

e p i t a n

2000 ANNUAL REPORT

EpiTan Limited ACN 089 644 119

Index

Chairman's Address 3

Managing Director's Report 4

Directors' Report 6

Financials 12

Directors' Declaration 26

Independent Audit Report 27

Chairman's Address

Dear Shareholder

In the financial year to 30 June 2000, EpiTan was established as an unlisted public company.

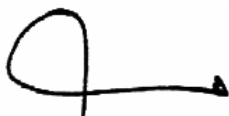
EpiTan became entitled to the exclusive worldwide rights to develop, produce and market *Melanotan* in the field of skin tanning. This right was obtained following raising approximately \$7.3 million through a private placement in March 2000.

Since this initial capital raising, a prospectus, sponsored by Lodge Partners Pty Ltd, has been issued seeking to raise up to a further \$8 million through the issue of 16 million shares.

At the time of the private placement, financial markets were buoyant and it was confidently expected that the capital raisings envisaged by the prospectus would be comfortably achieved. At the date of this report, this issue is still proceeding with the minimum subscription target yet to be achieved. Further information regarding the float will be made available to shareholders at the Annual General Meeting.

The immediate focus of the Company is to conclude Phase I and II clinical trials as soon as possible. Timetables have been established for this all important programme to satisfy the Therapeutic Goods Administration regulations prior to commercialising the drug. Existing EpiTan cash resources obtained from the initial capital raising are expected to be sufficient to enable the clinical trials to be completed.

Yours sincerely,



Graeme L. Salthouse

Chairman

Managing Directors Report

Review of Operations

EpiTan Limited was incorporated on 14 December, 1999 to take up the option for the exclusive world wide rights to develop, commercialise and market *Melanotan*, a pharmaceutical which has the potential to reduce the incidence of skin cancer.

Following the successful mezzanine fundraisings, EpiTan exercised its option and became the sub-licencee of the *Melanotan* technology for which MelanoTan Corporation, the USA company which owns the licence, was issued 11,167,000 shares and options in EpiTan. No cash payment was required.

Further, as a consequence of MelanoTan Corporation becoming a substantial shareholder, two highly experienced professionals in the pharmaceutical and venture capital industries in the USA, Dr Helmer Agersborg and Dr Terry Winters respectively, joined the Board in August. Their presence will be of great value to the Company as they bring to the table many years of achievement in developing start-up companies through to listed NASDAQ entities, and drug commercialisation.

The Company issued a prospectus on 22 August, 2000 to raise up to \$8 million. This offer is scheduled to close on 24 November, 2000. Irrespective of the success of the prospectus, the Company has adequate cash reserves to continue for a minimum of two years with its objectives in undertaking clinical trials on *Melanotan* and further development of drug delivery technology. In this respect EpiTan has secured the services of international clinical development group Kendle Pty Limited to develop strategies for the regulatory approval of *Melanotan* for effectiveness in reducing skin cancer.

The format for trials already undertaken by Dr. Robert Dorr (advisor to EpiTan and the inventor of *Melanotan*) of the Arizona Cancer Centre in Tucson, Arizona will be followed. Under a physician's Investigational New Drug ('IND') program over 100 human volunteers received *Melanotan* by subcutaneous injection to provide evidence of safety, proof-of-principle for tanning of the skin and dosage levels. The protocols have been designed against the background of the successful IND trials having as indication the focus on appearance and disappearance of solar keratoses.

During the year, the Company has undertaken comprehensive marketing programs to publicise the *Melanotan* technology and its IPO. Part of this involved a coordinated program in consultation with a professional communications group and included:

- National presentations to investment advisors and the finance sector by the Directors and Dr Robert Dorr, the Company's scientific consultant and co-inventor of *Melanotan*.
- Discussions with other biotechnology experts who were advising in the financial and brokering sector.
- Discussions with dermatologists and anti-cancer councils.
- A media campaign, resulting in several articles being published in the Victorian and national papers, on several high-profile investment websites, and a radio interview.
- The creation of the EpiTan website, which has enabled convenient access to the prospectus, and now has a subscriber base of over 200.

In summary, while considerable energies of the Company's Directors and management have been focussed on the fundraisings during the year, development of clinical trials as described in the Company's prospectus is on-track.

