annual report to shareholders

epitan 2002

EpiTan Limited ABN 88 089 644 119
Level 10, 52 Collins Street Melbourne Victoria 3000 Australia
Telephone 613 9662 4688 Facsimile 613 9662 4788
www.epitan.com.au

company profile

EpiTan Limited is a drug development company with a focus on reducing skin damage and skin cancer. It has the exclusive worldwide rights to continue the development of and commercialise its drug candidate Melanotan® which has the ability to increase the concentration of melanin in the skin. In doing so, Melanotan has the potential to reduce the incidence of skin damage from sun exposure and thus skin cancer. To expand its emphasis on skin protection, EpiTan has made the strategic decision to move into dermatology product manufacture and distribution. This will involve in-licensing leading-edge products from North America and Europe for distribution in the Australasian region. This strategy is intended to generate positive cash flows for the company, and at the same time to prepare the ground for the distribution of Melanotan and other EpiTan-developed products. As a consequence of the advanced stage of development of Melanotan, EpiTan maintains an alert for identifying other drug candidates which would be compatible with its dermatology focus or with its peptide technology base.

Chairman & managing director's report

Dear Shareholder

I am vey pleased to report that in EpiTan's first full year as a listed public company we:

- have made exciting clinical progress with our lead drug candidate Melanotan,
- are well on our way to developing a proprietary slow release dosage form,
- have restructured the Board to increase clinical dermatology and pharmaceutical expertise,
- have managed the company's funds prudently, and
- have benefited from worldwide publicity of the Melanotan class of drugs.

Taking these in turn:

These key appointments of Professor Cooper and Mr McLiesh markedly increase the expertise of the Board and its ability to accommodate Epitan's progress with its Melanotan project and in-licensing of dermatology products.

Clinical & pharmaceutical development

In March we reported on the first trial carried out at the Royal Adelaide Hospital under controlled conditions suitable for regulatory purposes. These results confirmed those from pilot studies conducted at the University of Arizona on about 100 volunteers. The study with 16 volunteers under conditions that rigorously excluded sunlight confirmed the safety of Melanotan and provided proof of principle that our lead drug causes the production of melanin pigment in skin throughout the body. To our knowledge, this is the first time this has been demonstrated by any drug.

Based on the knowledge that we have a drug that produces melanin, we immediately commenced the development of a more suitable dosage formulation and contracted an experienced US drug delivery group to produce a 30-day sustained-release form. This work is proceeding very well and the dose formulation will be available soon and will be used in subsequent clinical trials. It will be more user-friendly than daily injections, may be more efficacious and will be much less costly.

Board of directors

With EpiTan now one of the few Australian biotechnology companies involved in advanced stage clinical trials, we have restructured the board to bring on more specialist pharmaceutical talent. Having guided the company through its early fund raising and public listing, both Mr Graeme Salthouse and Mr Malcolm McComas have stepped down. We are grateful for their early contribution and wish them well in their new endeavors. Joining the Board are Professor Alan Cooper, OAM, one of Australia's leading dermatologists, and Mr Stanley McLiesh, formerly General Manager, Pharmaceuticals at CSL Limited. They bring strong clinical dermatology and pharmaceutical sales, marketing and partnering experience respectively, which will be crucial as EpiTan grows. Along with our two US directors, we now have an enviable concentration of pharmaceutical knowledge on our Board, something few Australian companies can match.

Financial position

I want to stress that the Company is developing Melanotan very cost effectively. EpiTan has only five employees and has not built a substantial overhead. We utilise outside services for most pharmaceutical development functions, minimising the expense of in-house employees and avoid establishing our own laboratories. Substantial clinical progress has been made by spending only a fraction of what many companies do to achieve clinical results. We intend to maintain this approach and thereby maximize shareholder funds.

EpiTan's cash resources at the beginning of the 2002 year were $6.98 million. Cash outlays during the year amounted to $2.93 million including $1.57 million on clinical trials and drug formulation research and development. $76,000 was expended on plant, equipment, patent and trade mark applications and $1.28 million on suppliers, employee and corporate costs. After interest and GST refund amounts of $367,000 net cash outflow amounted to $2.56 million.

This resulted in a loss of $3.14 million after writing off eligible research and development expenditure of $1.50 million and amortising of intellectual property of $748,000.

The 2002 budget forecast was for a total expenditure of $3.8 million with $2.5 million assigned to the Melanotan project. The under-budget figure of approximately $900,000 reflects the late start of the Phase II clinical trial program.

For the Melanotan project alone, cash budget estimates for the 2003 financial year are:

	$(million)
preclinical & clinical studies	1.8
drug formulation development	1.4
suppliers, employees, corporate	1.4
Subtotal	4.6
cash at bank 1 July 2002	4.4
interest, income, GST refund	0.5
Net surplus 30 June 2003	0.3

The challenge facing us over the next few years is access to capital in a very hostile market. Australian life science companies have followed US companies in a severe downward spiral and we cannot predict the upturn. While our unique clinical progress may allow us to access capital markets, your Board has deemed it prudent to also look elsewhere for capital. Fortunately, we now have two highly-rated potential sources:

Entering the dermatology products business in Australia.
In preparation for our own marketing of Melanotan to dermatologists, we can source products from other countries to market in Australia and thereby create a positive cash flow to support the Company. Our rights to Melanotan can be used as an asset to secure such products. We have retained an experienced US based executive to implement this process.

Corporate partnering with larger pharmaceutical companies.
We have had a number of approaches from multinational companies and are entering into discussions. Such a partnership could yield substantial upfront payments, financial support of clinical trials and royalty payments in return for licensing rights to selected worldwide markets.

Given the decision to expand operations to a cash flow position based on the in-licensing of dermatology products and the need to continue the momentum of the Melanotan project the Company will require new capital.

The Board recognises that EpiTan already has a strong focus in dermatology and on 17 September EpiTan announced plans to expand the Company's operating base to include new leading-edge dermatology products.

To accommodate working capital estimates of $1 million for the dermatology products operation, and $2 million capital for the Melanotan project, shareholders are asked to agree to the resolution to be put to them at the November 2002 Annual General Meeting of Shareholders to allow directors to issue up to 20 million shares in EpiTan over the ensuing three month period.

Investor relations - communications

I have been overwhelmed at times with enquiries from interested parties as a result of the worldwide media interest in the family of MSH analog drugs developed at the University of Arizona. These drugs, of which Melanotan is one, can cause a variety of effects in humans including tanning, erections and satiety (loss of appetite), causing them to be dubbed 'Barbie drugs' after the 'perfect' toy doll of the same name. While we are cautious of this kind of publicity, it serves as an indication of the strong interest in our drug and confirms our assessment of the large size of the potential market.

The Melanotan story has been covered widely by both the Australian and international media with over 100 news items appearing across various media including Time Magazine, the New York Post, The Independent (London), The Times (London), CNBC, CNN, Fox News Channel and the BBC.

EpiTan's website has provided information about the Company and the Melanotan project to thousands of visitors throughout the year. Traffic to the site has consistently increased, with the strongest international interest from North America. The site's subscriber base has nearly tripled to over 2000, enabling worldwide interest to be serviced by immediate access to company announcements.

Some 40 presentations on EpiTan's technical plans, corporate objectives and operational strategies have been given to the financial community by directors, managers and company consultants. These have been well received and there is clearly now a greater understanding of EpiTan's activities in the market place.

Communication programs will be on-going during the 2003 year to maintain a continuous flow of information on progress to all stakeholders.

The coming year

There has been a plethora of articles appearing in newspapers, scientific publications and websites relating to skin cancer issues. These have covered descriptions of skin cancers, their prevalence and what precautions can be taken to minimise the risk of developing them. Dermatologists are becoming more aggressive in their educational stance on skin cancers and health ministries of more countries are now embracing the precepts of the well known Australian awareness campaign 'Slip! Slop! Slap!' for protection of the skin.

Sales of safe 'sunless' tanning products have blossomed in this environment, while expansion of the tanning salon industry using UV radiation has also been explosive. Some 45,000 venues are now providing this form of tanning in the US and the market for tanning in the US alone is estimated at US$5 billion per annum.

Worldwide medical science and health agencies are stepping up educational advice to protect against skin cancer in parallel with the strong urge of many to still acquire a tan.

Given this background, and the fact that skin cancers are the most prolific of all cancers, the rationale for the development of Melanotan for reduction of sun exposure skin damage by a managed approach is substantial.

The clear objectives of the past year have been implemented, in the main, by your Company. It is envisaged that the clinical program will be on track shortly with further milestone targets in sight. The new venture into dermatology products for EpiTan brings with it the opportunity to produce cash flows from an ever increasing sales base in the Australasian region. With these strategies EpiTan is well placed to provide enhanced value to shareholders.

Once again, the contribution of your directors, management, staff and consultants to EpiTan 's advancement has been of paramount importance. The diverse backgrounds and experience of the EpiTan team is one not seen in many other companies of this nature in Australia. I personally thank them for working together, with me, and towards the success of EpiTan.

Again this year I have had significant contact with shareholders. The unifying theme has unquestionably been the deep interest shown in the Company 's project development and a confidence in the Company 's strategic direction. There has also been tacit understanding of how the Australian life science markets have been influenced by the global downturn in this sector and the impact this has had on small companies like EpiTan.

As EpiTan's largest shareholder, I am deeply committed to the Company's success and have my future at stake. I welcome the opportunity to speak with shareholders and particularly look forward to meeting with many of you at the November 1 Annual General Meeting when our full Board will be present.

Dr Wayne Millen
Chairman and
Managing Director

Dr Wayne Millen BSc (Hons) PhD FRACI C CHEM FAusIMM AFAIM - Chairman and Chief Executive Officer Dr Millen is the founding Managing Director of EpiTan Limited. He has a PhD in chemistry and biochemistry from the University of Western Australia and is a Chartered Chemist with extensive experience over 30 years operating his own commercial enterprises. In 1967, as a Fulbright scholar, Dr Millen undertook biochemical research in the Molecular Biology Institute at the University of California, Los Angeles, with Nobel Prize laureate Dr Paul Boyer. In 1970, he established his own consultancy business, the Pilbara Group, for the testing and assessment of biological, environmental and mineral materials, which grew to be the largest organisation of its kind in the Australasian region. In 1983, Dr Millen moved into the area of venture and development capital investment with an emphasis on companies involved in technological innovation. He has maintained this focus to the present time and has been the lead investor and strategist in several private and public companies. Dr Millen's scientific and business experience, along with his proven entrepreneurship has been instrumental in maximising corporate opportunities for EpiTan. **Dr Helmer Agersborg** BS PhD - Non-executive Deputy Chairman Dr Agersborg received a PhD in Physiology from the University of Tennessee in 1957 and shortly after was appointed to the position of Clinical Physiologist at Wyeth Laboratories in Pennsylvania, US. In 1975, he was promoted to Vice-President, Research and Development with responsibility for research, chemical, pharmaceutical and biological development, quality assurance and regulatory affairs. In 1985, he was given the additional responsibility for clinical research and made Senior Vice-President. In 1987, American Home Products began to merge its international, Ayerst and Ives and AH Robins research and development activities into one unit, Wyeth-Ayerst Research, an organisation of approximately 3000 people. Dr Agersborg was made President, Wyeth-Ayerst Research in 1987. During his distinguished forty years in the pharmaceutical industry companies under his direction had more than 50 new drug applications approved in the US, many marketing applications approved outside the US and innumerable IND's accepted around the world. Following his retirement from Wyeth-Ayerst in 1990, Dr Agersborg became involved in a series of start-up pharmaceutical development companies. Dr Agersborg is currently Chairman and President of MelanoTan Corp, President of Afferon Corp and director of Virxsys Corporation, all pharmaceutical companies. Dr Agersborg contributes broad international pharmaceutical development experience at the highest level to the Company.

directors

EpiTan has drawn together international expertise to develop and commercialise its leading drug candidate Melanotan.

The board comprises directors from Australia and the US with experience in dermatology, drug commercialisation, start-up and mature pharmaceutical company management, venture capital, partnering and licensing in the pharmaceutical industry and listing corporations both in Australia and the US.

The company's team of directors, managers, consultants and staff are committed at the highest level to the Company's success.

