

OPTISCAN IMAGING LIMITED

ABN : 81 077 771 987

APPENDIX 4D

Report for the Half Year ended

31 December 2014

Previous corresponding period : Half year ended 31 December 2013

This half year report is to be read in conjunction with the company's 2014 annual report

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1. Results for announcement to the market

The results of Optiscan Imaging Limited for the half year ended 31 December 2014 are as follows:

Results

(Previous corresponding period: Half year ended 31 December 2013)

- Total revenues from ordinary activities down 12% to \$36,255.
- Loss from ordinary activities after tax attributable to members improved by 30% to \$850,063, compared to a loss of \$1,220,905 in the previous corresponding period
- Net loss after tax attributable to members of \$850,063, compared to a loss of \$1,220,905 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 \$850,063 for the half year ended 31 December 2014. This was an improvement of \$370,842, or 30% on the loss of \$1,220,905 in the previous corresponding period.

The movement is largely attributable to movement in the amount of other income, comprising design and development income and grant income. In the current period, this amounted to \$319,917, compared to only \$3,603 in the previous period. The design income was a milestone payment received under the terms of the Zeiss collaboration amounting to \$260,643 and the remainder was grant income from the R&D Tax Incentive program amounting to \$59,274.

The remainder of the movement in the result was a marginally lower expense base, which was reduced by 5.8% or \$71,966.

3. Commentary on Operations and Outlook

The past six months has seen the Company's financial position improve demonstrably. At 31 December 2014, the Company had cash and cash equivalents of \$909,600, and convertible note obligations of \$385,455. All outstanding convertible notes were converted to equity in January 2015 removing all debt from the Company's balance sheet.

As a consequence of the Company's improved financial position, critical resourcing issues were able to be addressed commencing late 2014, specifically through an intensification within software operations, the critical path factor for the successful release of product for MRS in animal imaging for the worldwide research market. Further software resourcing has been identified and should be in place in coming weeks. This intensified infrastructure will help in moving the Company's two priority projects to completion this calendar year, being MRS research imaging and Zeiss neurosurgery imaging.

Outlook

The 2015 calendar year has commenced well for Optiscan with an improved engineering infrastructure being implemented on the back of a greatly improved financial position. The year should see the delivery of products in both the research and neurosurgery imaging markets through our partners MR Solutions and Carl Zeiss respectively.

Research Imaging (MR Solutions)

As mentioned above the completion of product for release to MRS is subject to further software development. While the development work is low risk, the implementation of an infrastructure capable of completing this critical task is a large undertaking and one that could not be initiated until the financial position allowed. Implementation is largely complete and should lead to completion of product for MRS in the June quarter. In line with this research imaging product development path, Optiscan's marketing partner MR Solutions has demonstrated the CellLIVE in the USA and continues pre-release marketing.

Neurosurgery Imaging (Carl Zeiss)

While the implementation of appropriate software resources within Optiscan is of significant value to the neurosurgery system development, this project is considerably more complex in production and regulatory clearance aspects, largely due to its intended use in clinical applications. The development project is due for completion in the December half 2015. More precise estimates on this timing will evolve as a number of critical path items mature.

The initial critical path item is the engagement of our regulatory consultant, which will lead to direct liaison with the FDA and will refine the final steps to completion of the neurosurgery system development. This engagement has commenced and, among other things, will address two critical issues:

- Exact study requirements around the integration of the disposable sheath into the larger neurosurgery live imaging system; and
- The scope and timing of design transfer into production.

The outcome of the regulatory consultant process will clarify both the timing and cost of these remaining steps of the neurosurgery system development. As commented above, we expect this product development to be complete in the December half this year and we will report on the outcomes of the consultation process in the June quarter.

This calendar year should see the completion of two major product development projects and the commencement of sales in the research imaging market. Next year, 2016, will see a significant shift for the Company and will be dominated by activities seeking to embed two new products into two linked yet discrete and large global markets.

Further R&D activity continues in the background at Optiscan with a specific focus on enhancing and protecting the Company's imaging technology well into the future. Following the introduction of the aforementioned products to market, 2016 will allow an intensified approach to extending the potential applications and markets for Optiscan's technology and systems, including the well-developed market in flexible endoscopy.

3. Commentary on Operations and Outlook (continued)

The above development pathway necessarily dictates the Board must continue to be vigilant around the Company's financial position. It is the Board's priority to ensure the Company maintains a financial position that can bear the demands of product development and release in 2015 and to ensure that process is not inhibited by the Company's financial position at any time.

4. Other information

Net Tangible Assets per ordinary Security

Net tangible assets per ordinary security at 31 December 2014 amount to \$0.0002, (30 June 2014: Nil).

