



Fermiscan Holdings Limited

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ABN 51 000 689 725

**Company Announcements**  
**Australian Stock Exchange Limited**  
**Exchange Centre**  
**20 Bridge Street**  
**SYDNEY NSW 2000**

28 February 2007

**FERMISCAN HOLDINGS LIMITED**  
**ABN 51 000 689 725**

**PRELIMINARY FINAL REPORT FOR YEAR ENDED 31 December 2006**  
Lodged with the ASX under Listing Rule 4.3A

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## **Commentary on Operations**

Fermiscan Holdings Limited was listed on the Australian Stock Exchange in October 2006 following the acquisition of Fermiscan Limited by Olympus Resources Limited. Following the acquisition, Olympus Resources Limited changed its name to Fermiscan Holdings Limited.

Fermiscan is commercialising a non-invasive diagnostic test for the detection of breast cancer. This test can potentially provide early detection of breast cancer with benefits for women's health including increased survival and treatment options.

In December 2006 Fermiscan commenced a major radiology validation trial in partnership with leading radiology and diagnostic groups, to assess the effectiveness of its test. This trial involved the participation of 5 major radiology clinics assisting in a 2000 patient trial of women referred for mammograms. There are now 10 radiology clinics involved and it is expected that this trial will be completed before the end of the first half of 2007. This trial is being governed by an Independent Ethics Committee and is registered with the National Health and Medical Research Council (NHMRC).

Pending the successful completion and outcomes of this trial, Fermiscan expects to commence the commercial development of both the Australian and international markets in the second half of 2007.

The company is currently examining the feasibility of selected markets in South East Asia and Japan and is reviewing potential structures and partnership models in these territories.

The company is arranging access to dedicated synchrotron beam lines at the Argonne Advanced Photon Source synchrotron in Chicago, USA. This includes the x-ray diffraction equipment necessary to perform the Fermiscan test. The capacity for each beam line is approximately 300,000 tests per annum.

Volume models are currently being developed as we conclude the financial arrangements referred to above which will facilitate the company being able to provide financial sensitivity analysis to the market soon.

## **Capital raisings**

The company raised \$2.3 million in a public share offer in October 2006.

Fermiscan raised \$22.5 million in a share placement on 16 February 2007 and will issue 15 million new shares at an issue price of \$1.50, which are expected to trade on the ASX effective week commencing 12 March 2007.

The proceeds from the placement will be used to fund:

- Anticipated capital expenditure relating to access to dedicated Synchrotron beam lines including the x-ray diffraction equipment necessary to perform the Fermiscan test.

- Developing international and domestic markets for the Fermiscan technology. The company plans to market the Fermiscan test globally, and is currently examining selected markets in South East Asia and Japan.
- Working capital.

### **Operational progress**

Significant milestones achieved since the company commenced trading on the Australian Stock Exchange as Fermiscan Holdings Limited include:

- Establishment of a highly qualified Scientific and Medical Advisory Board to help direct the clinical testing program, and to oversee product development and implementation
- Fermiscan's scientists were able to generate X-ray diffraction images from hair samples on two separate synchrotron beam lines. The results of the samples analysed demonstrate a correlation between an altered X-ray diffraction image of hair and the presence of breast cancer. This is consistent with published reports by the original inventor of Fermiscan's patented technology "Using Hair to Screen for Breast Cancer".
- Appointment to the company's board of eminent radiologists Dr Ronald Shnier and Dr Michael Carr.
- Establishment of a National Health and Medical Research Council (NHMRC) registered ethics committee to provide governance to Fermiscan's clinical trials.
- Commencement of a 2,000-patient validation trial with major radiology and diagnostic imaging businesses.
- Agreement with the inventor of the patent on which the Fermiscan test is based, including termination of the option held by the inventor to acquire this patent.
- Completion of new corporate branding and product development for the breast cancer test.

### **Commentary on Financial Highlights**

#### **Accounting for the reverse acquisition of Fermiscan Limited**

When Fermiscan Holdings Limited acquired (as the legal parent) the Fermiscan Limited group of companies, the shareholders of Fermiscan Limited (the legal subsidiary) obtained 86.8% in the shares of Fermiscan Holdings Limited (at the time of re-listing on the 25<sup>th</sup> October 2006) and therefore control of the combined entity.

Under AIFRS the business combination arising when Fermiscan Holdings Limited acquired Fermiscan Limited is accounted for as a reverse takeover where Fermiscan Limited is treated as acquiring Fermiscan Holdings Limited for accounting purposes. The consolidated entity presented in this report is deemed as headed by Fermiscan Limited and the financial reports have been prepared based on the accounting standards requirements for a reverse takeover.