Dr Terry Winters BSc PhD - Non-executive Director Dr Winters is a director of four private US based companies: MelanoTan Corp, licensor of EpiTan's technology; Alliance Medical Corp, a medical device company and iPhysicianNet, which is pioneering electronic pharmaceutical detailing. He is CEO and a member of the board of Afferon Corp which is developing vanilloid drugs for incontinence, rhinitis and headache. Dr Winters is also a Special Limited Partner of Valley Ventures, a $90 million venture capital fund based in Scottsdale, Arizona. Dr Winters was formerly an experimental chemist and licensing manager with Goodyear Tyre & Rubber Co. in Ohio and then licensing manager with Diamond Shamrock and Vice-President of DS Ventures, investing in life science projects. In 1983, he co-founded, and is a General Partner of Columbine Venture Fund which has invested over $125 million in life science and technology companies in the western US. From the Columbine investments, successful companies have been Orthologic Corp, CollaGenex Pharmaceuticals, Nanophase Technologies, Curis, Neogen (all NASDAQ quoted) and Microgenics. Dr Winters' understanding of US financial markets, particularly capital raising and Nasdaq listing brings an international perspective to the Company's global corporate planning. **Professor Alan Cooper, OAM** BSc MBBS FACD, Professor of Dermatology - Non Executive Director Professor Cooper provides valuable specialist dermatology experience to the company. A dermatologist for over twenty-five years, Professor Cooper has held offices at the highest level in his field. He is currently Head of the Dermatology Department at Sydney's Royal North Shore Hospital, with a clinical academic appointment at the University of Sydney. He is also President-Elect of the Australasian College of Dermatologists. Professor Cooper completed his medical training at the University of Sydney and post-graduate training in dermatology at Royal North Shore Hospital and the Mayo Clinic in the US where he obtained his Dermatology Board qualifications. He is the founding director of the Australian Dermatology Research and Education Foundation and a Councillor on the Dermatology Research Foundation of the University of Sydney. A past secretary general of the World Congress of Dermatology, Professor Cooper has recently completed a ten-year term as a Director of the International Foundation of Dermatology along with a ten-year term as a member of the International Committee for Dermatology. Professor Cooper also operates a private practice as a consultant dermatologist and has been an adviser to pharmaceutical companies. His medical background in skin cancer and wide-reaching professional affiliations in dermatology, the pharmaceutical industry and academia complement the Board's financial and entrepreneurial skill base. **Mr Stanley McLiesh** BEd – Non Executive Director Mr McLiesh has extensive experience in commercialising pharmaceutical products internationally. Formerly General Manager, Pharmaceuticals at CSL Limited, he was closely involved in the transition of CSL from government ownership through corporatisation to a highly successful listed company. While at CSL, Mr McLiesh brokered numerous in-licensing agreements with international companies which enabled CSL to expand into new markets profitably. The rapid acceleration of growth in sales and marketing associated with this in-license activity resulted in the establishment by Mr McLiesh of new sales and marketing teams. He has also been closely involved in a number of merger and acquisition negotiations; the establishment of partnerships and collaborative relationships; quality control, manufacturing and the negotiation of supply agreements for CSL's export products to international markets. Mr McLiesh's considerable experience in the international pharmaceutical industry will facilitate EpiTan's expansion strategies.

• Dr Wayne Millen • Dr Helmer Agersborg • Dr Terry Winters
• Professor Alan Cooper, OAM • Mr Stanley McLiesh





Dr Stuart Humphrey BSc (Hons) PhD - Manager–Clinical Development Dr Humphrey brings to the Company extensive experience in the management of scientific and clinical development projects within multinational pharmaceutical environments. His clinical development and regulatory background in the field of oncology will be instrumental in progressing the company's clinical trial program. Dr Humphrey has an Honours degree in Biochemistry from the University of Liverpool and a Doctorate of Philosophy from the University of Auckland with 30 years experience in research and pharmaceutical project management. He has held the positions of Regional Operations Manager at Omnicare Clinical Research, a large international Clinical Research Organisation and Regulatory Affairs Manager and Manager Scientific Clinical Development with Bristol-Myers Squibb in Australia and New Zealand. This year, Dr Humphrey developed and successfully coordinated the company's first Australian Phase I/II clinical trial for Melanotan conducted by CMAX Pty Ltd at the Royal Adelaide Hospital. He also put in place arrangements for EpiTan's Phase II 'sunburn' trial which will investigate the effectiveness of Melanotan in protecting against sunburn. **Mr Michael Kleinig** BAppSc (Chem/Bio) - Manager-Pharmaceutical Development Mr Kleinig's broad knowledge in the fields of process development (from research scale through to commercial scale), project management, immunology and protein chemistry make him well suited to his role as Manager-Pharmaceutical Development. Mr Kleinig was formerly a Senior Research Scientist at CSL Limited where he was employed for 15 years, working in research and development in both the Pharmaceutical and Bioplasma divisions. He graduated from Swinburne Institute of Technology with a double major in Applied Chemistry and Biochemistry. His primary responsibilities at EpiTan are to investigate the best method(s) of delivery for Melanotan and secure a suitable commercial scale manufacturer of the synthetic peptide. This year he has established a collaborative relationship with Southern Research Institute, a world market leader in drug-delivery technology, to develop a sustained-release delivery formulation for Melanotan for use in the Company's ongoing clinical trial program. **Ms Nicole Burnard** Executive Assistant Having previously held positions in international marketing and corporate administration, Ms Burnard is well equipped to contribute to the Company in a broad range of areas from investor, media and public relations to office administration. She was responsible for the establishment of the EpiTan head office in 2000. At that time she developed a contemporary office infrastructure with the installation of secure computer and communications systems in keeping with the demands of a technically advanced organisation and a listed Company. In her current role, Ms Burnard liaises with stakeholders, the media and consultants to the company, coordinates the production of Company documents and website, supervises support staff and is involved in assisting company directors and technical management.

management, consultants and collaborative partners

EpiTan's management team has extensive experience in the commercial management of scientific and clinical development projects within multinational pharmaceutical environments and a broad knowledge of process development and project and corporate management.

Consultants to the Company provide specialist knowledge where required and include the inventors of Melanotan and eminent scientists in the field of skin cancer research and dermatology

Consultants

Professor Robert Dorr BS MS PhD RPh - Scientific Consultant Professor Robert Dorr is co-inventor of the Melanotan technology and was the principal investigator in Melanotan's preclinical and clinical studies performed to date in the US. He continues to have an active involvement in the Melanotan project as a consultant. Professor Dorr has a PhD from the College of Medicine at the University of Arizona, and is currently the Professor of Pharmacology and Director of the Pharmacology Research Program at the Arizona Cancer Center. He is a registered pharmacist in Arizona and California, holds twelve US patents for anti-cancer drugs and drug delivery devices, and has authored over 150 scientific articles. Professor Dorr addressed shareholders at the last Annual General Meeting. He advises on trial protocol issues with EpiTan's clinical trial investigators, new patent matters and gives presentations to the financial community, stakeholders, researchers and media groups. His expertise includes new drug formulation, animal models of cancer and toxicity assessment and clinical pharmacokinetics of new agents. He is a member of the American Association for Cancer Research, the Southwest Oncology Group and the International Society of Oncology Pharmacy Practice, in which he received the Outstanding Biotechnology Award in 1999. **Professor Terry Dwyer** AM, MB BS MPH MD - Scientific Consultant Professor Dwyer is Director of the Menzies Centre for Population Health Research managing a staff of 70 and coordinating research projects including those on cancer, heart disease, multiple sclerosis, childhood asthma and diabetes. He has studied at Yale and worked at Baylor College of Medicine, Houston and the CSIRO Division of Human Nutrition, Adelaide. Professor Dwyer has a particular interest in the role that melanin plays in protecting individuals against skin cancer. In carrying out his research, Professor Dwyer has pioneered a method of measuring melanin density in the skin using an instrument called a spectrophotometer. The spectrophotometer shines light on a small section of the skin and, by measuring the amount of light reflected, a very accurate measurement of the melanin density can be made. EpiTan has used this measurement system with success in its clinical trial program to date. As an integral part of his work with EpiTan Professor Dwyer's team is measuring the genotype of clinical trial subjects to obtain an estimate of the genetic risk of developing skin cancer. **Mr Thomas Laughlin** BA MBA – In-Licensing Consultant Mr Laughlin has had a distinguished career in the marketing sector of the pharmaceutical industry. He has held positions at the highest level in the world's largest pharmaceutical companies, successfully growing sales through identifying and building new business and revitalizing existing brands. Mr. Laughlin has had positions of increasing responsibility with Pfizer, Procter & Gamble, Pharmacia & Upjohn, and Bayer. As Senior Vice President & General Manager of Consumer Healthcare at Pharmacia & Upjohn, Mr. Laughlin directed the development and launch of several prescription to over-the-counter (OTC) switches including Rogaine®hair growth treatment. Mr. Laughlin has also directed the marketing of numerous other dermatology products including the Oil of Olay® line of skin care products for Procter & Gamble. In 1995 and 1996 he was Chairman of the Board of Directors of the Consumer Healthcare Products Association, the OTC industry's peak trade association. As part of its plans to expand its operation base, EpiTan has contracted Mr Laughlin to investigate in-licensing dermatology products for the Australasian region that will complement the Company's existing interests in skin care.

Collaborative partners

To complete the existing loop of expertise, EpiTan has further developed collaborative relationships with renowned Australian and American research organisations. In Australia, these include Monash University, Melbourne, the Institute of Medical and Veterinary Science, Adelaide and the Genetic Epidemiology Unit at the Menzies Centre for Population Health, Tasmania. The Company is also working with Southern Research Institute in Alabama, USA to develop a sustained-release delivery formulation for use in the Company's clinical trials. The innovative technologies being used in this collaborative work have significantly increased the body of information the Company has about Melanotan and ongoing studies may provide valuable insights into new therapeutic applications for Melanotan.

• Dr Stuart Humphrey • Mr Michael Kleinig • Ms Nicole Burnard

melanotan

Given that Melanotan has the potential to reduce skin damage by stimulating the body's own protective tanning mechanism, the global markets for Melanotan are substantial.

High-tech skin protection

EpiTan has the exclusive worldwide rights to develop and to commercialise Melanotan. Melanotan, like sunlight or ultraviolet (UV) light, triggers the production of melanin in the skin, causing a tan. Melanin acts as an internal sunscreen to protect the body from UV light. By increasing melanin production without exposing the skin to dangerous levels of UV light, a reduction in skin damage and a reduction in skin cancer is possible. With skin cancers the most common of all cancers, EpiTan is addressing a major unmet medical need.

EpiTan has elected to pursue the development of Melanotan in Australia, a country with the highest rate of skin cancer in the world. Being based in Australia allows the company access to internationally recognised research institutions and skin cancer experts at costs far less than those in the US or Europe. The widespread culture of skin cancer awareness in Australia also contributes significantly to EpiTan's corporate profile.

That Melanotan is a uniquely preventative drug candidate affords additional cost benefits for its development cycle. Costs to conduct clinical trials are considerably less than those for a therapeutic drug due to the shorter duration of trials and the fact that only healthy volunteers are required.

Given that Melanotan has the potential to reduce skin damage by stimulating the body's own protective tanning mechanism, the estimated markets for Melanotan are substantial. It addresses a major unmet medical need for a drug that has the potential to reduce the incidence of skin cancer, and indirectly an unmet need for safe, natural and long lasting sunless tanning.

Skin cancer is a major global health issue affecting millions of lives and costing economies billions of dollars in treatment and loss of production.

According to the World Health Organisation between 2 and 3 million non-melanoma skin cancers and over 130,000 malignant melanomas occur globally each year, and these numbers are rising.

Australia has the highest rate of skin cancer in the world. Two out of every three Australians are at risk of developing some form of skin cancer in their lifetime. More than 8,000 people are diagnosed with melanoma and nearly 300,000 develop a non-melanocytic skin cancer each year. Of all forms of cancer, it results in the highest costs to the nation's health system, costing the country in the vicinity of $500 million per year.

In the US, more than 1 million cases of common skin cancers occur annually and it is expected that approximately 53,000 new cases of melanoma will be diagnosed this year. In 1990 melanoma treatments in the Medicare program cost US$1.1 billion.

Increasing awareness that UV exposure is the primary cause of skin damage and skin cancer drives the global industry for sun care products. In the US alone sales of sun protection products are forecast to expand 5.9% per annum to US$440 million in 2005. In Australia, sales of sun protection products were approximately $46 million in 2000, an increase of almost 36% on 1996 in current value terms.

Like sunscreens, Melanotan is being developed as a preventative to reduce the incidence of skin damage. It differs in its approach from sunscreens in that for its effectiveness, it relies on the stimulation of the body's natural defence mechanism against UV light.

EpiTan's prime focus is on the unmet medical need for an ethical drug to reduce the incidence of skin damage. Estimates of this global market are in excess of US $1.5 billion per annum

Alongside increasing skin cancer awareness is the escalating popularity of tanning. Surveys show that while more people are aware of the dangers of unshielded exposure to UV radiation, the desire to be fashionable outweighs their health concerns. This is evidenced by the rapid growth of the global tanning salon industry.

The American Academy of Dermatology estimates that one million Americans are visiting tanning salons every day. In Australia, there are approximately 1200 solariums generating an estimated $80-150 million per annum, and in the UK, the industry is estimated at £100 million per annum.

Estimated global markets for a safe tanning drug can be made on the basis of the use of tanning salons. For the US alone that market is in excess of US$5 billion.

