Annual Report to Shareholders

epitan 2001

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skin cancer is the most common of all cancers and the acquisition by EpiTan of the exclusive world rights to the unique melanotan technology has considerable potential for the company and shareholders, with global markets calculated to be in excess of $1 billion per annum

photoprotection

sunburn

EpiTan is embarking on a major program of clinical trials

drug development

company profile

high levels of melanin (the component of tanning) in the skin are associated with lower incidences of skin cancer

sunburn damages the body's immune system

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EpiTan Limited has the exclusive world rights to continue the development and commercialise its drug candidate melanotan. Melanotan has the ability to increase the concentration of melanin in the skin and thus potentially reduce the incidence of skin cancer. Melanotan causes the skin to develop a natural tan in the absence of harmful ultraviolet (uv) radiation (sunlight). $8 million has been spent on research and development (R&D) and animal and human trials. Preliminary clinical trials on over 100 volunteers demonstrated safety, proof-of-principle for tanning of the skin and the probable dosage levels.

Earlier clinical trials were conducted at the Arizona Cancer Center under a Physician's Investigational New Drug (IND) pilot program. New studies must now be completed under more rigorous conditions to satisfy regulatory authorities and achieve registration for melanotan. EpiTan's primary objective is to expand these significant advances with melanotan and to conduct a Phase I/II clinical trial in the final quarter of this calendar year. This will be followed by two Phase II studies next year.

Following the Phase II studies, the company's strategy is to proceed rapidly to Phase III clinical trials in Australia or elsewhere. At that point consideration will be given to a partnering arrangement with an international pharmaceutical company to commercialise melanotan on a global basis. This approach would reduce EpiTan's on-going expenditure and increase the speed to marketing the product.

Currently, melanotan is introduced into the body by subcutaneous injection. While this is effective, EpiTan's ongoing R&D programs include development of pharmaceutical formulations which will deliver the drug by more cost-effective and user-friendly mechanisms.

Skin cancer is the most common of all cancers, with the incidence of some skin cancers doubling every decade. Under these circumstances the acquisition by EpiTan of the exclusive world rights to the unique melanotan technology has considerable potential for the company and shareholders, with global markets calculated to be in excess of $1 billion per annum.

innovative
pioneering

Dr Victor Hruby a noted peptide chemist, set out to create synthetic duplicates of α-MSH that were more stable in the bloodstream and were more potent than the naturally occurring hormone

after synthesizing hundreds of compounds the molecule which is now known as melanotan was selected for development in humans

EpiTan's drug candidate melanotan is a synthetic substance designed to increase the concentration of melanin in the skin. High levels of melanin (the component of tanning) in the skin are associated with lower incidences of skin cancer. The purpose of developing the melanotan technology is to determine if melanotan will be effective in reducing the incidence of skin cancer.

Medical data shows that a tendency to sunburn easily and an inability to tan are major risk factors for developing skin cancers. By using melanotan prior to exposure to sunlight it is believed that a reduction in the degree and toxicity of sunburn will occur.

Skin Cancer

Skin cancers are the most common of all cancers and world-wide effort by researchers is being focused on developing treatments. Because of the increasing incidence of skin cancer and inadequacies in current treatments, chemoprevention strategies need to be addressed.

People of fair skin who burn easily are most at risk. There is a direct relationship between sun exposure and the development of the most common forms of skin cancer (basal and squamous cell carcinoma or BCC & SCC). The number of people considered to be at risk of skin cancer is estimated to be approximately 50 million in the USA and 12 million in Australia. Worldwide, the figure is well over 100 million.

Australia has the highest rate of skin cancer in the world. 80 percent of all new cancers occurring annually in Australia are skin cancers. Two in three Australians can expect to develop either BCC or SCC skin cancer, and one in sixteen will be diagnosed with the most serious skin cancer, melanoma, during their lifetime. The incidence of melanoma in Australia has doubled in each of the past four decades partly due to the influx of fair-skinned people and the depletion of the ozone layer. In the USA the overall incidence rate for melanoma is increasing faster than the rate of any other cancer.

Sunburn also damages the body's immune system.

Skin cancer treatment costs in excess of $500 million per year in Australia. It is a serious health issue, not only for those suffering from the effects of skin cancer, but for the community at large.

The Development of Melanotan

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 USA 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 α-MSH is unstable in the body and would not have been suitable to use as a drug to induce tanning.

Dr Victor Hruby, a noted peptide chemist, set out to create synthetic duplicates of α-MSH that were more stable in the bloodstream and were more potent than the naturally occurring hormone.

After synthesizing hundreds of compounds the molecule which is now known as melanotan was selected for development in humans.

When preclinical studies in animals demonstrated that melanotan had no obvious toxic effects, clinical trials in humans were carried out under a Physician's IND program in Arizona. The 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 Medical Association in 1991 and this was the first demonstration of a stable drug candidate that could induce a natural tan in human beings.

The team led by Dr Victor Hruby included Professor Robert Dorr a cancer pharmacologist who is EpiTan's scientific consultant, Dr Norman Levine a dermatologist and Dr Mac Hadley a physiologist. The group has been responsible for securing research funding from the National Institute of Health (NIH) resulting in over $8 million being spent on melanotan to date.

MelanoTan Corporation was formed in the United States in 1995 to exploit the potential of the melanotan molecule. In 1998, MelanoTan Corporation negotiated an agreement with Epitan because of the obvious vital interest in skin cancer in Australia.

innovative drug delivery technology is available in Australia for peptides such as melanotan

delivery

EpiTan will choose the optimum delivery system in its final clinical trials

drug

independent experts

new formulations can advance drugs to market leadership

Mr Graeme L Salthouse CA (NZ) ASA CFTP
Non-executive Chairman

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, Repco Limited and Hawker Richardson Limited, including a senior management role 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 and a director of SecureNet Limited.

Dr Helmer PK Agersborg BS PhD
Non-executive Deputy Chairman

Dr Agersborg is Chairman and President of MelanoTan Corp, President of Afferon Corp, Vice-Chairman of Maret Pharmaceuticals and director of Virxsys Corporation, all pharmceutical companies. He has been President of Wyeth-Ayerst Research, a division of American Home Products.

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 international experience to the company at the highest level in most aspects of the pharmaceutical industry having worked in clinical physiology, drug metabolism, chemical and pharmaceutical development, vaccines, quality assurance and regulatory affairs.

Dr Wayne A Millen
BSc (Hons) PhD FRACI C CHEM FAusIMM AFAIM
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 Fullbright 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 Australia.

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.

Mr Malcolm J McComas BEc LLB FSIA
Non-executive Director

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 16 years investment banking and 5 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.


Helmer Agersborg


Malcolm McComas


Wayne Millen


Terry Winters

Dr Terry E Winters BSc PhD
Non-executive Director

Dr Winters is a director of MelanoTan Corp, Chairman of Maret Pharmaceuticals and CEO of Afferon Corp, two private virtual pharmaceutical companies which are developing drugs in haematopoiesis and incontinence, respectively. He is also a member of the Board of Alliance Medical Corp, and of iPhysiciansNet, which is pioneering electronic pharmaceutical detailing. He is a Special Limited Partner of Valley Ventures, a $50 million venture capital fund based in Scottsdale, Arizona.