Earnings per ordinary share

Basic loss per ordinary share, in cents per share, for the half year ended 31 December 2014 amount to 0.47 (31 December 2013, 0.75)

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 2014 is set out on pages 5 to 26 of this report.



Angus Holt
Director

27 February 2015

Optiscan Imaging Limited

ABN 81 077 771 987

Interim Financial Report

for the half year ended 31 December 2014

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Corporate Information

ABN 81 077 771 987

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

A description of the Group's operations and of its principal activities is included in the review of operations in the directors' report on pages 3-5. The Directors' Report is not part of the financial report.

Directors

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

Company Secretary

B.R. Andrew

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Notting Hill Vic 3168
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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 2014.

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.

Financial Results

Optiscan recorded a net loss after tax of \$850,063 for the half year ended 31 December 2014. This was an improvement of \$370,842, or 30% on the loss of \$1,220,905 in the previous corresponding period.

The movement is largely attributable to movement in the amount of other income, comprising design and development income and grant income. In the current period, this amounted to \$319,917, compared to only \$3,603 in the previous period. The design income was a milestone payment received under the terms of the Zeiss collaboration amounting to \$260,643 and the remainder was grant income from the R&D Tax Incentive program amounting to \$59,274. The remainder of the movement in the result was a marginally lower expense base, which was reduced by 5.8% or \$71,966.

Review of Operations

The past six months has seen the Company's financial position improve demonstrably. At 31 December 2014, the Company had cash and cash equivalents of \$909,600, and convertible note obligations of \$385,455. All outstanding convertible notes were converted to equity in January 2015 removing all debt from the Company's balance sheet.

As a consequence of the Company's improved financial position, critical resourcing issues were able to be addressed commencing late 2014, specifically through an intensification within software operations, the critical path factor for the successful release of product for MRS in animal imaging for the worldwide research market. Further software resourcing has been identified and should be in place in coming weeks. This intensified infrastructure will help in moving the Company's two priority projects to completion this calendar year, being MRS research imaging and Zeiss neurosurgery imaging.

Outlook

The 2015 calendar year has commenced well for Optiscan with an improved engineering infrastructure being implemented on the back of a greatly improved financial position. The year should see the delivery of products in both the research and neurosurgery imaging markets through our partners MR Solutions and Carl Zeiss respectively.

Directors' Report (continued)

Review of Operations (continued)

Research Imaging (MR Solutions)

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The above development pathway necessarily dictates the Board must continue to be vigilant around the Company's financial position. It is the Board's priority to ensure the Company maintains a financial position that can bear the demands of product development and release in 2015 and to ensure that process is not inhibited by the Company's financial position at any time.

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

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

Angus Holt

Angus Holt

Director, 27 February, 2015

Consolidated Statement of Financial Position

AS AT 31 DECEMBER 2014

	Notes	CONSOLIDATED	
		December	June
		2014	2014
		\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents	5	909,600	74,942
Trade and other receivables	6	69,733	657,164
Inventories		35,485	43,700
Prepayments		1,730	15,924
Total Current Assets		1,016,548	791,730
Non-current Assets			
Plant and equipment		20,988	24,622
Total Non current Assets		20,988	24,622
TOTAL ASSETS		1,037,536	816,352
LIABILITIES			
Current Liabilities			
Trade and other payables		393,552	644,624
Interest bearing loans and borrowings	7	385,455	126,466
Provisions		207,306	212,926
Total Current Liabilities		986,313	984,016
Non-current Liabilities			
Provisions		11,439	16,998
Total Non-current Liabilities		11,439	16,998
TOTAL LIABILITIES		997,752	1,001,014
NET ASSETS / (LIABILITIES)		39,784	(184,662)
EQUITY			
Contributed equity	8	48,354,384	47,279,893
Retained earnings		(49,804,996)	(48,954,933)
Reserves	8	1,490,396	1,490,378
TOTAL EQUITY / (DEFICIENCY)		39,784	(184,662)
TOTAL EQUITY AND LIABILITIES		1,037,536	816,352