Given the sound science behind its genesis and its development to date, the Melanotan project has reached the stage of maturity for more detailed Phase II clinical programs. EpiTan's major objective is to accelerate these programs to deliver a commercial product into global markets in the shorter term.

melanotan

Melanotan is a synthetic analogue of α-MSH (alpha-Melanocyte Stimulating Hormone), a hormone which occurs naturally in the body and is responsible for the production of melanin in the skin. Melanotan, however, is 1000 times more active and has a longer duration in the body than α-MSH.

The skin: damage and protection

The skin is the human body's largest organ and chief barrier against harmful environmental agents including the cancer-causing rays of the sun. EpiTan is developing a unique scientific approach to sun safety and skin management with its leading drug candidate Melanotan. Melanotan has the potential to offer protection against UV light (photoprotection) by triggering the body's own natural defence mechanism – melanin production.

Melanotan is a synthetic analogue of α-MSH (alpha-Melanocyte Stimulating Hormone), a hormone which occurs naturally in the body and is responsible for the production of melanin in the skin. Melanotan, however, is 1000 times more active and has a longer duration in the body than α-MSH. Due to these unique characteristics it offers fair-skinned individuals the prospect of a greater level of UV protection than they are able to achieve naturally.

Radiation from the sun takes various forms. Apart from visible light there is invisible radiation. One form of this is known as ultraviolet radiation (UV) and is made up of three components: UVA, UVB and UVC. Little UVC reaches the earth's surface as it is absorbed by the ozone layer around the earth. UVA and UVB, however, are ever present and can rise to extreme levels during the warmer months.

Exposure to UV radiation can give rise to a number of serious health problems. UV rays penetrate the skin and cause sunburn, skin ageing and discoloration and ultimately skin cancer, a major global health issue.

While exposure to sunlight or UV radiation is the primary cause of skin cancer, sunlight has also been shown to be beneficial to human health. Dr Marianne Berwick, an epidemiologist from the highly regarded Memorial Sloan-Kettering Cancer Center in New York says research indicates that limited exposure to UV light is essential to human health. Most importantly, it is necessary for the production of Vitamin D, which contributes to bone strength (fights against rickets and osteoporosis), protects against some cancers, counteracts depression, helps to reduce blood pressure and curbs the risk of diabetes.

For most people in sunny climates daily exposure to sunlight is enough to satisfy Vitamin D requirements. In some cooler climates with lower sunlight or UV levels deficiencies in Vitamin D levels are common. It is envisaged Melanotan will allow safer exposure to sunlight enabling adequate Vitamin D production to occur.

When UV light reaches the skin it penetrates both the top layer, the epidermis, and the second layer, the dermis. In the epidermis there are cells called melanocytes which, in response to UV light, produce melanin, the dark coloured pigment which gives rise to a tan. While a tanned skin is fashionable, it has a biological function. Tanning is a defence mechanism to shield the body from sun or UV light, acting like an internal sunscreen to absorb UV radiation before it damages the body's cell DNA.

Research shows that high levels of melanin correlate with low incidences of skin cancer. For example, skin cancer rates amongst white Americans are 100 times higher than those among the African American population, who have high levels of melanin.

In fair-skinned people, melanin takes several days to develop and during this time cells are unprotected and susceptible to UV damage. Without protection, UV light penetrates into the DNA of cells causing the growth of abnormal cells which can become cancerous. Until Melanotan, there has been no hope for fair-skinned people of generating this protective tan without sustaining some skin damage.

There are three types of skin cancer related to sun exposure: malignant melanoma, basal cell carcinoma (BCC) and squamous cell carcinoma (SCC). Malignant melanoma is the most serious form but occurs less frequently than BCC or SCC. If not detected and treated, skin cancer can become a serious and potentially fatal disease.

Data shows that repeated sunburn in childhood and adolescence can be a big risk factor in developing skin cancer in later life. According to the American Academy of Dermatology, tanning during these years is a key factor in the development of skin cancer as about 80 percent of a person's lifetime sun damage occurs before age 18.

In adult life, intermittent sun over-exposure appears to be the strongest factor determining melanoma risk. Professor Bruce Armstrong of the University of Sydney has found that melanoma is more common in people who are exposed to sun irregularly – on weekends and holidays- with fairly unprotected skin. The disease is related to short bursts of high levels of sunlight. Just six episodes of sunburn bad enough to cause peeling is enough to double the risk.

While educational campaigns have reinforced the dangers of exposure to UV light and the need for individuals to maintain a skin protection regime, millions of people still get sunburnt every summer.

Compliance with protective measures can be difficult. Remembering to apply sunscreen before UV exposure and reapply it throughout the day or wearing a hat, sunglasses and protective clothing can be overlooked. By stimulating the production of melanin prior to UV exposure, it is believed Melanotan will create a

Naturally occuring α-MSH

alpha–MSH $_{1-13}$

Acetyl – Ser – Tyr – Ser – Met – Glu – His – Phe – Arg – Trp – Gly – Lys – Pro – Val – NH_2

1 2 3 4 5 6 7 8 9 10 11 12 13

Melanotan

Acetyl – 1– 2 – 3 – Nle – 5 – 6 – D-Phe – 8 – 9 – 10 – 11 – 12 – 13 – NH_2

[Nle^4 – D-Phe^7] Alpha–MSH

Melanotan technology

Work on the development of Melanotan and the peptide family to which it belongs dates to the mid-1980's when a group of prominent scientists at the University of Arizona attempted to develop a more potent and stable form of the naturally occurring hormone, α-MSH. At the time, this hormone was known to be produced on exposure to sunlight and to be responsible for the development of melanin pigment in the skin. However, naturally occurring α-MSH was unstable in the body and would not have been suitable to use as a drug to induce tanning.

protective shield for the body against UV radiation which, when used in conjunction with other conventional protective measures, will significantly reduce the potential for the development of skin damage and thus skin cancer.

The cautionary messages broadcast by anti-cancer councils and dermatologists are heard and understood by a large percentage of the population but they are not necessarily heeded. Despite all health warnings, many people are still prepared to put fashion ahead of their health and expose themselves to dangerous levels of UV radiation to acquire a tan.

The rapid rise in popularity of tanning beds is evidence of this trend, with the market for tanning in salons now in excess of US$5 billion per annum in the US alone. The American Academy of Dermatology estimates that one million Amercians visit tanning salons each day.

Given this increasing trend, particularly among young people who are at higher risk, Melanotan has the potential to provide a managed skin safeguard.

Central to Melanotan's effectiveness will be its capacity to fortify the protective role of the skin, particularly among fair-skinned people. Used in conjunction with current sun-safety measures, it is envisaged Melanotan will provide another layer of protection, one that is convenient and effective.

Dr. Victor Hruby, a noted peptide chemist, set out to create analogues of α-MSH to see if molecules could be found that duplicated its action, were more stable in the bloodstream and were more potent than the naturally occurring hormone.

After synthesizing hundreds of molecules the compound which is now known as Melanotan was selected for development in humans.

Melanotropins

Five natural compounds called melanotropins have pigmentary activity in certain animals. These are α, β and γ-MSH, β - Lipotropin and Adrenocorticotropic Hormone (ACTH).

These natural melanotropins are each composed of a single chain of amino acids in a specific sequence. These short chains are called peptides and are known to bind to specific receptors on the surface of melanocytes, the pigmentary cells in the skin.

The natural melanotropins have short life spans in the blood stream due to rapid inactivation by enzymes which break the 'peptide bonds' between individual amino acids leaving inactive fragments. Each of the natural melanotropins have pigmentary activity, but α-MSH is believed to mediate tanning of the skin. α-MSH is a 13 amino acid peptide related in structure to the corticotropic (stress) hormone ACTH.

Tanning by hormones

There are a few conditions which result in increased skin pigmentation due to melanotropic effects. These include Addison's disease, where high levels of ACTH are released from the pituitary and result in diffuse tanning. This increase in pigmentation carries no significant health risks and importantly, shows that there is a biological precedent for diffuse tanning from a systemic peptide hormone.

Other prior studies with crude preparations of natural α-MSH, or pituitary extracts, showed that tanning in humans was possible following peptide hormone injection. These studies were conducted in African Americans by Dr. Lerner in the 1960's and showed that different individuals responded in varying degrees to pituitary extracts containing MSH activity. Importantly, there were no adverse effects reported and the individuals' normal pigmentation patterns returned several weeks after injection. This presaged the current work with purified synthetic superpotent analogs of α-MSH.

Synthetic α-MSH (Melanotan)

Because of its instability, natural α-MSH is unsuitable as a drug. Melanotan, the synthetic analogue of α-MSH was chemically prepared at the University of Arizona and has two changes introduced into the α-MSH molecule to produce Melanotan. Norleucine (Nle) is substituted at the No. 4 position, and the No. 7 amino acid is D-Phenylalanine (D-Phe).

Both substitutions enhance potency considerably when studied in frog or lizard skin, with the latter more closely matching mammalian (i.e. human) skin pigmentary responses.

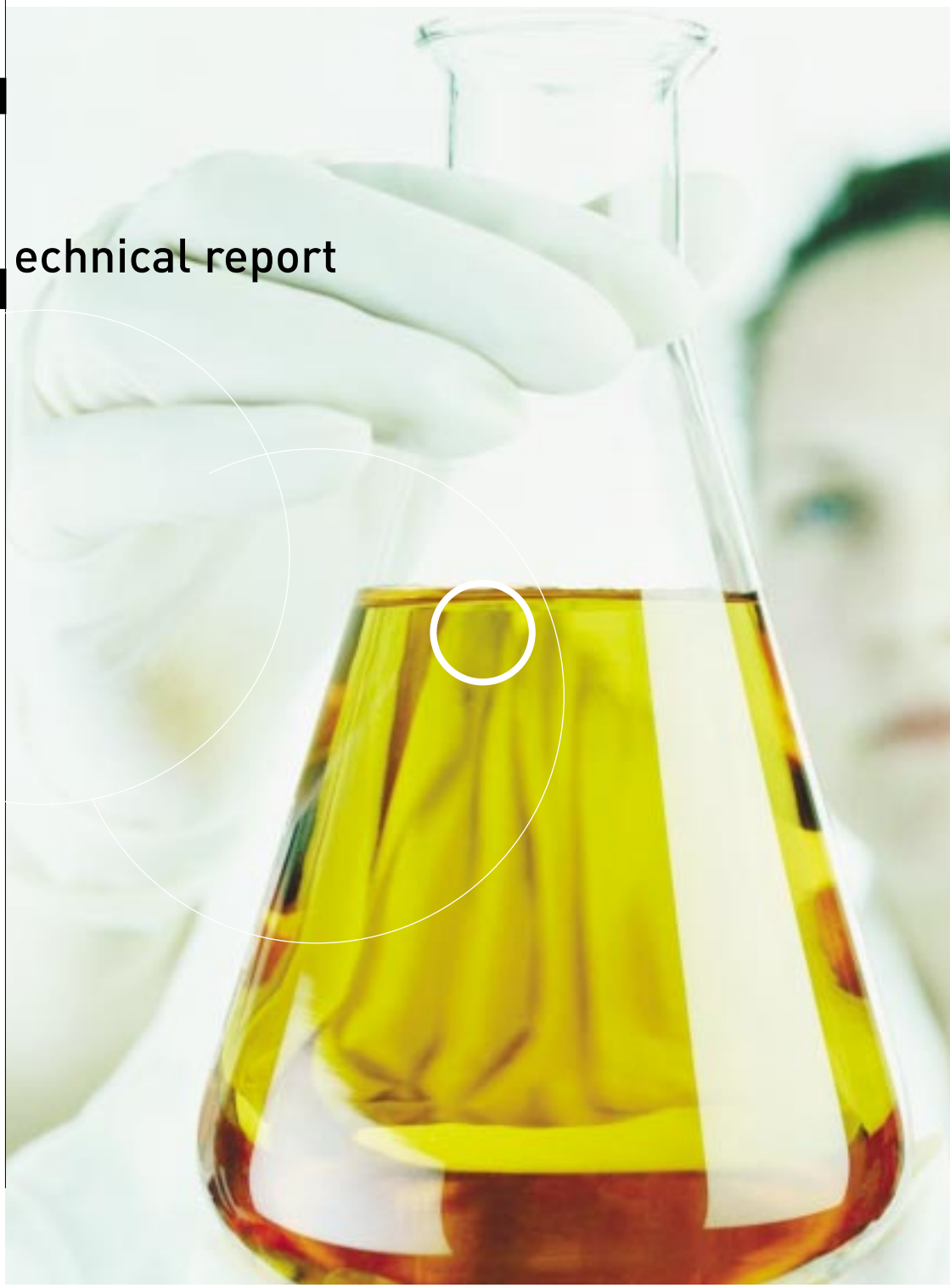
In these in-vitro skin pigmentation assays, Melanotan is 1,000 times more active than natural α-MSH. Melanotan is also highly resistant to enzymatic degradation, yielding a much longer plasma half-life in humans.