Dr Winters has had 16 years experience as an experimental chemist and licensing manager with Goodyear Tyre & Rubber Co. in Ohio, as licensing manager with Diamond Shamrock and as Vice-President of DS Ventures, investing in life science projects.

In 1983, he co-founded, and is a General Partner of, Columbine Venture Funds which has invested over $125 million in life science and technology companies in the western USA. From the Columbine investment regime successful companies have been Orthologic Corp, CollaGenex Pharmaceuticals, Nanophase Technologies, Curis, Neogen (all NASDAQ quoted) and Microgenics.

Dr Stuart M Humphrey BSc (Hons) PhD
Manager – Clinical Development

Dr Humphrey brings to the Company extensive experience in the commercial management of scientific and clinical development projects within multinational pharmaceutical environments. His clinical development and regulatory background in the field of oncology is of particular relevance to EpiTan's focus on skin cancer.

Most recently Dr Humphrey was Regional Operations Manager for Omnicare Clinical Research, a large international Clinical Research Organisation. Prior to that from 1990-1994 he was Regulatory Affairs Manager and Manager Scientific Clinical Development with Bristol-Myers Squibb in Australia and New Zealand.

Dr Humphrey's 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. His proven track record is invaluable as he accelerates EpiTan's pre-clinical and clinical trial development programs.

Professor Robert T 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 pre-clinical and clinical studies performed to date in the USA. He is currently the Professor of Pharmacology and Director of the Pharmacology Research Program at the Arizona Cancer Center, USA.

Professor Dorr has a PhD from the College of Medicine at the University of Arizona. He is a registered pharmacist in Arizona and California, holds twelve US patents for anticancer drugs and drug delivery devices, and has authored over 150 scientific articles.

Outside his involvment with EpiTan, Professor Dorr's scientific interests include the use of synthetic melanotropins for skin cancer chemoprevention and the discovery of new methods to reduce chemotherapy toxicity.

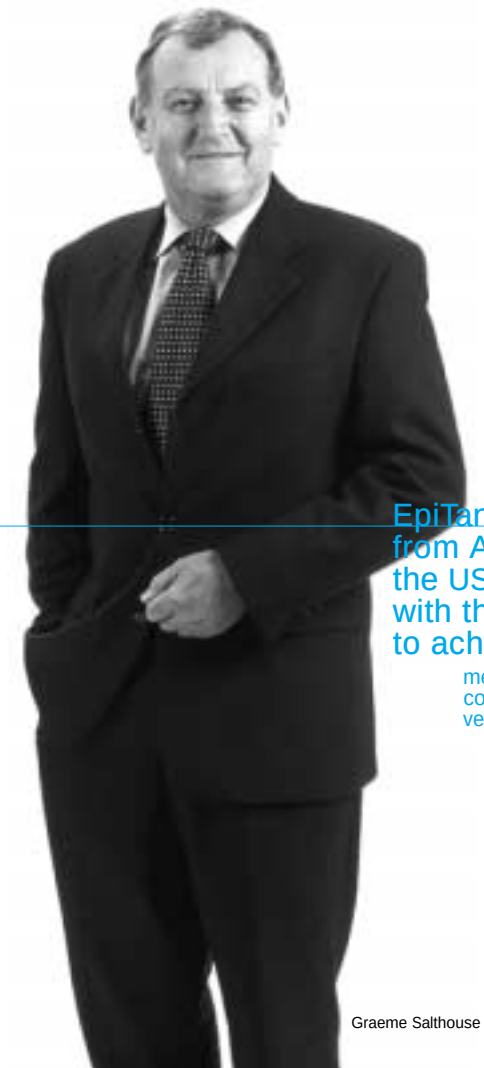
Over the last year he visited Australia twice to discuss regulatory matters on the melanotan technology with the Therapeutic Goods Administration, trial protocol issues with EpiTan's clinical trial investigators, and to give numerous presentations to the financial community, stakeholders, researchers and media groups.

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 60 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 Terry Dwyer has a particular interest in the role that melanin plays in protecting individuals against skin cancers. His research shows that there is a strong relationship between skin type and cancer risk and the potential role of melanin in skin cancer protection.

The information supplied by Professor Dwyer has been valuable in developing EpiTan's clinical trial program. He was a key member of the team that visited the Therapeutic Goods Administration earlier this year where EpiTan's drug development strategy was presented.



Graeme Salthouse

directors management and consultants

> > > > > > they form a cohesive force with the objective to maximize company development and shareholder wealth

EpiTan's Board comprises directors from Australia and the USA combining corporate, commercial and technical expertise with the relevant industry experience to achieve favourable outcomes for the Company

members of the Board have backgrounds in start-up and mature pharmaceutical companies, public company management, venture capital development, investment banking and in listing corporations both in Australia and the USA

skin cancer

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are major risk factors for both melanoma and non-melanoma skin cancer

uv

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Trials will be conducted
in healthy volunteers
and are planned to commence in the coming quarter.
Three major studies have been planned.

chairman's address

Graeme Salthouse > > >

Dear Fellow Shareholder,
EpiTan, following its listing and the establishment of its Project Development Plan for its drug candidate melanotan, has placed itself in a disciplined position to achieve its potential of taking melanotan through the necessary phases to produce a marketable product.

Against the background of achievements to date with pre-clinical and pilot clinical trials in the USA, these major immediate stages being addressed include:
> Preparation of appropriate drug quality melanotan for clinical use
> Commencement of clinical trials at the Phase I/II and Phase II levels
> On-going development of a user-friendly drug delivery mechanism.

The Company has adequate cash resources to carry out the above trials in a timeframe to achieve milestone successes this 2002 financial year. As these milestone events are resolved, shareholders will be kept informed through newsletters from the Managing Director, Dr Millen.

The development of this program results from the efforts of Dr Millen and Dr Humphrey, the Manager of Clinical Development. Much assistance and advice has been provided to them by the co-founder of the melanotan technology, Professor Robert Dorr and by the American directors of EpiTan, Dr Agersborg, Deputy Chairman, and Dr Winters. The essential close communication between the Board is achieved through regular reporting functions and meetings of the Board with management, ensuring that operations are controlled under the guidelines of its Corporate Governance policies.

In summary, your Company is progressing on time in its preparation for clinical trials.
Success in this area is expected to result in greater market awareness of the Company's value.

I look forward to discussing any aspect of development in EpiTan at the Annual General Meeting when the full board will be available to answer questions from shareholders.

Yours faithfully,

Graeme Salthouse Chairman

during the year EpiTan has developed communications programs with stakeholders in financial, scientific and shareholder communities

EpiTan is now preparing for its first clinical trial

managing director's report

md's >>

I am pleased to report that the development of the melanotan project proceeded on budget

Planning for a major Phase II clinical trial to determine how melanotan can reduce the degree and toxicity of sunburn is also well advanced. This study is scheduled to commence in early 2002 with completion by mid-year.
A third study is scheduled to commence in early 2002 to determine the value of melanotan to subjects with genetic susceptibility to skin cancer.

Dr Wayne Millen

Dear Shareholder,
I am pleased to report that the development of the melanotan project proceeded on budget and in accordance with the Company's business plan during the financial year. The Company is now on track to make significant progress during this 2002 financial year.

