will now be deployed into the research microscopy market with our exclusive partner, MR Solutions as announced on 18 February 2014. The research market, where Optiscan already has a global presence with its first generation system (FIVE-1), has vast potential. Partnering with MR Solutions provides the perfect positioning to tap that potential, alongside their existing top end MRI, CT and other animal imaging products. In excess of 1,000 institutions have been identified as high priority sales targets with project activity already underway. In addition to the pure revenue and cash generation benefits of being active in the research market, the translational benefits of an increased presence in the research market will be a significant ancillary driver for multiple clinical markets for our products.

In addition to our Carl Zeiss activities, and opening up the research market, progress is being made on bringing the second generation platform into the very well defined gastrointestinal endoscopy market. Within this market, Optiscan has abundant, high quality clinical experience, documented evidence with hundreds of publications, and its present key indication, Barrett's Esophagus has specific CPT codes and US reimbursement providing clear economic benefit, not only to the clinician but to the healthcare system and patient. Present clinical indications for use of Optiscan's systems in gastrointestinal endoscopy have independently assessed annual addressable markets in excess of US$1bn. Entry of our latest technology into this market, where Optiscan has a significant existing presence with its first generation technology, will create a trifecta of business units. Specifically those units are rigid endomicroscopy (Carl Zeiss), research endomicroscopy (MR Solutions) and flexible gastrointestinal endomicroscopy (TBD). Within those units, Optiscan will deliver a range of product systems, multi-use imaging probes, single use sterility solutions, software, service and support.

In summary, the development of the second generation endomicroscopy system is now at an advanced stage that underpins our development with Carl Zeiss and has allowed Optiscan to forge its partnership with MR Solutions. Entry of this technology into the gastrointestinal market is the remaining ingredient. When this is achieved, Optiscan will have re-engineered itself by creating three discrete business units with relevant world leading partners creating multiple revenue streams.

4. Other information

Net Tangible Assets per ordinary Security
Net tangible assets per ordinary security at 31 December 2013 amount to $0.0, (30 June 2013: $0.006).

Earnings per ordinary share
Basic loss per ordinary share, in cents per share, for the half year ended 31 December 2013 amount to 0.750 (31 December 2012, profit 0.088)

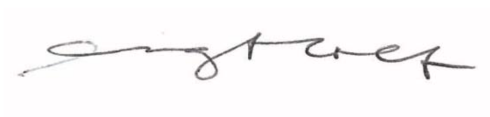
Subsidiaries, associates and joint ventures
There were no changes in subsidiaries, associates and joint ventures during the half year.

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

Audit Report Emphasis of Matter regarding Going Concern
In common with previous years, the audit report notes that there is a material uncertainty regarding going concern. The opinion is unchanged in the current report.

5. Financial information

The Interim condensed Financial Report for the half year ended 31 December 2013 is set out on pages 5 to 27 of this report.



Angus Holt
Director

28 February 2014

Optiscan Imaging Limited

ABN 81 077 771 987

Interim Financial Report

for the half year ended 31 December 2013

Contents

Corporate Information

ABN 81 077 771 987

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

A description of the Group's operations and of its principal activities is included in the review of operations in the directors' report on pages 7-8. The Directors' Report is not part of the financial report.

Directors

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

Company Secretary

B.R. Andrew

Registered office

15-17 Normanby Road
Notting Hill Vic 3168
Australia

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

Share Register

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

Solicitors

HWL Ebsworth Lawyers
530 Collins Street
Melbourne VIC 3000

Auditors

Ernst & Young
8 Exhibition Street
Melbourne VIC 3000

Bankers

National Australia Bank

Directors' Report

The Board of Directors of Optiscan Imaging Limited has pleasure in submitting its report in respect of the half year ended 31 December 2013.

Directors

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

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

Principal Activities

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

Review of Operations

Financial Results

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Directors' Report (continued)

Operations and Outlook (continued)

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Directors' Report (continued)

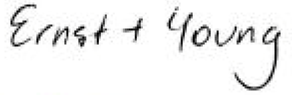
Auditor independence

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

Building a better working world

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

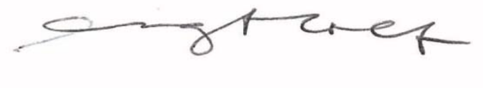
In relation to our review of the financial report of Optiscan Imaging Limited for the half-year ended 31 December 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