When these preclinical studies with Melanotan demonstrated that it had no obvious toxic effects clinical trials to demonstrate tanning of the skin in humans were carried out under an IND program in Arizona. The Arizona team was encouraged to find that Melanotan induced a tan in the volunteers which was slowly produced in the same way as a natural tan and persisted for a similar time. The results were published in the Journal of the American Association in 1991 and this was the first demonstration of a stable drug candidate that could induce a natural tan in human beings.

Because of the desirability of reducing the number of injections and consequent number of visits to the clinic, the Company has brought forward the development of a sustained-release delivery formulation to enhance the efficacy of Melanotan and make the clinical trials more attractive to participants and less costly to EpiTan.

During 2001/2002 EpiTan made sound progress towards key scientific goals that will advance the commercialisation of its leading drug candidate Melanotan for the reduction in skin damage from sun exposure and thus in the incidence of skin cancer.

technical report



clinical development

2001/2002 was one of marked scientific progress in the clinical trial program.
The Phase I/II study was implemented and completed on time and to budget providing positive efficacy results and with no unexpected adverse events. Phase II studies however, have been delayed due to lengthy discussions with investigators and ethics committees who are giving detailed consideration to the effects of sunburn and the difficulty of giving 30 injections to the trial volunteers.

Because of the desirability of reducing the number of injections and consequent number of visits to the clinic, the Company has brought forward the development of a sustained-release delivery formulation to enhance the efficacy of Melanotan and make the clinical trials more attractive to participants and less costly to EpiTan. The preclinical assessment of a sustained-release formulation has almost been completed at the time of writing, with a dose-finding clinical trial (Phase Ib) planned for recruitment of subjects in January 2003.

Details of the completed and planned studies are as follows:-

Completed phase I/II study

CMAX conducted this trial at the Royal Adelaide Hospital in November/December 2001 and results were available in March 2002. The trial involved 12 healthy volunteers being given subcutaneous (under the skin) injections of Melanotan for 10 consecutive days and 4 placebo-treated volunteers for comparison. This trial, designed primarily to demonstrate the blood level concentrations (pharmacokinetics) of Melanotan, confirmed results from previous studies carried out in the US that Melanotan had a very rapid absorption and a short half-life.

Of particular interest was the finding that at most bodily sites measured in the Melanotan-treated subjects there was a statistically significant increase in the melanin content of skin (Figure 1). This increase was observed at the end of the 10-day treatment and also 30 days after the start of treatment, whereas the placebo group tended to show decreased values. High levels of melanin (the component of tanning) in the skin are associated with lower incidences of skin cancer. Based on these very exciting results, EpiTan plans to move forward with larger scale Phase II studies to define the potential protective role that this increased melanin pigmentation in the skin may have against the damaging effects of UV radiation.

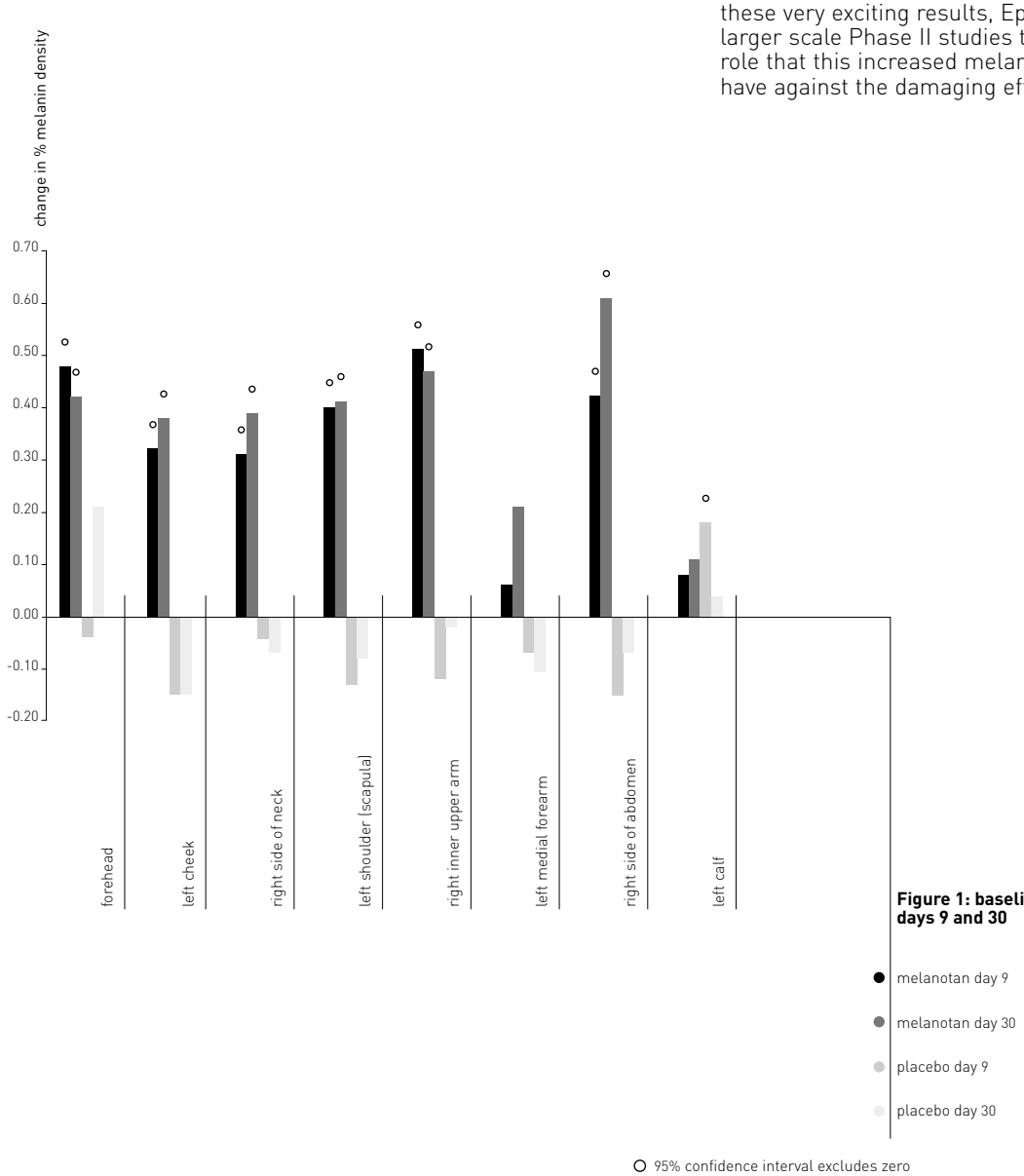


Figure 1: baseline corrected melanin density values on days 9 and 30

Planned phase Ib study

The Company strategy is now to develop a sustained (or controlled) release delivery system which it believes will overcome the short term side effects associated with single large-dose daily injections. By delivering the drug at a very slow but continuous rate from a subcutaneous implant, the amount of Melanotan in the blood can be kept at the minimal level needed to produce skin pigmentation. A Phase Ib dose-escalation study of a single sustained-release injection of Melanotan to determine the most effective and best tolerated dose in healthy adult subjects is planned to commence in January 2003. This is intended to provide data to allow the Phase II (2) study described below to be performed in quarter two of 2003.

Phase II studies

(1) Sunburn study

The first Phase II study, designed to establish the safety of three 10-day courses of injections given at monthly intervals is now awaiting ethics committee approval. The same subcutaneous dose of 0.16mg/Kg/day given in the Phase I/II study will be given to subjects with skin types Fitzpatrick I to IV. This study of 80 subjects will compare the degree of tanning over the three-month period in the different skin types and also the incidence of sunburn cells (defined as apoptotic cells) elicited 24 hours after controlled solar irradiation to a small area of the skin. The amount of skin damage caused before and after Melanotan treatment will be compared.

It is anticipated the study will be run at multiple sites to significantly shorten the recruitment period and accelerate the trial process. Ethics committee approval is anticipated shortly, with preliminary results expected in June 2003

(2) Planned genotype study

Using the newly developed controlled-release formulation (Phase 1b study above), this second Phase II study is designed to establish the safety and degree of tanning in Caucasian subjects with genetic susceptibility to sunburn and skin cancer. This study will be carried out with approximately 100 subjects and will determine the individuals to whom Melanotan can be of most benefit. The study is planned to begin in the first half of 2003 and to be completed by the end of 2003.

Measuring Melanotan in blood

During the year, two new methods were developed for the low level measurement of Melanotan in the bloodstream. These methods were customized for Melanotan and provide far greater accuracy and sensitivity than those previously available.

There was good correlation between the methods providing EpiTan with two validated techniques to monitor future animal and human pharmacokinetic studies.

Preclinical studies

Studies on rats and mice evaluating the safety and efficacy of several concentrations of Melanotan delivered as a slow-release infusion over 20 to 28 days have been successfully conducted over the past year at Monash University's Department of Biochemistry and Molecular Biology, Melbourne and at ICP Firefly Pty Ltd, Sydney. These new preclinical results have allowed EpiTan to move forward rapidly in the design of implants for the Phase Ib and Phase II human clinical trials outlined in the clinical trials section of this report.

Dr Stuart Humphrey
Manager-Clinical Development

pharmaceutical development

The main focus of the year's pharmaceutical development has been to further the production of a sustained-release drug delivery formulation initiated earlier by the Arizona Cancer Center group in their Melanotan testing program.

As a prelude to this development a comprehensive database of drug delivery companies that offer potential formulations for the delivery of Melanotan was established. This database is continually updated and now contains relevant details of drug delivery technologies available from over 100 companies worldwide.

Utilising this information and with the aim of expediting the advancement of Melanotan to the market, the following strict selection criteria for potential delivery technologies were applied:

(i) the delivery technology has a proven track record and is already in use in other registered and marketed sustained-release drug formulations (either in Australia or overseas), and;

(ii) the drug(s) incorporated in these formulations are of a similar nature to Melanotan.

Drug delivery formulations – collaborative agreement

In June 2002, EpiTan announced the signing of a collaborative agreement with Southern Research Institute (Southern Research), a world market leader in drug-delivery technology headquartered at Birmingham, Alabama, USA. Southern Research met the two stringent criteria listed above.

Southern Research will develop a sustained-release delivery formulation for Melanotan for use in the ongoing clinical trial program. The new formulation will enable Melanotan to be continuously released into the body over a period of time, requiring only one injection for up to a six-month period.

Southern Research, an affiliate of the University of Alabama was established in 1941 and has a long-standing reputation for leadership and excellence in drug discovery and development of delivery formulations. Southern Research was chosen for the initial sustained-release formulation trials because of its expertise, experience, proprietary technology and approved facilities. The company is able to take a sustained-release formulation of Melanotan from feasibility studies, through all development phases to manufacture of clinical trial materials (Phase I, II, and III). As Southern Research have already developed and licensed very similar sustained-release formulations, the clinical risks associated with this type of product development are greatly reduced and the commercial potential enhanced.

Due to the sustained-release of drug in the new formulation, daily injections may no longer be required as the administration schedule is planned to change to one injection every six months.

parallel research is being conducted into the use of other delivery formulations for Melanotan.

To date, these studies have been performed successfully on time and to budget. It is anticipated that the method of manufacture for the optimal formulation will be ready to enable the preparation of clinical trial material by quarter four of 2002.

The introduction of the sustained-release Melanotan formulations into the coming clinical trial program will be a major step forward for the commercial development of Melanotan.

EpiTan is seeking a first generation product that will enable the drug to 'trickle out' over time following an injection under the skin. Several similar sustained-release drug formulations have already been approved for sale within Australia. These include drugs for the treatment of prostate cancer (eg Zoladex®, Lupron Depot®) and as long-term single dose contraceptive implant (Implanon®).

Due to the sustained-release of drug in the new formulation, daily injections will no longer be required as the administration schedule is planned to change to one injection every six months. It is expected that the new sustained-release formulation will require less drug than the daily injection to achieve the same efficacy. Since the drug is continuously released over an extended period, it would continue to exert its effect on the skin cells. The decreased amount of drug available to the skin cells at any time will eliminate the minor side effects seen in the initial clinical trials, greatly increasing the commercial potential of Melanotan.

Research studies

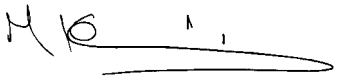
Although EpiTan is vigorously pursuing a delivery formulation that will be administered as a subcutaneous injection by a physician, parallel research is being conducted into the use of other delivery formulations for Melanotan. These formulations include, but are not restricted to those administered by transdermal (across the skin) and oral (tablet) delivery. They address flexibility of drug delivery together with convenience and cost. Once the long-term safety of Melanotan has been demonstrated, it is hoped that second generation products using these alternative delivery routes will allow over-the-counter purchase from a local pharmacy for self-administration of the product.

Throughout the year, EpiTan has maintained its close relationship with Australian researchers. Their innovative technologies are instrumental to increasing the Company's knowledge of Melanotan and its mechanisms of action. EpiTan's drug candidate can then be exploited to its full potential. These studies may also provide valuable insight into new therapeutic applications for Melanotan.