With this in mind, the Company has every confidence that progress milestone announcements can be made in the near future.



Dr Wayne A. Millen
Managing Director

Directors' Report

Your directors present their report on the Company and its controlled entity for the financial period ending 30 June 2000.

Directors

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

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

Mr. Salthouse, Dr. Millen and Mr. McComas have been in office since incorporation to the date of this report. Dr. Agersborg and Dr. Winters were appointed on 22 August, 2000.

Incorporation

EpiTan was incorporated in Australia on 14 December 1999.

Principal Activities

The principal activity of the economic entity during the financial period was to raise capital to acquire the worldwide right to develop, produce and market '*Melanotan*', the Company's drug candidate in the field of skin tanning. *Melanotan* will rely on its natural tanning ability to assist in reducing the incidence of skin cancer.

Operating Results

The consolidated profit (loss) of the economic entity after providing for income tax amounted to (\$374,150).

Dividends Paid Or Recommended

No dividends were paid or declared during the financial period.

Review Of Operations

Operations reflected those of a conventional start-up company. Mezzanine capital was raised in February and March 2000, followed by establishment of a central office in Melbourne in April this year. Identification of, and meetings with research institutions for research

and development and trial testing on the *Melanotan* project was ongoing.

After Balance Date Events

On 22 August, the Company issued a prospectus to raise up to \$8 million capital and applied to the Australian Stock Exchange Limited (ASX) for EpiTan Limited to be admitted to the official list of the ASX.

Future Developments

The Company's strategies are to take a central role in the prevention and therapeutic treatment of skin cancer. Immediate plans of the Company are therefore to progress the development of its *Melanotan* drug candidates as swiftly as possible having in mind the quantum of capital raised pursuant to the prospectus. Further to this the Company will also pursue other opportunities related to its strategies as and when they emerge.

Environmental Regulations

The economic 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

Non-executive Chairman

Age: 63

Qualifications: CA (NZ) ASA CFTP

Experience:

Mr. Salthouse is a Chartered Accountant by background, having worked with Coopers & Lybrand internationally in New Zealand, England and East Africa.

He has been director of the merchant bank Morgan Grenfell Australia Limited, and managing director of Hawker Richardson Limited. While under the guidance of Mr. Salthouse, Hawker Richardson floated SecureNet Limited in 1997. It now forms part of the S&P ASX 200 Index.

He is currently managing director of listed company Iron Carbide Australia Limited, a director of SecureNet Limited and Chairman of Vincorp Wineries Limited, a small listed wine producer.

Interest in shares and options: 1,250,001 ordinary shares and 1,250,001 options to acquire ordinary shares.

Dr. Helmer P.K. Agersborg

Non-executive Deputy Chairman

Age: 71

Qualifications: BSc PhD

Experience:

Dr. Agersborg has international experience at the highest level in most aspects of the pharmaceutical industry. He has worked in clinical physiology, drug metabolism, chemical and pharmaceutical development, vaccines, quality assurance and regulatory affairs related to drug development. Dr. Agersborg has been involved with over 50 new drug approvals in the US.

He has been President of Wyeth-Ayerst Research, a division of American Home Products. Currently he continues as Chairman and President of MelanoTan Corporation, President of Afferon Corp, Vice-President of Maret Pharmaceuticals and director of CollaGenex Pharmaceuticals, all pharmaceutical companies.

Interest in share and options: Nil

Dr. Wayne A. Millen

Director – Chief Executive Officer

Age: 59

Qualifications: BSc (Hons) PhD FRACI C CHEM FAusIMM AFAIM

Experience:

Dr. Millen is a Chartered Chemist with extensive experience over 30 years in operating his own commercial enterprises.

In 1970, Dr. Millen commenced his own consultancy business, the Pilbara Group, for the testing and assessment of biological, environmental and mineral materials. This business became the largest of its type in the Australia Pacific region, ultimately expanding to five locations and employing 200 professional and support staff. The business was at the cutting edge of the materials testing industry and involved extensive research and development and commercialization of technology.

