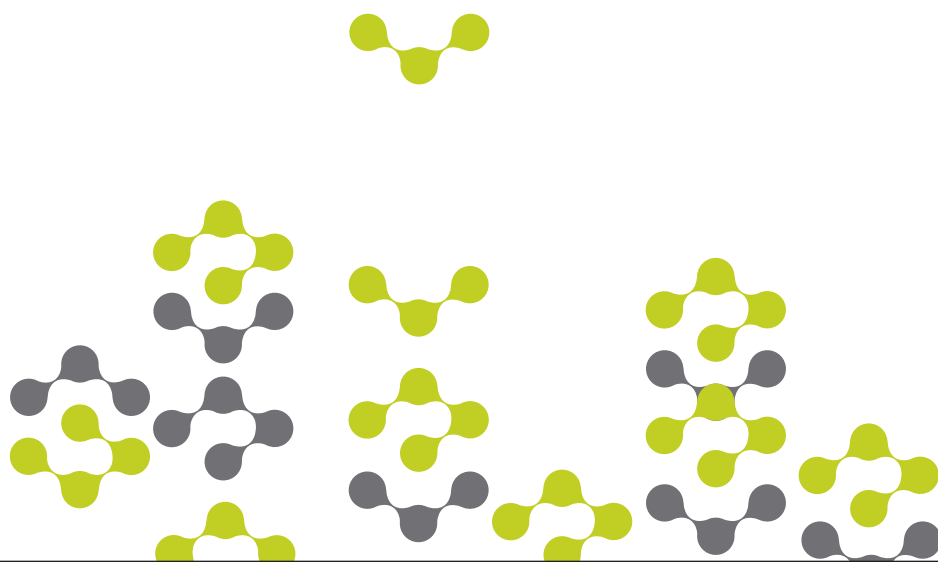


Annual Report 2006

2006



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Annual General Meeting

The Fermiscan Annual General Meeting will take place at 10:30am on Tuesday 8 May 2007 in the Barnet Long Room, Level 1, Customs House, 31 Alfred Street, Sydney, NSW 2000.



Highlights

Fermiscan is commercialising a world-first, non-invasive test for the detection of breast cancer. Anticipating positive results from a major validation trial, Fermiscan expects to launch the test in the second half of 2007. The company is exploring other applications of the technology to provide diagnostics for a range of diseases.

Since relisting on 25 October 2006 as Fermiscan Holdings Limited, the company has:

- Independantly replicated the findings of the original inventor.
- Commenced a 2,000-patient validation trial with the support of major radiology and diagnostic groups.
- Strengthened the company's board with the appointment of eminent radiologists Dr Ronald Shnier and Dr Michael Carr.
- Established strong and experienced management and scientific teams.
- Established a highly qualified Scientific and Medical Advisory Board comprised of eminent radiologists, leading scientists and medical specialists. Fermiscan has also established a National Health and Medical Research Council (NHMRC) registered ethics committee to provide governance to the company's clinical trials.
- Raised \$24.8 million to date through public share offer and share placement, in addition to the \$8.3 million raised in Fermiscan Limited before the re-listing.
- Recently announcement of the signing of a licensing agreement in six South East Asian countries.

Chairman's Report

I am pleased to welcome new shareholders who joined our register in 2006. We have a tremendous opportunity to commercialise a world-first, non-invasive diagnostic test for the early detection of breast cancer. The initial focus for Fermiscan is the completion of the clinical validation trials and then the commercialisation of the Fermiscan breast cancer test.

Your Board and the management team at Fermiscan have established the necessary experienced management and scientific teams required to deliver this opportunity and, as announced in December, have successfully replicated results from the original inventor's breast cancer test.

Our financial position is strong. We raised over \$2.3 million in the public share offer in 2006, and a further \$22.5 million in a share placement in February 2007. This was in addition to \$8.3 million raised in Fermiscan Limited before the re-listing in October 2006. These funds provide a substantial foundation for our planned strategy of international development and expansion.

We are delighted to have the support of some of Australia's major radiology and diagnostic imaging groups who have partnered with us to assess the effectiveness of the Fermiscan test. With their support, the company commenced its final validation trial in December 2006. This will compare results from Fermiscan's test with results from women referred for mammograms, the current gold standard to detect breast cancer. A list of clinics participating in the trial is available on our website.

In anticipation of positive results from the trial, we have begun to examine opportunities to market the Fermiscan test commercially in Australia and overseas. We have recently announced details of our licensing arrangements in South East Asia and our intention to commence feasibility studies in Japan.

Fermiscan governance

We are focused on being at the forefront of best practice for human ethics and scientific governance. In 2006, we established a highly qualified Scientific and Medical Advisory Board comprised of eminent radiologists, leading scientists and medical specialists. This board has helped to direct our testing program, and to guide product development. We also founded the Fermiscan Human Research Ethics Committee to protect the welfare and interests of our patients. This independent ethics committee is registered with the National Health and Medical Research Council (NHMRC). This committee will apply the guidelines and principles of the NHMRC's National Statement on Ethical Conduct in Research Involving Humans, and to provide governance for Fermiscan's clinical trials.

In addition to the original directors, Mr Ian Holman and our managing director, Mr David Young, it is my pleasure to welcome to our board eminent radiologists Dr Ronald Shnier and Dr Michael Carr. Dr Shnier is Director of Clinical Imaging Research Centre and President of the Australian Diagnostic Imaging Association. Dr Carr is Director of Medical Services of I-Med Network, a division of DCA Limited, and has fellowships in Radiology and Anaesthetics.

The significant progress to date reflects the leadership and commitment of our senior management team, led by managing director David Young. I would like to extend my appreciation to my board colleagues, and our management and staff for their efforts.



Mr Gary Garton – Chairman



Mr Gary Garton – Chairman

Managing Director's Report

I am delighted to report that since the establishment of Fermiscan Holdings Limited we have made outstanding progress. We have forged a strong management team; achieved clinical and operational goals; expanded our presence through licensing arrangements in Hong Kong, Singapore, Malaysia, Indonesia, Thailand and Vietnam and we are in a healthy financial position.

We have taken significant steps towards commercialising our non-invasive test for breast cancer and developing its worldwide potential. We have reached milestones across an integrated program of corporate, financial, operational and scientific activities that bring the test closer to commercialisation.

The Fermiscan test presents an exciting opportunity to contribute to women's health. Early detection of breast cancer is considered essential to improve health outcomes, and patient benefits include increased survival and treatment options.

Major radiology groups are involved in Fermiscan's validation trial

Fermiscan's technology is based on the discovery that cellular changes, linked with the development of breast cancer, change the molecular structure of hair. Since the publication of this discovery in 1999, many scientists worldwide have worked to validate and refine the technology. Fermiscan owns this technology, and an international family of patents protect our intellectual property.

We met a significant milestone in December 2006 by independently replicating the findings of the original scientist. Following this, Fermiscan began a 2,000-patient validation trial with the support of major radiology and diagnostic groups. This trial is designed to assess the effectiveness of the Fermiscan test by testing the hair of women referred to radiologists for mammograms. Results will compare mammogram results with the results from the Fermiscan test. Patient enrolment is progressing well, and it is anticipated the trial will be completed during the first half of 2007.

The technology behind the test

The technology that makes the Fermiscan test possible is synchrotron-generated X-ray diffraction of hair. A synchrotron is an electron accelerator and storage system that uses high-energy electrons to generate very bright, pinpoint beams of brilliant light that can act as a "super microscope". The light beams are guided into workstations where they are capable of elucidating the structure of matter down to the level of atoms and molecules. When a hair is examined using this system, the resulting diffraction of the X-rays tells scientists about the underlying structure of the hair.

Fermiscan's test involves exposing a patient's untreated hair to the synchrotron's finely focused X-ray beam. Hair from breast cancer patients has a different molecular structure from normal hair, and the presence of breast cancer can be detected when analysing the resulting X-ray diffraction pattern.

We intend to use funds from our recent capital raising to arrange access to dedicated beam lines. The capacity for each beam line is expected to be between approximately 300,000 and 600,000 tests per annum given our ability to invest in automation improvements.

Market development

Assuming positive results from the trial, we expect to begin commercial development in Australia and overseas.

Corporate branding and product development for the breast cancer test is complete. Our packaging will be compact and easy to understand, containing collection pods, information and consent forms. The recommended retail price for the test in Australia is expected to be \$249, including GST. We expect to launch the test in an Australian pilot market in the second half of 2007.

We believe the Fermiscan test has significant revenue potential. According to statistics from the Australian Institute of Health and Welfare, one in eight women is expected to contract breast cancer in her lifetime. In Australia alone 35 women are diagnosed with breast cancer every day.



Mr David Young – Managing Director

Managing Director's Report

Worldwide, well over 100 million women will have a mammogram in 2007. This includes approximately 1 million women in Australia, 50 million in the United States, 40 million in Europe and 14 million in Japan. In these countries, screening is increasing by between 6 per cent and 14 per cent every year. The Fermiscan test potentially offers a new option for women of all ages.

Fermiscan is also exploring applications of its technology and complementary technologies for a range of diseases.

Our experienced and professional staff are key to our performance. Much of our progress in 2006 was attributable to our scientific team. This work is led by Dr Peter French and Mr Gary Corino. Dr Peter French, who chairs our Scientific and Medical Advisory Board, is a cell and molecular biologist and was awarded a PhD for work characterising keratin proteins in wool fibre. An overview of the science that underpins the Fermiscan test is on page 5 of this report.

Fermiscan's clinical operations are led by Mr Gary Corino who has more than 20 years' experience in protein chemistry, most of which was with CSIRO Textile and Fibre Technology researching the structure of keratin. Gary has spent more than 7 years working on this technology and was instrumental in successfully replicating the scientific method that has become our breast cancer test.

Financial update

Total revenue for the year to 31 December 2006 was \$249,000, resulting from interest on cash. The company has no debt and as at 10th March 2007 our cash totalled \$25.7 million.

Non-recurring costs included expensed options granted to directors and employees and share based expense transactions of \$3.4 million. Other non-recurring costs were patent and trademark expenses and formation costs of \$506,244. Operating expenses were \$4.6 million.

Cash outgoings for the quarter ending 31 December 2006 were \$1.3 million, including first time cash prepayments of \$159,000 and staff costs relating to earlier periods of \$74,000. Adjusting for these costs, Fermiscan's monthly cash burn rate was approximately \$370,000, consistent with business plans and information provided in the prospectus.

Outlook

2007 will be an important year for Fermiscan. We have the financial resources and the people to develop an internationally-focused company. Our funds enable us to access processing time on synchrotron lines with the capacity to perform the Fermiscan test. We are developing plans to enter global markets. These include the recent announcement of licensing arrangements in South-East Asia and we are currently assessing feasibility studies in Japan.

We have significant challenges ahead but we have confidence in the future of our company and will keep shareholders informed of the further progress and development of the Fermiscan business.

I would like to take this opportunity to thank the Fermiscan team for their committed effort, and our shareholders and business partners for their encouragement and support. In particular, the Doctors and staff at the participating clinics who have assisted us greatly in our endeavours.

Finally I would like to thank the numerous women who are helping Fermiscan in our trial process to develop what is potentially a significant breakthrough in improving health outcomes for women worldwide.



Mr David Young – Managing Director

Science Report

The Fermiscan Test for breast cancer is a test to detect an alteration to the molecular structure of hair, using diffraction of X-rays generated in a synchrotron, which correlates with the presence of the disease. The following section explains the process in more detail.