Under the guidance of Associate Professor Tracey Brown from the Hyaluronan Laboratories, Department of Biochemistry and Molecular Biology, Monash University, Melbourne, a Research Fellow and Research Assistant are working exclusively on the development of delivery formulations and biological assays for Melanotan. Associate Professor Brown is world-renowned for her research into transdermal delivery of molecules. Extensive trials conducted this year in her laboratory have clearly indicated the efficacy of Melanotan when delivered in a sustained-release manner. Further preclinical trials are now planned to demonstrate the protective role of melanin against harmful ultraviolet radiation and sunburn. This work will form the basis of the upcoming clinical trials to be conducted during 2002/2003.

It is envisaged that data obtained from these experiments will lead to new patents being sought, further strengthening EpiTan's intellectual property position.

In the past year, EpiTan has also developed a relationship with the Veterinary Services Division of the Institute of Medical and Veterinary Science (IMVS) in Adelaide. In the coming year, Head of the Division, Dr Tim Kuchel will establish a dermal (skin) model system to study the absorption and functionality of Melanotan when it has been delivered either by transdermal or oral delivery routes. The IMVS group will also be contracted to carry out the testing of various new Melanotan transdermal formulations which are being developed elsewhere for EpiTan.



Mr Michael Kleinig
Manager–Pharmaceutical Development

financials

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corporate governance statement

The Board has the responsibility for ensuring the Company is properly managed so as to protect and enhance shareholders' interests in a manner which is consistent with the Company's responsibility to meet its obligations to all parties with which the Company interacts. The following is a summary of the Company's Corporate Governance policies.

The Board of Directors

The Board is comprised of a majority of non-executive directors to ensure that the Board remains independent of day-to-day management.

The terms and conditions relating to the appointment and retirement of non-executive directors are determined on a case-by-case basis and in conformity with the requirements of the ASX Listing Rules and the Corporations Act 2001.

For the purposes of the proper performance of their duties, directors are entitled to seek independent professional advice at the Company's expense.

Audit Committee

The current Board comprises the members of the audit committee. Dr W.A. Millen is a non-voting member. The principal functions of the audit committee include reviewing and making recommendations to the Board regarding:

- assisting the Board in the discharge of its responsibilities in respect of the preparation of the Company's financial statements and the Company's internal controls;
- recommending to the Board nominees for appointment as external auditors;
- providing a line of communications between the Board and the external auditors; and
- examining the external auditors evaluation of internal controls and management's response.

Two meetings of the audit committee were held during the financial year.

William Buck was appointed company auditor on 28 November 2000. The Audit Committee is responsible for the terms of the appointment. The external auditor is invited to attend 2 Audit Committee meetings each year. Although the appointment of the external auditor is reviewed regularly by the Audit Committee, it is anticipated that the audit engagement partner will be rotated every 5 years.

The company auditor does not prepare the primary accounting records nor is it involved in Company decision making. The technical expertise of William Buck is called upon from time to time to assist the directors in discharging various statutory responsibilities. The following is a summary of fees paid to William Buck and related entities for non-audit services for the financial year ended 30 June 2002.

- technical financial reporting assistance to ensure compliance with relevant Accounting Standards ($9,500)
- advice regarding appropriate corporate governance and risk management ($9,388)
- review of the financial report for the half year ended 31 December 2001 ($6,000)
- compliance services including preparation and lodgement of various statutory requirements including Annual Return ($212), Income Tax Return ($6,550), Business Activity Statements ($2,800), Appendix 4C Quarterly Cash Flow Statements ($8,755), Fringe Benefits Tax Return ($2,635)
- Assistance with application for R&D concession ($6,140)
- Advice regarding Superannuation Guarantee Charge liabilities ($2,460)
- Miscellaneous professional advice ($3,435)

Remuneration committee

The remuneration committee constitutes the full Board and has determined the appropriate level of remunerations for all executive directors details of which are outlined in the Directors' Report.

Adoption of a continuous disclosure protocol

The Company has adopted a continuous disclosure protocol. The Chief Executive Officer has been appointed the Disclosure Officer and is required to collate and, where appropriate, disclose share price sensitive information.

Identification and management of significant business risk

The Company has prepared a detailed plan for the Melanotan project. The Board receives regular reports in order to monitor the progress of the Company's major project.

Ethical standards

The Company recognises the need for directors and employees to observe the highest standards of behaviour and business ethics when engaging in corporate activity.

The Company intends to maintain a reputation for integrity. The Board has adopted a Code of Ethics which sets out the principles and standards with which all officers and employees are expected to comply in the performance of their respective functions.

A key element of that Code is the requirement that officers and employees act in accordance with the law and with the highest standards of propriety. The Code and its implementation are to be reviewed each year.

Details of Options terms and conditions

Details of the Employee Option Plan are included at note 23(b) of the financial statements.

The staff eligible to participate in the scheme may exercise 33.3% of their options after 12 months of being issued, a further 33.3% after 24 months and the remaining options 36 months after issue. The conditions for exercise require the closing sales price of the Company's shares on the ASX to equal or exceed $0.12 for a period of not less than 5 consecutive trading days. In addition, the staff must satisfy some performance benchmarks specifically related to their area of expertise. The exercise price is $0.10 and the term is 5 years.

One of the consultants eligible for the scheme may exercise 33.3% of his options after 12 months of being issued, a further 33.3% after 24 months and the remaining options 36 months after issue. Another consultant may exercise 25,000 options for each month of the service agreement completed. The consultants may only exercise their options when the closing sales price of the Company's shares on the ASX to equal or exceed $0.12 or $0.14 for a period of not less than 5 consecutive trading days. The exercise price is $0.10 or $0.12 and the term is 5 years.

One of the directors eligible to participate in the scheme may exercise 33.3% of his options after 12 months of being issued, a further 33.3% after 24 months and the remaining options 36 months after issue. The other directors may exercise 33.3% of their options immediately after issue, a further 33.3% after 9 months and the remaining options after 21 months of issue. If a director ceases to be a director or attends less than 80% of Board meetings then a proportion of the options will lapse. The exercise price is $0.30 and the term is 3.5 or 2.75 years.

directors' report

Your directors present their report on the Company and its controlled entity for the financial year ended 30 June 2002.

Directors

The names of directors in office at any time during or since the end of the year are:

Dr W.A. Millen
Dr H.P.K. Agersborg
Dr T.E. Winters
Dr A.J. Cooper (appointed 21 March 2002)
Mr G.L. Salthouse (resigned 30 September 2001)
Mr M.J. McComas (resigned 26 June 2002)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Principal activity

The principal activity of the consolidated entity during the financial year was to further develop, 'Melanotan', the Company's drug candidate in the field of skin tanning.

Operating results

The consolidated loss of the consolidated entity after providing for income tax amounted to $3,141,224 (2001: $1,557,582).

Dividends paid or recommended

No dividends were paid or declared during the financial year.

Review of operations

In December 2001 the Company successfully completed its first Phase I/II clinical trial on Melanotan at the Royal Adelaide Hospital.

In March 2002 the Company signed an agreement with Southern Research Institute in Alabama, USA to develop a sustained release formulation for the delivery of Melanotan. Also in March, the Board of Directors appointed Dr Alan Cooper, OAM, an eminent dermatologist, as non-executive director.

Significant changes in the state of affairs

There have been no significant changes in the state of affairs.

Significant events after the balance date

Directors are not aware of any significant events that may have occurred subsequent to balance date.

Likely developments and expected results

The directors anticipate that the Company will continue its clinical trial and drug development program as forecast in the supplementary prospectus and regular public announcements of the company.

Environmental regulation and performance

The consolidated entity's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Information on directors

Dr Wayne A. Millen BSc(Hons) PhD FRACI C CHEM FAusIMM AFAIM
Chairman and Managing Director
Age: 61

Experience: Dr Millen is the founding Managing Director of EpiTan Limited. He has a PhD in chemistry and biochemistry from the University of Western Australia and is a Chartered Chemist with extensive experience over 30 years operating his own commercial enterprises.

Dr Millen has extensive experience in venture and development capital investment with an emphasis on companies involved in technological innovation and has been the lead investor and strategist in several private and public companies.

He has considerable experience in establishing and managing start-up enterprises and brings to the Company operational skills embracing corporate, technological and marketing disciplines.

Interest in shares and options: 19,551,144 ordinary shares and 11,939,638 options to acquire ordinary shares.

Dr Helmer P.K. Agesrsborg BSc PhD
Non-executive Deputy Chairman
Age: 73

Experience: Dr Agersborg is Chairman and President of MelanoTan Corp, President of Afferon Corp and director of Virxsys Corporation, all pharmaceutical companies. He was formerly President of Wyeth-Ayerst Research.

During his distinguished forty years in the pharmaceutical industry, more than 50 new drug applications were approved in the United States, countless marketing applications were approved outside the United States and innumerable IND's were accepted around the world by companies under his direction.

Dr Agersborg contributes broad international pharmaceutical development experience at the highest level to the Company.

Interest in shares and options: 750,000 options to acquire ordinary shares.

Dr Terry E. Winters BSc PhD
Non-Executive Director
Age: 60

Experience: Dr Winters is a director of four private US based companies and a Special Limited Partner of Valley Ventures, a $50 million venture capital fund based in Scottsdale, Arizona.

In 1983, he co-founded and is a General Partner of Columbine Venture Fund which has invested over $125 million in life science and technology companies in the western USA.

From the Columbine investments, successful companies have been Orthologic Corp, CollaGenex Pharmaceuticals, Nanophase Technologies, Curis, Neogen (all NASDAQ quoted) and Microgenics.

Interest in shares and options: 15,288,154 ordinary shares and 9,982,185 options to acquire ordinary shares.

Professor Alan J. Cooper, OAM BSc MBBS FACD
Non-Executive Director
Age: 51

Experience: Professor Cooper brings valuable specialist dermatology experience to the company. He is Clinical Associate Professor at the University of Sydney and Head of the Department of Dermatology at Sydney's Royal North Shore Hospital. Professor Cooper is President-Elect of the Australasian College of Dermatologists and founding director of the Australian Dermatology Research and Education Foundation.

He is a graduate of the University of Sydney and trained at the Mayo Clinic in the USA. Professor Cooper has served on numerous professional committees and advisory boards at national and international levels and continues these activities to the present time.

Professor Cooper also operates a private practice as a consultant dermatologist.

Interest in shares and options: 750,000 options to acquire ordinary shares.

Mr Graeme L. Salthouse CA (NZ) ASA CFTP
Non-executive Chairman
Age: 65

Experience: Mr Salthouse is a Chartered Accountant, initially working with Coopers & Lybrand in several overseas countries. He has also held many senior positions in substantial industrial organisations, including ICI Limited, Repco Limited and Hawker Richardson Limited, including a senior management position with Austrim Limited, following the acquisition of Hawker Richardson by that company.

He was responsible for the successful float of Hawker Richardson Limited and SecureNet Limited, now a highly successful company in the information technology industry.

In addition, he founded the Melbourne Office of Morgan Grenfell and was a director and the senior executive in Melbourne.

Mr Salthouse is Managing Director of ION Limited.

Mr Salthouse resigned as a director of EpiTan Limited on 30 September 2001.

Interest in shares and options: 1,854,521 ordinary shares and 1,140,092 options to acquire ordinary shares.

Mr Malcolm J. McComas Bcc LLB FSIA
Non-Executive Director
Age: 47

Experience: Mr McComas is a director of Grant Samuel, the Australian corporate advisory, property services and funds management group, and a director of ION Limited.

He has 17 years investment banking and 6 years legal experience in equity and debt finance, acquisitions and divestments and has undertaken advisory work for corporations, institutions and governments.

Mr McComas was previously a Managing Director and Co-Head of Investment Banking at Salomon Smith Barney Australia, Managing Director of Investment Banking at County NatWest and with Morgan Grenfell working in Melbourne, Sydney and London.

Mr McComas resigned as a director of EpiTan Limited on 26 June 2002.

Interest in shares and options:
1,694,521 ordinary shares and 1,469,360 options to acquire ordinary shares.

directors' report continued

Directors' and executive officers' emoluments

The emoluments of each director are as follows:

	Salary $	Directors' Fees $	Superannuation Contributions $	Allowances $	Non Cash Benefits $	Total $
Dr W.A. Millen	207,000	-	18,000	19,578	-	244,578
Dr H.P.K Agersborg	-	30,000	-	-	-	30,000
Dr T.E. Winters	-	30,000	-	-	-	30,000
Dr A.J. Cooper	-	8,384	670	-	-	9,054
Mr G.L. Salthouse	-	11,750	-	-	-	11,750
Mr M.J. McComas	-	30,000	-	-	-	30,000

At the date of this financial report, there are no executive officers that are not directors of the company.

Meeting of directors

During the financial year, 9 meetings of directors were held. Attendances were:

Directors	No. eligible to attend	Directors' Meetings No. attended
Dr W.A. Millen	9	9
Dr H.P.K Agersborg	9	9
Dr T.E Winters	9	9
Dr A.J Cooper	3	3
Mr G.L Salthouse	1	1
Mr M.J. McComas	9	9

Indemnification and insurance of directors and officers

During or since the end of the financial year the company has given an indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums as follows.