Dr. Millen has considerable experience in venture and development capital investment with an emphasis on companies involved in technical innovation. Internationally, he has been involved in joint ventures, marketing arrangements and strategic alliances with companies in China, Malaysia, Hong Kong, Kenya, the USA and Europe.

Interest in shares and options: 14,333,001 ordinary shares and 14,333,001 options to acquire ordinary shares.

Mr. Malcolm J. McComas

Director - Non-executive

Age: 46

Qualifications: BEc LLB FSIA

Experience:

Mr. McComas has 16 years investment banking experience and 5 years legal experience. As a corporate finance advisor in both equity and debt finance, acquisitions and divestments, he has undertaken advisory work for corporations, institutions and governments in various sectors including banking and insurance, consumer goods, manufacturing, media and telecommunications and healthcare.

Mr. McComas was a Managing Director and Co-Head of Investment Banking at Salomon Smith Barney Australia, Managing Director of Corporate Finance at County NatWest for 10 years and with Morgan Grenfell working in Melbourne, Sydney and London. He was formerly a lawyer, where he specialized in tax and corporate reorganizations.

Mr. McComas is a director of Grant Samuel, the Australian corporate advisory, property services and funds management group, and a director of Iron Carbide Australia Limited.

Interest in shares and options: 1,250,001 ordinary shares and 1,250,001 options to acquire ordinary shares.

Mr. Terry E. Winters

Director - Non-executive

Age: 58

Qualifications: BSc PhD

Experience:

Dr. Winters has had five years experience as an experimental chemist and licensing manager with Goodyear Tyre & Rubber Co. in Ohio and as licensing manager with Diamond Shamrock's DS Ventures, investing in life science projects. In 1983 he co-founded and is a General Partner of Columbine Venture funds, a \$125 million early stage venture capital fund in the Western US, focusing on investment in diagnostic, device and pharmaceutical companies.

From the Columbine investment regime successful companies have been, Orthologic Corp, CollaGenex Pharmaceuticals (both NASDAQ quoted), Nanophase Technologies, Creative Biomolecules, Neogen and Microgenic.

Dr. Winters is currently a director of Alliance Medical Corp, iPhysiciansNet, MelanoTan Corporation and the CEO of both Maret Pharmaceutical, and Afferon Corp. He is a special Limited Partner of Valley Ventures, a \$50 million venture capital fund based in Arizona.

Interest in shares and options: Nil

Directors' Emoluments

The emoluments of each director are as follows:

| | Salary | Directors Fees | Superannuat'n | Incentives | Non Cash Benefits | Total |
|----------------------|----------|----------------|---------------|------------|-------------------|----------|
| Mr. G. L. Salthouse | - | \$24,375 | - | - | - | \$24,375 |
| Dr. H.P.K. Agersborg | - | - | - | - | - | - |
| Dr. W.A. Millen | \$87,189 | - | \$6,563 | - | - | \$93,752 |
| Mr. M. J. McComas | - | \$16,250 | - | - | - | \$16,250 |
| Mr. T.E. Winters | - | - | - | - | - | - |

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

Meeting of Directors

During the financial period, 11 meetings of directors were held.
Attendances were:

| | No. eligible to attend | No. attended |
|----------------------|------------------------|--------------|
| Mr. G. L. Salthouse | 11 | 11 |
| Dr. H.P.K. Agersborg | - | - |
| Dr. W.A. Millen | 11 | 11 |
| Mr. M. J. McComas | 11 | 11 |
| Mr. T.E. Winters | - | - |

Indemnifying Officers or Auditor

During or since the end of the financial period the company has not paid any insurance premiums or given any indemnities for any person who is or has been an officer or auditor of the economic entity apart from the following:

As of the opening of the public offer pursuant to the company's prospectus (1 September, 2000) all of the directors and officers of the company have been insured against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity as director or officer of the company, other than conduct involving a willful breach of duty in relation to the company. The amount of the premium was \$29,040.

Options

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

| Expiry Date | Exercise Price | Number of Options |
|-----------------|----------------|-------------------|
| 31 October 2004 | \$0.70/share | 52,256,669 |

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:


G.L. SALTHOUSE
DIRECTOR


W.A. MILLEN
DIRECTOR

Dated this 22nd day of September, 2000.