In August 2000, EpiTan issued a Prospectus to raise additional capital and list on the Australian Stock Exchange. A Supplementary Prospectus was issued in November and after raising $1.6 million in new capital, EpiTan listed on the Australian Stock Exchange on 13 February 2001. Some shares (48.4 million) and options (37.1 million) are quoted and a further (38 million) shares and (23.1 million) options are subject to escrow restrictions.

The private equity capital raising of $7.3 million concluded in March 2000 and the initial public offering have provided the Company with sufficient capital to undertake the development of melanotan as outlined in the Supplementary Prospectus.

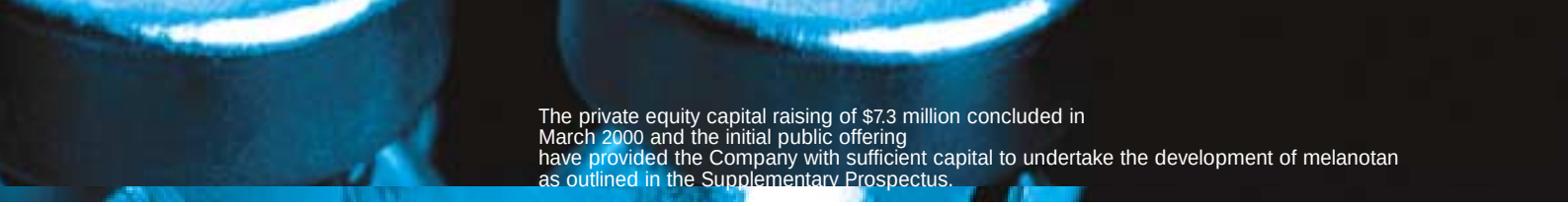
Clinical Developments
Since listing, the major focus of EpiTan's development program has been the planning of clinical trials for melanotan. EpiTan appointed Dr Stuart Humphrey as Manager-Clinical Development to develop and supervise these trials. Dr Humphrey comes from a large international Clinical Research Organisation and has wide experience in developing clinical trial programs and in regulatory affairs. Since joining EpiTan Dr Humphrey has designed protocols for a series of clinical trials and R&D programs for drug testing and drug delivery. EpiTan's first clinical trial is expected to commence in the final quarter of this calendar year.

This clinical trial is planned to be carried out at the Royal Adelaide Hospital and is a Phase I/II study to address pharmacokinetics (the way melanotan distributes itself in the body) and to measure tanning of the skin in a quantitative way.

Planning for a major Phase II clinical trial to determine how melanotan can reduce the degree and toxicity of sunburn is also well advanced. This study is scheduled to commence in early 2002 with completion by mid-year. A third study is scheduled to commence in early 2002 to determine the value of melanotan to subjects with genetic susceptibility to skin cancer.

In parallel with the clinical trial program, EpiTan is embarking on an R&D program of drug delivery. In the clinical trials under the Physician's IND program in Arizona, melanotan was administered by subcutaneous injection. This new drug delivery R&D will determine the most user-friendly and effective method of administering melanotan. Alternative methods include delivery through oral, transdermal and aerosol routes and by slow release depot implant.

EpiTan expects to appoint a drug development expert in the immediate future to take responsibility for the drug delivery research and development programs.



The private equity capital raising of $7.3 million concluded in March 2000 and the initial public offering have provided the Company with sufficient capital to undertake the development of melanotan as outlined in the Supplementary Prospectus.

Companies' critical milestones occur at the point of entering clinical trials, at their completion and following success with innovative drug delivery routes. EpiTan is now approaching the first of these milestone stages.

EpiTan's progress with its technical programs has attracted considerable interest from the medical and academic community. Particular interest has come from dermatologists and clinicans who see the potential of melanotan to assist with the photoprotection process.

Financial Position

Your Company is in a solid financial position. It commenced the 2001 financial year with cash of $6.5 million. Cash outlays during the year amounted to $980,000 including $440,000 to suppliers and employees, and $77,000 on plant, equipment and trademarks. The research and development costs of $463,000 were for drug manufacture and clinical trial work-up. After interest of $388,000 net cash outflow amounted to $592,000.

Net proceeds from the fundraising of $1.0 million resulted in a cash balance of just under $7.0 million at 30 June 2001. This was equivalent to a cash backing of approximately 8.0 cents per share.

The preparation for and implementation of clinical trials in the 2002 financial year will incur expenditure budgeted at $3.8 million, of which approximately $2.5 million (or 65%) is allocated to direct project expenditure.

Major items of forecast expenditure estimates are:

clinical studies	$730,000
drug formulation R&D	$550,000
drug manufacturing and pharmaceutical work-up	$620,000
pre-clinical studies	$330,000

The expenditure forecasts indicate a cash spending rate during the year to 30 June 2002 of approximately $315,000 per month. After interest income is taken into account this is expected to reduce cash to approximately $3.6 million by year end. In the 2003 financial year, further advanced drug formulation studies and work-up programs to Phase III clinical trials are planned.

Current forecasts indicate that EpiTan has sufficient funds to achieve the clinical trial milestones identified for the forthcoming 2002 and 2003 financial years. During that time, EpiTan expects that greater recognition of the intrinsic value of the Company's melanotan product will become apparent.

Communications

During the year EpiTan has developed communications programs with stakeholders in financial, scientific and shareholder communities. These included presentations by Directors and company consultants on EpiTan's technical plans, corporate objectives and operational strategies.

Similar communication programs will continue during the 2002 financial year in order to maintain a continuous flow of information on progress to all stakeholders.

In May the Company produced a newsletter and it is envisaged that similar publications will be produced as we progress with the technical and clinical programs.

EpiTan maintains a website at www.epitan.com.au and our subscriber base is now in excess of 700, double this time last year. Any feedback from shareholders on the website would be appreciated.

The Future

To reach this point, EpiTan has received considerable input from its directors, consultants and staff. To each of these people goes my appreciation for their respective contributions.

Throughout this year I have had the opportunity to meet with many shareholders. The Annual General Meeting will provide another forum for shareholders to meet the Directors, consultants and staff and I encourage you to attend.

In summary EpiTan has clear objectives which are being implemented through a well-structured scientific evaluation program on our drug candidate melanotan. With defined targets and attainable goals, the forthcoming clinical trial programs are expected to provide milestones for the Company and value enhancement for shareholders. I look forward to reporting on significant achievements throughout the 2002 financial year.

Yours faithfully,

Dr Wayne A Millen Managing Director

the increased risk of melanoma is thought to be related to the frequency of severe burns at an early age, as well as altered patterns of uv exposure in fair-skinned people

the focus of initial studies to be based on a reduction in sunburn as a clinical endpoint

In 2001 EpiTan made considerable progress in its clinical trial program. Documentation, derived from all previous studies performed in the USA, was independently reviewed by Kendle Pty Ltd, an international Clinical Research Organization. In conjunction with Kendle, EpiTan representatives met with the Therapeutics Goods Administration (TGA) in Canberra in May for the purpose of discussing EpiTan's clinical development plan. Presentations were made by Professor Robert Dorr from the Arizona Cancer Center, University of Arizona, Professor Terry Dwyer from the Menzies Centre for Population Health Research, Hobart and Dr Stuart Humphrey from EpiTan. Professor Dorr was the principal investigator in melanotan's extensive pre-clinical and clinical studies that have been performed in the USA under a Physician's IND program. Professor Terry Dwyer is an expert in the epidemiological research that has shown the strong correlation between skin type and cancer risk and the potential role of melanin in skin cancer protection. In his studies, Professor Dwyer has used a non-invasive spectrophotometric method for estimating melanin density in the skin and this method will be used by EpiTan in its clinical studies. As a result of this meeting with the TGA, EpiTan confirmed the focus of initial studies to be based on a reduction in sunburn as a clinical endpoint.