Ernst & Young

Joanne Lonergan
Partner
28 February 2014

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



Angus Holt

Director, 28 February, 2014

Consolidated Statement of Financial Position
AS AT 31 DECEMBER 2013

	Notes	CONSOLIDATED December 2013 $	CONSOLIDATED June 2013 $
ASSETS			
Current Assets			
Cash and cash equivalents	6	335,820	429,927
Trade and other receivables	7	15,856	939,569
Inventories		89,783	89,832
Prepayments		5,970	9,681
		447,429	1,469,009
Non-current Assets			
Plant and equipment		33,024	41,424
TOTAL ASSETS		480,453	1,510,433
LIABILITIES			
Current Liabilities			
Trade and other payables		255,864	317,544
Interest bearing loans and borrowings	8	139,696	-
Provisions		212,501	229,799
Total Current Liabilities		608,061	547,343
Non-current Liabilities			
Provisions		13,741	10,634
Total Non-current Liabilities		13,741	10,634
TOTAL LIABILITIES		621,802	557,977
NET ASSETS / (LIABILITIES)		(141,349)	952,456
EQUITY			
Contributed equity	9	47,120,620	46,993,580
Retained earnings		(48,758,126)	(47,537,221)
Reserves	9	1,496,157	1,496,097
TOTAL EQUITY / (DEFICIENCY)		(141,349)	952,456
TOTAL EQUITY AND LIABILITIES		480,453	1,510,433

Consolidated Statement of Comprehensive Income
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	Notes	*CONSOLIDATED*	
		December 2013	*December 2012*
		$	*$*
Continuing operations			
Sale of goods		26,697	910,024
Other revenue	4(a)	14,574	26,001
Revenue		41,271	936,025
Cost of sales		(860)	(149,528)
Gross Profit		40,411	786,497
Other income	4(b)	3,603	1,018,144
Administrative expenses		(615,686)	(726,604)
Research & development expenses		(596,900)	(637,227)
Finance expenses		(53,154)	(304,284)
Other expenses		821	(182)
Profit (loss) before income tax		(1,220,905)	136,344
Income tax expense	5	-	-
Profit (loss) for the period		(1,220,905)	136,344
Other comprehensive income			
Items that may be subsequently recycled through profit and loss:			
Foreign currency translation		60	(42)
Income tax on items of other comprehensive income		-	-
Items that will not be subsequently recycled through profit and loss:		-	-
Other comprehensive income for the period net of tax		60	(42)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR PERIOD		(1,220,845)	136,302
Earnings (loss) per share (cents per share)			
- basic earnings (loss) per share for the period		(0.750)	0.089
- diluted earnings (loss) per share for the period		(0.750)	0.088

Consolidated Statement of Changes in Equity

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	CONSOLIDATED				
	Ordinary Shares	*Accumulated Losses*	*Employee Equity Benefits Reserve*	*Foreign Currency Translation Reserve*	*Total Equity*
	$	*$*	*$*	*$*	*$*
At 1 July 2013	46,993,580	(47,537,221)	1,485,661	10,436	952,456
Loss for the half year	-	(1,220,905)	-	-	(1,220,905)
Other comprehensive income	-	-	-	60	60
Total comprehensive income for the half year	-	(1,220,905)	-	60	(1,220,845)
Transactions with owners in their capacity as owners:					
Share based payment – note facility fee	22,289	-	-	-	22,289
Shares issued on conversion of notes	104,751	-	-	-	104,751
At 31 December 2013	47,120,620	(48,758,126)	1,485,661	10,496	(141,349)
At 1 July 2012	45,710,667	(46,893,271)	1,485,661	10,253	313,310
Profit for the half year	-	136,344	-	-	136,344
Other comprehensive income	-	-	-	(42)	(42)
Total comprehensive income for the half year	-	136,344	-	(42)	136,302
Transactions with owners in their capacity as owners:					
Shares issued for cash	1,003,875	-	-	-	1,003,875
Shares issued on conversion of notes	168,125	-	-	-	168,125
Equity component of convertible notes	7,002	-	-	-	7,002
At 31 December 2012	46,889,669	(46,756,927)	1,485,661	10,211	1,628,614

Consolidated Statement of Cash Flows
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

	Note	*CONSOLIDATED*	
		December 2013 *$*	*December 2012* *$*
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		21,204	593,514
Payments to suppliers and employees (inclusive of GST)		(1,208,376)	(1,425,845)
Royalties received		12,794	16,550
Interest received		1,780	9,354
Receipt of government grants		866,167	-
Net cash flows used in operating activities	6	(306,431)	(806,427)
Cash flows from investing activities			
Purchase of plant and equipment		-	(20,780)
Net cash flows used in investing activities		-	(20,780)
Cash flows from financing activities			
Proceeds from issue of convertible notes		216,224	-
Proceeds from issue of shares		-	1,003,875
Net cash flows from financing activities		216,224	1,003,875
Net (decrease) increase in cash and cash equivalents		(90,207)	176,668
Net foreign exchange differences		(3,900)	(2,497)
Cash and cash equivalents at beginning of period		429,927	578,900
Cash and cash equivalents at end of period	6	335,820	753,071