Structure of Hair

A single hair fibre consists of a core (the medulla) surrounded by an intermediate layer (the cortex) and then by a thin outer envelope (the cuticle). It has been known for over 60 years that low-angle fibre X-ray diffraction along with appropriate analysis can yield the molecular structure of any material in which there is a regular array of molecules. A typical example of such a material is a crystal. Hair, with its regular arrays of alpha-keratin, is also such a material. Studies using low-angle X-ray diffraction of hair have yielded information on the fibrillar structure of alpha-keratin. Such studies have shown that during development of the hair in the follicle, two alpha keratin molecules are wound together very tightly to form a double helix. Two of these double helices are then wound together to form a tetramer and then eight of these tetramers wind together as a staggered array to form the slow helix of the intermediate filament. As the hair grows, these alpha-keratin intermediate filaments align in fibrils along the hair. Thus low angle X-ray diffraction analysis of hair is a well-accepted research technique to study hair structure.

X-ray Diffraction

Whilst X-rays from any source can theoretically be used for such studies of hair, X-rays generated in a synchrotron are ideally suited for such analysis as the radiation is of very high

intensity (hundreds of thousands of times higher than conventional X-ray tubes) and thus the time taken for collection of data is very much shorter. The disadvantage of having to use synchrotron-generated X-rays is that synchrotrons are very large particle accelerators, of which there are only 40 in the world, and none operational in Australia (one is under construction in Victoria and due for completion in 2007). Thus samples from Australia must currently be sent overseas for analysis.

Synchrotrons

Synchrotrons are very large facilities, generally the size of a football field, which produce very high intensity X-rays. Using high intensity X-rays allows sample analysis to be performed in seconds rather than hours as would be for traditional X-ray sources. To date, the synchrotron based at the U.S. Department of Energy's Argonne National Laboratory in Chicago, USA, has been used for most of the Fermiscan experiments. This facility is called the Advanced Photon Source (APS) (see photo below).

The APS electron accelerator and storage system are the first critical steps in producing the high-energy X-rays that are used for the Fermiscan Test. The various parts of the facility are described below:

A. Linear Accelerator

Producing brilliant X-ray beams at the APS begins with electrons emitted from an electrode heated to ~1100°C. The electrons are accelerated by high-voltage alternating electric fields in a linear accelerator to speeds very close to the speed of light, then accelerated even more in the booster synchrotron, a racetrack-shaped ring

of electromagnets. In order to maintain the orbital path of the electrons, bending and focusing magnets increase the electron field strength in synchronisation with the radiofrequency field.

The electrons are then injected into the circular storage ring, which is 1.1 kms in circumference, and contains more than 1,000 electromagnets and associated equipment. A powerful electromagnetic field focuses the electrons into a narrow beam that is bent on a circular path, and in some cases it is then sent into insertion devices. Synchrotron storage rings optimized for insertion devices are called "third-generation" light sources. Third-generation storage rings maximize those X-ray beam qualities, flux and brilliance, that are needed for the Fermiscan Test. Flux and brilliance are benchmarks of X-ray beam quality. Both are based on a measure of the number of photons per second in a narrow energy band-width. Flux is the number of photons per second passing through a defined area, and is the appropriate measure for experiments that use the entire, unfocused X-ray beam. Brilliance is a measure of the intensity and directionality of an X-ray beam. It determines the smallest spot onto which an X-ray beam can be focused.

User beamlines comprise crystal and/or mirror optics designed to tailor the photon beam for specific types of experiments. These optics select out about one part per million from the energies (or wavelengths) that are carried by the insertion device beam and pass that energy down the beamline to a lead-lined, radiation-proof experiment station that contains the sample under investigation; additional optics that may be needed to analyze and characterize the scattering, absorption, or imaging process; and detectors to collect data from the interaction of X-ray beam and sample.



Advanced Photon Source (APS)

Science Report

X-ray diffraction and disease

The work of Dr James et al and colleagues demonstrated that X-ray diffraction of hair could be used to identify a range of diseases through structural changes that were detectable in the alpha-keratin. In particular, she has produced and published experimental evidence for specific structural changes in the alpha-keratin of hair from patients with insulin-dependent Type 1 diabetes^{1,2}, breast cancer^{3,4,5}, colon cancer⁶ and Alzheimers disease⁷. This discovery has been granted patents in the US, Australia, and New Zealand, with patents pending in other major international markets.

The first published report using hair to diagnose human disease was that for insulin dependent diabetes¹. In this paper, exposure of single hairs to synchrotron radiation was reported to reveal clear and consistent changes in the molecular structure of alpha-keratin of hair in insulin-dependent diabetes (IDDM). The nature of the changes reported suggests that the change occurs via the modification of extracellular matrix materials during the aggregation of the intermediate filaments in the hair follicle.

James et al.³ extended these findings to hair from breast cancer patients and reported in the prestigious scientific journal *Nature*, that there was a different intermolecular structure in hair from individuals with breast cancer compared to hair from healthy subjects. This difference was reported as the presence of a ring superimposed on the patterns obtained from healthy subjects. This ring was reportedly observed in all samples of scalp and/or pubic hair taken from women diagnosed with breast cancer, as well as from subjects "not yet diagnosed with breast cancer but suspected of being at risk" – in other words a number of false positives were identified. Whether this means that the hair test is more sensitive than mammography, and therefore these may not be false positives but actual positives at an early stage is not clear.

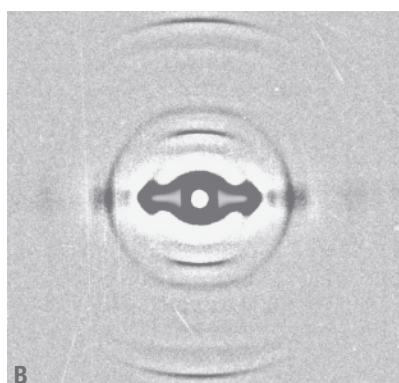
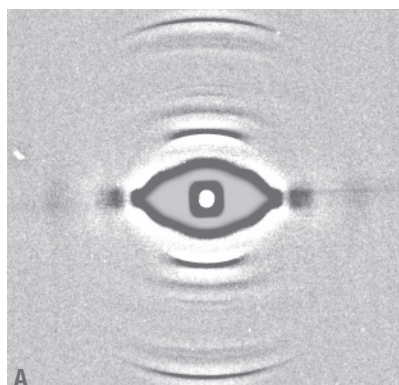
All the hair samples from women who tested positive for a mutation of the BRCA1 gene, which is associated with a higher risk of breast cancer, also showed the changes. Their results were remarkably consistent, and confirmed in subsequent papers by Dr James et al^{4,5}, most recently in the *International Journal of Cancer*, in which the results of 503 samples are reported⁵.

The methodology is described in the US patent application and other places as follows:

"In practice, a single hair (head or pubic) is... mounted onto a stage under sufficient tension to maintain alignment, then aligned normal to the X-ray beam in, for example, a low-angle synchrotron. X-ray patterns are recorded on imaging plates. Exposure time ranges from 5 seconds to 60 seconds depending on the intensity of the synchrotron source. Analysis is carried out using image analysis software. Briefly, the final meridional pattern is a composite of six superimposed lattices, with spacings of 62.6, 47, 19.8, 27.3, 12.5, and 7.6 nm. The relevant section of this meridional pattern has eight normal peaks superimposed on each other and, in the case of breast cancer, a ring is superimposed on this array. The determination as to whether or not this weak ring is present requires great care. ... The analysis of the recorded pattern is carried out using computer software⁸."

This is illustrated in the images – A is a normal synchrotron X-ray diffraction pattern of hair; B is a pattern indicative of the presence of breast cancer.

Three further studies provide further support for this observation.



Animal study of X-ray diffraction and cancer

A semi-independent validation of the assay was achieved in animal studies, and included by James et al in the *International Journal of Cancer* paper⁵. To correlate the observed change with the presence of breast cancer, in a double blind study, an independent group of researchers provided whiskers removed from nude mice prior to, and 8 weeks after subcutaneous implantation of a human breast cancer cell line. The coded whiskers were examined by Dr James and her co-workers, who were able to correctly identify all the whiskers from the mice implanted with breast cancer cells, with no positives noted in the control mice. This data showed that the change observed by X-ray diffraction of human hair was also evident in whiskers and that it appeared soon after cancer cell implantation. After discussion of the results of analysing the whiskers of mice injected with human breast cancer cells, the *International Journal of Cancer* paper concludes with the following statement:

"... these results indicate that as a non-invasive screening test, diffraction of hair would not only identify the presence of breast cancer at a much earlier stage than any other current method, but could also confirm the success of any treatment. A screening test of this kind would be completely non-invasive and totally user-friendly and could be used to screen women of all ages safely, particularly those under 40 years of age where exposure to X-radiation is inadvisable⁵."

FTIR Analysis of hair shows changes associated with cancer

In January 2005, a paper was published by researchers in the US⁹ who examined hairs from cancer and normal subjects by another technique - Fourier transform infrared attenuated total reflection (FTIR-ATR). This is a different technology to X-ray diffraction. IR measures the vibrations of molecules.

When Lyman and Murray-Wijelath analysed the FTIR-ATR spectra of hairs from subjects with cancer and compared them with the spectra of hairs from non-cancer subjects, they found a difference. According to the authors, "detailed examination of the spectra showed differences

Science Report

between the cancer hairs and non-cancer hairs in the amide I region [1750-1450 cm⁻¹] and the C-H overtone region [1500-1300 cm⁻¹].” Interpretation of the spectra of these regions led the researchers to conclude that “modification in the hair fibre growth processes have occurred as a result of the presence of a developing cancer.”⁹ The changes in the amide I region were indicative of an increase in beta-sheet disorder content compared to alpha-helical structures. The changes in the C-H overtone region are suggestive of an increase in lipid content. When unknown samples were analysed by focusing on these two regions of the resulting spectra, the researchers were able to correctly identify all of the cancer patients. They did however have two false positives.

The significance of this study is that it independently supports the work of James et al that hair from cancer patients contains an altered fibre structure.

Independent Replication

Other groups independent of Dr James have reported their inability to reproduce similar results to those obtained by Dr James, including the published comment that “... studies do not suggest that [this technology] can be used as a reliable method of identifying either BRCA1/2 mutation carriers or women who have had breast cancer”¹⁰. Another study (by Briki et al) also reported the inability to replicate the James test for breast cancer.¹¹ Dr James has responded by publishing detailed technical explanations for these replication failures.^{12,13,14} These include:

- If the hair is treated, permed or dyed in any way, this will introduce artefacts onto the X-ray diffraction image.

- The hair must be cut, not plucked.
- Mounting the hair must be done carefully so that it is not twisted or too loose.
- The interpretation of the resulting image is quite complex. Briefly, the final meridional pattern is a composite of six superimposed lattices, with spacings of 62.6, 47, 19.8, 27.3, 12.5, and 7.6 nm. The relevant section of this meridional pattern has eight normal peaks superimposed on each other and, in the case of breast cancer, a ring is superimposed on this array. The determination as to whether or not this weak ring is present requires great care. The equatorial pattern is also a complicated helix-within-helix structure, giving rise to a series of “spots.”

It can be concluded that the analysis and interpretation of the data is complex and requires significant experience in the technology to ensure that the methodology is reproduced and interpreted accurately. Fermiscan has spent many months working towards achieving this aim, primarily through conducting clinical trials.

The combined evidence of peer-reviewed publications, first-hand observation of raw data and discussions with colleagues of Dr James was persuasive to Fermiscan that such hair analyses may have significant potential to be used as a simple, non-invasive screening method for breast cancer.

Preliminary analysis of a small number of samples by the Fermiscan science team gave results which confirmed Fermiscan’s ability to produce appropriate alpha-keratin diffraction patterns of human hair.

Clinical Trials

Fermiscan is undertaking extensive clinical trials with the aim of validating the technology and the processes prior to commercial launch of the test. Hair samples are collected from women referred for a mammogram in radiology clinics in Sydney and Melbourne. Samples are coded, and sent to Fermiscan for analysis. The samples are then transported to an appropriate synchrotron, exposed to synchrotron X-rays, and the resulting diffraction patterns scrutinised for the presence of a ring characteristic of breast cancer, as described by the original scientist. The results will be compared with the diagnosis of the radiology clinic. Fermiscan aims to collect 2000 samples under protocols approved by the Fermiscan Human Research Ethics Committee, and St Vincent’s Hospital’s Human Research Ethics Committee. The unblinding process will be overseen by an independent auditor.