As illustrated by the following statements taken from scientific publications, severe intermittent exposure to solar radiation (ie sunburn) is a very important risk factor in the onset of skin cancer. Therefore, since melanin pigmentation is considered to be the most effective mechanism of the body to protect against radiation-induced damage, the ability to stimulate the skin's own 'protective mechanism' of tanning without burning should prove extremely important as a photoprotective strategy.

'A tendency to sunburn and inability to tan after sun exposure are major risk factors for both melanoma and non-melanoma skin cancer.'

(Gallagher RP, Ho VC. Environmental and Host Risk Factors. In: Grob JJ, Stern RS, Mackie RM, Weinstock MA Eds. Epidemiology, Causes and Prevention of Skin Diseases, London; Blackwell: 235-242,1998)

'The increased risk of melanoma is thought to be related to the frequency of severe burns at an early age, as well as altered patterns of uv exposure in fair-skinned people.'

(Gilchrest BA & Eller MS. DNA Photodamage Stimulates Melanogenesis and other Photoprotective Responses. Journal of Investigative Dermatology Symposium Proceedings, 4(1): 35-40,1999)

'A person's skin reaction to strong sunlight was a good indicator of the risk of skin cancer, tanning ability being inversely related to its incidence. The rate in those who always burnt and never tanned when exposed to strong sunlight was 1764/100,000 compared with a rate of 616/100,000 in those who always tanned and never burnt.'

(Giles GG, Marks R & Foley P. Incidence of Non-Melanocytic Skin Cancer treated in Australia. British Medical Journal, 296(6614):13-17,1988).

This focus has important cost and time advantages for EpiTan since clinical trials in cancer prevention are especially difficult due to the length of time needed to observe cancer endpoints and the large sample sizes needed for statistical power. Sunburn studies are proportionally less expensive and considerably quicker to demonstrate effectiveness and should result in minimizing the time to commercialise melanotan.

The milestones achieved this year are itemized under separate headings as follows:

Clinical Studies
Trials will be conducted in volunteers and are planned to commence in the coming quarter. Three major studies have been planned as follows:

Phase I/II PK Study – EP001
The protocol dated 20 July 2001 entitled *A Randomised, Placebo-Controlled, Double-Blind Study to Assess the Pharmacokinetics and Tanning Effect of Melanotan in Healthy Adult Subjects* has been submitted to Royal Adelaide Hospital Ethics Committee and is proposed to be carried at the CMAX, Phase I Unit at the Royal Adelaide Hospital. The main objective of this study

Dr Stuart Humphrey

is to determine the pharmacokinetics of melanotan in healthy men and women and the secondary objective is to measure the effect of melanotan on skin tanning. Recruitment of the 16 volunteers (12 melanotan and 4 placebo) for this study is planned to begin in October 2001, with study completion expected in November followed by preliminary results before the end of the year.

Phase II Sunburn Study – EP002
Planning is progressing with Dr Margaret Stewart and colleagues at the Skin & Cancer Foundation Australia to perform this study. A protocol entitled *A Double-Blind, Randomized, Placebo-Controlled Comparative Study to Evaluate the Safety,Tolerability and Efficacy of a Three-Month Course of Melanotan in Healthy Caucasians* is in the final stages of completion for submitting to the Westmead Hospital Ethics Committee later this year for a projected study start in late 2001 or early 2002. The primary objectives of this study are (a) to establish the safety and tolerability of three (10 day) monthly courses of melanotan at a fixed subcutaneous dose of 0.16mg/Kg/day in Caucasian subjects (skin types Fitzpatrick, I to IV), (b) to compare the degree of tanning in subjects 90 days after initiation of dosing with melanotan and placebo and (c) to compare the incidence of sunburn cells (defined as apoptotic cells – elicited by controlled solar irradiation) in subjects 90 days after initiation of dosing with melanotan or placebo. The study period is expected to be 6-9 months.

Phase II Study on Genotypes – EP003
Discussions between EpiTan and Professor Adèle Green at the Queensland Institute of Medical Research, Brisbane, have indicated the value in studying the effect of melanotan on subjects with a genetic susceptibility to sunburn and hence skin cancer. Studies at the University of Queensland have previously shown an increased skin cancer risk attributed to individuals with abnormal melanocyte receptors in their skin. A rigorous study of subject genotype and melanotan efficacy will determine the individuals to whom melanotan can be of most benefit. A protocol is being written entitled *A Comparative Study to Evaluate the Consequences of Polymorphism Within the Melanocortin-1 Receptor of White-Skinned Individuals on the Safety, Tolerability and Tanning Ability of a Three-Month Course of Melanotan*.

It is anticipated that this third study will commence early in 2002 and run over an 8 month period (5 month recruitment and 3 month active component).

Melanotan Drug Product
A new batch of melanotan drug raw material has been manufactured under strict GMP (Good Manufacturing Practice) specifications by BACHEM, USA. This is sufficient to supply material for the Phase I/II and II studies and for pre-clinical and drug delivery formulation R&D. This was the company that manufactured the melanotan for the earlier studies conducted in the USA and was chosen to maintain the quality assurance required for EpiTan's studies in Australia.

Current clinical trial supplies of vials for injection of melanotan have been prepared, again under GMP conditions, by Octoplus BV in the Netherlands for EpiTan's first two studies (EP001 & EP002). A stability program on this material is being conducted at Monash University, Melbourne and preliminary results after one month have shown that melanotan is very stable under all temperatures studied (-20 to 40^{0}C). The implications of this exceptional stability profile of melanotan in simple solution will lead to large savings in production costs due to its predicted long shelf-life.

Drug Delivery Formulations
Initial clinical trials will be conducted using a daily injection under the skin which has been successfully demonstrated in over 100 volunteers in the previous Physician's IND studies.

This form of administration, while invaluable to determine the physiological properties of melanotan, is expensive to administer, time-consuming and not particularly user-friendly. EpiTan plans to develop alternative drug delivery mechanisms for melanotan potentially including transdermal, oral, aerosol (respiratory and nasal) and slow-release depot implant systems. The company will then choose the optimum delivery system for final clinical studies to demonstrate the efficacy of melanotan in enhancing skin pigmentation of fair-skinned individuals to protect from sunburn and potentially reduce their risk of skin cancer.

Innovative technology is available in Australia from the laboratories of Dr Tracey Brown, Department of Biochemistry and Molecular Biology, Monash University, Melbourne and Dr Hak-Kim Chan, Faculty of Pharmacy, University of Sydney. The company is in the final stages of contracting R&D programs to these two Australian researchers who are well known internationally in their respective areas of research and have the ability, expertise and infrastructure to conduct the various studies. The respiratory tract and the nasal cavity have already been used successfully by Dr Chan to deliver small peptides similar to melanotan from aqueous aerosol and dry powder inhalers. The transdermal area provides a greater challenge, but Dr Brown possesses a technology using Hyaluronan, which has been demonstrated to increase the permeation of significantly larger molecules than melanotan.