Financials

Profit and Loss Statement for the period ended 30 June 2000

| | NOTE | Economic Entity 30 June 2000 \$ | Parent Entity 30 June 2000 \$ |
|--|------|---|---|
| Operating profit (loss) before income tax | 2 | (374,150) | (251,436) |
| Income tax attributable to operating profit | 3 | - | - |
| Operating profit (loss) after income tax | | (374,150) | (251,436) |
| Retained profits at beginning of the financial period | | - | - |
| Total available for appropriation | | (374,150) | (251,436) |
| Dividends paid or proposed | | - | - |
| Accumulated losses at end of the financial period | | (374,150) | (251,436) |

The accompanying notes form part of the financial statements.

Financials

Balance Sheet as at 30 June 2000

| | NOTE | Economic Entity 30 June 2000 \$ | Parent Entity 30 June 2000 \$ |
|-----------------------------------|-------|---|---|
| CURRENT ASSETS | | | |
| Cash | 13(a) | 6,568,726 | 6,568,592 |
| Receivables | 4 | 56,959 | 56,959 |
| Other | 5 | 55,960 | 55,960 |
| TOTAL CURRENT ASSETS | | 6,681,645 | 6,681,511 |
| NON CURRENT ASSETS | | | |
| Receivables | 6 | - | 7,474,866 |
| Property, plant & equipment | 7 | 94,204 | 94,204 |
| Investments | 8 | - | 169 |
| Intangibles | 9 | 7,352,187 | - |
| TOTAL NON CURRENT ASSETS | | 7,446,391 | 7,569,239 |
| TOTAL ASSETS | | 14,128,036 | 14,250,750 |
| CURRENT LIABILITIES | | | |
| Accounts Payable | 10 | 114,911 | 114,911 |
| Provisions | 11 | 8,628 | 8,628 |
| TOTAL CURRENT LIABILITIES | | 123,539 | 123,539 |
| TOTAL LIABILITIES | | 123,539 | 123,539 |
| NET ASSETS | | 14,004,497 | 14,127,211 |
| SHAREHOLDERS' EQUITY | | | |
| Issued Capital | 12 | 14,378,647 | 14,378,647 |
| Accumulated Losses | | (374,150) | (251,436) |
| TOTAL SHAREHOLDERS' EQUITY | | 14,004,497 | 14,127,211 |

The accompanying notes form part of the financial statements.

Financials

Statement of Cash Flows for the period ended 30 June 2000

| | NOTE | Economic Entity 30 June 2000 \$ | Parent Entity 30 June 2000 \$ |
|---|-------|---|---|
| CASH FLOW FROM OPERATING ACTIVITIES | | | |
| Payments to suppliers and employees | | (377,312) | (375,394) |
| Interest received | | 140,035 | 140,035 |
| | | | |
| Net Cash Provided by (used in) Operating Activities | 13(b) | (237,277) | (235,359) |
| CASH FLOW FROM INVESTING ACTIVITIES | | | |
| Net cash paid for property, plant and equipment | | (99,661) | (99,661) |
| Loans to wholly owned entity | | - | (36,642) |
| Net cash to acquire sub-licence | | (34,759) | - |
| Net cash paid for acquisition of subsidiary | | - | (169) |
| | | | |
| Net Cash Provided by Investing Activities | | (134,420) | (136,472) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Net proceeds from issue of shares | | 6,940,423 | 6,940,423 |
| Net cash provided by (used in) financing activities) | | 6,940,423 | 6,940,423 |
| | | | |
| Net increase/(decrease) in cash held | | 6,568,726 | 6,568,592 |
| | | | |
| Cash at beginning of the year | | - | - |
| | | | |
| Cash at end of the year | 13(a) | 6,568,726 | 6,568,592 |

The accompanying notes form part of the financial statements.

Financials

Notes to the financial statements for the period ended 30 June 2000

1. Statement Of 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 Law. 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 policies 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 17 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 been 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.

Outside interest in the equity and results of the entities that are controlled are shown as a separate item in the consolidated financial report.

