



12 July 2005

Dear Shareholder,

Investor Update

Two recent developments at Optiscan have contributed to the company's progress toward becoming a profitable, high growth medical technology business.

Pentax Launches Active Marketing to Sell Flexible Endo-microscopes

Pentax has commenced active market engagement to drive sales of Optiscan's flexible endo-microscope. As previously advised, Pentax introduced the product at the largest annual meeting of the world's gastroenterologists, Digestive Diseases Week (DDW) in Chicago in May 2005.

Pentax's marketing theme for our endo-microscope is:

"Confocal Endomicroscopy. More than meets the eye"

Pentax have adopted this headline message in combination with an image that shows the endo-microscope tip superimposed on a human eye. It appears on the cover of Pentax's product brochure and has also featured in industry magazine advertising, poster advertising and Pentax exhibition material at DDW.

We have pleasure in enclosing a copy of excerpts from Pentax's promotional brochures for our endo-microscope.

These promotional activities, together with the reporting of outstanding clinical trial results in the formal congress program, resulted in endo-microscopy featuring as the pre-eminent new technology at DDW. There was a high level of engagement from DDW participants, including clinicians from research hospitals and other markets, which Pentax will target for orders against the first production runs. These are set to commence in the September quarter, following the summer vacation period in Japan, America and Europe.

We expect to gain our first real insight into market uptake of the instrument during the December quarter, when we will be better able to assess the likely timing and quantum of future Pentax orders.

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Optiscan Receives \$1.9 Million Grant

Optiscan was recently awarded a \$1.9 million Commonwealth Government Commercial Ready Grant. The grant will run over three years and provides a very useful contribution to our R&D. More specifically, it will assist Optiscan in developing new generation products to continue our global market leadership.

The development of a miniaturised multiphoton microscope for research markets will combine Optiscan's extensive miniaturised scanner intellectual property and know-how with recent global advances in high speed pulsed multiphoton lasers and photonic crystal fibres. It will have significant synergies with improvements to existing miniaturised confocal endo-microscopes, and will be of immediate and strong interest to companies selling equipment to laboratory researchers.

It will also create a pipeline of innovation, which is very important to Pentax and other potential partners to ensure medium to long term technological dominance.

Beyond these two key developments, solid progress continues with rigid endo-microscopy partnerships and pursuit of back royalties payable following success with patent prosecutions during 2004/05. Significant additional value from our current technology will be realised upon their successful conclusion.

Calendar 2005 remains a landmark year for our company. These two recent developments exemplify the progress being made by Optiscan toward becoming an innovative, profitable, high growth medical technology business.

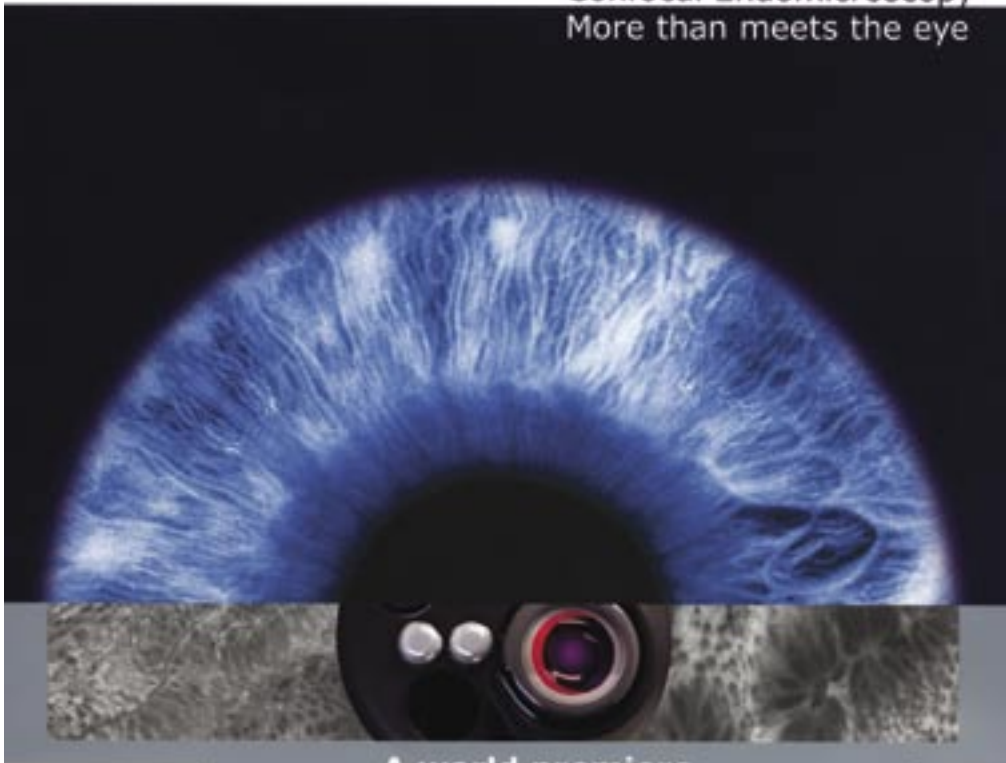
Yours sincerely

A handwritten signature in black ink, appearing to read 'Matthew Barnett', with a long horizontal flourish extending to the right.

Matthew Barnett
Chief Executive Officer



Confocal Endomicroscopy More than meets the eye



A world premiere

For the first time – an endoscopic view
into the deep layers of the mucosa

PENTAX

It is a new view of life.

The great goals are moving closer and closer.

The path of medicine is a path of continuous development. New findings in science and research, together with new technological capabilities, lead again and again to new eras in medical history. This progress follows the common goal of treating human diseases more effectively, and in the end, more economically. PENTAX has followed this path for decades, as a supporter and leader in flexible endoscopy. We are now pleased to take another great step forward into the future of endoscopy. Into the world of PENTAX endomicroscopy.

Excerpt from product brochures.



A new generation of technology.

The technology will inspire.

In principle, it was simply a matter of integrating a confocal microscope in the distal end of a flexible endoscope. In practice, it was an unbelievably demanding technological challenge. The result, as the development team was already able to see in the initial tests, was more than convincing. The endoscopic insights on the cellular and subcellular level in the upper and lower GI tract could possibly open up entire new areas of application for endoscopists.

"It is an extraordinary event."




One of those who uttered these words in the course of the first clinical tests was PD Dr. Ralf Kiesslich, Senior Physician in the Department of Gastroenterology at the Johannes Gutenberg University in Mainz, Germany. "For many years, we were only able to base our diagnoses and therapies on surface examinations. Now, for the first time, we can look beneath the surface at a magnification of 1,000, and the possibilities are endless."

Excerpt from product brochures.

PENTAX

More than meets the eye!

Confocal Endomicroscopy ...
Cutting Edge. Amazing. Revolutionary.

1. Normal Endomicroscopy
 2. Normal Endomicroscopy (High Magnification)

3. Confocal Endomicroscopy
 4. Confocal Endomicroscopy (High Magnification)