The commercial potential and market demand of a drug delivery system that does not require individuals to inject themselves daily is substantial and such formulations can advance drugs to market leadership in a short space of time.

Preclinical Studies
These studies will be carried out in parallel to the clinical and drug formulation studies to ensure that regulatory compliance for the final dose form(s) are current at the time of marketing application.

In summary, the foundation stones upon which Epitan fully expects to build an exciting and successful clinical development strategy have been well and truly laid and we look forward to great achievements in the coming year.

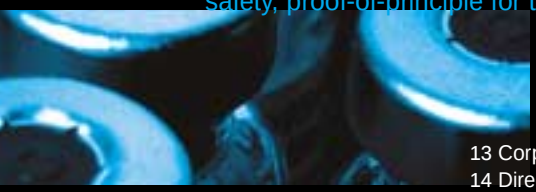
Yours faithfully,

Dr Stuart M Humphrey
Manager – Clinical Development

financial statements

for the year ended 30 June 2001

Epitan was incorporated in Australia on 14 December 1999, with the objective to acquire the exclusive world rights to further develop and commercialise the drug candidate melanotan, which to that time had shown considerable potential to reduce the incidence of skin cancers. melanotan causes the skin to develop a natural tan in the absence of harmful ultraviolet radiation (sunlight). $8 million had been spent on R&D and animal and human trials to that time, with preliminary clinical trials on over 100 volunteers demonstrating safety, proof-of-principle for tanning of the skin and probable dosage levels.



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

An audit committee was established on 3 February 2000.
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 communication between the Board and the external auditors; and
– examining the external auditors evaluation of internal controls and management's response

The current members of the audit committee are Mr GL Salthouse and Mr MJ McComas

No meetings of the audit committee were held during the financial year due to the size and nature of the Company's operations as all relevant matters were adequately dealt with by the full Board.

Remuneration Committee

A remuneration committee was established on 3 February 2000 and constitutes the full Board.

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

Adoption of a Continuous Disclosure Protocol

The Company has adopted a continue 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.

directors' report

Your directors present their report on the company and its controlled entity for the financial year ended 30 June 2001.

Directors

The names of directors in office at any time during or since the end of the year are:
Mr GL Salthouse
Dr HPK Agersborg (appointed 22 August 2000)
Dr WA Millen
Mr MJ McComas
Dr TE Winters (appointed 22 August 2000)

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 raise capital and 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 $1,557,582 (2000: $374,150 loss).

Dividends Paid or Recommended

No dividends were paid or declared during the financial year.

Review of Operations

During the financial year the company issued a prospectus followed by a supplementary prospectus on 27 November 2000 to raise capital.

On 13 February 2001 the company listed on the Australian Stock Exchange.
During this period further development has occurred with the company's drug candidate, melanotan.

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 enter a clinical trials program over the next few months as forecast in the supplementary prospectus.

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

Mr Graeme L Salthouse CA (NZ) ASA CFTP
Age 64
Non-executive Chairman

Experience
Mr Salthouse is Managing Director ION Limited. He has held many senior positions in organisations including ICI, Repco Limited, Hawker Richardson Limited and Austrim Limited. Mr Salthouse founded and was director of Morgan Grenfell Australia Limited's Melbourne office and floated Hawker Richardson Limited and SecureNet Limited.

Particulars of Directors Interests in Shares and Options of Company
Ordinary Shares: 1,854,521
Options over Unissued Ordinary Shares: 1,140,092

Dr Helmer PK Agersborg BS PhD
Age 72
Non-executive Deputy Chairman

Experience
Dr Agersborg is Chairman and President of MelanoTan Corp, President of Afferon Corp, Vice-Chairman of Maret Pharmaceuticals and director of Virxsys Corporation. He has international experience at the highest level in most aspects of the pharmaceutical industry and has been involved with over 50 new drug approvals in the USA. Dr Agersborg has been President of Wyeth-Ayerst Research.

Particulars of Directors Interests in Shares and Options of Company
Ordinary Shares: Nil
Options over Unissued Ordinary Shares: Nil

Dr Wayne A Millen BSc (Hons) PhD FRACI C CHEM FAusIMM AFAIM
Age 60
Managing Director & Chief Executive Officer

Experience
Dr Millen is founding Managing Director of EpiTan Limited. He is a chartered chemist with experience over 30 years in operating his own commercial enterprises involving innovative technology. He has considerable experience in venture and development capital investments in private and public companies.

Particulars of Directors Interests in Shares and Options of Company
Ordinary Shares: 19,506,699
Options over Unissued Ordinary Shares: 11,926,305

Mr Malcolm J McComas BEc LLB FSIA
Age 46
Non-executive Director

Experience
Mr McComas is a director of Grant Samuel and of ION Limited. He has 16 years investment banking and 5 years legal experience. Mr McComas has been 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.

Particulars of Directors Interests in Shares and Options of Company
Ordinary Shares: 1,694,521
Options over Unissued Ordinary Shares: 1,033,423

Dr Terry E Winters BSc PhD
Age 59
Non-executive Director

Experience
Dr Winters is director of Alliance Medical Corp, iPhysicianNet, MelanoTan Corp, Chairman of Maret Pharmaceuticals, CEO of Afferon Corp and a Special Limited Partner of Valley Ventures, a $50 million venture capital fund based in Arizona. He co-founded and is a General Partner of Columbine Venture Funds. Dr Winters has had 16 years experience as an experimental chemist and licensing manager with Goodyear Tyre & Rubber Co., as licensing manager with Diamond Shamrock and as Vice-President of DS Ventures.

Particulars of Directors Interests in Shares and Options of Company
Ordinary Shares: 15,288,154
Options over Unissued Ordinary Shares: 9,232,185

directors report continued

Directors' and Executive Officers' Emoluments

The emoluments of each director are as follows:

	Salary $	Directors Fees $	Superannuation Contributions $	Incentives $	Non Cash Benefits $	Total $
Mr GL Salthouse	–	45,000	–	–	–	45,000
Mr HPK Agersborg	–	25,849	–	–	–	25,849
Mr WA Millen	207,000	–	18,000	–	–	225,000
Mr MJ McComas	–	30,000	–	–	–	30,000
Dr TE Winters	–	25,849	–	–	–	25,849

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, 7 meetings of directors were held. Attendances were:

Directors	Number eligible to attend	Directors' Meetings Number attended
Mr GL Salthouse	7	5
Mr HPK Agersborg	6	6
Mr WA Millen	7	7
Mr MJ McComas	7	5
Dr TE Winters	6	6

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 out of their conduct 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 $4,800 for each director.