(b) Income Tax

The economic entity adopts the liability method of tax-effect accounting whereby the income tax expense shown in the profit and loss statement is based on the operating profit before income tax 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 operating profit before income tax and taxable income, are brought to account as either provision for deferred income tax or an asset described as 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 & 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 |
|--|--------------------------|
| Buildings | 2% |
| Leasehold Improvements | 4-5% |
| Plant and equipment | 5-33% |
| Plant and equipment leased to external parties | 10-20% |
| Leased plan and equipment | 15% |

(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) 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 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**

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 subjects to the sub-licence.

(g) Accounts Payable

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

(h) Employee Entitlements

Provision is made for the company'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 economic entity to employee superannuation funds and are charged as expenses when incurred.

(i) Comparatives

EpiTan Limited was incorporated on 14 December 1999. Consequently there are no comparatives to these accounts.

Notes to the financial statements for the period ended 30 June 2000 (continued)

| | Economic Entity 30 June 2000 \$ | Parent Entity 30 June 2000 \$ |
|--|--|--|
| 2. OPERATING PROFIT | | |
| Operating profit before income tax has been determined after: | | |
| (a) Crediting as revenue: | | |
| Interest Revenue | 140,035 | 140,035 |
| (b) Charging as an expense: | | |
| Movements in provision: | | |
| Employee entitlements | 8,627 | 8,627 |
| Depreciation of property, plant & equipment | 5,457 | 5,457 |
| Amortisation of intangibles | 120,796 | - |
| 3. INCOME TAX EXPENSE | | |
| (a) The prima facie tax on operating profit is reconciled to the income tax expense as follows: | | |
| Prima facie tax payable on operating profit before tax at 36% | (134,694) | (90,517) |
| Tax effect of permanent differences: | | |
| - non allowable items | 38,643 | 37,965 |
| - non deductible amortisation | 43,487 | - |
| Write off FITB due to lack of virtual certainty | 52,564 | 52,552 |
| | <u>-</u> | <u>-</u> |
| (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. The benefits will only be obtained if the conditions set out in note 1(b) occur: | | |
| Tax losses | 33,498 | 33,486 |
| Net timing difference | 19,066 | 19,066 |
| | <u>52,564</u> | <u>52,552</u> |

| | Economic Entity 30 June 2000 \$ | Parent Entity 30 June 2000 \$ |
|--|--|--|
| 4. RECEIVABLES | | |
| Current | | |
| Sundry debtors | 56,959 | 56,959 |
| 5. OTHER ASSETS | | |
| Current | | |
| Prepayments | 55,960 | 55,960 |
| 6. RECEIVABLES | | |
| Non Current | | |
| Receivable from wholly owned entity | - | 7,474,866 |
| 7. PROPERTY, PLANT & EQUIPMENT | | |
| Office equipment | 75,286 | 75,286 |
| Less: Accumulated Depreciation | (4,933) | (4,933) |
| | <u>70,353</u> | <u>70,353</u> |
| Furniture & Fittings | 24,375 | 24,375 |
| Less: Accumulated Depreciation | (524) | (524) |
| | <u>23,851</u> | <u>23,851</u> |
| Total property, plant & equipment | <u>94,204</u> | <u>94,204</u> |
| 8. INVESTMENTS | | |
| Non Current | | |
| Investment in subsidiary at cost | - | 169 |
| 9. INTANGIBLES | | |
| Licence to develop and commercialise <i>Melanotan</i> – at cost | 7,472,983 | - |
| Less: Accumulated Amortisation | (120,796) | - |
| | <u>7,352,187</u> | <u>-</u> |

10. ACCOUNTS PAYABLE**Current**

| | | |
|----------------------------|---------|---------|
| Trade Creditors & Accruals | 114,911 | 114,911 |
|----------------------------|---------|---------|

11. PROVISIONS**Current**

| | | |
|----------------------------|-------|-------|
| Provision for Annual Leave | 8,628 | 8,628 |
|----------------------------|-------|-------|

12. ISSUED CAPITAL

| | | |
|--|-------------------|-------------------|
| 52,256,669 fully paid ordinary shares | 14,715,397 | 14,715,397 |
| Less: Transaction costs of share issue | <u>(336,750)</u> | <u>(336,750)</u> |
| | <u>14,378,647</u> | <u>14,378,647</u> |