The company has paid premiums to insure each of the directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising of their conducts while acting in the capacity of director of the company, other than conduct involving wilful breach of duty in relation to the company. The amount of the premium was $50,000.

Employees

The consolidated entity employed 5 employees as at 30 June 2002 (2001: 3 employees).

Share options

At the date of this report, unissued ordinary shares of the company under option are:

Expiry Date	Exercise Price	Number of Options
30 June 2003	$0.30 / share	60,285,919
30 September 2004	$0.30 / share	1,935,937
30 September 2005	$0.30 / share	750,000
3 April 2006	$0.10 / share	1,250,000
22 October 2006	$0.10 / share	1,300,000
30 May 2007	$0.12 / share	150,000

No shares have been issued by virtue of the exercise of an option during the year or to the date of this report.

Proceedings on behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not party to any such proceedings during the year.

Signed in accordance with a resolution of the Board of Directors:

AJ Cooper Director

WA Millen Director

Dated this 23rd day of August, 2002.

statement of financial performance

The accompanying notes form part of these financial statements

	Note	Consolidated 2002 $	Consolidated 2001 $	EpiTan Limited 2002 $	EpiTan Limited 2001 $
Revenues from ordinary activities	2	257,507	408,697	**257,507**	408,697
Total expenses from ordinary activities	2	**(3,398,731)**	(1,966,279)	**(4,269,171)**	(1,218,382)
Borrowing costs		–	–	**–**	–
Profit(loss) from ordinary activities before related income tax expense		**(3,141,224)**	(1,557,582)	**(4,011,664)**	(809,685)
Income tax expense (benefit) relating to ordinary activities	3	**–**	–	**–**	–
Profit(loss) from ordinary activities after related income tax expense		**(3,141,224)**	(1,557,582)	**(4,011,664)**	(809,685)
Net profit(loss)		**(3,141,224)**	(1,557,582)	**(4,011,664)**	(809,685)
Net profit(loss) attributable to members of the EpiTan Limited		**(3,141,224)**	(1,557,582)	**(4,011,664)**	(809,685)
Total changes in equity other than those resulting from transactions with owners as owners		**(3,141,224)**	(1,557,582)	**(4,011,664)**	(809,685)
Basic Earnings Per Share - cents per share	15	**(3.6)**	(2.3)		

statement of financial position

The accompanying notes form part of these financial statements

	Note	Consolidated 2002 $	Consolidated 2001 $	EpiTan Limited 2002 $	EpiTan Limited 2001 $
Current Assets					
Cash Assets	16(a)	**4,414,100**	6,980,550	**4,414,092**	6,980,481
Receivables	4	**29,602**	34,918	**29,602**	34,918
Other	5	**39,391**	12,889	**39,391**	12,889
Total Current Assets		**4,483,093**	**7,028,357**	**4,483,085**	**7,028,288**
Non Current Assets					
Receivables	4	**–**	–	**5,857,410**	7,475,211
Property, Plant and Equipment	6	**141,535**	116,389	**141,535**	116,389
Intangible Assets	7	**5,895,734**	6,624,277	**38,334**	19,577
Other Financial Assets	8	**–**	–	**169**	169
Total Non Current Assets		**6,037,269**	6,740,666	**6,037,448**	7,611,346
Total Assets		**10,520,362**	13,769,023	**10,520,533**	14,639,634
Current Liabilities					
Payables	10	**156,874**	290,646	**156,874**	290,646
Provisions	11	**53,954**	27,619	**53,954**	27,619
Total Current Liabilities		**210,828**	318,265	**210,828**	318,265
Total Liabilities		**210,828**	318,265	**210,828**	318,265
Net Assets		**10,309,534**	13,450,758	**10,309,705**	14,321,369
Equity					
Contributed Equity	12	**15,382,490**	15,382,490	**15,382,490**	15,382,490
Accumulated Losses	13	**(5,072,956)**	(1,931,732)	**(5,072,785)**	(1,061,121)
Total Equity		**10,309,534**	13,450,758	**10,309,705**	14,321,369

statement of cash flows

The accompanying notes form part of these financial statements

	Note	Consolidated 2002 $	Consolidated 2001 $	EpiTan Limited 2002 $	EpiTan Limited 2001 $
Cash flows from operating activities					
Refund from ATO		**106,207**	–	**106,207**	–
Payments to suppliers and employees		**(1,281,979)**	(440,432)	**(1,233,094)**	(440,022)
Payments for research and development		**(1,574,737)**	(462,729)	**(1,574,737)**	(462,729)
Interest received		**260,346**	388,622	**260,346**	388,622
Net cash provided by (used in) operating activities	16(b)	**(2,490,163)**	(514,539)	**(2,441,278)**	(514,129)
Cash Flows from investing activities					
Payments for property, plant and equipment		**(63,551)**	(57,903)	**(63,551)**	(57,903)
Loans to related parties		**–**	–	**(48,824)**	(345)
Payments for trademarks		**(9,468)**	(19,577)	**(9,468)**	(19,577)
Payments for patents		**(3,268)**	–	**(3,268)**	–
Net cash provided by (used in) investing activities		**(76,287)**	(77,480)	**(125,111)**	(77,825)
Cash flows from financing activities					
Proceeds from issue of ordinary shares		**–**	1,605,816	**–**	1,605,816
Payment of share issue costs		**–**	(601,973)	**–**	(601,973)
Net cash provided by (used in) financing activities		**–**	1,003,843	**–**	1,003,843
Net increase/(decrease) in cash held		**(2,566,450)**	411,824	**(2,566,389)**	411,889
Cash at beginning of the year		**6,980,550**	6,568,726	**6,980,481**	6,568,592
Cash at end of the year	16(a)	**4,414,100**	6,980,550	**4,414,092**	6,980,481

notes to and forming part of the financial statements

1 Summary of significant accounting policies

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accountancy Standards Board and the Corporations Act 2001. The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non current assets. Cost is based on the fair values of the consideration given in exchange for assets. The accounting policies have been consistently applied, unless otherwise stated.

The following is a summary of the significant accounting policies adopted by the economic entity in the preparation of the financial report.

(a) Principles of Consolidation

The consolidated accounts comprise the accounts of EpiTan Limited and its controlled entity. A controlled entity is any entity controlled by EpiTan Limited. Control exists where EpiTan Limited has the capacity to dominate the decision-making in relation to the financial and operating activities of another entity so that the other entity operates with EpiTan Limited to achieve the objectives of EpiTan Limited. A list of controlled entities is contained in Note 9 to the financial statements.

All inter-company balances and transactions between entities in the economic entity, including any unrealised profits or losses, have been eliminated on consolidation.

Where controlled entities have entered or left the economic entity during the year, their operating results have been included from the date control was obtained or until the date control ceased.

(b) Income Tax

The consolidated entity adopts the liability method of tax effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income tax legislation and the anticipation that the company will derive sufficient future assessable income and comply with the conditions of deductibility imposed by the law.

(c) Cash

For the purpose of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions.

(d) Property, Plant and Equipment

Property, plant and equipment are brought to account at cost or at independent or directors' valuation, less, where applicable, any accumulated depreciation or amortisation. The carrying amount of property, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows which will be received from the assets' employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

The depreciable amount of all fixed assets is depreciated over the assets' useful lives to the economic entity commencing from the time the asset is held ready for use.

The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Office equipment	20 – 40%
Furniture and fittings	20%

1. Summary of significant accounting policies continued

(e) Investments

Non-current investments are brought to account at cost or at directors' valuation. The carrying amount of investments is reviewed annually by directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the underlying net assets in the particular entities. The expected net cash flows from investments have not been discounted to their present value in determining the recoverable amounts.

(f) Research and Development Expenditure

Research and development costs are charged to profit from ordinary activities before income tax as incurred or deferred where it is expected beyond any reasonable doubt that sufficient future benefits will be derived so as to recover those deferred costs. No research and development costs have been deferred during this financial year.

Deferred research and development expenditure is amortised on a straight line basis over the period during which the related benefits are expected to be realised, once commercial production has commenced.

(g) Intellectual Property

(i) Sub-licence
The sub-licence to develop and commercialise Melanotan has been recorded at cost.
Cost is based on the fair value of the consideration given in exchange for the assets.

The consideration given for the acquisition of the sub-licence was the issue of 11,167,000 ordinary shares and attaching options in the company. Hence the cost of the sub-licence has been determined by assessing the fair value of net assets of the economic entity immediately after the sub-licence was acquired. For the purpose of valuing the assets of the company, an independent valuation of the sub-licence was performed. The valuation was based on discounted future cash flows expected to flow from the right to the sub-licence. The valuation was adjusted for the probability of success.

The directors have determined that it is appropriate to record the sub-licence at cost rather than revalued to market value at this time.

(ii) Amortisation of Sub-licence
The sub-licence to develop and commercialise Melanotan is amortised on a straight-line basis over 10 years. The directors have assessed this to be the period over which the future economic benefits of the sub-licence are expected to be realised. The period approximates the remaining life and likely extensions of the patents subject to the sub-licence.

(iii) Amortisation of Trademarks
Trademarks are amortised on a straight line basis over their expected useful lives.

(h) Accounts Payable

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the economic entity.

notes to and forming part of the financial statements continued

1 Summary of significant accounting policies continued

(i) Employee Entitlements

Provision is made for the economic entity's liability for employee entitlements arising from services rendered by employees to balance date. Employee entitlements expected to be settled within one year together with entitlements arising from wages and salaries and annual leave which will be settled after one year, have been measured at their nominal amount. Other employee entitlements payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those entitlements.

Employee entitlements expenses and revenues arising in respect of the following categories; wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave entitlements are charged against profits on a net basis in their respective categories.

The value of the employee option scheme described in note 23 is not being charged as an employee entitlement expense.

Contributions are made by the economic entity to employee superannuation funds and are charged as expenses when incurred.

(k) Revenue

Interest revenue is recognised on a proportional basis.

(l) Share Capital

Ordinary share capital is recognised at the fair value of the consideration received by the company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the shares proceeds received.

(m) Earnings Per Share

(i) Basic earnings per share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(m) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense receivables and payables in the statement of financial position are shown inclusive of GST.

(n) Leases

Leases payments for operating leases, where substantially all the risks and benefits remain with the lessors, are charged as expenses in the periods in which they are incurred.

		Consolidated		EpiTan Limited	
	Note	**2002 $**	2001 $	**2002 $**	2001 $
2	**Profit/(Loss) from ordinary activities**				
(a)	**Revenues from ordinary activities**				
	Interest revenue – other persons	**257,507**	408,697	**257,507**	408,697
	Total revenues	**257,507**	408,697	**257,507**	408,697
(b)	**Expenses from ordinary activities**				
	Clinical development costs	**1,871,867**	1,210,215	**1,124,569**	462,728
	Drug delivery research costs	**372,758**	–	**372,758**	–
	Occupancy costs	**81,252**	71,396	**81,252**	71,396
	Marketing costs	**108,437**	25,890	**108,437**	25,890
	Finance & administration costs	**964,417**	658,778	**2,582,155**	658,368
	Total expenses from ordinary activities	**3,398,731**	1,966,279	**4,269,171**	1,218,382
(c)	**Profit/(loss) from ordinary activities before income tax has been determined after:**				
	Depreciation of office equipment	**38,405**	35,718	**38,405**	35,718
	Amortisation of sub-licence	**747,299**	747,487	**–**	–
	Amortisation of trademarks	**319**	–	**319**	–
	Research & development costs	**1,497,326**	462,729	**1,497,326**	462,729
	Doubtful debts – wholly owned subsidiary	**–**	–	**1,666,625**	**–**
3	**Income tax expense**				
(a)	The prima facie tax on profit(loss) from ordinary activities before income tax is reconciled to the income tax expense(benefit) as follows:				
	Prima facie tax payable on profit(loss) from ordinary activities before income tax at 30% (2001: 34%)	**(942,367)**	(529,578)	**(1,203,499)**	(275,293)
	Add:				
–	Tax effect of permanent differences non deductible amortisation	**96**	–	**96**	–
–	other non allowable items	**1,455**	3,910	**1,455**	3,910
	Adjustment to future income tax benefit for change in company tax rate to 30% (2001: 34%)	**–**	15,759	**–**	3,448
	Write off FITB due to lack of virtual certainty	**940,816**	511,437	**1,201,948**	269,463
	Less:				
	Tax effect of:				
	Adjustment to provision for deferred income tax for change in company tax rate to 30% (2001: 34%)	**–**	(1,528)	**–**	(1,528)
		–	–	–	–
(b)	Future income tax benefits arising from unconfirmed tax losses and net timing differences not brought to account at balance date as realisation of the benefit is not regarded as virtually certain. These balances have been restated by applying the income tax rate expected to be applicable when the benefits will be realised. The benefits will only be obtained if the conditions set out in note 1(b) occur:				
	Tax losses	1,411,312	407,435	1,000,694	275,403
	Net timing differences	104,652	6,454	512,450	6,454
		1,515,964	413,889	1,513,144	281,856

notes to and forming part of the financial statements continued

		Note	Consolidated 2002 $	Consolidated 2001 $	EpiTan Limited 2002 $	EpiTan Limited 2001 $
4	**Receivables**					
	Current					
	Sundry debtors		**13,014**	15,491	**13,014**	15,491
	Accrued income		**16,588**	19,427	**16,588**	19,427
			29,602	34,918	29,602	34,918
	Non-Current					
	Receivable from wholly owned entity	20	**–**	–	**7,524,035**	7,475,211
	Provision for non-recovery		**–**	–	**(1,666,625)**	–
			–	–	**5,857,410**	7,475,211
5	**Other Assets**					
	Current					
	Prepayments		**39,391**	12,889	**39,391**	12,889
6	**Property, Plant and Equipment**					
	Office equipment					
	At cost		**157,376**	115,546	**157,376**	115,546
	Less: Accumulated depreciation		**(62,301)**	(32,568)	**(62,301)**	(32,568)
			95,075	82,978	**95,075**	82,978
	Furniture and fittings					
	At cost		**63,738**	42,017	**63,738**	42,017
	Less: Accumulated depreciation		**(17,278)**	(8,606)	**(17,278)**	(8,606)
			46,460	33,411	**46,460**	33,411
	Total property, plant and equipment		**141,535**	116,389	**141,535**	116,389