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Board of Directors

Mr Gary Garton – Chairman

Mr. Garton is an experienced Chief Executive Officer and public company director with a domestic and international background in the service, software and manufacturing industries. Mr. Garton was President and Chief Executive Officer, for 10 years of Brinks Inc., the largest security transportation and armoured car company in the US. Prior to moving to the US in 1984 he was an Executive Director of Brambles Holdings Limited. Mr. Garton was Chief Executive Officer and Managing Director of the gaming company Aristocrat Leisure Limited and successfully led Aristocrat through its initial public offering and listing on the ASX.

Mr. Garton was appointed to the board of Fermiscan Limited on 22 February 2006. On 9 October 2006 Olympus Resources Limited (now Fermiscan Holdings Limited) acquired the whole of the issued capital in Fermiscan Limited.



Mr Gary Garton – Chairman

Mr David Young – Managing Director

Mr. Young's experience covers start up businesses to large multi-billion dollar turnover companies in five countries. Mr. Young was Group Managing Director and Chief Executive Officer at Australian Pharmaceutical Industries Limited, a company with an integrated health services business and a turnover in excess of A\$3 billion. Prior to this, Mr. Young was a Director at A.S Watson & Co. Limited, a leading health, fitness and personal care business in Taiwan and Group Managing Director at Hallensteins Glasson Holdings Limited, a New Zealand based specialty fashion retailer with a turnover of NZ\$160 million. Mr. Young had 10 years experience as an Executive Director at DairyFarm International Holdings Limited, a company that operates throughout Asia and Australasia with a turnover of US\$12 billion. Prior to this, he spent 12 years with Target Australia Pty Limited in State and National roles in buying and marketing.

Mr. Young was appointed to the board of Fermiscan Limited on 2 March 2006. On 9 October 2006 Olympus Resources Limited (now Fermiscan Holdings Limited) acquired the whole of the issued capital in Fermiscan Limited.



Mr David Young – Managing Director

Mr Ian W. Holman – Director

Mr. Holman is a private investor and previously had 31 years experience in stock broking and investment banking between 1962 and 1993. Mr. Holman was a member of the Stock Exchange of Melbourne and the Australian Associated Stock Exchange from 1975 to 1993. From 1980 to 1985 Mr. Holman was a partner in what became McIntosh Securities Limited, which included appointment as an Executive Director from 1985 to 1991 and a non Executive Director from 1991 to 1993. Mr. Holman served as an Executive Director of Queensland Metals Corporation from 1992 to 1994.

Mr. Holman was appointed to the board of Fermiscan Limited on 25 November 2004. On 9 October 2006 Olympus Resources Limited (now Fermiscan Holdings Limited) acquired the whole of the issued capital in Fermiscan Limited.



Mr Ian W. Holman – Director

Dr Ronald Shnier – Director

Dr Shnier is the Director of Symbion Imaging Clinical Research Imaging Centre and National Director of Research and Professional Development at Symbion Imaging, divisions of Symbion Health Care Limited. Dr Shnier is Director MRI services HCoA. Prior to this Dr Shnier was Director MRI services Sydney Imaging Group and Chairman Sydney Imaging Group and has held a number of prominent medical roles at leading hospitals.



Dr Ronald Shnier – Director

Dr Michael Carr – Director

Dr Carr is the Director of medical services of I-Med Network, a division of DCA Limited. Prior to this Dr Carr was Director Medical Services of MIA Group Limited, Managing Director MFX Research Pty Ltd (Software development), and Managing Partner Ultrascan Radiology Group Sydney and held a number of prominent medical roles at leading hospitals.



Dr Michael Carr – Director

Annual Financial Report

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Directors' Report

The directors present their report together with the financial report of the consolidated entity consisting of Fermiscan Holdings Limited, the entities it controlled for the financial year ended 31 December 2006 and auditors report thereon. This financial report has been prepared in accordance with Australian Equivalents of International Financial Reporting Standards.

Principal Activities

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

The consolidated entities activities involve commercialising a non-invasive diagnostic test for the detection of breast cancer. This test can potentially provide early detection of breast cancer cells, with subsequent benefits for women's health including increased survival and increased treatment options. Whilst the company's primary focus is to commercialise the technique in relation to the diagnosis of breast cancer, the technique may be used to diagnose other cancers and some other disease states including prostate cancer and Alzheimer's.

Prior to the acquisition of Fermiscan Limited, the principal activities of Olympus Resources Limited during the financial year were share trading, investing and holding a loan with Kimberly Securities Limited, a Company involved with property development.

Results

The consolidated loss after income tax attributable to the members of Fermiscan Holdings Limited was \$7,300,941 (2005: \$890,875).

Review of Operations

A review of the operations of the consolidated entity during the financial year and the results of those operations are as follows:

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

In December 2006, the company 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 12 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, the company expects to commence the commercial development of both the Australian and international markets in the second half of 2007.

The consolidated entity 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 consolidated entity 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 to 600,000 tests per annum, given our ability to invest in automation improvements.

Capital raisings

The company raised \$2.3 million in a public share offer in October 2006. In addition the company raised \$22.5 million in a share placement on 16 February 2007 by issuing 15 million new shares at an issue price of \$1.50.

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 of 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.

Significant Changes in the State of Affairs

During the financial year there was no significant change in the state of affairs other than that referred to above and in the financial statements and accompanying notes.

After Balance Date Events

Since the end of the financial year there have been no significant changes to the state of affairs with the exception of the issue of 15 million new shares in a share placement contributing cash equity of \$22.5 million.

Likely Developments

The consolidated entity will continue to pursue its operating strategy to create shareholder value through the commercialisation of its non-invasive diagnostic test for the detection of breast cancer.

Environmental Regulation

The consolidated entity's operations are not subject to any significant environmental Commonwealth or State regulations or laws.

Dividend Paid, Recommended and Declared

No dividends were paid, declared or recommended since the start of the financial year.

Share Options

Options over unissued ordinary shares granted by Fermiscan Holdings Limited during or since the financial year to directors and 5 highest paid executives as part of their remuneration were as follows:

Directors		Options granted
Gary K Garton	Chairman – Non-Executive	3,300,000 (e)
David C Young	Managing Director	10,000,000 (e)
Ian W Holman	Director – Non-Executive	3,300,000 (e)
Dr Ronald Shnier	Director – Non-Executive	3,300,000
Dr Michael Carr	Director – Non-Executive	3,300,000
Executives		
Leon P Carr	Corporate Strategist	10,000,000 (e)
Richard M Toltz	General Counsel	7,500,000 (e)
Dr Peter French	Chief Scientific Officer	5,000,000
Gary Corino	Chief Operations Officer USA	5,000,000
Greg West	Company Secretary & Chief Financial Officer	3,000,000

(e) Share options escrowed for two years from the date of re-listing, 25 October 2006

Further details regarding options granted as remuneration are provided in the Remuneration Report below.

Shares Under Option

Unissued ordinary shares of Fermiscan Holdings Limited under option at the date of this report are as follows:

Number of unissued ordinary shares under option	Number of unissued ordinary shares under option which are escrowed (e)	Issue price of shares	Latest expiry date of the options
38,500,000	27,500,000	30 cents	9 October 2009
3,000,000	—	30 cents	19 October 2009
2,000,000	—	30 cents	17 November 2009
4,300,000	—	30 cents	1 July 2010
6,600,000	6,600,000	30 cents	9 October 2011
6,600,000	—	30 cents	9 November 2011
61,000,000	34,100,000		

(e) Share options escrowed for two years from the date of re-listing, 25 October 2006

No option holder has any right under the options to participate in any other share issue of the company, other than for bonus issues.

Shares Issued On Exercise of Options

There were no ordinary shares of Fermiscan Holdings Limited issued during or since the end of the financial year as a result of the exercise of an option. No shares have been issued on exercise of options during or since the end of the financial year.

Indemnification and Insurance of Directors and Officers

The Company has entered into agreements to indemnify Directors and Officers of the Company against all liabilities to persons (other than the Company or related body corporate) which arise out of the performance of their normal duties as Directors or Executive Officers unless the liability relates to conduct involving lack of good faith.

The Company has agreed to indemnify the Directors and Executive Officers against all costs and expenses incurred in defending an action that falls within the scope of the indemnity. The Directors' and Officers' liability insurance provides cover against all costs and expenses involved in defending legal actions and any resulting payments arising from a liability to persons (other than the Company) incurred in their position as a Director or Executive Officer unless the conduct involves a willful breach of duty or an improper use of inside information or position to gain advantage.

The insurance policy does not allow specific disclosure of the nature of the liabilities insured against or the premium paid under the policy.

The company has not indemnified or agreed to indemnify the auditor of the company.

Proceedings on Behalf of the Consolidated Entity

No person has applied for leave of Court to bring proceedings on behalf of the consolidated entity.

Information on Directors and Company Secretary

The qualifications, experience and special responsibilities of each person who has been a director or company secretary of Fermiscan Holdings Limited at any time during or since the end of the financial year is provided below, together with details of the company secretary as at the year end.

• **Gary K Garton BComm**

Mr. Garton was appointed to the Board on 9 October 2006.

Experience and expertise

Mr. Garton is an experienced Chief Executive Officer and public company director with a domestic and international background in the service, software and manufacturing industries. Mr. Garton was President and Chief Executive Officer, for 10 years of Brinks Inc., the largest security transportation and armoured car company in the US. Prior to moving to the US in 1984 he was an Executive Director of Brambles Holdings Limited. Mr. Garton was Chief Executive Officer and Managing Director of the gaming company Aristocrat Leisure Limited and successfully led Aristocrat through its initial public offering and listing on the ASX.

Committee membership and special responsibilities

Chairman of the board

Member of the Audit and Risk Committee

Chairman of the Remuneration and Nomination Committee

Chairman of the Governance Committee

Directorships in listed companies in the last three years

Chairman, Odyssey Gaming Limited

Chairman, FBIS International Group

• **David C Young MBA**

Mr. Young was appointed to the Board on 9 October 2006.

Experience and expertise

Mr. Young's experience covers start up businesses to large multi-billion dollar turnover companies in five countries. Mr. Young was Group Managing Director and Chief Executive Officer at Australian Pharmaceutical Industries Limited, a company with an integrated health services business and a turnover in excess of A\$3 billion. Prior to this, Mr. Young was a Director at A.S Watson & Co. Limited, a leading health, fitness and personal care business in Taiwan and Group Managing Director at Hallensteins Glasson Holdings Limited, a New Zealand based specialty fashion retailer with a turnover of NZ\$160 million. Mr. Young had 10 years experience as an Executive Director at DairyFarm International Holdings Limited, a company that operates throughout Asia and Australasia with a turnover of US\$12 billion. Prior to this, he spent 12 years with Target Australia Pty Limited in State and National roles in buying and marketing.

Committee membership and special responsibilities

Managing Director

Member of the Audit and Risk Committee

Member of the Remuneration and Nomination Committee

Member of the Governance Committee

Directorships in listed companies in the last three years

Australian Pharmaceutical Industries Limited

• **Ian W Holman**

Mr. Holman was appointed to the Board on 9 October 2006.

Experience and expertise

Mr. Holman is a private investor and previously had 31 years experience in stock broking and investment banking between 1962 and 1993. Mr. Holman was a member of the Stock Exchange of Melbourne and the Australian Associated Stock Exchange from 1975 to 1993. From 1980 to 1985 Mr. Holman was a partner in what became McIntosh Securities Limited, which included appointment as an Executive Director from 1985 to 1991 and a non Executive Director from 1991 to 1993. Mr. Holman served as an Executive Director of Queensland Metals Corporation from 1992 to 1994.