## Share based expense transactions

The group operates an employee share option plan. In addition, Directors and certain employees were granted options at a general meeting during the year. The amount expensed in the Income Statement is determined by reference to the fair value of the options at the grant date. The expense for Share based payment transactions creates a reserve of an equal amount called the Share based payments reserve

The amount expensed under Share based expense transactions in the financial statements is \$3,419,800.

## Non recurring costs in the Income Statement

The Income Statement includes non recurring costs for Patent and trademark expenses and Formation costs totalling \$606,660. Included in total expenses are Share based expense transactions, referred to above, amounting to \$3,419,800, making total non recurring expenditure in this period \$4,026,460.

In summary, expenses are:

Employee benefits expense	2,132,246
Formation costs	347,541
Administration costs	371,339
Scientific & synchrotron operations	291,994
Patent and trademark expenses	259,119
Branding and marketing	232,747
Occupancy costs	122,605
Depreciation and amortisation	23,350
Finance costs	11,136
Other expenses	338,416
<b>Total expenses</b>	<b>4,130,493</b>
<b>Profit (loss) before Share based expense transactions</b>	<b>(3,881,141)</b>
Share based expense transactions	3,419,800
<b>Profit (loss) before income tax expense (income tax benefit)</b>	<b>(7,300,941)</b>

## Cash flow from Operations

Fermiscan Holdings Limited expects to receive AUD \$22.5 million in funds in March 2007 from the share placement announced through ASX on 16 February 2007. This is in addition to cash balances at 31 December 2006 of \$6 million and receivables due for collection over the next eighteen months of \$1.5 million.

Fermiscan Holdings Limited provided its first quarterly cash flow report (ASX Appendix 4C) for the period to December 2006 to ASX in January 2007. The report showed the company had net operating cash outgoings for the quarter of \$1.3 million which included first time expense prepayments of \$159k and staff costs relating to earlier periods of \$74k. After adjusting for these costs, the monthly net operating cash burn rate is approximately \$370k which is consistent with business plans and is in line with information provided in the Prospectus dated 25 July 2006 and the Supplementary Prospectus.

Fermiscan Holdings Limited received \$1.084 million from loan and interest repayments in the year to December 2006 (\$682k in the current quarter) and expects to receive a further \$1.5 million in loan repayments, plus interest, within eighteen months. The company held \$6 million in cash at 31 December 2006.

**Fermiscan Holdings Limited**  
**Results for Announcement to the Market**  
**For the Year Ended 31 December 2006**

**Financial results**

	2006 \$	2005 \$	Movement %
<b>Total Revenue</b>	<u>249,352</u>	<u>2,097</u>	Not applicable
Net Interest Income	249,352	2,097	Not applicable
Depreciation and Lease Amortisation	23,350	-	Not applicable
Profit (loss) before Interest, tax, depreciation and amortisation (EBITDA) and Share based expense transactions	<u>(3,848,074)</u>	<u>(890,875)</u>	332
Profit (loss) before Interest, tax and intangibles amortisation (EBITA) and Share based payment transactions	<u>(3,871,424)</u>	<u>(890,875)</u>	335
<b>Loss before Share based payment transactions</b>	<b>(3,881,141)</b>	<b>(890,875)</b>	336
Share based expense transactions	3,419,800	-	
Income Tax attributable to Operating Profit (loss)	<u>-</u>	<u>-</u>	
<b>Net Loss attributable to shareholders of Fermiscan Holdings Limited</b>	<b><u>(7,300,941)</u></b>	<b><u>(890,875)</u></b>	720

An explanation of certain key items included in the figures reported above is provided in the commentary pages of this announcement.

**Dividends and Dividend Reinvestment Plan**

There were no dividends paid in the last two years a no dividends were proposed. The company does not operate a Dividend Reinvestment Plan.

**Earnings Per share**

	Year to 31 December 2006	Year to 31 December 2005
Basic earnings (loss) – cents per share	(0.25)	0.008
Diluted earnings (loss) – cents per share	(0.17)	0.008

**Fermiscan Holdings Limited and Controlled Entities**  
**Consolidated Income Statement**  
**For the Year Ended 31 December 2006**