Employees

The consolidated entity employed 3 employees as at 30 June 2001 (2000: 2 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
3 April 2006	$0.10/share	1,250,000

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

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

GL Salthouse Director

WA Millen Director

Dated this 5th day of September 2001

statement of financial performance

	Note	Consolidated 2001 $	Consolidated 14.12.1999 to 30.06.2000 $	EpiTan Limited 2001 $	EpiTan Limited 14.12.1999 to 30.06.2000 $
Revenues from ordinary activities	2	408,697	140,035	408,697	140,035
Total expenses from ordinary activities	2	(1,966,279)	(514,185)	(1,218,382)	(391,471)
Borrowing costs		–	–	–	–
Profit from ordinary activities before related income tax expense		(1,557,582)	(374,150)	(809,685)	(251,436)
Income tax expense/(benefit) relating to ordinary activities	3	–	–	–	–
Profit from ordinary activities after related income tax expense		(1,557,582)	(374,150)	(809,685)	(251,436)
Net profit/(loss)		(1,557,582)	(374,150)	(809,685)	(251,436)
Net profit/(loss) attributable to members of the EpiTan Limited		(1,557,582)	(374,150)	(809,685)	(251,436)
Total changes in equity other than those resulting from transactions with owners as owners		(1,557,582)	(374,150)	(809,685)	(251,436)
Basic Earnings Per Share - cents per share	15	(2.3)	–		

The accompanying notes form part of these financial statements

statement of financial position

	Note	Consolidated 2001 $	Consolidated 2000 $	EpiTan Limited 2001 $	EpiTan Limited 2000 $
Current Assets					
Cash Assets	16 (a)	6,980,550	6,568,726	6,980,481	6,568,592
Receivables	4	34,918	56,959	34,918	56,959
Other	5	12,889	55,960	12,889	55,960
Total Current Assets		7,028,357	6,681,645	7,028,288	6,681,511
Total non Current Assets					
Receivables	4	–	–	7,475,211	7,474,866
Property, Plant and Equipment	6	116,389	94,204	116,389	94,204
Intangible Assets	7	6,624,277	7,352,187	19,577	–
Other Financial Assets	8	–	–	169	169
Total non Current Assets		6,740,666	7,446,391	7,611,346	7,569,239
Total Assets		13,769,023	14,128,036	14,639,634	14,250,750
Current Liabilities					
Payables	10	290,646	114,911	290,646	114,911
Provisions	11	27,619	8,628	27,619	8,628
Total Current Liabilities		318,265	123,539	318,265	123,539
Total Liabilities		318,265	123,539	318,265	123,539
Net Assets		13,450,758	14,004,497	14,321,369	14,127,211
Equity					
Contributed Equity	12	15,382,490	14,378,647	15,382,490	14,378,647
Accumulated Losses	13	(1,931,732)	(374,150)	(1,061,121)	(251,436)
Total Equity		13,450,758	14,004,497	14,321,369	14,127,211

The accompanying notes form part of these financial statements

statement of cash flows

	Note	Consolidated 2001 $	Consolidated 14.12.1999 to 30.06.2000 $	EpiTan Limited 2001 $	EpiTan Limited 14.12.1999 to 30.06.2000 $
Cash Flows from Operating Activities					
Payments to suppliers and employees		(440,432)	(377,312)	(440,022)	(375,394)
Payments for research and development		(462,729)	–	(462,729)	–
Interest received		388,622	140,035	388,622	140,035
Net cash provided by (used in) operating activities	16 (b)	(514,539)	(237,277)	(514,129)	(235,359)
Cash Flows from Investing Activities					
Payments for property, plant and equipment		(57,903)	(99,661)	(57,903)	(99,661)
Loans to related parties		–	–	(345)	(36,642)
Payments for trade marks		(19,577)	–	(19,577)	–
Payments for sub-licence		–	(34,759)	–	–
Purchase of shares in subsidiary		–	–	–	(169)
Net cash provided by (used in) investing activities		(77,480)	(134,420)	(77,825)	(136,472)
Cash Flows from Financing Activities					
Proceeds from issue of ordinary shares		1,605,816	7,277,173	1,605,816	7,227,173
Payment of share issue costs		(601,973)	(336,750)	(601,973)	(336,750)
Net cash provided by (used in) financing activities		1,003,843	6,940,423	1,003,843	6,940,423
Net increase/(decrease) in cash held		411,824	6,568,726	411,889	6,568,592
Cash at beginning of the year		6,568,726	–	6,568,592	–
Cash at end of the year	16 (a)	6,980,550	6,568,726	6,980,481	6,568,592

The accompanying notes form part of these 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 and other mandatory professional reporting requirements 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 consolidated 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 10 to the financial statements.

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

Where controlled entities have entered or left the consolidated 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 Consolidated 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%

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.

1 Summary of Significant Accounting Policies continued

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 Consolidated 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 consolidated entity.

i) Employee Entitlements
Provision is made for the consolidated 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.

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

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

k) 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.

l) Earnings Per Share
Basic earnings per share is determined by dividing the profit from ordinary activities after related income tax expense and after preference dividends by the weighted average number of ordinary shares outstanding during the financial year.

m) Comparative Figures
Where required by Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

EpiTan Limited was incorporated on 14 December 1999. Consequently, the comparative figures provided relate to the period 14 December 1999 to 30 June 2000.

EpiTan Limited listed on the Australian Stock Exchange on 13 February 2001.
Consequently, this is the first financial year that they have been required to report Earnings per Share.

2 Operating Profit/(Loss) from Ordinary Activities	Consolidated		EpiTan Limited	
	2001 $	14.12.1999 to 30.06.2000 $	2001 $	14.12.1999 to 30.06.2000 $
Revenues from ordinary activities				
Interest received	408,697	140,035	408,697	140,035
Total Revenues	408,697	140,035	408,697	140,035
Expenses from ordinary activities				
Personnel costs	356,543	154,623	356,543	154,623
Operating lease rentals	71,396	21,464	71,396	21,464
Depreciation of non-current assets	35,718	5,457	35,718	5,457
Amortisation of non-current assets	747,487	120,796	–	–
Research and development costs	462,729	500	462,729	500
Other expenses from ordinary activities	292,406	211,345	291,996	209,427
Total expenses from ordinary activities	1,966,279	514,185	1,218,382	391,471
Profit from ordinary activities before related income tax expense	(1,557,582)	(374,150)	(809,685)	(251,436)

3 Income Tax Expense				
a) The prima facie tax on profit from ordinary activities before income tax is reconciled to the income tax expense as follows:				
Prima facie tax payable on profit from ordinary activities before income tax at 34% (2000: 36%)	(529,578)	(134,694)	(275,293)	(90,517)
Add:				
Tax effect of permanent differences				
– non deductible amortisation	–	43,487	–	–
– other non allowable items	3,910	38,643	3,910	37,695
Adjustment to future income tax benefit for change in company tax rate to 30% (2000: 36%)	15,759	–	3,448	–
Write off FITB due to lack of virtual certainty	511,437	52,564	269,463	52,552
Less:				
Tax effect of:				
Adjustment to provision for deferred income tax for change in company tax rate to 30% (2000: 36%)	(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 1b) occur:				
Tax losses	407,435	256,077	275,403	33,486
Net timing differences	6,454	19,066	6,454	19,066
	413,889	52,564	281,856	52,522

4 Receivables		Consolidated		EpiTan Limited	
	Note	2001 $	2000 $	2001 $	2000 $
Current					
Sundry debtors		15,491	56,959	15,491	56,959
Accrued income		19,427	–	19,427	–
		34,918	56,959	34,918	56,959
Non-Current					
Receivable from wholly owned entity	20	–	–	7,475,211	7,474,866