Consolidated Statement of Comprehensive Income

FOR THE HALF YEAR ENDED 31 DECEMBER 2014

	Notes	CONSOLIDATED	
		December 2014	December 2013
		\$	\$
Continuing operations			
Sales		26,181	26,697
Other revenue	4(a)	10,074	14,574
Revenue		<u>36,255</u>	<u>41,271</u>
Cost of sales		<u>(13,282)</u>	<u>(860)</u>
Gross Profit		22,973	40,411
Other income	4(b)	319,917	3,603
Administrative expenses		(603,227)	(615,686)
Research & development expenses		(486,966)	(596,900)
Finance expenses	4(d)	(89,551)	(53,154)
Other expenses		<u>(13,209)</u>	<u>821</u>
Profit (loss) before income tax		(850,063)	(1,220,905)
Income tax expense		-	-
Profit (loss) for the period		<u>(850,063)</u>	<u>(1,220,905)</u>
Other comprehensive income			
Items that may be subsequently recycled through profit and loss:			
Foreign currency translation		<u>18</u>	<u>60</u>
Other comprehensive income for the period net of tax		<u>18</u>	<u>60</u>
TOTAL COMPREHENSIVE INCOME (LOSS) FOR PERIOD		<u>(850,045)</u>	<u>(1,220,845)</u>
Earnings (loss) per share (cents per share)			
- basic earnings (loss) per share for the period		(0.47)	(0.75)
- diluted earnings (loss) per share for the period		(0.47)	(0.75)

Consolidated Statement of Changes in Equity

FOR THE HALF YEAR ENDED 31 DECEMBER 2014

	CONSOLIDATED				
	Ordinary Shares	Accumulated Losses	Employee Equity Benefits Reserve	Foreign Currency Translation Reserve	Total Equity
	\$	\$	\$	\$	\$
At 1 July 2014	47,279,893	(48,954,933)	1,485,661	4,717	(184,662)
Loss for the half year	-	(850,063)	-	-	(850,063)
Other comprehensive income	-	-	-	18	18
Total comprehensive income for the half year	-	(850,063)	-	18	(850,045)
Transactions with owners in their capacity as owners:					
Convertible note facility fee settled by share issue	37,500	-	-	-	37,500
Shares issued for cash in placement	574,500	-	-	-	574,500
Shares issued upon conversion of notes	460,250	-	-	-	460,250
Equity component of convertible notes	2,241	-	-	-	2,241
At 31 December 2014	48,354,384	(49,804,996)	1,485,661	4,735	39,784
At 1 July 2013	46,993,580	(47,537,221)	1,485,661	10,436	952,456
Profit 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:					
Convertible note facility fee settled by share issue	22,289	-	-	-	22,289
Shares issued upon conversion of notes	104,751	-	-	-	104,751
At 31 December 2013	47,120,620	(48,758,126)	1,485,661	10,496	(141,349)

Consolidated Statement of Cash Flows

FOR THE HALF YEAR ENDED 31 DECEMBER 2014

	<i>Note</i>	<i>CONSOLIDATED</i>	
		<i>December</i>	<i>December</i>
		<i>2014</i>	<i>2013</i>
		<i>\$</i>	<i>\$</i>
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		267,681	21,204
Payments to suppliers and employees (inclusive of GST)		(1,400,871)	(1,208,376)
Royalties received		6,500	12,794
Interest received		3,579	1,780
Receipt of government grants		711,690	866,167
Net cash flows used in operating activities	5	(411,421)	(306,431)
Cash flows from investing activities			
Purchase of plant and equipment		(1,715)	-
Net cash flows used in investing activities		(1,715)	-
Cash flows from financing activities			
Proceeds from issue of convertible notes		800,000	216,224
Proceeds from issue of shares		574,500	-
Repayment of notes		(126,466)	-
Net cash flows from financing activities		1,248,034	216,224
Net (decrease) increase in cash and cash equivalents		834,898	(90,207)
Net foreign exchange differences		(240)	(3,900)
Cash and cash equivalents at beginning of period		74,942	429,927
Cash and cash equivalents at end of period	5	909,600	335,820

Notes to the Consolidated Financial Statements

FOR THE HALF YEAR ENDED 31 DECEMBER 2014

1 CORPORATE INFORMATION

The financial report of Optiscan Imaging Limited ("the Company") for the half year ended 31 December 2014 was authorised for issue in accordance with a resolution of the directors on 27 February 2015.

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 2014, and considered together with any public announcements made by Optiscan Imaging Limited and its controlled entities during the half-year ended 31 December 2014 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 2014 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

Going Concern (Significant Uncertainty as at 31 December 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 31 December 2014, the financial position of the consolidated entity as disclosed in the financial statements reflects a net asset position of \$39,784 (June 2014: net asset deficiency \$184,662). This balance has been determined after a consolidated net loss for the half year of \$850,063 (2013: \$1,220,905), and a net cash outflow from operations of \$411,421 (2013: \$306,431).

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 2014 is \$909,600 (June 2014: \$74,942);
- Additional cashflow is expected to be received in the 2015 financial year under the agreements with Carl Zeiss and MR Solutions;
- 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 2014

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 2014.