	Notes	Consolidated Entity		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
Revenue					
Interest Income	3	249,352	2,097	228,498	231,859
Other income		-	-	-	61,272
		<u>249,352</u>	<u>2,097</u>	<u>228,498</u>	<u>293,131</u>
Employee benefits expense	4	2,132,246	34,125	-	-
Formation costs	4	347,541	-	-	-
Administration costs	4	371,339	-	-	-
Scientific & synchrotron operations	4	291,994	-	-	-
Patent and trademark expenses	4	259,119	188,631	-	-
Branding and marketing	4	232,747	-	-	-
Occupancy costs	4	122,605	54,321	-	-
Depreciation and amortisation	4	23,350	-	-	-
Finance costs	4	11,136	-	-	-
Other expenses	4	338,416	615,895	309,333	217,323
<b>Total expenses</b>		<u>4,130,493</u>	<u>892,972</u>	<u>309,333</u>	<u>217,323</u>
<b>Profit (loss) before Share based expense transactions</b>		<b>(3,881,141)</b>	<b>(890,875)</b>	<b>(80,835)</b>	<b>75,808</b>
Share based expense transactions		3,419,800	-	3,419,800	-
<b>Profit (loss) before income tax expense (income tax benefit)</b>	4	<b>(7,300,941)</b>	<b>(890,875)</b>	<b>(3,500,635)</b>	<b>75,808</b>
Income tax expense (income tax benefit)	5	-	-	-	-
<b>Profit (loss) attributable to the members of the parent</b>		<u><b>(7,300,941)</b></u>	<u><b>(890,875)</b></u>	<u><b>(3,500,635)</b></u>	<u><b>75,808</b></u>

**Fermiscan Holdings Limited and Controlled Entities**  
**Consolidated Balance Sheet**  
**For the Year Ended 31 December 2006**

	Notes	Consolidated Entity		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
<b>CURRENT ASSETS</b>					
Cash and cash equivalents		6,009,253	64,146	1,922	72,861
Receivables	6	1,431,560	102,067	1,024,318	660,930
Amount owing by controlled entities		-	-	2,699,225	-
Other	7	224,481	-	-	-
<b>TOTAL CURRENT ASSETS</b>		<b>7,665,294</b>	<b>166,213</b>	<b>3,725,465</b>	<b>733,791</b>
<b>NON-CURRENT ASSETS</b>					
Receivables	6	500,000	-	500,000	2,000,000
Investment in subsidiary	8	-	-	32,016,967	-
Property, plant and equipment	9	219,870	-	-	-
Intangible assets	10	303,899	112,222	-	-
<b>TOTAL NON-CURRENT ASSETS</b>		<b>1,023,769</b>	<b>112,222</b>	<b>32,516,967</b>	<b>2,000,000</b>
<b>TOTAL ASSETS</b>		<b>8,689,063</b>	<b>278,435</b>	<b>36,242,432</b>	<b>2,733,791</b>
<b>CURRENT LIABILITIES</b>					
Payables	11	441,340	761,210	93,363	123,791
Provisions	12	100,152	-	-	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>541,492</b>	<b>761,210</b>	<b>93,363</b>	<b>123,791</b>
<b>NON-CURRENT LIABILITIES</b>					
Payables	11	138,983	-	-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>138,983</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>TOTAL LIABILITIES</b>		<b>680,475</b>	<b>761,210</b>	<b>93,363</b>	<b>123,791</b>
<b>NET ASSETS</b>		<b>8,008,588</b>	<b>(482,775)</b>	<b>36,149,069</b>	<b>2,610,000</b>
<b>EQUITY</b>					
Contributed equity	13	12,780,604	408,100	35,429,128	1,809,157
Reserves		3,419,800	-	3,419,800	-
Retained earnings		(8,191,816)	(890,875)	(2,699,859)	800,843
<b>TOTAL EQUITY</b>		<b>8,008,588</b>	<b>(482,775)</b>	<b>36,149,069</b>	<b>2,610,000</b>

**Fermiscan Holdings Limited and Controlled Entities**  
**Consolidated Statement of Changes in Equity**  
**For the Year Ended 31 December 2006**

	Notes	Consolidated Entity		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
Retained earnings at the beginning of the year		(890,875)	-	800,776	725,035
Profit (loss) for the year		(7,300,941)	(890,875)	(3,500,635)	75,808
Retained earnings (losses) at the end of the year		<u>(8,191,816)</u>	<u>(890,875)</u>	<u>(2,699,859)</u>	<u>800,843</u>
<b>Transactions with equity holders in their capacity as equity holders:</b>					
Contributed equity at the beginning of the year		408,100	-	1,809,157	1,809,157
Contributions		2,328,191	-	2,328,191	-
Notional capital issued for the purchase of Fermiscan Holdings Limited as part of the reverse acquisition accounting		2,543,310	-	-	-
Shares issued on acquisition of Fermiscan Limited		-	-	32,016,967	-
Contributions received by Fermiscan Limited		8,270,009	408,100	-	-
Fund raising costs		(769,006)	-	(725,188)	-
Contributed equity at the end of the year		<u>12,780,604</u>	<u>408,100</u>	<u>35,429,127</u>	<u>1,809,157</u>
Share based expense reserve		3,419,800	-	3,419,800	-
<b>Total Equity at the end of the year attributable to members of the parent</b>		<u><b>8,008,588</b></u>	<u><b>(482,775)</b></u>	<u><b>36,149,069</b></u>	<u><b>2,610,000</b></u>