Notes to the Consolidated Financial Statements
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

1 CORPORATE INFORMATION

The financial report of Optiscan Imaging Limited ("the Company") for the half year ended 31 December 2013 was authorised for issue in accordance with a resolution of the directors on 28 February 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 Optiscan Imaging Limited and its controlled entities ("the Group") are described in note 3.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The half year financial report should be read in conjunction with the annual Financial Report of Optiscan Imaging Limited as at 30 June 2013, and considered together with any public announcements made by Optiscan Imaging Limited and its controlled entities during the half-year ended 31 December 2013 in accordance with the continuous disclosure obligations of the ASX listing rules.

a) Basis of preparation

This general purpose condensed financial report for the half year ended 31 December 2013 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

Going Concern (Significant Uncertainty as at 31 December 2013)
In common with many entities in the biotechnology sector, the company's operations are subject to considerable risk due to the nature of the development and commercialisation being undertaken. A part of this risk relates to funding of the Company's activities, and related issues including the conditions prevailing in local and international financial markets. In the context of this operating environment, it is likely that the company will need to raise additional capital in order to execute its near term and medium term plans for expansion of its product portfolio.

As at 31 December 2013, the financial position of the consolidated entity as disclosed in the financial statements reflects a net asset deficiency position of $141,349 (June 2013: net assets $952,456). This balance has been determined after a consolidated net loss for the half year of $1,220,905 (2012: profit $136,344), and a net cash outflow from operations of $306,431 (2012: $806,427).

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

- Cash on hand at 31 December 2013 is $335,820 (2012: $753,071);
- Additional cashflow is expected to be received in the 2014 financial year under the agreement with Carl Zeiss;
- The directors believe the Company has the ability to raise additional capital from existing and new investors;
- The Company has a successful track record in raising capital to fund its operations; and
- The Company may have the ability to raise additional income, or accelerate forecast cash flows if required.

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

b) Basis of consolidation

The half-year consolidated financial statements comprise the financial statements of Optiscan Imaging Limited and its subsidiaries as at and throughout 31 December 2013.

c) Significant Accounting Policies

The accounting policies and methods of computation are the same as those adopted in the most recent annual financial report. Other standards issued as of 1 July 2013 do not have a significant impact on the consolidated financial report of Optiscan Imaging Limited. The Group has not elected to early adopt any other new standards, amendments of interpretations that are issued but not yet effective.

d) Interest Bearing Loans – Convertible Notes

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

After initial recognition, movements in fair value for each period are recognised in the Statement of Comprehensive Income. Costs of convertible note facilities are expensed as incurred in the Statement of Comprehensive Income.

Upon conversion, the notes are convertible into a variable number of ordinary shares based on a five day volume weighted average share price, and the AUD/USD exchange rate ruling at the date of conversion.

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.

Notes to the Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) New and Amended Australian accounting Standards

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

AASB 10	Consolidated Financial Statements
AASB 12	Disclosure of Interest in Other Entities
AASB 13	Fair Value Measurement
AASB 119	Employee Benefits
AASB 2011-4	Amendments to Australian Accounting Standards to remove Individual Key Management Personnel Disclosure Requirements

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

Notes to the Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

3 SEGMENT INFORMATION

Identification of reportable segments

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

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

Types of products and services

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

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

Accounting policies and inter-segment transactions

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

There are no inter-segment transactions or balances.

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

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

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

- Finance revenue and costs, including fair value adjustments
- Royalty revenue and associated withholding tax
- Corporate overheads and expenses
- Cash balances are unallocated