5 Other Assets					
Current					
Prepayments		12,889	55,960	12,889	55,960

6 Property, Plant and Equipment				
Office equipment				
At cost	115,546	75,286	115,546	75,286
Less: Accumulated depreciation	(32,568)	(4,933)	(32,568)	(4,933)
	82,978	70,353	82,978	70,353
Furniture and fittings				
At cost	42,017	24,375	42,017	24,375
Less: Accumulated depreciation	(8,606)	(524)	(8,606)	(524)
	33,411	23,851	33,411	23,851
Total property, plant and equipment	116,389	94,204	116,389	94,204

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 current financial year	Office Equipment $	Furniture and Fittings $	Total $
Consolidated & EpiTan Limited			
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

7 Intangible Assets		Consolidated		EpiTan Limited	
	Note	2001 $	2000 $	2001 $	2000 $
Sub-licence to develop and commercialise melanotan – at cost		7,472,983	7,472,983	–	–
Less: Accumulated amortisation		(868,283)	(120,796)	–	–
		6,604,700	7,352,187	–	–
Trademarks		19,577	–	19,577	–
		6,624,277	7,352,187	19,577	–

8 Other Financial Assets					
Non-Current					
Investments at cost comprise:					
Shares in unlisted controlled entity	9	–	–	169	169

9 Interest in Subsidiaries

MelanoTan (Australia) Pty Ltd Incorporated in Australia.
Percentage of equity interest held by the consolidated entity: 100% (2000: 100%)
Investment: $169 (2000: $169)

10 Payables					
Current					
Trade creditors		183,440	8,784	183,440	8,784
Sundry creditors and accrued expenses		107,206	106,127	107,206	106,127
		290,646	114,911	290,646	114,911
a) Aggregate amounts payable to:					
– directors and director-related entities		71,250	50,625	71,250	50,625
b) Australian dollar equivalents of amounts payable in foreign currencies not effectively hedged:					
– Euro dollars		92,552	–	92,522	–

c) Terms and conditions:
Trade and sundry creditors are non-interest bearing and normally settled on 30 day terms.

11 Provisions					
Current					
Employee entitlements		27,619	8,628	27,619	8,628

12 Contributed Equity					
a) Issued and paid up capital fully paid ordinary shares		15,382,490	14,378,647	15,382,490	14,378,647

12 Contributed Equity continued		2001		2000	
	Note	Number	$	Number	$
b) Movements in shares on issue					
At the beginning of the financial year		52,256,669	14,378,647	–	–
Issued during the year					
– issued at incorporation		–	–	3	3
– issued pursuant to Rollover Agreement		–	–	16,833,000	169
– issued pursuant to Information Memorandum		–	–	24,256,666	7,277,001
– issued as consideration for sub-licence		–	–	11,167,000	7,438,224
– bonus share issue	(i)	26,128,335	–	–	–
– public equity raising	(ii)	8,029,250	1,605,816	–	–
Less: transaction costs		–	(601,973)	–	(336,750)
		86,414,254	15,382,490	52,256,669	14,378,647

i) On 27 December 2000, 26,128,335 bonus ordinary shares were issued to existing shareholders for no consideration.
ii) On 13 February 2001 the company issued 8,029,250 ordinary shares pursuant to the supplementary prospectus dated 27 November 2000.

c) Share options
As at 30 June 2001, 60,285,919 share options existed which if exercised, would result in the issue of fully paid ordinary shares. The exercise price is $0.30 per share. The options may be exercised on or before 30 June 2003.

In addition, during the year employee options were issued, and remain outstanding as at 30 June 2001, which, if exercised, would result in the issue of 1,250,000 fully paid ordinary shares. The exercise price is $0.10 per share. The options may be exercised on or before 3 April 2006.

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.

13 Accumulated Losses	Consolidated		EpiTan Limited	
	2001 $	2000 $	2001 $	2000 $
Accumulated losses at the beginning of the year	(374,150)	–	(251,436)	–
Net loss attributable to the members of EpiTan Limited	(1,557,582)	(374,150)	(809,685)	(251,436)
Accumulated losses at the end of the financial year	(1,931,732)	(374,150)	(1,061,121)	(251,436)

14 Lease Commitments				
Operating lease commitments				
Non-cancellable operating leases				
Contracted for but not capitalised in the accounts:				
Payable				
– not later than 1 year	71,096	67,710	71,096	67,710
– later than 1 year but not later than 5 years	48,951	120,047	48,951	120,047
– later than 5 years	–	–	–	–
	120,047	187,757	120,047	187,757

15 Earnings Per Share (EPS)	Consolidated	
	2001	2000
a) Basic earnings per share – cents per share	(2.3)	–
b) Diluted earnings per share is not disclosed as it is not materially different to basic earnings per share		
c) The Weighted Average Number of Ordinary Shares (WANOS) used in the calculation of Basic Earnings Per Share	68,607,099	–

d) Conversions, calls, subscriptions or issues after 30 June 2001
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 2001 the company had on issue 60,285,919 options over unissued capital exercisable on or before 30 June 2003 at $0.30 per share and 1,250,000 employee options over unissued capital exercisable on or before 3 April 2006 at $0.10 per share. As the exercise price of these options is well above the current trading price of the company's ordinary shares, it is not probable that they will be exercised and, as such, the options are not considered dilutive.

16 Cash Flow Information	Consolidated		EpiTan Limited	
	2001 $	14.12.1999 to 30.06.2000 $	2001 $	14.12.1999 to 30.06.2000 $
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	253	253	253	253
Cash at bank	6,980,297	6,568,473	6,980,228	6,568,339
	6,980,550	6,568,726	6,980,481	6,568,592
b) Reconciliation of cash flows from operating activities with operating profit/(loss)				
Operating profit/(loss) after income tax	(1,557,582)	(374,150)	(809,685)	(251,436)
Non cash flows in operating (loss):				
– Depreciation expense	35,718	5,457	35,718	5,457
– Amortisation expense	747,487	120,796	–	–
Changes in assets and liabilities:				
– (Increase)/decrease in receivables	22,042	(56,959)	22,042	(56,959)
– (Increase)/decrease in prepayments	43,070	(55,960)	43,070	(55,960)
– Increase/(decrease) in payables	175,735	114,911	175,735	114,911
– Increase/(decrease) in provisions	18,991	8,628	18,991	8,628
Net cash used in operating activities	(514,539)	(237,277)	(514,129)	(235,359)

17 Remuneration of Directors

	Consolidated		EpiTan Limited	
	2001 $	14.12.1999 to 30.06.2000 $	2001 $	14.12.1999 to 30.06.2000 $
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:	351,698	134,377		
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:			351,698	134,377
The number of directors of EpiTan Limited whose income (including superannuation contributions) falls within the following bands is:			Number	Number
$10,000 – $19,999			–	1
$20,000 – $29,999			2	1
$30,000 – $39,999			1	–
$40,000 – $49,999			1	–
$90,000 – $99,999			–	1
$220,000 – $229,999			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	15,000	6,900	15,000	6,900
– other services	38,008	16,455	38,008	16,455
	53,008	23,355	53,008	23,355

20 Related Party Disclosures

Directors
The directors of EpiTan Limited during the financial year were:
GL Salthouse
HPK Agersborg
WA Millen
MJ McComas
TE Winters

Wholly-owned group transactions
Loans
The loan receivable by EpiTan Limited from MelanTan (Australia) Pty Ltd is non-interest bearing.
Repayment of the loan will commence upon commercialisation of the company's drug candidate.