**Fermiscan Holdings Limited and Controlled Entities**  
**Consolidated Statement of Cash Flows**  
**For the Year Ended 30 December 2006**

	Notes	Consolidated Entity		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>					
Payments to suppliers and employees		(4,778,835)	(228,829)	(339,825)	(232,022)
Interest received		249,352	2,097	228,498	131,956
<b>Net cash provided by operating activities</b>		<b>(4,529,483)</b>	<b>(226,732)</b>	<b>(111,327)</b>	<b>(100,066)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>					
Payments for property plant and equipment		(72,526)	-	-	-
Payment for intangible assets		(191,677)	(112,222)	-	-
Payment for other current assets		(102,000)	-	-	-
Loans to controlled entities		-	-	(2,699,225)	-
Loans to director related entities		-	(30,000)	-	-
Loans repaid by other entities		1,136,612	-	1,136,612	-
Proceeds from sale of investments		-	-	-	114,071
<b>Net cash provided by investing activities</b>		<b>770,409</b>	<b>(142,222)</b>	<b>(1,562,613)</b>	<b>114,071</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>					
Proceeds from share issue after costs of issue		9,703,928	408,100	1,603,003	-
Prior year unpaid dividends claimed		-	-	-	(299)
Proceeds from loan repayments		-	25,000	-	-
<b>Net cash provided by financing activities</b>		<b>9,703,928</b>	<b>433,100</b>	<b>1,603,003</b>	<b>(299)</b>
Net increase in cash and cash equivalents		5,944,854	64,146	(70,937)	13,706
Cash and cash equivalents at beginning of year		64,146	-	72,861	59,155
<b>Cash and cash equivalents at end of the year</b>		<b>6,009,000</b>	<b>64,146</b>	<b>1,924</b>	<b>72,861</b>

**Fermiscan Holdings Limited and Controlled Entities**  
**Notes To The Financial Statements**  
**31 December 2006**

**NOTE 1: BASIS OF PREPARATION**

This financial report is a general purpose financial report that has been prepared in accordance with Australian Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

Fermiscan Holdings Limited, the legal parent, is a company limited by shares, incorporated and domiciled in Australia.

Under AIFRS the business combination arising when Fermiscan Holdings Limited acquired Fermiscan Limited is accounted for as a reverse takeover where Fermiscan Limited is treated as acquiring Fermiscan Holdings Limited for accounting purposes. The consolidated entity presented in this report is deemed as headed by Fermiscan Limited.

Fermiscan Holdings Limited is the legal parent. The Board of Fermiscan Holdings Limited direct the financial and operating policies of the Group and the shareholders. The Directors are of the opinion that, in accordance with the requirements of AASB 3, Fermiscan Holdings Limited cannot be identified the acquirer.

In the opinion of the Directors, the acquiring entity is considered to be Fermiscan Limited. This conclusion is based on an assessment of the relative fair values of the combining entities.

As a result of reverse acquisition accounting, a new equity account is created as a component of equity. This equity account called "Other contributed equity" is similar in nature to share capital and is not available for distribution. This equity account represents a net adjustment for the replacement of the legal parent's equity with that of the deemed acquirer.

The following is a summary of material accounting policies adopted by the consolidated entity in the preparation and presentation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

**(a) Basis of preparation of the financial report**

The financial report of Fermiscan Holdings Limited and controlled entities, and Fermiscan Holdings Limited as an individual parent entity comply with Australian equivalents to International Financial Reporting Standards (AIFRS).

**Summary of the significant accounting policies under AIFRS:**

**(b) Principles of Consolidation**

The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and of all entities, which Fermiscan Holdings Limited controlled from time to time during the year and at balance date. Details of the controlled entities are contained in Note 21.

When Fermiscan Holdings Limited acquired (as the legal parent) the Fermiscan Limited group of companies, the shareholders of Fermiscan Limited (the legal subsidiary) obtained 86.8% in the shares of Fermiscan Holdings Limited (at the time of re-listing on the 25<sup>th</sup> October 2006) and therefore control of the combined entity. Accordingly the transaction is accounted for as a reverse acquisition under AIFRS. This financial report discloses the consolidated financial statements with the Fermiscan Holdings Limited acquisition of Fermiscan Limited accounted for as a reverse acquisition.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies, which may exist.

All inter-company balances and transactions, including any unrealised profits or losses have been eliminated on consolidation.