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 2014 do not have a significant impact on the consolidated financial report of Optiscan Imaging Limited. The Group has not elected to early adopt any other new standards, amendments of interpretations that are issued but not yet effective.

Notes to the Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2014

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 2014

3 SEGMENT INFORMATION (continued)

	Trading \$	R&D \$	Segment Total \$	Unallocated \$	Total \$
Half year ended 31 December 2014					
Assets and liabilities					
Segment assets*	59,061	1,730	60,791	976,745	1,037,536
Segment liabilities	(28,082)	(123,597)	(151,679)	(846,073)	(997,752)
Segment net assets	30,979	(121,867)	(90,888)	130,672	39,784
Revenue					
Sales to external customers	26,181	-	26,181	-	26,181
Other revenues	-	-	-	10,074	10,074
Total consolidated revenue	26,181	-	26,181	10,074	36,255
Result					
Net profit (loss) for the period by segment	12,899	(167,048)	(154,149)	(695,914)	(850,063)
Cash flow					
Segment net cash flow from (used in) operating activities	1,158	488,174	489,332	(900,753)	(411,421)
Investing cash flows	-	-	-	(1,715)	(1,715)
Financing cash flows	-	-	-	1,248,034	1,248,034
Net cash flow for the period	1,158	488,174	489,332	345,566	834,898
Other Segment information					
Revenue by geographic segment (location of customer)					
Asia	-	-	-	6,500	6,500
Australia	12,009	-	12,009	3,574	15,583
Europe	1,433	-	1,433	-	1,433
USA & Canada	12,739	-	12,739	-	12,739
Total	26,181	-	26,181	10,074	36,255

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

Notes to the Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2014

3 SEGMENT INFORMATION (continued)

	Trading \$	R&D \$	Segment Total \$	Unallocated \$	Total \$
As at 30 June 2014					
Assets and liabilities					
Segment assets*	47,320	652,416	699,736	116,616	816,352
Segment liabilities	(88,987)	(74,080)	(163,067)	(837,947)	(1,001,014)
Segment net assets	(41,667)	578,336	536,669	(721,331)	(184,662)
Half year ended 31 December 2013					
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					
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

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

Notes to the Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2014

4 REVENUES AND EXPENSES

		CONSOLIDATED	
		December 2014 \$	December 2013 \$
(a) Other revenue			
Finance income – interest received		3,574	1,780
Royalty revenue		6,500	12,794
		<u>10,074</u>	<u>14,574</u>
(b) Other income			
Design and development income		260,643	-
Government grants – R&D Tax Incentive		59,274	-
Foreign exchange gain, net		-	1,806
Sundry income		-	1,797
		<u>319,917</u>	<u>3,603</u>
(c) Depreciation			
Depreciation of plant and equipment		<u>5,349</u>	<u>8,402</u>
(d) Finance costs			
Interest on convertible notes		-	2,642
Finance facility costs expensed		37,500	22,289
Fair value adjustment on convertible notes		47,945	28,223
Other interest paid		4,106	-
		<u>89,551</u>	<u>53,154</u>
(e) Employee benefits expense			
Wages and salaries		489,055	510,014
Defined contribution plan expense		46,399	45,605
Annual leave provision		(15,836)	(4,332)
Long service leave provision		4,657	7,171
		<u>524,275</u>	<u>558,458</u>

Notes to the Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2014

5 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 2014	Dec 2013
	\$	\$
Cash at bank and in hand	844,100	269,538
Short terms deposits	65,500	66,282
	<u>909,600</u>	<u>335,820</u>

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

	Dec 2014	Dec 2013
	\$	\$
Net (loss) after tax	(850,063)	(1,220,905)
<i>Adjustments for:</i>		
Depreciation	5,349	8,402
Net exchange differences	241	3,900
Share based payments	37,500	22,289
Foreign exchange movements through equity	18	60
Fair value adjustments on convertible notes	47,945	28,223
<i>Changes in assets and liabilities:</i>		
Decrease/(Increase) in trade and other receivables	587,431	923,713
Decrease/(Increase) in inventories	8,215	49
(Increase)/Decrease in prepayments	14,194	3,709
Increase/(Decrease) in trade and other payables	(251,072)	(61,680)
(Decrease)/Increase in provisions	<u>(11,179)</u>	<u>(14,191)</u>
Net cash flows (used in) operating activities	<u>(411,421)</u>	<u>(306,431)</u>