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:

notes to and forming part of the financial statements continued

20 Related Party Disclosures continued

	Ordinary Shares Fully Paid		Options over Ordinary Shares	
	2001 Number	2000 Number	2001 Number	2000 Number
GL Salthouse	1,994,521	1,250,001	1,181,425	1,250,001
WA Millen	19,546,699	14,333,001	11,966,305	14,333,001
MJ McComas	1,694,521	1,250,001	1,033,423	1,250,001
TE Winters	15,288,154	11,167,000	9,232,185	11,167,000
	38,523,895	28,000,003	23,413,338	28,000,003

Movements in directors' equity holdings

During the year, the directors and their director-related entities disposed of the following equity instruments:

	Ordinary Shares	Options
GL Salthouse	180,481	216,578
WA Millen	2,069,470	2,483,363
MJ McComas	180,481	216,578
TE Winters	1,612,346	1,934,815

Mr GL Salthouse and his director – related entities received a bonus issue of 625,001 ordinary shares, acquired 300,000 ordinary shares and 148,002 options to acquire ordinary shares during the year.

Dr WA Millen and his director-related entities received a bonus issue of 7,166,501 ordinary shares, acquired 116,667 ordinary shares and 116,667 options to acquire ordinary shares during the year.

Mr MJ McComas and his director-related entities received a bonus issue of 625,001 ordinary shares during the year.

Dr TE Winters and his director – related entities received a bonus issue of 5,583,500 and acquired 150,000 ordinary shares during the year.

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

22 Financial Instruments

a) Interest rate risk

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

	Non-Interest Bearing		Weighted Average Effective Interest Rate		Floating Interest Rate		Total	
	2001 $	2000 $	2001 %	2000 %	2001 $	2000 $	2001 $	2000 $
i) Financial Assets								
Cash at bank	–	–	5.7	5.5	6,980,550	6,568,726	6,980,550	6,568,726
Total	–	–	–	–	6,980,550	6,568,726	6,980,550	6,568,726
ii) Financial Liabilities								
Accounts Payable	290,646	114,911	–	–	–	–	290,646	114,911
Total	290,646	114,911	–	–	–	–	290,646	114,911

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 consolidated 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 balance sheet.

directors declaration

Directors' Declaration

The directors of the company declare that:
1 the financial statements and notes of the company and of the consolidated entity are in accordance with the Corporations Act 2001, including:
a) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2001 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.

GL Salthouse Director

WA Millen Director

Dated this 5th day of September 2001

independent audit report

To the Members of EpiTan Limited ABN 88 089 644 119

Scope

We have audited the financial report of EpiTan Limited for the financial year ended 30 June 2001, 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 financial statements of EpiTan Limited, and the consolidated financial statements of the consolidated entity comprising the company and the entity it controlled at 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 2001 and of their performance for the year ended on the date; and
ii) complying with Accounting Standards and the Corporations Regulations; and
b) other mandatory professional reporting requirements.

William Buck Chartered Accountants — KW Glynn Partner

Dated this 5th day of September 2001
Melbourne

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 31 July 2001.

01 Shareholding

a) Distribution of Shareholders Number

Category (size of Holding)	Ordinary Shares	Options
1 – 1,000	1	3
1,001 – 5,000	52	6
5,001 – 10,000	201	140
10,001 – 100,000	395	217
100,001 – and over	73	54
	722	420

b) The number of shareholdings held in less than marketable parcels is 63 and 333 for ordinary shares and options, respectively.

c) The names of the substantial shareholders listed in the holding company's register as at 30 June 2001 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
01 Weighton Pty Ltd	19,496,699	22.56
02 MelanoTan Corporation USA	15,138,154	17.52
03 Chartport Financial Services Pty Ltd	7,762,779	8.98
04 Mr Victor Plummer	2,416,667	2.80
05 Sunzu Enterprises Pty Ltd	1,854,521	2.15
06 Invia Custodian Pty Ltd	1,760,960	2.04
07 Movilli Pty Ltd	1,694,521	1.96
08 Carlina Nominees Pty Ltd	1,441,667	1.67
09 Gary B Branch Pty Limited	1,388,889	1.61
10 JFR Investments Pty Ltd	1,388,889	1.61
11 Mr Gerald Harvey	1,116,667	1.29
12 Barbagallo Consultants Pty Ltd	833,333	0.96
13 Manikato Financial Services	795,650	0.92
14 Mr John Frances Ward & Mr Anthony Boston	516,667	0.60
15 National Nominees Limited	502,167	0.58
16 Mr Doug McLachlan & Mrs Wendy McLachlan	466,667	0.54
17 Drill Investments Pty Ltd	429,742	0.50
18 Mr Christopher Lindsay	429,742	0.50
19 Mr Charles W Joscelyne & Mrs Mary-Jane Joscelyne	416,667	0.48
20 Dynamic Press Investments	400,000	0.46
	60,251,048	69.72

additional information required by the australian stock exchange continued

1 Shareholding continued

f) 20 Largest Optionholders

Name	Number of Options Held	% Held of Issued Options
01 MelanoTan Corporation USA	9,232,185	15.31
02 Weighton Pty Ltd	7,916,305	13.13
03 Chartport Financial Services Pty Ltd	5,562,500	9.23
04 Mr Wayne Andrew Millen & Mrs Barbara Anne Millen	4,000,000	6.64
05 KPL Limited	1,534,165	2.54
06 Mr Doug McLachlan & Mrs Wendy McLachlan	1,532,000	2.54
07 Mr Victor Plummer	1,390,000	2.31
08 Invia Custodian Pty Ltd	1,210,000	2.01
09 Carlina Nominees Pty Ltd	1,200,000	1.99
10 Sunzu Enterprises Pty Ltd	1,140,092	1.89
11 Movilli Pty Ltd	1,033,423	1.71
12 Gary B Branch Pty Limited	1,000,000	1.66
13 JFR Investments Pty Ltd	1,000,000	1.66
14 Montaka Pty Ltd	846,000	1.40
15 Mr Gerald Harvey	804,000	1.33
16 Mr John Frances Ward & Mr Anthony Boston	800,000	1.33
17 Equity Trustees Limited	770,000	1.28
18 Barbagallo Consultants Pty Ltd	600,000	1.00
19 Manikato Financial Services	572,868	0.95
20 Julal Pty Limited	539,144	0.89
	42,682,682	70.80

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:
Level 10, 52 Collins Street Melbourne Victoria 3000 Australia
Telephone 613 9662 4688

4 Register of Securities

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

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.

6 Restricted Securities

Restricted securities on issue at 30 June 2001;

Security	Number
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
Mr Graeme L Salthouse – Chairman
Dr Helmer PK Agersborg – Deputy Chairman
Dr Wayne A Millen
Mr Malcolm J McComas
Dr Terry E Winters

Managing Director
Dr Wayne A Millen

Company Secretary
Mr David McBain

Australian Stock Exchange code EPT
The Company's share are quoted
on the offical list of the Australian Stock
Exchange

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Facsimile 613 9662 4788
Email mail@epitan.com.au
www.epitan.com.au

Auditor
William Buck – Chartered Accountants
Level 2, 215 Spring Street
Melbourne Victoria 3000 Australia

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

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

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