#### **(c) Revenue Recognition**

Government grants received that relate to specific assets or expenses are deferred and recognised as income in the same period as the asset is consumed or when the associated expenses are incurred.

Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Dividend revenue is recognised when the right to receive a dividend has been established. Dividends received from associates and joint ventures are accounted for in accordance with the equity method.

All revenue is stated net of the amount of goods and services tax (GST).

#### **(d) Cash and cash equivalents**

Cash and cash equivalents include cash on hand and at banks, short-term deposits with an original maturity of three months or less held at call with financial institutions, and bank overdrafts. Bank overdrafts are shown within short-term borrowings in current liabilities on the Balance Sheet.

#### **(e) Property, plant and equipment**

##### *Cost and valuation*

Property, plant and equipment are stated at cost less depreciation and any accumulated impairment losses.

The carrying amount of plant and equipment is reviewed for impairment annually by directors for events or changes in circumstances that indicate the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amount. Impairment losses are recognised in the Income Statement in the cost of sales line item.

##### *Depreciation*

The depreciable amounts of fixed assets are depreciated on a straight-line basis over their estimated useful lives commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The useful lives for each class of assets are:

	2006	2005
Plant and equipment:	2.5 to ten years	N/A
Motor vehicles:	Five years	N/A

**(f) Leases**

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

*Finance Leases*

Leases of fixed assets, where substantially all of the risks and benefits incidental to ownership of the asset, but not the legal ownership, are transferred to entities within the consolidated entity are classified as finance leases. Finance leases are capitalised, recording at the inception of the lease an asset and liability equal to the present value of the minimum lease payments, and disclosed as plant and equipment under lease.

Leased assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Lease payments are allocated between interest expense and reduction of the lease liability. The interest expense is calculated using the interest rate implicit in the lease and is included in finance costs in the Income Statement.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

*Operating Leases*

Lease payments for operating leases, where substantially all of the risks and benefits remain with the lessor, are charged as expenses in the period in which they are incurred.

**(g) Intangibles**

*Trademark and patents*

Trademark and patents are recognised at cost and are amortised over their estimated useful lives, which range from 5 to 20 years, once commercial production is commenced. Trademarks and patents are carried at cost less accumulated amortisation and any impairment losses.

*Research and Development*

Expenditure on research activities is recognised as an expense when incurred.

Expenditure on development activities is capitalised only when it is expected that future benefits will exceed the deferred costs. Capitalised development expenditure is stated at cost less accumulated amortisation. Amortisation is calculated using a straight-line method to allocate the cost over a period (not exceeding three years), during which the related benefits are expected to be realised, once commercial production is commenced.

Other development expenditure is recognised as an expense when incurred.

**(h) Impairment of assets**

Assets with an indefinite useful life are not amortised but are tested annually for impairment in accordance with AASB 136. Assets subject to annual depreciation or amortisation are reviewed for impairment whenever events or circumstances arise that indicates that the carrying amount of the asset may be impaired.

An impairment loss is recognised where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and value in use.

**(i) Income Tax**

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities.

A balance sheet approach is adopted under which deferred tax assets and liabilities are recognized for temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred tax asset or liability is recognised in relation to temporary differences arising from the initial recognition of an asset or a liability if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for temporary differences and unused tax losses only when it is probable that future taxable amounts will be available to utilize those temporary differences and losses.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

**(j) Employee Benefits**

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

*Share based expense transactions*

The company operates an employee share option plan. In addition Directors and employees were granted options during the year. The amount expensed in the Income Statement is determined by reference to the fair value of the options at the grant date.

**(k) Financial Instruments**

*Classification*

*The group classifies its financial instruments in the following categories: loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition.*

#### *Held-to-Maturity Investments*

Fixed term investments intended to be held to maturity are classified as held-to-maturity investments. They are measured at amortised cost using the effective interest rate method.

#### *Loans and Receivables*

Loan and receivables are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method.

#### *Financial Liabilities*

Financial liabilities include trade payables, other creditors and loans from third parties including inter-company balances and loans from or other amounts due to director-related entities.

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

### **(l) Foreign Currencies**

#### *Functional and presentation currency*

The financial statements of each group entity are measured using its functional currency, which is the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, as this is the parent entity's functional and presentation currency.

#### *Transactions and Balances*

Fermiscan Holdings Limited and its subsidiaries presently do not materially transact in foreign currencies. Should this circumstance change, transactions in foreign currencies of entities within the consolidated entity would be translated into functional currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) would be translated using the spot rate at the end of the financial year.

Resulting exchange differences arising on settlement or re-statement would be recognised as revenues and expenses for the financial year.

### **(m) Investments**

Investments are initially recorded at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. After initial recognition, investments, which are classified as available for sale, are measured at fair value.

## NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are based on past performance and management's expectation for the future.

### *Critical Accounting Estimates and Assumptions*

The group makes certain estimates and assumptions concerning the future, which, by definition will seldom represent actual results. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and assumptions that have a significant inherent risk in respect of estimates based on future events, which could have a material impact on the assets and liabilities in the next financial year, are discussed below:

### *Income Tax*

Income tax benefits are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

### *Valuation of expense based payments:*

Equity settled share based payments are adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions, and behavioural considerations.

## NOTE 3: REVENUE

	Notes	Consolidated Entity		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
Revenues from operations					
Interest Income		249,352	2,097	198,684	2,097

## NOTE 4: PROFIT (LOSS) FROM OPERATIONS

	Notes	Consolidated Entity		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
Profit from operations before income tax has been determined after the following specific expenses					
Employee benefits expense		2,071,237	-	-	-
Depreciation of non-current assets					
Plant and equipment		23,350	-	-	-

**NOTE 5: INCOME TAX**

	Notes	Consolidated Entity		Parent Entity	
		2006	2005	2006	2005
The prima facie tax, using tax rates applicable in the country of operation on profit differs from the income tax provided in the financial statements as follows:					
Profit (loss) before tax from operations		(7,784,309)	(890,875)	(3,500,635)	75,808
At the statutory income tax rate of 30% (2005: 30%)		(2,335,293)	(267,263)	(1,050,191)	22,742
Tax effect of amounts which are not deductible in calculating taxable income					
Share based payment		1,025,940	-	1,025,940	-
Tax losses and timing differences not recognised as future tax benefits		(1,309,353)	(267,263)	(24,251)	(18,381)
Unrecognised tax losses recouped		-	-	-	(4,361)
<i>Income tax expense</i>		-	-	-	-

Tax losses and timing differences are not recognised as future tax benefits

**NOTE 6: RECEIVABLES**

	Notes	Consolidated Entity		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
<b>CURRENT</b>					
Trade and other receivables		431,560	102,067	24,318	660,930
Secured Loan to unrelated entity (1)		1,000,000	-	1,000,000	-
		<u>1,431,560</u>	<u>102,067</u>	<u>1,024,318</u>	<u>660,930</u>
<b>NON-CURRENT</b>					
Secured Loan to unrelated party (1)		500,000	-	500,000	2,000,000
		<u>500,000</u>	<u>-</u>	<u>500,000</u>	<u>2,000,000</u>

(1)The loan is secured by registered first mortgage over real property held by a company associated with a former director, Mr G M Lorentz.

**NOTE 7: OTHER CURRENT ASSETS**

	Notes	Consolidated Entity		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
Prepayments		89,917	-	-	-
Unexpired Interest Charges		32,564	-	-	-
Other Assets		102,000	-	-	-
		<u>224,481</u>	<u>-</u>	<u>-</u>	<u>-</u>

**NOTE 8: OTHER FINANCIAL ASSETS**

	Notes	Consolidated Entity		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
NON-CURRENT					
<i>Investments at cost comprise:</i>					
Unlisted Shares – Investment in controlled entities		-	-	32,016,967	-
		-	-	32,016,967	-

**NOTE 9: PLANT AND EQUIPMENT**

	Notes	Consolidated Entity		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
Plant & equipment					
At cost		96,136	-	-	-
Accumulated depreciation		(10,383)	-	-	-
		85,753	-	-	-
Motor Vehicles					
At cost		147,084	-	-	-
Accumulated depreciation		(12,967)	-	-	-
		134,117	-	-	-
Total plant and equipment		219,870	-	-	-

**NOTE 10: INTANGIBLES**

	Notes	Consolidated Entity		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
Trademark and patents, at cost		303,899	112,222	-	-
<b>Year ended 31 December 2006</b>					
<i>Opening net book amount</i>		112,222	-	-	-
Additions		191,677	112,222	-	-
Amortisation charge		-	-	-	-
Impairment charge		-	-	-	-
<i>Closing net book value</i>		303,899	112,222	-	-

**NOTE 11: PAYABLES**

	Notes	Consolidated Entity		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
<b>CURRENT</b>					
Trade payables		230,813	761,210	93,363	123,791
Other payables		178,816	-	-	-
Hire purchase liabilities		31,711	-	-	-
		<u>441,340</u>	<u>761,210</u>	<u>93,363</u>	<u>123,791</u>
<b>NON-CURRENT</b>					
Hire purchase liabilities		138,983	-	-	-
		<u>138,983</u>	<u>-</u>	<u>-</u>	<u>-</u>