6 TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	Dec 2014	June 2014
	\$	\$
CURRENT		
Trade receivables	23,576	3,620
GST refund receivable	45,908	874
Interest receivable	249	254
R&D Tax incentive grant receivable	-	652,416
	<u>69,733</u>	<u>657,164</u>
Net carrying amount	<u>69,733</u>	<u>657,164</u>

Notes to the Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2014

7 INTEREST BEARING LOANS AND BORROWINGS

	CONSOLIDATED	
	Dec 2014 \$	June 2014 \$
Current		
Convertible notes	385,455	126,466
<u>Movement in convertible note liabilities</u>		
Opening balance*	126,466	-
New convertible notes issued at face value	800,000	328,541
Fair value adjustment on convertible notes	47,945	63,791
Convertible notes converted to equity by noteholders	(462,490)	(262,238)
Convertible notes repaid*	(126,466)	-
Foreign currency revaluation at balance date	-	(3,628)
Closing balance	385,455	126,466

*In July 2014, the Company paid \$US125,000 in final settlement of all outstanding liabilities under the Convertible Note Facility with Hanover Holdings LLC,.

Convertible Notes Issued in the current period

In July 2014, the company entered into a finance facility with a conversion option. The face value of the debt was \$531,250 and the expiry date of the facility was 11 February 2015, if not converted earlier. The conversion rate is \$0.05 per share. In November and December, notes amounting to \$381,250 were converted into ordinary shares, leaving a balance outstanding at balance date of \$150,000.

In September 2014, the company entered into a loan agreement with a conversion option. The face value of the debt was \$300,000 and the expiry date of the facility was 19 September 2015, if not converted earlier. The conversion rate is \$0.04 per share. In November, notes amounting to \$79,000 were converted into ordinary shares, leaving a balance outstanding at balance date of \$221,000.

Interest is payable on each convertible note facility at a rate of 15% per annum. The facilities are secured by a general interest charge over the assets of the company.

Fair Value Measurement

Convertible notes are measured at fair value based on a discounted cash flow technique, using unobservable inputs (level 3 inputs).. The valuation date is 31 December 2014. There has been a transfer between Level 2 and Level 3 hierarchy during the period.

Notes to the Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2014

8 CONTRIBUTED EQUITY AND RESERVES

CONSOLIDATED

	Half Year Ended December 2014 \$	Year Ended June 2014 \$
Ordinary share capital - Issued and fully paid	48,354,384	47,279,893
Fully paid ordinary shares carry one vote per share and carry the right to dividends.		
<i>Movement in issued capital</i>		
Opening Balance	47,279,893	46,993,580
Shares issued for cash in placement	574,500	-
Convertible Note facility fees settled by issue of shares	37,500	261,719
Shares issued upon conversion of notes	462,491	24,594
Closing Balance	48,354,384	47,279,893
<i>Movement in number of ordinary shares on issue</i>		
	No of shares	No of shares
Opening Balance	167,225,501	162,088,113
Shares issued for cash in placement	19,991,938	-
Convertible Note facility fees settled by issue of shares	1,250,000	395,428
Shares issued upon conversion of notes	9,600,000	4,741,960
Closing Balance	198,067,439	167,225,501
	\$	\$
<i>Movement in Share based payment reserve</i>		
Opening and Closing balance	1,485,661	1,485,661
<i>Movement in foreign currency translation reserve</i>		
Opening Balance	4,717	10,436
Foreign currency translation for the period	18	(5,719)
Closing Balance	4,735	4,717
Total Reserves	1,490,396	1,490,378

Notes to the Financial Statements (continued)

FOR THE HALF YEAR ENDED 31 DECEMBER 2014

9 EVENTS AFTER BALANCE DATE

All convertible notes outstanding at 31 December 2014, with a face value of \$371,000 were converted into ordinary shares on 13 January 2015.

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.

10 COMMITMENTS AND CONTINGENCIES

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

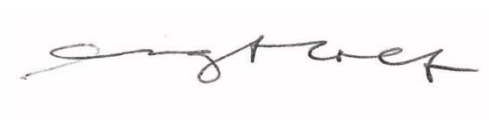
Directors' Declaration

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 2014 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

A handwritten signature in black ink, appearing to read 'Angus Holt', written over a light pink rectangular background.

Angus Holt

Director

27 February 2015

To the members of Optiscan Imaging Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Optiscan Imaging Limited, which comprises the statement of financial position as at 31 December 2014, 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 Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Optiscan Imaging Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

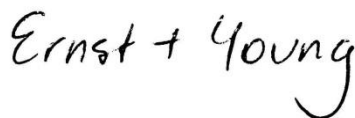
Conclusion

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

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 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



Joanne Lonergan
Partner
Melbourne
27 February 2015