Movements in Carrying Amounts

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the financial year

	Office Equipment $	Furniture and Fittings $	Total $
Consolidated & EpiTan Limited - 2002			
Carrying amount at the beginning of year	82,978	33,411	116,389
Additions	41,830	21,721	63,551
Depreciation expense	(29,733)	(8,672)	(38,405)
Carrying amount at the end of year	95,075	46,460	141,535
Consolidated & EpiTan Limited - 2001			
Carrying amount at the beginning of year	70,353	23,851	94,204
Additions	40,260	17,643	57,903
Depreciation expense	(27,635)	(8,083)	(35,718)
Carrying amount at the end of year	82,978	33,411	116,389

			Consolidated		EpiTan Limited	
			2002 $	2001 $	**2002 $**	2001 $
7	**Intangible Assets**					
	Sub-licence to develop and commercialise Melanotan – at cost		**7,472,983**	7,472,983	**–**	–
	Less: Accumulated amortisation		**(1,615,583)**	(868,283)	**–**	–
			5,857,400	6,604,700		–
	Trademarks		**30,555**	19,577	**30,555**	19,577
	Less: Accumulated amortisation		**(319)**	–	**(319)**	–
			30,236	19,577	**30,236**	19,577
	Patents		**8,098**	–	**8,098**	–
			5,895,734	6,624,277	38,334	19,577
8	**Other Financial Assets**					
	Non-Current					
	Investments at cost comprise:					
	Shares in unlisted controlled entity	9	–	–	**169**	169
9	**Interests in subsidiaries**					
	Melanotan (Australia) Pty Ltd Incorporated in Australia. Percentage of equity interest held by the consolidated entity: 100% (2001: 100%) Investment: $169 (2001: $169)					
10	**Payables**					
	Current					
	Trade creditors		**69,458**	183,440	**69,458**	183,440
	Sundry creditors and accrued expenses		**87,416**	107,206	**87,416**	107,206
			156,874	290,646	**156,874**	290,646
(a)	Aggregate amounts payable to:					
–	directors and director-related entities		**55,554**	71,250	**55,554**	71,250
(b)	Australian dollar equivalents of amounts payable in foreign currencies not effectively hedged:					
–	Euro dollars		**–**	92,552	**–**	92,522
–	US dollars		**11,046**	–	**11,046**	–
(c)	Terms and conditions: Trade and sundry creditors are non-interest bearing and normally settled on 30 day terms.					
11	**Provisions**					
	Current					
	Employee entitlements		**53,954**	27,619	**53,954**	27,619
12	**Contributed Equity**					
(a)	Issued and paid up capital fully paid ordinary shares		**15,382,490**	15,382,490	**15,382,490**	15,382,490

notes to and forming part of the financial statements continued

		2002		2001
	No.	$	No.	$
(b) Movements in shares on issue				
At the beginning of the financial year				
Issued during the year	86,414,254	**15,382,490**	52,256,669	14,378,647
– bonus share issue	–	**–**	26,128,335	–
- public equity raising	–	**–**	8,029,250	1,605,816
Less: transaction costs	–	**–**	–	(601,973)
	86,414,254	**15,382,490**	86,414,254	15,382,490

(c) Share Options

As at 30 June 2002 the following share options existed which if exercised, would result in the issue of fully paid ordinary shares.

Expiry Date	Exercise Price	Number of Options
30 June 2003	$0.30 / share	60,285,919
30 September 2004	$0.30 / share	1,935,937
30 September 2005	$0.30 / share	750,000
3 April 2006	$0.10 / share	1,250,000
22 October 2006	$0.10 / share	1,300,000
30 May 2007	$0.12 / share	150,000

During the year the following share options were issued which if exercised, would result in the issue of fully paid ordinary shares.

Expiry Date	Exercise Price	Number of Options
30 September 2004	$0.30 / share	2,250,000
30 September 2005	$0.30 / share	750,000
22 October 2006	$0.10 / share	1,300,000
30 May 2007	$0.12 / share	150,000

(d) Terms and conditions of contributed equity

Ordinary Shares
Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

		Note	Consolidated 2002 $	Consolidated 2001 $	EpiTan Limited 2002 $	EpiTan Limited 2001 $
13	**Accumulated Losses**					
	Accumulated losses at the beginning of the year		**(1,931,732)**	(374,150)	**(1,061,121)**	(251,436)
	Net loss attributable to the members of EpiTan Limited		**(3,141,224)**	(1,557,582)	**(4,011,664)**	(809,685)
	Accumulated losses at the end of the financial year		**(5,072,956)**	(1,931,732)	**(5,072,785)**	(1,061,121)
14	**Lease Commitment**					
	Operating lease commitments Non-cancellable operating leases Contracted for but not capitalised in the accounts:					
	Payable					
–	not later than 1 year		**48,951**	71,096	**48,951**	71,096
–	later than 1 year but not later than 5 years		**–**	48,951	**–**	48,951
–	later than 5 years		**–**	–	**–**	–
			48,951	120,047	**48,951**	120,047

15 Earnings per share (EPS)

		Consolidated 2002	Consolidated 2001
(a)	Basic earnings per share – cents per share	(3.6)	(2.3)
(b)	The Weighted Average Number of Ordinary Shares (WANOS) used in the calculation of Basic Earnings Per Share	86,414,254	68,607,099
(c)	The numerator used in the calculation of Basic Earnings Per Share.	(3,141,224)	(1,557,582)

(d) There have been no other conversions to, calls of or subscriptions for ordinary shares or issues of potential ordinary shares since the reporting date and before the completion of this financial report.

(e) Potential Ordinary Shares not considered Dilutive
As at 30 June 2002 the company had on issue options over unissued capital. details of which are included in Note 12(c). These options are not considered dilutive as they do not increase the net loss per share.

notes to and forming part of the financial statements continued

		Note	Consolidated 2002 $	Consolidated 2001 $	EpiTan Limited 2002 $	EpiTan Limited 2001 $
16	**Cash Flow information**					
(a)	Reconciliation of Cash					
	For the purposes of the Statement of Cash Flows, cash includes cash on hand and with banks.					
	Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the balance sheet as follows:					
	Cash on hand		**250**	253	**250**	253
	Cash at bank		**4,413,850**	6,980,297	**4,413,842**	6,980,228
			4,414,100	6,980,550	**4,414,092**	6,980,481
(b)	Reconciliation of cash flows from operating activities with operating profit(loss)					
	Operating profit(loss) after income tax		**(3,141,224)**	(1,557,582)	**(4,011,664)**	(809,685)
	Non cash flows in operating (loss):					
	Depreciation expense		**38,405**	35,718	**38,405**	35,718
	Amortisation expense		**747,619**	747,487	**319**	–
	Doubtful debt expense		**–**	–	**1,666,625**	–
	Changes in assets and liabilities:					
	(Increase)/decrease in receivables		**5,316**	22,042	**5,316**	22,042
	(Increase)/decrease in prepayments		**(26,502)**	43,070	**(26,502)**	43,070
	Increase/(decrease) in payables		**(140,112)**	175,735	**(140,112)**	175,735
	Increase/(decrease) in provisions		**26,335**	18,991	**26,335**	18,991
	Net cash used in operating activities		(2,490,163)	(514,539)	(2,441,278)	(514,129)

		Consolidated		EpiTan Limited	
	Note	**2002 $**	2001 $	**2002 $**	2001 $
17	**Remuneration of directors**				
	Income paid or payable, or otherwise made available, in respect of the financial year, to all directors of each entity in the consolidated entity, directly or indirectly, by the entities of which they are directors or any related party:	**355,382**	351,698		
	Income paid or payable, or otherwise made available, in respect of the financial year, to all directors of EpiTan Limited, directly or indirectly, from the entity or any related party:			**355,382**	51,698
	The number of directors of EpiTan Limited whose income (including superannuation contributions) falls within the following bands is:			No.	No.
	$0 - $9,999			1	–
	$10,000 - $19,999			1	–
	$20,000 - $29,999			–	2
	$30,000 - $39,999			3	1
	$40,000 - $49,999			–	1
	$240,000 - $249,999			1	1
18	**Remuneration of executives**				
	All executives are directors of EpiTan Limited.				
19	**Auditors' remuneration**				
	Amounts received or due and receivable by William Buck for:				
–	audit of the financial report	**12,500**	15,000	12,500	15,000
-	other services	**57,875**	38,008	57,875	38,008
		70,375	53,008	**70,375**	53,008

notes to and forming part of the financial statements continued

20 Related party disclosures

Directors

The directors of EpiTan Limited during the financial year were:

W. A. Millen	A.J. Cooper
H. P. K. Agersborg	G. L. Salthouse
T. E. Winters	M. J. McComas

Wholly-owned group transactions

Loans

The loan receivable by EpiTan Limited from Melanotan (Australia) Pty Ltd is non-interest bearing. Repayment of the loan will commence upon commercialisation of the company's drug candidate. A provision for non-recovery has been raised in the accounts of EpiTan Ltd to the extent that a deficiency in net assets exists in Melanotan (Australia) Pty Ltd.

Equity instruments of directors

Interests at balance date

Interests in equity instruments of EpiTan Limited held by directors of the reporting entity and their director-related entities:

	Ordinary Shares Fully Paid		**Options over Ordinary Shares**	
	2002 Number	2001 Number	**2002 Number**	2001 Number
W. A. Millen	**19,591,144**	19,546,699	**11,979,638**	11,966,305
H.P.K. Agersborg	**–**	–	**750,000**	–
T. E. Winters	**15,288,154**	15,288,154	**9,982,185**	9,232,185
A.J. Cooper	–	–	**750,000**	–
G. L. Salthouse	**1,875,632**	1,994,521	**1,153,426**	1,181,425
M. J. McComas	**1,694,521**	1,694,521	**1,469,360**	1,033,423

Dr W.A. Millen and his director related entities received a bonus issue of 44,445 ordinary shares and 13,333 options to acquire ordinary shares in August 2000.

During the year Dr H.P.K. Agersborg, Dr T.E. Winters, Mr M.McComas and Dr A.J. Cooper were all issued 750,000 non-tradeable options to acquire ordinary shares. Due to the resignation of Mr M.McComas 314,063 options to acquire ordinary shares were forfeited.

During the year Mr G.L. Salthouse and his director related entities disposed of 118,889 ordinary shares and 27,999 options to acquire ordinary shares.

All equity dealings with directors have been entered into with terms and conditions no more favourable than those that the entity would have adopted if dealing at arm's length.

21 Segment information

The economic entity operates solely in the biotechnology industry. The economic entity operates predominantly in Australia.

22 Financial Instruments

(a) Interest rate risk

The economic 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:

	Weighted Average Effective Interest Rate		**Non-Interest Bearing**		**Balances Subject to a Floating Interest Rate**		**Total**	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	%	%	**$**	$	**$**	$	**$**	$
(i) Financial Assets								
Cash at bank	**4.5**	5.7	–	–	**4,414,101**	6,980,550	**4,414,101**	6,980,550
Total			–	–	**4,414,101**	6,980,550	**4,414,101**	6,980,550
(ii) Financial Liabilities								
Payables	**0.0**	0.0	156,874	290,646	–	–	151,322	290,646
Total			156,874	290,646	–	–	151,322	290,646

(b) Net fair values

All financial assets and liabilities have been recognised at the balance date at their net fair values.