Committee membership and special responsibilities

Chairman of the Audit and Risk Committee

Member of the Remuneration and Nomination Committee

Directorships in listed companies in the last three years

None

• **Dr Ronald Shnier MBBS, FRACR**

Dr. Shnier was appointed to the Board on 9 November 2006.

Experience and expertise

Dr Shnier is the Director of Symbion Imaging Clinical Research Imaging Centre and National Director of Research and Professional Development at Symbion Imaging, divisions of Symbion Health Care Limited. Dr Shnier is Director MRI services HCoA. Prior to this Dr Shnier was Director MRI services Sydney Imaging Group and Chairman Sydney Imaging Group and has held a number of prominent medical roles at leading hospitals.

Committee membership and special responsibilities

Member of the Remuneration and Nomination Committee

Directorships in listed companies in the last three years

None

- **Dr Michael Carr MBBS, FANZCA, FANZCR**

Dr Carr was appointed to the Board on 9 November 2006.

Experience and expertise

Dr Carr is the Director of medical services of I-Med Network, a division of DCA Limited. Prior to this Dr Carr was Director Medical Services of MIA Group Limited, Managing Director MFX Research Pty Ltd (Software development), and Managing Partner Ultrascan Radiology Group Sydney and held a number of prominent medical roles at leading hospitals.

Committee membership and special responsibilities

Member of the Audit and Risk Committee

Directorships in listed companies in the last three years

None

- **Mr Gregory C West Chartered Accountant**

Mr West was appointed as Company Secretary on 9 October 2006.

Experience and expertise

Mr West has worked as a Company Secretary and Chief Financial Officer in leading services organisations.

Directorships in listed companies in the last three years

None

- **Mr Gabriel M Lorentz LLB**

Mr Lorentz resigned from the board 9 October 2006.

Experience and expertise

Mr Lorentz has had extensive experience as Chairman and Chief Executive of listed companies. Mr Lorentz was a Director of Olympus

Resources Limited (now Fermiscan Holdings Limited) since 1969 and was appointed Chairman 1980.

Committee membership and special responsibilities

Chairman of the board to 9 October 2006

Directorships in listed companies in the last three years

Greenvale Mining NL

East Coast Minerals NL

Kimberley Securities Limited

Esperano Minerals NL

- **Mr David Lorentz**

Mr Lorentz resigned from the board 9 October 2006.

Experience and expertise

Mr Lorentz was appointed as a Director of Olympus Resources Limited (now Fermiscan Holdings Limited) in 1998.

Directorships in listed companies in the last three years

None

- **Mr Barry J Molloy Public Accountant**

Mr Molloy resigned from the board 9 October 2006.

Experience and expertise

Mr Molloy was appointed as a Director of Olympus Resources Limited (now Fermiscan Holdings Limited) in 1981.

Directorships in listed companies in the last three years

None

Directors' Meetings

The number of meetings of the board of directors and of each board committee held during the financial year and the numbers of meetings attended by each director were:

	Board of Directors		Audit & Risk Committee		Remuneration & Nomination Committee		Governance Committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Gary Garton	5	5	1	1	1	1	2	2
Ian Holman	5	5	1	1	1	1	—	—
David Young	5	5	1	1	1	1	2	2
Dr Ronald Shnier	2	2	—	—	1	1	—	—
Dr Michael Carr	2	2	1	1	—	—	—	—
Gabriel Lorentz*	11	11	—	—	—	—	—	—
David Lorentz*	11	9	—	—	—	—	—	—
Barry Molloy*	11	11	—	—	—	—	—	—

* Resigned on 9 October 2006

Directors' Interests in Shares or Options

Directors' relevant interests in shares of Fermiscan Holdings Limited or options over shares in the company (*or a related body corporate*) are detailed below.

Directors' relevant interests in:	Ordinary Shares of Fermiscan Holdings Limited	Options over shares in Fermiscan Holdings Limited
Gary Garton	41,140	(e)3,300,000
Ian Holman	821,640	(e)3,300,000
David Young	1,037,430	(e)10,000,000
Dr Ronald Shnier	nil	3,300,000
Dr Michael Carr	171,820	3,300,000

(e) Share options escrowed for two years from the date of re-listing, 25 October 2006

Directors' Interests in Contracts

Information regarding individual directors and executives compensation is provided in the Remuneration Report section of the Directors Report on page 10. No director has entered into a material contract with the company or consolidated entity (other than an employment contract) since the end of the previous year and, there were no material contracts involving directors' at 31 December 2006.

Auditor's Independence Declaration

A copy of the auditor's independence declaration in relation to the audit for the financial year is provided with this report.

Non-Audit Services

Non-audit services are approved by resolution of the audit committee and approval is provided in writing to the board of directors. Non-audit services provided by the auditors of the consolidated entity during the year, Pitcher Partners, are detailed below. The directors are satisfied that the provision of the non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

Amounts paid or payable to an auditor for non-audit services provided during the year by the auditor to any entity that is part of the consolidated entity for:	2006 \$	2005 \$
Taxation services and Corporate secretarial services	—	—

Remuneration Report

Remuneration Policies

The board policy for determining the nature and amount of remuneration of directors and executives is agreed by the board of directors as a whole, in consultation with the board Remuneration & Nomination Committee. The board obtains professional advice where necessary to ensure that the company attracts and retains talented and motivated directors and employees who can enhance company performance through their contributions and leadership.

For directors and specified executives, the company provides a remuneration package that incorporates both cash-based remuneration and share-based remuneration. The contracts for service between the company and specified directors and executives are on a continuing basis the terms of which are not expected to change in the immediate future aside from normal annual review processes expected in July each year. Due to the development nature of the business the remuneration policy is not directly related to company performance. The board considers a remuneration policy based on short-term returns and incentives alone would not be beneficial to the long-term creation of wealth by the company for shareholders.

Non-executive directors receive fees and share-based remuneration.

The company determines the maximum amount for remuneration, including thresholds for share-based remuneration, for directors by resolution. Directors' share-based remuneration was voted on by members at general meetings.

Directors' and Executives' Compensations

(a) Details of directors and Key Management Personnel

(i)

Directors

Gary K Garton	Chairman – Non-Executive
David C Young	Managing Director
Ian W Holman	Director – Non-Executive
Dr Ronald Shnier	Director – Non-Executive
Dr Michael Carr	Director – Non-Executive

Executives

Leon P Carr	Corporate Strategist
Richard M Toltz	General Counsel
Dr Peter French	Chief Scientific Officer
Gary Corino	Chief Operations Officer USA
Greg West	Company Secretary & Chief Financial Officer

There have been no changes to executive or director compensation arrangements after reporting date and the date the financial report was authorised for issue:

The names and positions of each person who held the position of director at any time during the financial year is provided above. The five named executives in the consolidated group who received the highest remuneration for the financial year are named above.

(ii) Directors' Compensation

2006	Short-Term				Post employment		Long-term Incentive plans	Share-based payments Number of Options granted	TOTAL \$	TOTAL PERFORMANCE RELATED %
	Salary fees	Cash Bonus	Non- monetary	Other	Super	Retirement benefits				
	\$	\$	\$	\$	\$	\$				
Gary Garton*	54,000	nil	nil	nil	nil	nil	Options (e)	3,300,000	54,000	<i>Performance incentives were provided by the granting of options</i>
David Young*	211,567	nil	nil	nil	8,457	nil	Options (e)	10,000,000	220,024	
Ian Holman*	22,254	nil	nil	nil	2,100	nil	Options (e)	3,300,000	24,354	
Dr Ronald Shnier**	17,500	nil	nil	nil	nil	nil	Options	3,300,000	17,500	
Dr Michael Carr**	17,500	nil	nil	nil	nil	nil	Options	3,300,000	17,500	

Payments made either as Directors of Fermiscan Limited or Fermiscan Holdings Limited

* Appointed 9 October 2006

** Appointed 9 November 2006

G Lorentz***	10,000	nil	nil	nil	nil	nil	—	—	10,000	
D Lorentz***	5,000	nil	nil	nil	nil	nil	—	—	5,000	
B Molloy***	5,000	nil	nil	nil	nil	nil	—	—	5,000	

Payments made as Directors of Olympus Resources Limited
(now Fermiscan Holdings Limited)

*** Resigned 9 October 2006

	342,821	nil	nil	nil	10,557	nil		23,200,000	353,378	
2005										
G Lorentz	10,000	nil	nil	nil	nil	nil	—	—	10,000	
D Lorentz	5,000	nil	nil	nil	nil	nil	—	—	5,000	
B Molloy	5,000	nil	nil	nil	nil	nil	—	—	5,000	

Payments made as Directors of Olympus Resources Limited (now Fermiscan Holdings Limited)

	20,000	nil	nil	nil	nil	nil			20,000	
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(e) Share options escrowed for two years from the date of re-listing, 25 October 2006

(ii) Executives' Remuneration:

2006	Short-Term				Post employment		Long-term Incentive plans	Share-based payments Number of Options granted	TOTAL \$	TOTAL PERFORMANCE RELATED %
	Salary fees	Cash Bonus	Non- monetary	Other	Super	Retirement benefits				
	\$	\$	\$	\$	\$	\$				
Leon P Carr	124,067	nil	nil	nil	8,457	nil	Options	10,000,000	132,524	<i>Performance incentives were provided by the granting of options</i>
Richard M Toltz	149,534	149,533	nil	nil	8,457	nil	Options	7,500,000	307,524	
Dr Peter French	124,876	nil	nil	nil	8,457	nil	Options	5,000,000	133,333	
Gary Corino	133,535	nil	nil	nil	8,457	nil	Options	5,000,000	141,992	
Greg West	112,400	nil	nil	nil	8,457	nil	Options	3,000,000	120,857	
	644,412	149,533	nil	nil	42,285	nil			836,230	

2005

There were no salaries paid in 2005

(iii) Compensation by category for Directors and nominated executives:

	Consolidated Entity		Parent Entity	
	2006 \$	2005 \$	2006 \$	2005 \$
Short-term employment benefits	1,136,766	20,000	1,136,766	20,000
Post employment benefits	52,842	nil	52,842	nil
Other long-term benefits	nil	nil	nil	nil
Termination benefits	nil	nil	nil	nil
	1,189,608	20,000	1,189,608	20,000
Share-based payments	Performance incentives were provided by the granting of options	nil	Performance incentives were provided by the granting of options	nil

Directors' and Executives' Equity Holdings

(a) Compensation Options: Granted and vested during the year (Consolidated)

	Vested Number	Granted Number	Grant Date	Value per option at grant date	Terms and conditions for each grant			
					Exercise Price \$	Expiry Date	First Exercise Date	Last Exercise Date
Directors								
Gary Garton	3,300,000	(e)3,300,000	9-Oct-06	6.8 cents	30 cents	9-Oct-11	25-Oct-08	9-Oct-11
David Young	3,333,333	(e)10,000,000	9-Oct-06	5.2 cents	30 cents	9-Oct-09	25-Oct-08	9-Oct-09
Ian Holman	3,300,000	(e)3,300,000	9-Oct-06	6.8 cents	30 cents	9-Oct-11	25-Oct-08	9-Oct-11
Dr Ronald Shnier	3,300,000	3,300,000	9-Nov-06	6.8 cents	30 cents	9-Nov-11	12-Jan-07	9-Nov-11
Dr Michael Carr	3,300,000	3,300,000	9-Nov-06	6.8 cents	30 cents	9-Nov-11	12-Jan-07	9-Nov-11
Executives								
Leon P Carr	3,333,333	(e)10,000,000	9-Oct-06	5.2 cents	30 cents	9-Oct-09	25-Oct-08	9-Oct-09
Richard M Toltz	2,500,000	(e)7,500,000	9-Oct-06	5.2 cents	30 cents	9-Oct-09	25-Oct-08	9-Oct-09
Dr Peter French	1,000,000	5,000,000	9-Oct-06	5.2 cents	30 cents	9-Oct-09	9-Oct-06	9-Oct-09
Gary Corino	1,000,000	3,000,000	9-Oct-06	5.2 cents	30 cents	17-Nov-09	9-Oct-06	17-Nov-09
		2,000,000	17-Nov-06					
Greg West	1,000,000	3,000,000	19-Oct-06	5.2 cents	30 cents	19-Oct-09	19-Oct-06	19-Oct-09
Total	43,700,000	53,700,000						

(e) Share options escrowed for two years from the date of re-listing, 25 October 2006

All grants of options vested as shown in the preceding table (to the extent that vesting criteria are met) or are forfeited.