The hire purchase liability is secured by the assets subject to the agreement

**NOTE 12: PROVISIONS**

	Notes	Consolidated Entity		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
<b>CURRENT</b>					
Employee entitlements		100,152	-	-	-
		<u>100,152</u>	<u>-</u>	<u>-</u>	<u>-</u>

**NOTE 13: CONTRIBUTED EQUITY**

	Notes	Consolidated Entity		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
<b>(a) Issued and paid up capital</b>					
Ordinary shares fully paid		<u>12,780,604</u>	<u>408,100</u>	<u>35,429,128</u>	<u>1,809,157</u>

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

**(b) Movements in shares on issue**

	Legal Parent Entity		Legal Parent Entity	
	2006		2005	
	No of shares	\$	No of shares	\$
Beginning of the financial year	8,964,077	1,809,157	8,964,077	1,809,157
Issued during the year				
Public offer Prospectus	7,760,664	2,328,192	-	-
Shares issued for the purchase of Fermiscan Limited	110,023,930	32,016,967	-	-
Deduct: Share issue costs	-	(725,188)	-	-
End of the financial year	<u>126,748,671</u>	<u>35,429,127</u>	<u>8,964,077</u>	<u>1,809,157</u>

### (c) Share Options

#### *Employee share option plan*

The company offered employee participation in the Employee share option plan as a long-term incentive and as part of the remuneration arrangements. In addition, Directors and employees were granted options during the year. The amount expensed in the Income Statement is determined by reference to the fair value of the options at the grant date.

During or since the end of the financial year, 5,000,000 (2005: nil options) have been granted under the Employee share option plan. The market value of ordinary Fermiscan Holdings Limited shares closed at \$1.04 on 31 December 2006.

### NOTE 14: CASH FLOW INFORMATION

	Notes	Consolidated Entity		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
(a) Reconciliation of the net profit after tax to the net cash flows from operations:					
Net profit (loss)		(7,300,941)	(890,875)	(3,500,635)	75,807
<b>Non-Cash Items</b>					
Depreciation and amortisation		23,350	-	-	-
Provision for diminution in advances		-	-	-	(61,271)
Share based expense transaction		3,419,800	-	3,419,800	-
<b>Changes in assets and liabilities</b>					
(Increase)/decrease in receivables		(329,493)	(72,067)	-	(98,918)
(Increase)/decrease in other assets		(122,481)	-	-	-
Increase (decrease) in trade and other creditors		(319,870)	736,210	(30,492)	(15,684)
(Decrease)/increase in employee entitlements		100,152	-	-	-
<b>Net cash flow from operating activities</b>		<b>(4,529,483)</b>	<b>(226,732)</b>	<b>(111,327)</b>	<b>(100,066)</b>

**NOTE 15: EARNINGS PER SHARE**

	2006 No of shares	2005 No of shares
The following reflects the income and share data used in the calculations of basic and diluted earnings per share:		
Net profit (loss)	(7,300,941)	(890,875)
	<hr/>	
Earnings used in calculating basic and diluted earnings per share	<u>(7,300,941)</u>	<u>(890,875)</u>
Weighted average number of ordinary shares used in calculating basic earnings per share	28,565,172	8,964,077
<b>Effect of dilutive securities:</b>		
Share options	<u>13,682,607</u>	<u>Nil</u>
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	<u>42,247,749</u>	<u>8,964,077</u>

**NOTE 16: COMMITMENTS AND CONTINGENCIES**

	Notes	Consolidated Entity 2006	2005	Parent Entity 2006	2005
<b>Lease expenditure commitments</b>					
<i>(a) Operating leases (non-cancellable):</i>					
<i>(i) Operating leases related to office premises with lease terms of years, with an option to extend for a further years</i>					
<i>(ii) Minimum lease payments</i>					
- Not later than one year		151,937	-	-	-
- Later than one year and not later than five years		280,680	-	-	-
- Later than five years		-	-	-	-
- Aggregate lease expenditure contracted for at reporting date		<u>432,617</u>	<u>-</u>	<u>-</u>	<u>-</u>

**NOTE 17: AUDITOR'S REMUNERATION**

	Notes	Consolidated Entity		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
Amounts received or due and receivable for:					
An audit or review of the financial report of the entity and any other entity in the consolidated entity					
- KPMG		-	-	17,000	31,935
- Pitcher Partners		38,000	-	38,000	-
		<u>38,000</u>	<u>-</u>	<u>55,000</u>	<u>31,935</u>
Other Services					
- KPMG		-	-	-	-
- Pitcher Partners		-	18,700	-	-
		<u>-</u>	<u>18,700</u>	<u>-</u>	<u>-</u>

**NOTE 18: RELATED PARTY DISCLOSURES**

(a) The consolidated financial statements include the financial statements of Fermiscan Holdings Limited and its controlled entities listed below:

	Country of Incorporation	Percentage Owned	
		2006	2005
<i>Parent Entity:</i>			
Fermiscan Holdings Limited	Australia		
<i>Subsidiaries of Fermiscan Holdings Limited</i>			
Fermiscan Limited	Australia	100%	-
Fermiscan Australia Pty Ltd	Australia	100%	-
Fermiscan BCT Pty Ltd	Australia	100%	-

(b) The following table provides the total amount of transactions that were entered into with related parties for the relevant financial year:

Wholly-owned group transactions

*Fermiscan Limited acts as the principle operating company for the group, incurring most of the day to day expenses. Fermiscan Australia Limited is the principle patent holder.*

Transactions with associates

*Fermiscan Holdings Limited General Counsel, Richard Toltz, is a consultant to Piper Alderman, the Company's solicitors, who are paid for legal services provided to the Company at their normal commercial rates.*

**NOTE 19: SEGMENT INFORMATION**

The consolidated entity operated in one business segment being the commercialisation of a non- invasive diagnostic test for the detection of breast cancer. The consolidated entity operated predominately in Australia.



**NOTE 20: FINANCIAL INSTRUMENTS**

**(i) Interest rate risk**

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

Financial Instruments	Fixed interest rate maturing in:													
	Floating interest rate		1 year or less		Over 1 to 5 years		More than 5 years		Non-interest bearing		Total carrying amount as per Balance Sheet		Weighted average effective interest rate	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	%	%
<i>(i) Financial assets</i>														
Cash	6,009,251	64,146	-	-	-	-	-	-	-	-	6,009,251	64,146	-	-
Trade and other receivables	-	-	-	-	-	-	-	-	431,560	102,067	431,560	102,067	na	na
Secured loans	-	-	-	-	500,000	2,000,000	-	-	-	-	-	-	1,500,000	2,000,000
<i>(ii) Financial liabilities</i>														
Trade creditors	-	-	-	-	-	-	-	-	230,813	761,210	230,813	761,210	-	-
Other creditors	-	-	-	-	-	-	-	-	178,816	-	178,816	-	-	-
Finance lease liability	-	-	31,711	-	138,983	-	-	-	-	-	31,711	138,983	7.8-	-

**(ii) Credit risk exposures**

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount of those assets, net of any provisions for doubtful debts of those assets, as disclosed in Balance Sheet and Notes to the Financial Statements.

Credit risk for derivative financial instruments arises from the potential failure by counterparties to the contract to meet their obligations. The credit risk exposure to forward exchange contracts is the net fair value of these contracts.

The consolidated entity does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the consolidated entity, other than the amounts due by Kimberley Services Limited.

**NOTE 20: SUBSEQUENT EVENTS**

Fermiscan Holdings Limited announced through ASX on 16 February 2007 that it has raised \$22.5 million in a share placement. Fermiscan Holdings Limited will issue 15 million fully paid ordinary shares at an issue price of \$1.50 to Australian and international institutions and professional and sophisticated investors.

The proceeds from the placement will be used to fund:

- Anticipated capital expenditure relating to access to dedicated Synchrotron beam lines including the x-ray diffraction equipment necessary to perform the Fermiscan test.
- Developing international and domestic markets for the Fermiscan technology. The company plans to market the Fermiscan test globally, and is currently examining selected markets in South East Asia and Japan.
- Working capital.

The proposed issue of new shares will rank equally with existing shares and is expected to trade on the ASX effective Monday 12 March 2007.

Other than the above, there has been no matter or circumstance, which has arisen since 31 December 2006 that has significantly affected or may significantly affect:

- (a) the operations, in financial years subsequent to 31 December 2006, of the consolidated entity, or
- (b) the results of those operations, or
- (c) the state of affairs, in financial years subsequent to 31 December 2006, of the consolidated entity.



**COMPLIANCE STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2006**

This report has been prepared in accordance with AASB Standards, other AASB authoritative pronouncements and Urgent Issues Group Consensus Views or other standards acceptable to ASX.

This report and the accounts upon which the report is based use the same accounting policies.

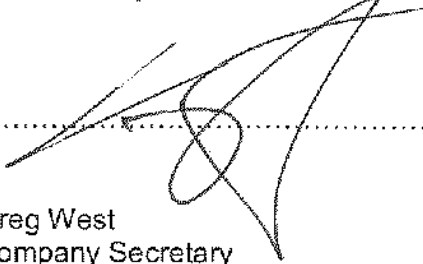
This report does give a true and fair view of the matters disclosed.

This report is based on accounts which are in the process of being audited.

The entity has formally constituted audit committee.

Signed : .....

Date : 28 February 2007



Greg West  
Company Secretary