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

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

3 SEGMENT INFORMATION (continued)

	Trading $	R&D $	Segment Total $	Unallocated $	Total $
Half year ended 31 December 2013					
Assets and liabilities					
Segment assets	98,456	-	98,456	381,997	480,453
Segment liabilities	(83,318)	(81,557)	(164,875)	(456,927)	(621,802)
Segment net assets	15,138	(81,557)	(66,419)	(74,930)	(141,349)
Revenue					
Sales to external customers	26,697	-	26,697	-	26,697
Other revenues	-	-	-	14,574	14,574
Total consolidated revenue	26,697	-	26,697	14,574	41,271
Result					
Net profit (loss) for the period by segment	25,837	(596,900)	(571,063)	(649,842)	(1,220,905)
Cash flow					
Segment net cash flow from (used in) operating activities	12,948	255,725	286,673	(575,104)	(306,431)
Investing cash flows	-	-	-	-	-
Financing cash flows	-	-		216,224	216,224
Net cash flow for the period	12,948	255,725	286,673	(358,880)	(90,207)
Other Segment information					
Non- cash expenses					
Depreciation	-	-	-	8,402	8,402
Share based payments	-	-	-	22,289	22,289
Fair value adjustment of convertible notes	-	-	-	28,223	28,223
Foreign exchange differences	-	-	-	3,900	3,900
Revenue by geographic segment (location of customer)					
Asia	-	-	-	12,794	12,794
Australia	5,284	-	5,284	1,780	7,064
Europe	21,413	-	21,413	-	21,413
USA & Canada	-	-	-	-	-
Total	26,697	-	26,697	14,574	41,271

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

3 SEGMENT INFORMATION (continued)

	Trading $	*R&D* $	*Segment Total* $	*Unallocated* $	*Total* $
As at 30 June 2013					
Assets and liabilities					
Segment assets	92,484	866,167	958,651	551,782	1,510,433
Segment liabilities	(90,207)	(95,093)	(185,300)	(372,677)	(557,977)
Segment net assets	2,277	771,074	773,351	179,105	952,456
Half year ended 31 December 2012					
Revenue					
Sales to external customers	910,024	-	910,024	-	910,024
Other revenues	-	-	-	26,001	26,001
Total consolidated revenue	910,024	-	910,024	26,001	936,025
Result					
Net profit (loss) for the period by segment	760,497	366,768	1,127,265	(990,920)	136,344
Cash flow					
Segment net cash flow from (used in) operating activities	150,672	(240,323)	(89,651)	(716,776)	(806,427)
Investing cash flows	-	-	-	(20,780)	(20,780)
Financing cash flows	-	-	-	1,003,875	1,003,875
Net cash flow for the period	150,672	(240,323)	(89,651)	266,319	176,668
Other Segment information					
Non- cash expenses					
Depreciation	9,019	983	10,002	8,082	18,084
Amortised cost adjustment of convertible notes	-	-	-	67,683	67,683
Foreign exchange differences	-	-	-	2,455	2,455
Revenue by geographic segment (location of customer)					
Asia	-	-	-	16,550	16,550
Australia	205,820	-	205,820	9,451	215,271
Europe	698,128	-	698,128	-	698,128
USA & Canada	6,076	-	6,076	-	6,076
Total	910,024	-	910,024	26,001	936,025

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

4 REVENUES AND EXPENSES

		CONSOLIDATED	
		December 2013 $	*December 2012 $*
(a)	**Other revenue**		
	Finance income – interest received	1,780	9,451
	Royalty revenue	12,794	16,550
		14,574	26,001
(b)	**Other income**		
	Design and development revenue	-	389,995
	Government grants – R&D Tax Incentive	-	614,000
	Foreign exchange gain, net	1,806	8,980
	Sundry income	1,797	5,169
		3,603	1,018,144
(c)	**Depreciation**		
	Depreciation of plant and equipment	8,402	18,084
(d)	**Finance costs**		
	Interest on convertible notes	2,642	-
	Finance facility costs expensed	22,289	236,601
	Other finance facility costs	-	50,000
	Fair value adjustment on convertible notes	28,223	-
	Amortised cost adjustment on convertible notes	-	17,683
		53,154	304,284
(e)	**Employee benefits expense**		
	Wages and salaries	510,014	481,739
	Defined contribution plan expense	45,605	43,278
	Annual leave provision	(4,332)	3,254
	Long service leave provision	7,171	7,066
		558,458	535,336

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

5 INCOME TAX

	CONSOLIDATED	
Statement of comprehensive income	*December 2013 $*	*December 2012 $*
Income tax expense reported in the statement of comprehensive income	-	-

There is no current income tax charge due to the availability of carry forward losses, which amounted to $39,720,634 at 30 June 2013.