Options expire either 3 or five years from granting. The exercise price for options issued to date is 30 cents. The service and performance criteria, together with other details are described in (b) below.

(b) Details concerning share-based compensation of directors and executives

The value of each person's remuneration that consists of options is shown in the preceding tables. Options granted as remuneration are valued at grant date in accordance with AASB 2 Share-based Payments. No options previously granted as remuneration have lapsed during the year.

The basis for share-based compensation of directors and executives is disclosed in the remuneration policy described above.

(c) There have been no shares issued on exercise of compensation options (consolidated)

(d) The number of options held by directors and Key Management Personnel (consolidated)

are as described in the preceding table. There have been no options exercised or shares issued on exercise of compensation options:

(e) Number of shares held by directors and Key Management Personnel:

	Relevant interest in Ordinary shares held in Fermiscan Holdings Limited at 31 December 2006 *
Directors	
Gary Garton	41,140
David Young	1,037,430
Ian Holman	821,640
Dr Ronald Shnier	—
Dr Michael Carr	171,820
Executives	
Leon P Carr	46,241,750
Richard M Toltz	25,808,200
Dr Peter French	—
Gary Corino	—
Greg West	—
Total	74,121,980

* The shareholdings shown here are relevant interests in shares by the director or the executive or their associates

Service Agreements

None of the non-executive directors' being Gary Garton, Ian Holman, Dr Ronald Shnier and Dr Michael Carr have a service contract. The terms and entitlements of non-executive directors are governed by normal employment law.

Mr David Young has a three year service agreement as Managing Director which can be terminated by Mr Young on three months notice or is terminable by the company after three years on three months notice. Other than by normal operation of law, the contract does not provide for any termination payment.

Mr Leon Carr has a three year service agreement as Corporate Strategist which can be terminated by Mr Carr on three months notice or is terminable by the company after three years on three months notice. Other than by normal operation of law, the contract does not provide for any termination payment.

Mr Richard Toltz has a three year service agreement as General Counsel which can be terminated by Mr Toltz on three months notice or is terminable by the company after three years on three months notice. Other than by normal operation of law, the contract does not provide for any termination payment.

Dr Peter French has an ongoing service agreement as Chief Scientific Officer which can be terminated by Dr French on three months notice or is terminable by the company on three months notice. Other than by normal operation of law, the contract does not provide for any termination payment.

Mr Gary Corino has a three year service agreement as Chief Operations Officer USA which can be terminated by Mr Corino on six months notice or is terminable by the company after three years on six months notice. In some circumstances if the Company terminates Mr Corino's employment within three years from commencement he is entitled to a termination payment equivalent to his annual salary for the period from termination to the end of the three years.

Mr Greg West has a three year service agreement as Chief Financial Officer which can be terminated by Mr West on six months notice or is terminable by the company after three years on six months notice. In some circumstances if the Company terminates Mr West's employment within three years from commencement he is entitled to a termination payment equivalent to his annual salary for the period from termination to the end of the three years.

Signed in accordance with a resolution of the directors.



David Young

Director

Sydney

14 March 2007



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C R MILLINGTON
Y E PIETSCH
R M SHANLEY
D W STAPLES
D G YOUNG

CONSULTANTS:
J S YOUNG
D G BARNSDALL
P S ROWE

Auditor's independence declaration

To the Directors of Fermiscan Holdings Limited

In relation to the independent audit for the year ended 31 December 2006, as lead audit partner, to the best of my knowledge and belief there have been:

- (i) no contraventions of the auditor independence requirements of the Corporations Act 2001; and
- (ii) no contraventions of any applicable code of professional conduct.



Pitcher Partners



Mark Godlewski

Partner

Sydney, 14 March 2007

Corporate Governance statement

Approach to Governance

Fermiscan Holdings Limited is committed to high standards of corporate governance and this is reflected in its culture, policies and business practices. The Fermiscan board has in place governance structures for the formation of strategic direction and policy including an overall framework of internal control, risk management and ethical standards.

This document outlines Fermiscan's corporate governance policies which were in place as at March 2007 and Fermiscan compliance with the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (ASX Principles) released in March 2003 as described in this Corporate Governance statement.

ASX Corporate Governance Principles and Best Practice Recommendations as described in this corporate governance statement

Principle 1 - Management and oversight

Lay solid foundations for management and oversight.

The role of the board is to provide strategic guidance and effective oversight of management. The directors represent the interests of shareholders and are responsible for the overall direction, long term objectives and strategy, performance, compliance and policies.

The board has adopted a formal board charter, which is available on the Fermiscan website, and details the board's role and responsibilities, membership, delegation of authority, committee composition and board performance review. The board is also governed by general law, the Corporations Act and Fermiscan's Constitution.

Board Responsibilities

The main board responsibilities, summarised from the board charter are:

- **Shareholder interests:** to serve the interests of shareholders and recognise the interests of other stakeholders such as employees, potential customers, regulators, and broader Fermiscan related communities;
- **Strategy:** to drive the strategic direction, set goals, performance measures and policies;
- **Leadership:** to determine the managing director's terms of appointment, performance evaluation and replacement; provide specific delegated authority to the managing director to oversee the day to day operations of Fermiscan;
- **Performance:** to review business results and monitor performance against key performance measures, corporate strategy plans and budgets; review reporting to shareholders and regulators; approve and monitor any required actions;
- **Risk management:** to consider and approve key risk management strategies; review and monitor processes for regulatory compliance;
- **Board performance:** to regularly review the performance of the board, its committees, and individual directors, with external assistance as required; and

- **Audit:** to select external auditors and to evaluate their performance and independence.

The full board meets for at least ten regular meetings each year and other meetings are called as deemed necessary. The board agendas are established by the chairman and managing director and are structured to meet board responsibilities. At each of the meetings directors' receive reports provided by executive management. The board meets throughout the year for regular scheduled discussions on the Company strategy to consider longer term issues and strategic initiatives.

Each director has the right to seek independent professional advice at Fermiscan's expense on a matter relevant to the director's role at Fermiscan and affecting the director's own position, subject to prior approval from the chairman.

Delegations of Board Authority

The board has delegated the authority of the day to day management of Fermiscan to the managing director subject to specific delegations and limits. The managing director has the ability to delegate authority to other executives. Regular consultation between the managing director and the chairman occurs on matters generally as they arise.

The managing director is responsible for:

- the development of long-term objectives, strategic plans, initiatives, performance measures and policies in consultation with the board;
- ensuring day to day operations are carried out effectively and efficiently;
- monitoring business performance against key performance measures, corporate strategy plans and the budget;
- determining the terms of appointment, performance evaluation, succession plans and replacement of his direct reports, in consultation with the Remuneration & Nomination Committee;
- development and monitoring of the risk management framework and building an appropriate internal control environment, in consultation with the Audit & Risk Committee; and
- bringing material and relevant matters to the board in a timely and factual manner.

Principle 2 - Effective board composition

Structure the board to add value

The board considers that its directors' possess a broad range of relevant skills and experience necessary to meet its objectives, whilst encouraging engaged debate. The current board composition, with details of individual members including skills experience and expertise, is set out in the Annual Report and the Directors Report.

A review of the board's composition takes place annually and matters such as the complexity of the business, the effectiveness and efficiency of the board, appropriate capabilities and expertise of the collective board and individual directors are taken into consideration.

The composition of the board and the election and appointment of directors are determined in accordance with Fermiscan's Constitution

which is available on the Fermiscan website, and are also subject to relevant regulatory requirements. Fermiscan's board presently comprises five directors, including the managing director. With the exception of the managing director, directors retire by rotation and serve a maximum three year term, although each may stand for re-election.

The board periodically reviews the framework for director nomination, with guidance from the Remuneration & Nomination Committee, to ensure the skills sets and experience of selected candidates are complementary to those currently available on the board and consistent with the commercial and other circumstances of Fermiscan, both currently and into the foreseeable future. The Remuneration & Nomination Committee evaluates potential candidates taking into consideration factors such as professional skills, background, personal qualities, experience and whether the candidate's skills will augment the existing board.

Board Committees

The board has established three standing committees to assist in the execution of its responsibilities. Each committee has terms of reference with authority delegated from the board and an independent chairman. The terms of reference for each committee may be viewed on the Fermiscan website. The board determines committee composition, membership and charters. Committee memberships are reviewed annually and are based on the capabilities and experience of individual directors. Minutes of subsidiary boards and board committee meetings are included in the board papers for the information of all directors.

The standing committees' are:-

- Audit & Risk Committee
- Remuneration & Nomination Committee
- Governance Committee

Standing Committees

Audit & Risk	Remuneration and Nomination	Governance
Gary Garton	Gary Garton (Chairman)	Gary Garton (Chairman)
David Young (ex officio)	David Young (ex officio)	David Young
Ian W Holman (Chairman)	Ian W Holman	
Dr Michael Carr	Dr Ronald Shnier	

The role of each of these committees is considered in the appropriate section of this corporate governance statement.

In addition to the standing committees, Fermiscan has:-

- a Scientific and Medical Advisory Board which usually meets monthly. Its purpose is to help direct product development and clinical testing programs and to provide independent advice to the board of Fermiscan.

The advisory board provides professional oversight and advice on the commercialisation of the company's services to ensure they meet the expectations of the medical and patient communities. The composition of the advisory board represents key perspectives and inputs needed in our development programs from both scientists and physicians specialising in various areas of medicine, including radiology.

- a Fermiscan Human Research and Ethics Committee was established to provide governance to planned trials for the company. This committee is registered with the National Health and Medical Research Council (NHMRC).

The purpose of the Ethics Committee is to protect the welfare and the rights of participants in research while following the guidelines and principles encapsulated in the "National Statement in Ethical Conduct in Research Involving Humans".

Governance Committee

The Governance Committee assists the board to discharge its responsibilities relating to corporate governance practices. The committee currently comprises the chairman, Mr Gary Garton, and Mr David Young the managing director. The roles and responsibilities of the committee are reviewed regularly by the board.

The Chairman

The chairman is responsible for:

- leading the board;
- chairing meetings of the board and shareholders;
- being the primary point of contact between the board and the managing director;
- representing the views of the board to the public;
- instituting the process for appraising board members and the board as a whole;
- communicating with shareholders on matters of corporate governance; and
- ongoing counselling of individual directors.

The roles of the chairman and the managing director are entirely separate.

Independence

To qualify as an independent director, a director must be 'independent of management and free of any business or other relationship that could materially interfere with – or could be reasonably perceived to materially interfere with – the exercise of their unfettered and independent judgement' (*ASX Corporate Governance Council Principle 2.1*).

The board makes regular determinations on the independence of individual directors based on an independence policy and a review process undertaken by the board. Independence will be taken to be met when a non-executive director:

- is not an officer of a substantial shareholder, or otherwise associated directly or indirectly with, a substantial shareholder of the company;
- has not, within the last three years been employed in an executive capacity by the company;
- has not, within the last three years been a principal or employee of the external auditor, material professional adviser or a material consultant to the company;
- is not a material supplier or customer of the company, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;

- has no material contractual relationship with the company, other than as a director of the company; and
- is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company.