(c) Credit risk exposures

The economic entity's maximum exposure to credit risk at balance date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the statement of financial position.

notes to and forming part of the financial statements continued

23 Employee entitlements

		Consolidated		EpiTan Limited	
		2002 $	2001 $	**2002 $**	2001 $
(a)	The aggregate employee entitlement liability is comprised of:				
–	Provisions	53,954	27,619	53,954	27,619
–	Accrued wages, salaries and on costs	27,568	9,908	27,568	9,908
		81,522	37,527	**81,522**	37,527

(a) Employee Option Plan

An employee option plan has been established where directors, staff and consultants are issued with options over the ordinary shares of EpiTan Limited. The options, issued for nil consideration, are issued in accordance with performance guidelines established by the directors of EpiTan Limited. The options are issued for a term of five years, however this does vary for the various plan participants. The options cannot be transferred and will not be quoted on the ASX. There are currently four directors, three staff and three consultants eligible for this scheme.

Information with respect to the number of options granted under the employee option scheme is as follows :

	2002		2001	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
	Balance at beginning of year			
–	granted	1,250,000	$0.10	–	–
–	forfeited	4,450,000	$0.24	1,250,000	$0.10
–	exercised	(314,063)	$0.30	–	–
	Balance at end of year	5,385,937	$0.20	1,250,000	$0.10
	Exercisable at end of year	1,136,873	$0.21	–	–

The following table summarises information about options outstanding and exercisable at 30 June 2002.

Exercise price	**Expiry date**	**Number of options: Outstanding**	**Exercisable**
$0.10	3 April 2006	1,250,000	416,625
$0.10	22 October 2006	1,300,000	50,000
$0.12	30 May 2007	150,000	25,000
$0.30	30 September 2004	1,935,937	645,248
$0.30	30 September 2005	750,000	–
		5,385,937	1,136,873

directors' declaration

The directors of the Company declare that:

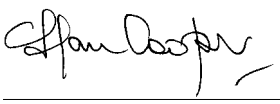
1 the financial statements and notes, as set out on pages 9 to 26, are in accordance with the Corporations Act 2001, including:

(a) giving a true and fair view of the company's and the economic entity's financial position as at 30 June 2002 and of their performance for the year ended on that date;

(b) complying with Accounting Standards and the Corporations Regulations; and

2. in the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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



A.J. Cooper Director

W.A. Millen Director

Dated this 23rd day of August 2002.

independent audit report

William Buck
Business Consultants
Chartered Accountants

Independent audit report

To the members, EpiTan Limited ABN 88 089 644 119

Scope
We have audited the financial report of EpiTan Limited and controlled entity for the financial year ended 30 June 2002, comprising the Statement of Financial Performance, Statement of Financial Position, Statement of Cash Flows, notes to the financial statements and the Directors' Declaration. The financial report includes the consolidated financial statements of EpiTan Limited, and the entity it controlled at the year's end or from time to time during the financial year. The company's directors are responsible for the financial report. We have conducted an independent audit of the financial report in order to express an opinion on it to the members of the company.

Our audit has been conduced 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, other mandatory professional reporting requirements and statutory requirements, in Australia, 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 their cash flows.

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

Audit Opinion
In our opinion, the financial report of EpiTan Limited is in accordance with:

(a) the Corporations Act 2001 including:

  (i) giving a true and fair view of the Company's and the consolidated entity's financial position as at 30 June 2002 and of their performance for the year ended on the date; and

  (ii) complying with Accounting Standards and the Corporations Regulations 2001; and

(b) other mandatory professional reporting requirements.

William Buck Chartered Accountants — **K. W. Glynn** Partner

Dated this 27th day of August 2002.
Melbourne

Level 2, 215 Spring Street, Melbourne VIC 3000 Australia • GPO Box 4984WW, Melbourne VIC 3001 • DX39320 Port Melbourne
Telephone (61 3) 8663 6000 • Facsimile (61 3) 8663 6333 • Email info@williambuckvic.com.au • Web www.williambuck.com.au

additional information required by the australian stock exchange

Additional information required by the Australian Stock Exchange and not shown elsewhere in this report is as follows. The information is current at 27 August, 2002.

1 Shareholding

(a) Distribution of Shareholders Number

Category (size of Holding)	Ordinary Shares	Options
1 – 1,000	8	2
1,001 – 5,000	263	12
5,001 – 10,000	341	127
10,001 – 100,000	637	303
100,001 – and over	61	69
	1328	515

(b) The number of shareholdings held in less than marketable parcels is 126 and 192 for ordinary shares and options, respectively.

(c) The names of the substantial shareholders listed in the holding Company's register as at 30 June 2002 are:

Weighton Pty Ltd
MelanoTan Corporation USA
Chartport Financial Services Pty Ltd

(d) Voting Rights

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

(e) 20 Largest Shareholders – Ordinary Shares

	Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1	Weighton Pty Ltd	19,541,144	22.61
2	MelanoTan Corporation USA	15,138,154	17.52
3	Chartport Financial Services Pty Ltd	5,565,059	6.44
4	Sunzu Enterprises Pty Ltd	1,854,521	2.15
5	Movilli Pty Ltd	1,694,521	1.96
6	Carlina Nominees Pty Ltd	1,441,667	1.67
7	JFR Investments Pty Ltd	1,388,889	1.61
8	Gary B Branch Pty Limited	1,120,000	1.30
9	Barbagallo Consultants Pty Ltd	833,333	0.96
10	Manikato Financial Services	795,650	0.92
11	Mr Doug McLachlan & Mrs Wendy McLachlan	670,000	0.78
12	National Nominees Ltd	582,530	0.67
13	Merryl Lynch (Australia) Nominees Pty Ltd	527,813	0.61
14	Mr Cheng Han	520,000	0.60
15	Mr Charnjit Shergill	500,000	0.58
16	Mr Allan Parker & Mrs Janette Parker	480,000	0.56
17	ANZ Nominees Ltd	435,498	0.50
18	Dynamic Press Investments	400,000	0.46
19	Miss Karen Ramsland	400,000	0.46
20	Grunwald Design International Pty Ltd	378,820	0.44
		54,239,821	62.77

additional information required by the australian stock exchange

(f) 20 Largest Optionholders

	Name	Number of Options held	% Held of Issued Options
1	MelanoTan Corporation USA	9,232,185	15.31
2	Weighton Pty Ltd	7,929,638	13.15
3	Chartport Financial Services Pty Ltd	4,518,509	7.50
4	Mr Wayne Andrew Millen & Mrs Barbara Anne Millen	4,000,000	6.64
5	Lippo Services Nominees	1,300,000	2.16
6	Sunzu Enterprises Pty Ltd	1,140,092	1.89
7	Carlina Nominees Pty Ltd	1,050,000	1.74
8	Movilli Pty Ltd	1,033,423	1.71
9	Mr Stephen Charles O'Halloran	1,000,535	1.66
10	JFR Investments Pty Ltd	1,000,000	1.66
11	Gary B Branch Pty Limited	900,000	1.49
12	Equity Trustees Limited	700,000	1.16
13	Mr Doug McLachlan & Mrs Wendy McLachlan	660,000	1.09
14	Barbagallo Consultants Pty Ltd	600,000	1.00
15	Manikato Financial Services	572,868	0.95
16	Tagtown Pty Ltd	500,000	0.83
17	Montako Pty Ltd	496,000	0.82
18	Koch Corporation Pty Ltd	450,000	0.75
19	Mr Bradley John Larkin	450,000	0.75
20	Miss Karen Ramsland	409,996	0.68
		37,893,246	62.86

2 Company Secretary

The name of the Company secretary is Mr David McBain.

3 Registered Office

The address of the principal registered office in Australia is Level 10, 52 Collins Street, Melbourne, Victoria, 3000; Telephone (03) 9662 4688.

4 Register of Securities

Computershare Investor Services Pty Ltd
Level 12, 565 Bourke Street
Melbourne Vic 3000

5 Stock Exchange Listing

Quotation has been granted for all the ordinary shares of the Company on all Member Exchanges of the Australian Stock Exchange Limited (ASX code: EPT).

6 Restricted Securities

Restricted securities on issue at 30 June 2002:

Security	No.
Ordinary shares	37,957,228
Options to acquire ordinary shares	23,148,669

These securities cease to be classified as restricted from 12 February 2003.

corporate directory

Directors
Dr Wayne Millen (Chairman)
Dr Helmer Agersborg (Deputy Chairman)
Dr Terry Winters
Professor Alan Cooper, OAM
Mr Stanley McLeish

Managing Director
Dr Wayne Millen

Secretary
Mr David McBain

Australian Stock Exchange
The Company's shares are quoted on the official list of the Australian Stock Exchange.

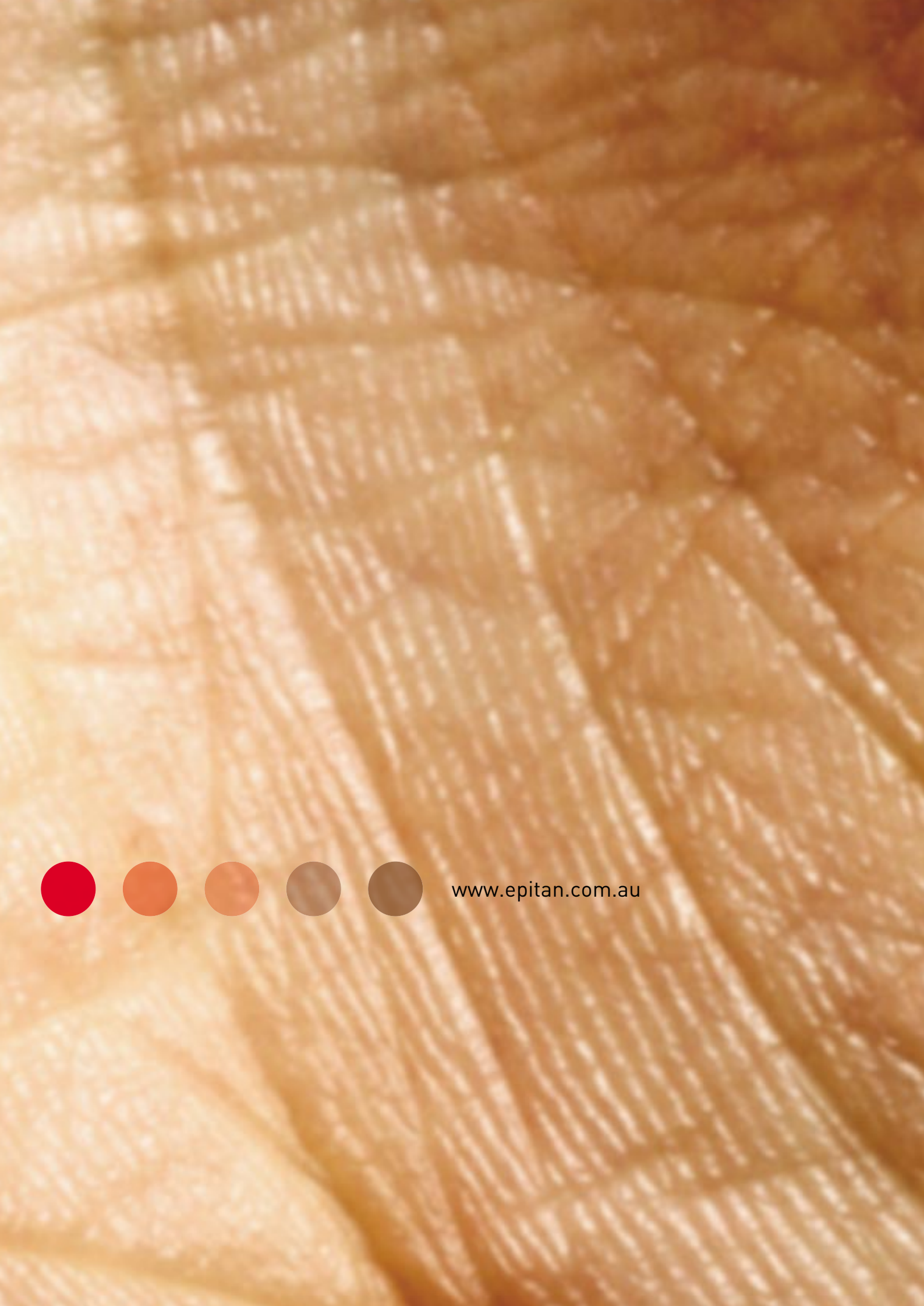
ASX Code: EPT

Registered Office
Level 10, 52 Collins Street
Melbourne Australia 3000
Telephone: +61 3 9662 4688
Facsimile: +61 3 9662 4788
Email: mail@epitan.com.au
Website: www.epitan.com.au

Auditor & Independent Accountants
William Buck
Level 2, 215 Spring Street
Melbourne Australia 3000

Lawyers
Minter Ellison
Rialto Towers, 525 Collins Street
Melbourne Australia 3000

Share Registry
Computershare Investor Services Pty Ltd
Level 12, 565 Bourke Street
Melbourne Australia 3000
or
GPO Box 2975EE
Melbourne Australia 3000



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