6 CASH AND CASH EQUIVALENTS

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

	CONSOLIDATED	
	Dec 2013 $	*Dec 2012 $*
Cash at bank and in hand	269,538	753,071
Short terms deposits	66,282	-
	335,820	753,071

Reconciliation of net (loss) profit after tax to net cash flows from operations	*Dec 2013 $*	*Dec 2012 $*
Net (loss) profit after tax	(1,220,905)	136,344
Adjustments for:		
Depreciation	8,402	18,084
Impairment losses – inventory provision	-	-
Net exchange differences	3,900	2,497
Share based payments	22,289	-
Foreign exchange movements through equity	60	(42)
Amortised cost adjustments on convertible notes	28,223	17,683
Other finance facility costs	-	50,000
Changes in assets and liabilities:		
Decrease/(Increase) in trade and other receivables	923,713	(1,146,680)
Decrease/(Increase) in inventories	49	96,965
(Increase)/Decrease in prepayments	3,709	234,260
Increase/(Decrease) in trade and other payables	(61,680)	(17,438)
Increase/(Decrease) in unearned income	-	(202,685)
(Decrease)/Increase in provisions	(14,191)	4,585
Net cash flows (used in) operating activities	(306,431)	(806,427)

Notes to the Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2013

7 TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	Dec 2013 *$*	*June 2013* *$*
CURRENT		
Trade receivables	8,673	2,652
GST refund receivable	4,931	51,798
Interest receivable	280	280
R&D Tax incentive grant receivable	-	866,167
Refund receivable	-	16,711
Other receivables	1,972	1,961
Net carrying amount	15,856	939,569

8 INTEREST BEARING LOANS AND BORROWINGS

	CONSOLIDATED	
	Dec 2013 *$*	*June 2013* *$*
Current		
Convertible notes	139,696	-

Movement in convertible note liabilities

Opening balance	-	210,414
New convertible notes issued at face value	216,224	50,000
Equity component of new convertible notes	-	(7,002)
Fair value adjustment on convertible notes	28,223	-
Amortised cost adjustment of convertible notes	-	18,624
Convertible notes converted to equity by noteholders	(104,751)	(272,036)
Closing balance	139,696	-

In August 2013, the Company entered into a $US1,000,000 Convertible Note Facility with Hanover Holdings LLC, with a term of two years. At 31 December, two notes each of US$100,000 had been issued under the facility with a face value of A$216,224. Interest is payable on each convertible note at a rate of 8% per annum. The facility is secured by a general interest charge over the assets of the company.

Upon conversion, the notes are convertible into a variable number of ordinary shares based on a five day volume weighted average share price, and the AUD/USD exchange rate ruling at the date of conversion.

Fair Value Measurement

Convertible notes are measured at fair value, using significant observable inputs (level 2 inputs). The valuation date is 31 December 2013.

There have been no transfers between Level 1 and Level 2 hierarchy during the period.

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

9 CONTRIBUTED EQUITY AND RESERVES

	CONSOLIDATED	
	Half Year Ended December 2013 $	*Year Ended June 2013 $*
Ordinary share capital - Issued and fully paid	47,120,620	46,993,580

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

Movement in issued capital

Opening Balance	46,993,580	45,710,667
Shares issued for cash in placement	-	1,003,875
Convertible Note facility fees settled by issue of shares	22,289	
Equity component of convertible notes	-	7,002
Shares issued upon conversion of notes	104,751	272,036
Closing Balance	47,120,620	46,993,580

Movement in number of ordinary shares on issue	*No of shares*	*No of shares*
Opening Balance	162,088,113	144,027,918
Shares issued for cash in placement	-	13,385,001
Convertible Note facility fees settled by issue of shares	355,022	-
Shares issued upon conversion of notes	1,783,024	4,675,199
Closing Balance	164,226,159	162,088,113

Movement in Share based payment reserve	$	$
Opening and Closing balance	1,485,661	1,485,661

Movement in foreign currency translation reserve		
Opening Balance	10,436	10,253
Foreign currency translation for the period	60	183
Closing Balance	10,496	10,436

Total Reserves	1,496,157	1,496,097

Notes to the Financial Statements (continued)
FOR THE HALF YEAR ENDED 31 DECEMBER 2013

10 EVENTS AFTER BALANCE DATE

Convertible notes amounting to $36,774 outstanding at 31 December 2013 were converted to ordinary shares in January 2014, reducing the balance outstanding to $102,922.

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

11 COMMITMENTS AND CONTINGENCIES

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

Directors' Declaration

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

1 In the opinion of the directors:

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

i giving a true and fair view of the financial position as at 31 December 2013 and the performance for the half year ended on that date of the Group; and

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

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

On behalf of the Board

Angus Holt

Director

28 February 2014

Independent review report to members of Optiscan Imaging Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Optiscan Imaging Limited, which comprises the statement of financial position as at 31 December 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

Independence

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

Conclusion

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

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and

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

Material Uncertainty Regarding Continuation as a Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As a result of matters described in Note 2 'Going Concern' to the financial report, there is material uncertainty whether the 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.

Ernst & Young

Ernst & Young

Partner
Melbourne
28 February 2014