In determining whether a director's interest or relationship interferes with their independence, the board has regard to the materiality of the interest or relationship. If directors' circumstances change, they are expected to volunteer information relevant to a continuing independence assessment.

Avoidance of Conflict of Interest

In addition to the issue of independence, directors have a continuing responsibility to avoid conflicts of interest (both real and apparent) between their duty to Fermiscan and their own interests. Directors are required to disclose any actual or potential conflict of interest on appointment and are required to keep this disclosure up to date.

A director who has an actual or potential conflict must immediately inform the board and remove themselves from any discussions or decision making in relation to the actual or potential conflict.

Appointment of Directors

The Fermiscan Constitution governs the election and appointment of directors, rotation of elected directors, casual vacancies and eligibility for election. There are a number of elements relating to formalising the appointment for either elected or appointed independent directors, including:

- a letter detailing the formal terms and conditions of the appointment, expected time commitment, procedure regarding conflicts of interest, performance appraisal, remuneration, superannuation and insurance arrangements;
- written consent to act as a director;
- agreement to the directors Code of Conduct;
- Deed of Access to Documents, and provision of Indemnity Insurance.

Board Renewal

The board has a policy on renewal to ensure the board remains open to new ideas and independent thinking. As part of the policy, the board has set, as a general rule, that director's tenure will be reviewed if the director is approaching a service period of three concurrent terms of office. Matters to be considered by the board when a director is approaching a service period of three concurrent terms of office will include board competencies, board committee membership, and the average tenure and experience of the board overall.

Principle 3 - Promote ethical & responsible decision making

Promote Ethical and Responsible Decision Making

Fermiscan is committed to establishing and maintaining high ethical standards within the company, in its dealings with shareholders, stakeholders and regulatory bodies. Fermiscan has established committees in addition to those required under ASX Corporate Governance requirements to better address the ethical issues surrounding the company's medical diagnostic activities – the Fermiscan Scientific and Medical Advisory Board and the Fermiscan Human Research and Ethics Committee.

The company has codes of conduct which govern ethical business behaviour in addition to policies covering whistleblower protection, shareholder communications policy, continuous disclosure and dealing in securities. Directors and staff are encouraged to own shares in Fermiscan in accordance with policy. The policy prohibits dealing in securities outside certain designated periods and at any time which the individual is in possession of inside information. Directors and executives were granted share options during the year and this is disclosed in the Remuneration Report.

The Fermiscan board takes ethical and responsible decision-making seriously and it expects employees to have the same approach. All directors, managers and staff are expected to act with the utmost integrity in the best interest of the organisation, while striving at all times to enhance the reputation and performance of Fermiscan.

The board and the staff acknowledge that they are responsible for promoting high ethical and integrity standards and that the language, attitudes and actions of directors and the staff affect the integrity, ethics, values and other aspects of Fermiscan's culture.

Principle 4 - Safeguard integrity in financial reporting

Safeguard Integrity in Financial Reporting

The board are committed to integrity in financial reporting particularly as it applies to the company's financial position and prospects. The board has a structured process, through the Audit & Risk Committee, for the quarterly, six monthly and annual reports including the sign off and release of information to the market.

The Audit & Risk Committee assists the board to discharge its responsibilities relating to the integrity of the financial reporting, the effectiveness and independence of the audit, evaluation of the management processes relating to compliance, internal control systems, and the risk management framework.

The committee currently comprises an independent chairman and two independent non-executive directors. The managing director also attends committee meetings as an ex officio participant. All members have a sound understanding of the industry within which Fermiscan operates and are financially literate. The roles and responsibilities of the committee are reviewed annually.

The Audit & Risk Committee meets with the external auditor throughout the year and the auditor has a standing invitation to all Audit & Risk Committee meetings. The auditor reports directly to the Audit & Risk Committee and has unrestricted access to the board. The auditor's main

role is to provide independent assurance to shareholders that the financial statements are free from any material misstatement.

Principle 5 - Timely disclosure of material matters

Make timely and balanced disclosure

Fermiscan recognises the importance of timely and accurate disclosure to its shareholders, the broader investment market and to meet its continuous disclosure obligations. The company is committed to ensuring that all investors have equal and timely access to material information regarding the company's financial position, performance, ownership and governance.

The board has developed a continuous disclosure policy designed to facilitate compliance with its obligations under the ASX Listing Rules and Chapter 6CA of the Corporations Act.

Principle 6 - Respect the rights of shareholders

Respect the rights of shareholders

Fermiscan is aware of the importance of effective communication with its shareholders and has in place a shareholder communications policy which encourages and promotes effective communication with shareholders and participation at general meetings.

The Fermiscan website provides general information and reports on Fermiscan - ASX announcements, investor presentation, scientific information and a link to the stock market which displays the share price movement and Fermiscan market information. A corporate directory including contact details is also made available for shareholders to make enquiries of the company.

The external auditor is present at all General Meetings and is available to answer shareholder queries about how the audit is conducted and the preparation and content of the auditor's report.

Principle 7 - Risk management

Recognise and manage risk

The board oversees the management of the group's risks through board and management committees. Fermiscan executives are responsible for risk and internal control and the risk management systems.

The Fermiscan board review and approve the risk management framework and sets key risk parameters for the major risk areas. The board evaluates the effectiveness of risk management strategies and internal control processes with guidance from the Audit & Risk Committee

Risks are managed through an oversight structure and an internal control framework that includes:

- continual risk identification, assessment and control processes;
- policies and procedures on risk and compliance;
- appropriate risk and compliance committee structures at board and management levels;

- assigning appropriate delegations of authority;
- recruiting skilled, professional staff;
- maintaining information systems which provide relevant, timely and accurate information on risks and controls; and
- independent assurance on risk framework and internal controls through audit.

The Fermiscan Audit & Risk Committee reviews reports and agreed action and ensures that planned audit activities are aligned to business risks.

The managing director and chief financial officer provide a statement to the board in writing that:-

- the statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.
- the company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Principle 8 - Enhanced performance

Encourage enhanced performance

The Board will periodically review the process for evaluating its own performance against its major functional responsibilities and will measure and monitor directors' performance. The performance evaluation will be based on a collective board performance assessment, individual self-assessment and peer review. Overall outcomes will be discussed at the board. The chairman will discuss individual outcomes and any appropriate development plans with the director concerned.

Principle 9 - Fair and responsible remuneration

Remunerate fairly and responsibly

The company has a Remuneration & Nomination Committee which supports and advises the board in discharging its responsibilities to shareholders in the area of fair and responsible remuneration. The committee charter is available from the company website. In summary, the committee monitors and reviews the company's remuneration policies and practices, ensuring they are fair, formalised and transparent. The Committee acts for the board in the processes relating to director nomination.

The committee currently comprises an independent chair and two independent non-executive directors. The managing director also attends committee meetings as an ex officio participant. The roles and responsibilities of the committee are reviewed annually.

Executive performance criteria are clearly defined; time constrained and based on the achievement of a balance of short and long-term corporate goals. The executive remuneration approach is to reward performance and provide an appropriately competitive salary to attract and retain quality executives.

The board reviews the performance and sets the remuneration for the managing director after receiving recommendations from the Remuneration & Nomination Committee. The managing director's review involves assessing performance against established criteria.

Employment arrangements for the direct reports to the managing director (including appointment, termination, performance reviews, and incentive arrangements) are subject to consultation with the Remuneration & Nomination Committee as required.

Board remuneration will be set by the board after taking advice from an independent, external consultant, or organisation specialising in remuneration matters. Directors fees are disclosed in the Remuneration Report included in the Annual Report.

Principle 10 - Stakeholder interest

Recognise the legitimate interests of stakeholders

Fermiscan provides a forum to address individual shareholder questions at general meetings of the company. The board and executive team are committed to enhancing shareholder value through delivery of corporate strategies. In addition to the shareholder responsibilities the company recognises where appropriate its obligations to non-shareholder stakeholders such as employees, customers and the broader community. The company has codes of conduct which govern ethical business behaviour in addition to policies covering whistleblower protection, shareholder communications policy, continuous disclosure and dealing in securities. The company has a formal code of conduct.

Below is a list of the ASX 10 Principles and recommendations relating to corporate governance and a comment on Fermiscan's position.

ASX corporate governance and best practice recommendations	Fermiscan's Compliance
Principle 1 - Lay solid foundations for management and oversight	
Recommendation 1.1 Formalise and disclose the functions reserved to the board and those delegated to management.	<i>The functions reserved to the board and those delegated to management are in the governance statement and in the board charter available from the Fermiscan website.</i>
Principle 2 - Structure the board to add value	
Recommendation 2.1 A majority of the board should be independent directors.	<i>Other than the managing director all other directors are independent non-executive directors.</i>
Recommendation 2.2 The chairperson should be an independent director.	<i>The chairperson, Mr Gary Garton, is an independent director.</i>
Recommendation 2.3 The roles of chairperson and chief executive should not be exercised by the same individual.	<i>Mr Gary Garton is the chairman and Mr David Young is the managing director.</i>
Recommendation 2.4 The board should establish a nomination committee.	<i>The board has established a remuneration and nomination committee which has a formal charter and can be viewed on the Fermiscan website.</i>
Recommendation 2.5 Provide the information indicated in the Guide to reporting on Principle 2.	<i>This information is provided in this corporate governance statement.</i>
Principle 3 - Promote ethical and responsible decision making	
Recommendation 3.1 Establish a code of conduct.	<i>Fermiscan has established a code of conduct.</i>
Recommendation 3.2 Disclose the policy concerning trading in company securities by directors, officers and employees.	<i>An overview of the Dealing in Securities policy is available on the company website.</i>
Recommendation 3.3 Provide the information indicated in the Guide to reporting on Principle 3.	<i>This information is provided in this corporate governance statement.</i>

ASX corporate governance and best practice recommendations		Fermiscan's Compliance
Principle 4 - Safeguard integrity in financial reporting		
<i>Fermiscan has in place a structure of review and authorisation to ensure that reporting of its financial position is factual, accurate and transparent.</i>		
Recommendation 4.1	Require the managing director and chief financial officer to state in writing to the board that the company's financial reports present a true and fair view, in all material aspects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.	<i>The managing director and chief financial officer have complied with this recommendation.</i>
Recommendation 4.2	The board should establish an Audit Committee.	<i>An Audit & Risk Committee has been established.</i>
Recommendation 4.3	Structure the Audit Committee so that it consists of : <ul style="list-style-type: none"> • only non-executive directors • a majority of independent directors • an independent chairperson, who is not chairperson of the board • at least 3 members 	<i>Membership of the Audit & Risk committee complies with this recommendation.</i>
Recommendation 4.4	The Audit Committee should have a formal charter.	<i>The Audit & Risk Committee charter is available on the Fermiscan website.</i>
Recommendation 4.5	Provide the information indicated in Guide to Reporting on Principle 4.	<i>This information is provided in this corporate governance statement.</i>
Principle 5 - Make timely and balanced disclosures		
Recommendation 5.1	Establish written policies and procedures designed to ensure compliance with the ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance.	<i>The Company has policies on information disclosure and on continuous disclosure to ensure compliance with the ASX Listing Rules and to ensure accountability at a senior management level.</i>
Recommendation 5.2	Provide the information indicated in the Guide to Reporting on Principle 5.	<i>This information is provided in this corporate governance statement.</i>
Principle 6 - Respect the rights of shareholders		
Recommendation 6.1	Design and disclose a communications strategy to promote effective communication with shareholders and encourage effective participation at general meetings.	<i>Fermiscan has a shareholder communications policy and a continuous disclosure policy.</i>
Recommendation 6.2	Request the external auditor to attend the annual general meeting.	<i>The external auditors, Pitcher Partners, are invited to attend all members meetings including the annual general meeting.</i>
Principle 7 - Recognise and manage risk		
Recommendation 7.1	The board or appropriate committee should establish policies on risk oversight and management.	<i>The board has established risk management policies which are monitored and reviewed by the Audit & Risk Committee.</i>

ASX corporate governance and best practice recommendations		Fermiscan's Compliance
Recommendation 7.2	The managing director and chief financial officer should state to the board in writing that:-	<i>A statement has been provided by the managing director and chief financial officer to the board.</i>
Recommendation 7.2.1	The statement given in accordance with best practice recommendation 4.1 (the integrity of financial statements) is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the board.	
Recommendation 7.2.2	The company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.	
Principle 8 - Encourage enhanced performance		
Recommendation 8.1	Disclose the process for performance evaluation of the board, its committees and individual directors, and key executives.	<i>The present board was appointed in October and November 2006 and to date a board performance review has not been completed. The board will undertake a self assessment of its collective performance, the performance of the Chairman and of its committees.</i> <i>The Chairman will undertake an assessment of the performance of individual directors and will meet privately with each director to discuss this assessment.</i>
Principle 9 - Remunerate fairly and responsibly		
Recommendation 9.1	Provide disclosure in relation to the company's remuneration policies to enable investors to understand (i) the costs and benefits of those policies and (ii) the link between remuneration paid to directors and key executives and corporate performance.	<i>The required information is provided in the Remuneration Report which is part of the Directors Report.</i>
Recommendation 9.2	The board should establish a remuneration committee.	<i>The board has established a remuneration and nomination committee.</i>
Recommendation 9.3.	Clearly distinguish the structure of non-executive directors' remuneration from that of executives.	<i>Executive and non-executive directors' fees are clearly distinguished in the Remuneration Report.</i>
Recommendation 9.4	Ensure the payment of equity-based executive remuneration is made in accordance with thresholds set in plans approved by shareholders.	<i>A resolution at the Annual General Meeting in May 2007 is 'to adopt the Remuneration Report for the year ended 31 December 2006, by way of non binding vote'.</i>
Recommendation 9.5	Provide the information indicated in the Guide to reporting on Principle 9.	<i>This information is provided in this corporate governance statement.</i>
Principle 10 - Recognise legitimate interests of stakeholders		
Recommendation 10.1	Establish and disclose a code of conduct to guide compliance with legal and other obligations to legitimate stakeholders.	<i>Details of the code of conduct are available on the company website.</i>

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

Consolidated Balance Sheet

For the Year Ended 31 December 2006

		Consolidated Entity		Parent Entity	
		2006	2005	2006	2005
	Notes	\$	\$	\$	\$
CURRENT ASSETS					
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	—	—	—
TOTAL CURRENT ASSETS		7,665,294	166,213	3,725,465	733,791
NON CURRENT ASSETS					
Receivables	6	500,000	—	500,000	2,000,000
Investment in subsidiaries	8	—	—	32,016,967	—
Property, plant and equipment	9	219,870	—	—	—
Intangible assets	10	303,899	112,222	—	—
TOTAL NON CURRENT ASSETS		1,023,769	112,222	32,516,967	2,000,000
TOTAL ASSETS		8,689,063	278,435	36,242,432	2,733,791
CURRENT LIABILITIES					
Payables	11	441,340	761,210	93,363	123,791
Provisions	12	100,152	—	—	—
TOTAL CURRENT LIABILITIES		541,492	761,210	93,363	123,791
NON CURRENT LIABILITIES					
Payables	11	138,983	—	—	—
TOTAL NON CURRENT LIABILITIES		138,983	—	—	—
TOTAL LIABILITIES		680,475	761,210	93,363	123,791
NET ASSETS		8,008,588	(482,775)	36,149,069	2,610,000
EQUITY					
Contributed equity	13	12,780,604	408,100	35,429,128	1,809,157
Reserves		3,419,800	—	3,419,800	—
Retained earnings (accumulated losses)		(8,191,816)	(890,875)	(2,699,859)	800,843
TOTAL EQUITY		8,008,588	(482,775)	36,149,069	2,610,000

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2006

	Notes	Consolidated Entity		Parent Entity	
		2006 \$	2005 \$	2006 \$	2005 \$
Retained earnings (losses) 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		(8,191,816)	(890,875)	(2,699,859)	800,843
Transactions with equity holders in their capacity as equity holders:					
Contributed equity at the beginning of the year		408,100	—	1,809,157	1,809,157
Contributions received by Fermiscan Holdings Limited on re-listing		2,328,191	—	2,328,191	—
Notional capital issued for the purchase of Fermiscan Holdings Limited as part of the reverse acquisition accounting	13	2,543,310	—	—	—
Shares issued on acquisition of Fermiscan Limited		—	—	32,016,968	—
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		12,780,604	408,100	35,429,128	1,809,157
Share based expense reserve		3,419,800	—	3,419,800	—
Total Equity at the end of the year attributable to members of the parent		8,008,588	(482,775)	36,149,069	2,610,000

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2006

		Consolidated Entity		Parent Entity	
		2006	2005	2006	2005
	Notes	\$	\$	\$	\$
CASH FLOW FROM OPERATING ACTIVITIES					
Payments to suppliers and employees		(4,778,835)	(228,829)	(339,825)	(232,022)
Interest received		249,352	2,097	228,498	131,956
Net cash provided by (used in) operating activities	14	(4,529,483)	(226,732)	(111,327)	(100,066)
CASH FLOW FROM INVESTING ACTIVITIES					
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
Net cash provided by (used in) investing activities		770,409	(142,222)	(1,562,613)	114,071
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from share issue after costs of issue		9,704,181	408,100	1,603,003	—
Prior year unpaid dividends claimed		—	—	—	(299)
Proceeds from loan repayments		—	25,000	—	—
Net cash provided by (used in) financing activities		9,704,181	433,100	1,603,003	(299)
Net increase in cash and cash equivalents		5,945,107	64,146	(70,937)	13,706
Cash and cash equivalents at beginning of year		64,146	—	72,861	59,155
Cash and cash equivalents at end of the year		6,009,253	64,146	1,924	72,861

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 Equivalents of International Financial Reporting Standards (AIFRS), 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 as 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 18.

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 25th 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.

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

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

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

(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.

Share based payments are adjusted, based on directors best estimates, for the effects of non transferability, exercise restrictions, and behavioural considerations.

(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.

New Accounting Standards

At the reporting date several new accounting pronouncements have been issued by the Australian Accounting Standards Board (AASB) but are not yet effective. The directors intend to apply these accounting pronouncements in the annual reporting period in which the pronouncement becomes effective. The directors consider it unlikely that the new pronouncements will have a significant impact on the financial performance, financial position or the cash flows of the consolidated entity, other than requiring, in certain instances, disclosures to be made in addition to those presently disclosed.

Note 3: Revenue

Notes	Consolidated Entity		Parent Entity	
	2006	2005	2006	2005
	\$	\$	\$	\$
Revenues from operations				
<i>Interest Income</i>	249,352	2,097	228,498	293,131

Note 4: Profit (loss) from operations

Profit (loss) from operations before income tax has been determined after the following specific expenses

<i>Employee benefits expense</i>	2,058,526	—	—	—
<i>Superannuation</i>	73,720	—	—	—
<i>Depreciation of non current assets</i>				
Plant and equipment	23,350	—	—	—

Note 5: Income tax

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 income tax	(7,300,941)	(890,875)	(3,500,635)	75,808
At the statutory income tax rate of 30% (2005: 30%)	(2,190,283)	(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	1,164,343	267,263	24,251	(18,381)
Unrecognised tax losses recouped	—	—	—	(4,361)
Income tax expense	—	—	—	—
Tax losses and timing differences are not recognised as future tax benefits				
<i>Deferred tax assets not recognised in the balance sheet</i>				
Estimated and unconfirmed unused tax losses and temporary differences	3,068,000	3,068,000	—	—

The potential future income tax benefits arising from tax losses and timing differences has not been recognised as an asset and will only be obtained if:

- Assessable income is derived of a nature and of an amount sufficient to enable such benefits to be realised;
- Conditions for deductibility imposed by the relevant law are complied with; and,
- No changes in the tax legislation adversely affect the realisation of the benefit from the deduction.

At the date of signing the financial statements the directors have not elected for the company and its wholly owned entities to form a tax consolidated group.

Note 6: Receivables

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

⁽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

Prepayments	89,917	—	—	—
Unexpired Interest Charges	32,564	—	—	—
Other Assets	102,000	—	—	—
	224,481	—	—	—

Note 8: Investment in subsidiaries

NON-CURRENT

Investments at cost comprise:

Unlisted Shares – Investment in controlled entities	—	—	32,016,967	—
	—	—	32,016,967	—

Note 9: Property, plant and equipment

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	—	—
<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

CURRENT					
Trade payables		230,813	761,210	93,363	123,791
Other payables		178,816	—	—	—
Hire purchase liabilities	20	31,711	—	—	—
		441,340	761,210	93,363	123,791
NON-CURRENT					
Hire purchase liabilities	20	138,983	—	—	—
		138,983	—	—	—

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

Note 12: Provisions

CURRENT					
Employee entitlements		100,152	—	—	—

Note 13: Contributed equity**(a) Issued and paid up capital**

Ordinary shares fully paid	12,780,604	408,100	35,429,128	1,809,157
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Fully paid ordinary shares carry one vote per share and carry the right to dividends.

	Legal Parent Entity 2006		Legal Parent Entity 2005	
	No. of shares	\$	No. of shares	\$
(b) Movements in shares on issue				
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	126,748,671	35,429,128	8,964,077	1,809,157

(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.

Share Options – movement

	2006 Number	Weighted average exercise price	2005 Number	Weighted average exercise price
Outstanding at beginning of year	—	—	—	—
Granted during the year	61,000,000	30 cents	—	—
Forfeited during the year	—	—	—	—
Exercised during the year	—	—	—	—
Expired during the year	—	—	—	—
Outstanding at year end	61,000,000	30 cents	—	—

The share options outstanding at year end had an exercise price of 30 cents and a weighted average remaining contractual life of 1115 days.

The share options granted have been valued by the directors at fair market value based on the Lonergan Edwards independent valuation report which was provided as part of the Prospectus documentation for the acquisition of Fermiscan Limited by Olympus Resources Limited (now Fermiscan Holdings Limited).

There was no share based payment arrangements modified during the year.

(d) Contributed Equity

Fermiscan Holdings Limited is the legal parent. The Board of Directors (the Directors) of Fermiscan Holdings Limited direct the financial and operating policies of the Group and the shareholders of Fermiscan Holdings Limited will obtain the benefits of the Group's activities.

The Directors are of the opinion that, in accordance with the requirements of AASB3, Fermiscan Holdings Limited can not be identified as the acquirer. In the opinion of the Directors, the acquiring entity is considered to be Fermiscan Limited.

As a result of reverse acquisition accounting, a new equity account is created as a component of equity. The equity account called "Other contributed equity" is similar in nature to share capital and is not available for distribution. The equity account represents a net adjustment for the replacement of the legal parent's equity with that of the deemed acquirer. The amount of the adjustment was \$2,543,310.

Note 14: Cash flow information

	Notes	Consolidated Entity		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
(a) Reconciliation of the net profit (loss) after tax to the net cash flows from operations:					
Net profit (loss)		(7,300,941)	(890,875)	(3,500,635)	75,807
Non Cash Items					
Depreciation and amortisation		23,350	—	—	—
Provision for diminution in advances		—	—	—	(61,271)
Share based expense transaction		3,419,800	—	3,419,800	—
Changes in assets and liabilities					
(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	—	—	—
Net cash flow used in operating activities		(4,529,483)	(226,732)	(111,327)	(100,066)

Non cash transactions:

(a) Acquisition of property, plant and equipment.

During the year the consolidated entity acquired motor vehicles with a cost of \$147,084 by hire purchase agreements.

(b) Acquisition of subsidiary entities

Details of the purchase consideration for the acquisition of subsidiary entities during the year are disclosed in Notes 1(b), 13 and 18. Amount of cash in Fermiscan Holdings Limited on acquisition was \$54,575.

Note 15: Earnings per share

	2006	2005
	\$	\$
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)
Earnings used in calculating basic and diluted earnings per share	(7,300,941)	(890,875)
	No. of Shares	No. of Shares
Weighted average number of ordinary shares used in calculating basic earnings per share	28,565,172	8,964,077
Effect of dilutive securities:		
Share options	13,682,607	Nil
Adjusted weighted average number of ordinary shares used in calculating diluted earnings per share	42,247,779	8,964,077

Note 16: Commitments and contingencies

	Notes	Consolidated Entity		Parent Entity	
		2006	2005	2006	2005
		\$	\$	\$	\$
Lease expenditure commitments					
<i>(a) Operating leases (non cancellable):</i>					
(i) Operating leases related to office premises with lease terms of 3 years, with an option to extend for a further 3 years. Rentals are subject to an annual increase of 4.25%					
(ii) Minimum lease payments					
– 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		432,617	–	–	–

Note 17: Auditor's remuneration

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	–
	38,000	–	55,000	31,935

Other Services

– KPMG	–	–	–	–
– Pitcher Partners	–	–	–	–
	–	–	–	–

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>Legal 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%	—
Fermiscan USA, Inc.	United States	100%	—

Amounts recognized for each class of asset and liability at the acquisition date of Fermiscan Holdings Limited was:

	9 October 2006
	\$
Assets	
Cash and cash equivalents	54,575
Receivables	564,023
Non current receivables	1,500,000
	2,118,598
Liabilities	
Payables	169,480
Net Assets	1,949,118
Issued capital	1,809,457
	139,661
Shareholders equity	1,949,118

Amount of profit (loss) since acquisition of Fermiscan Holdings Limited included in the consolidated entity's result was \$52,168.

Revenue of the combined entity for the year as though the acquisition of Fermiscan Holdings Limited was 1 January 2006 would have been \$427,182.

Profit (loss) of the combined entity for the year as though the acquisition of Fermiscan Holdings Limited was 1 January 2006 would have been \$(7,616,848).

- (b) The following is a statement of the 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. Amounts payable and receivable are disclosed in their respective notes. Amounts payable are at call and are interest free.

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.

Individual directors and executives compensation

Information regarding individual directors and executives compensation is provided in the Remuneration Report section of the Directors Report on page 14. No director has entered into a material contract with the company or consolidated entity (other than an employment contract) since the end of the previous year and, there were no material contracts involving directors' at 31 December 2006.

Hednesford Limited has acted as a corporate advisor to Fermiscan Limited, which has agreed to reimburse Hednesford Limited's costs and expenses incurred in the establishment of Fermiscan since its incorporation and for premises and services in amounts aggregating \$350,000 plus GST. Mr Leon Carr is a director and shareholder of Hednesford Limited.

An executive has been provided with a short term loan of \$30,000.

Directors

The names of each person holding the office of director during the year, and their interests in shares and options at balance date, were:

Director		Relevant interest in Ordinary Shares of Fermiscan Holdings Limited	Options over shares in Fermiscan Holdings Limited
Gary Garton	Appointed as a director 9 October 2006	41,140	3,300,000
Ian Holman	Appointed as a director 9 October 2006	821,640	3,300,000
David Young	Appointed as a director 9 October 2006	1,037,430	10,000,000
Dr Ronald Shnier	Appointed as a director 9 November 2006	nil	3,300,000
Dr Michael Carr	Appointed as a director 9 November 2006	171,820	3,300,000
Gabriel Lorentz	Resigned as a director 9 October 2006	—	—
David Lorentz	Resigned as a director 9 October 2006	—	—
Barry Molloy	Resigned as a director 9 October 2006	—	—

Executives

The names of each person holding the positions of key management personnel were:

Executives	Position held	Date of appointment to position
Leon P Carr	Corporate Strategist	1 May 2006
Richard M Toltz	General Counsel	1 May 2006
Dr Peter French	Chief Scientific Officer	1 May 2006
Gary Corino	Chief Operations Officer USA	1 May 2006
Greg West	Company Secretary & Chief Financial Officer	28 May 2006

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	Floating interest rate		Fixed interest rate maturing in:											
			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	5.00	—
Trade and other receivables	—	—	—	—	—	—	—	—	431,560	102,067	431,560	102,067	na	na
Secured loans	—	—	1,000,000	—	500,000	2,000,000	—	—	—	—	1,500,000	2,000,000	10	10
<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	—	—	—	—	—	170,694	—	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 Securities Limited.

Note 21: 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:

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

Directors' Declaration

The directors declare that the financial statements and notes set out on pages 28 to 43 in accordance with the *Corporations Act 2001*, and:

- (a) Comply with Accounting Standards and the *Corporations Regulations 2001*, and
- (b) Give a true and fair view of the financial position of the company and consolidated entity as at 31 December 2006 and of their performance as represented by the results of their operations and cash flows, for the year ended on that date.

In the directors' opinion there are reasonable grounds to believe that *Fermiscan Holdings Limited* will be able to pay its debts as and when they become due and payable.

This declaration has been made after receiving the declarations required to be made by the managing director and chief financial officer to the directors in accordance with sections 295A of the *Corporations Act 2001* for the financial year ending 31 December 2006.

This declaration is made in accordance with a resolution of the directors.

A handwritten signature in blue ink, appearing to read 'David Young', is written over a light blue rectangular background.

David Young

Director

Sydney

14 March 2007



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Y E PIETSCH
R M SHANLEY
D W STAPLES
D G YOUNG

CONSULTANTS:
J S YOUNG
D G BARNSDALL
P S ROWE

Independent Audit Report

To the Members of Fermiscan Holdings Limited

Scope

We have audited the financial report of Fermiscan Holdings Limited and controlled entities for the financial year ended 31 December 2006 comprising the Directors' Declaration, Income Statement, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows and notes to the financial statements.

The financial report includes the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled during the financial year. The company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and Corporations Act 2001 so as to present a view which is consistent with our understanding of the company's and the consolidated entity's financial position and performance as represented by the results of their operations and the cash flows and whether the remuneration disclosures in the directors' report comply with Accounting Standard AASB 124.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion:

(1) the financial report of Fermiscan Holdings Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 31 December 2006 and of their performance for the financial year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional requirements in Australia; and

(2) the remuneration disclosures that are contained in the director's report under the heading "Remuneration Report" comply with the Accounting Standard AASB 1124

Pitcher Partners

Pitcher Partners

Mark Godlewski

Mark Godlewski

Sydney, 14 March 2007

Shareholder Information

Names of Twenty Largest Holders as at 14 March 2007

Rank	Name	Number of ordinary shares	Percentage of issued capital
1	Relcain Pty Limited	46,241,750	32.62
2	Lindash Investments Pty Limited	25,773,200	18.18
3	Citicorp Nominees Pty Limited	7,525,414	5.31
4	National Nominees Limited	7,339,391	5.18
5	Willala Pastoral Co Pty Limited	7,000,000	4.94
6	ANZ Nominees <Cash Income A/C>	6,762,768	4.77
7	Westpac Custodian Nominees Limited	3,476,430	2.45
8	RP Prospects Pty Limited	2,450,000	1.73
9	Holdex Nominees Pty Ltd	1,200,000	0.85
10	David Colin Young	1,030,930	0.73
11	Mr Ronald James Flaherty & Mrs Shirley May Flaherty	709,100	0.50
12	Gerard Thomas Eakin	652,920	0.46
13	Mr Ian Mar Chalmers & Ms Wilhelmina Joanna Ryan	600,000	0.42
14	Capital Creation Nominees Pty Limited	584,189	0.41
15	Ian Westmore Holman	515,460	0.36
16	HSBC Custody Nominees (Australia) Limited-A/C 2	509,150	0.36
17	Fenugreek Holdings Pty Limited	500,000	0.35
18	Manifest Capital Management Pty Limited	500,000	0.35
19	DBS Vickers Securities (Singapore) Pte Ltd	375,000	0.26
20	Bowen National Pty Ltd	343,640	0.24
		114,089,342	80.49

Shareholder Information

Information relating to shareholders as at 14 March 2007

(a) Distribution schedule

Ranges	Investors	Securities	Percentage of Issued Capital
1 to 1000	2,097	739,823	1.02
1001 to 5000	808	2,347,805	3.25
5001 to 10000	350	2,896,324	4.01
10001 to 100000	385	11,487,397	15.89
100001 and Over	77	54,844,590	75.84
Total	3,717	72,315,939	100.00

The number of security investors holding less than a marketable parcel of 242 securities is 794 and they hold 102,453 securities. A marketable parcel of shares is valued at not less than \$500 and based on a share price of \$2.07 on 14 March 2007 would equate to 242 shares.

Voting rights

On a show of hands, every person present in the capacity of a member or the representative of a member which is a body corporate, or the proxy or an attorney of a member, or in more than one of those capacities has one vote. On a poll, every member who is present in person or by proxy or attorney or, in the case of a member which is a body corporate, by representative, has one vote in respect of every fully paid share held by such member. No shareholder has any different voting rights than are enjoyed by all shareholders.

Names of Substantial shareholders as at 14 March 2007	Number of ordinary shares	Percentage of issued capital
Relcain Pty Limited	46,241,750	32.62
Lindash Investments Pty Limited	25,773,200	18.18
Manifest Capital Management Pty Limited	9,623,222	6.80

Corporate Directory

Directors

Mr. Gary Garton - Chairman
 Mr. David Young - Managing Director
 Mr. Ian W Holman
 Dr. Ronald Shnier
 Dr. Michael Carr

Audit & Risk Committee

Mr. Ian Holman - Chairman
 Mr. Gary Garton
 Dr. Michael Carr
 Mr. David Young - Managing Director

Remuneration & Nomination Committee

Mr. Gary Garton - Chairman
 Mr. Ian Holman
 Dr. Ronald Shnier
 Mr. David Young - Managing Director

Governance Committee

Mr. Gary Garton - Chairman
 Mr. David Young - Managing Director

Scientific and Medical Advisory Board

Dr. Peter French - BSc, MSc, PhD, MBA - Chairman
 Gary Corino - BSc
 Dr. Ronald Shnier - MBBS, FRACP
 Dr. Michael Carr - MBBS, FANZCA, FANZCR
 Jane Beith - MBBS, FRACP, PhD

Fermiscan Human Research & Ethics Committee

Professor Ron Penny - AO, D.Sc. MD, FRACP, FRCPA
 Associate Professor Phillip Yuile - MB BS (Hons) FRANZCR,
 MA (Applied Ethics)
 Professor Anne Cunningham - PhD, FRACP
 Dr Russell Ludowyke - BSc (Hons), PhD
 Rev. David West - BTh, Dip.Min.
 Amanda Lacaze - BA, Grad Dip in Marketing and ATCL
 David Young - MBA
 Richard Toltz - General Counsel

Company Secretary and Chief Financial Officer

Mr. Greg West

Registered office and principal place of business

Level 5, 48 Hunter Street, Sydney
 NSW 2000, Australia
 Ph: +61 2 9245 4460
 Fax: +61 2 9223 9622
 Website address: www.fermiscan.com.au

Share Registry

LINK Market Services
 Level 12, 680 George Street, Sydney
 NSW 2000, Australia
 Postal Address:
 Locked Bag A14
 Sydney South
 NSW 1235, Australia
 Ph: +61 2 8280 7111

Website address: www.linkmarketservices.com.au

Stock Exchange Listing

Listed on the Australian Stock Exchange
 Stock code 'FER'

Auditors

Pitcher Partners

Solicitors

Piper Alderman

Bankers

HSBC Australia Limited



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