(a) Movement in issued capital

| | | |
|--|-------------------|-------------------|
| • 14 December 1999: 3 ordinary shares issued on incorporation of the company. | 3 | 3 |
| • 16 February 2000: 16,833,000 ordinary shares issued to directors as part of Rollover Agreement. | 169 | 169 |
| • 21 February 2000: 24,256,666 ordinary shares issued via Information Memorandum. | 7,277,001 | 7,277,001 |
| • 3 May 2000: 11,167,000 ordinary shares issued as consideration for purchase of sub-licence to develop and commercialise <i>Melanotan</i> . | 7,438,224 | 7,438,224 |
| | <u>14,715,397</u> | <u>14,715,397</u> |

(b) Share Options

At 30 June 2000, share options existed which if exercised, would result in the issue of 52,256,69 fully paid ordinary shares. The exercise price is \$0.70 per share. The options may be exercised on or before 31 October 2004

13. CASH FLOW INFORMATION**(a) Reconciliation of Cash**

For the purposes of the statement of cash flows, each 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 |
| Cash at bank | 6,568,473 | 6,568,339 |
| | <u>6,568,726</u> | <u>6,568,592</u> |

(b) Reconciliation of Cash Flow from operations with Operating Profit (Loss)

| | | |
|---|------------------|------------------|
| Operating Profit (Loss) after Income Tax | (374,150) | (251,436) |
| Non Cash flows in operating profit | | |
| Deprecation Expense | 5,457 | 5,457 |
| Amortisation Expense | 120,796 | |
| Changes in assets and liabilities: | | (56,959) |
| (Increase)/Decrease in Receivables | (56,959) | (55,960) |
| (Increase)/Decrease in Prepayments | (55,960) | 114,911 |
| Increase/(Decrease) in Trade Creditors & Accruals | 114,911 | 8,628 |
| 8,628 | | |
| Increase/(Decrease) in Employee Entitlements | | |
| Cash Flows from Operations | <u>(237,277)</u> | <u>(235,359)</u> |

(c) Non – Cash Financing and Investing Activities

- (i) Share issue
11,167,000 ordinary shares were issued as consideration for the purchase of the sub-licence. Refer (ii)
- (ii) Acquisition of sub-licence
A sub-licence to develop and commercialise *Melanotan* was acquired by the issue of ordinary shares. Refer (i)

14. FINANCIAL INSTRUMENTS

Interest Rate Risk

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on those financial assets and financial liabilities is as follows.

| | Non-Interest Bearing | | Weighted Average Effective Interest Rate | | Floating Interest Rate | | Total | |
|------------------------------|---------------------------------|---------------------------------|--|--------------------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
| | Consol 30 June 1999 \$ | Parent 30 June 1999 \$ | Consol 30 June 1999 % | Parent 30 June 1999 % | Consol 30 June 1999 \$ | Parent 30 June 1999 \$ | Consol 30 June 1999 \$ | Parent 30 June 1999 \$ |
| Financial Assets | | | | | | | | |
| Cash at bank | - | - | 5.5% | 5.5% | 6,568,726 | 6,568,592 | 6,568,726 | 6,568,592 |
| Investment | - | 169 | - | - | - | - | - | 169 |
| Sundry debtor Receivable | 2,520 | 2,520 | - | - | - | - | 2,520 | 2,520 |
| -related party | - | 7,474,866 | - | - | - | - | - | 7,474,866 |
| Total | 2,520 | 7,477,555 | - | - | 6,568,726 | 6,568,592 | 6,571,246 | 14,046,147 |
| Financial Liabilities | | | | | | | | |
| Accounts Payable | 114,911 | 114,911 | - | - | - | - | 114,911 | 114,911 |
| Total | 114,911 | 114,911 | - | - | - | - | 114,911 | 114,911 |

Net Fair Values

The carrying value of assets and liabilities approximates the net fair value. No financial assets and liabilities are readily traded on organised markets.

The aggregate net fair values and carrying amounts of financial assets and liabilities are disclosed in the balance sheet and in the notes to and forming part of the accounts.

15. SUBSEQUENT EVENTS

The financial effect of the following events occurring after 30 June 2000 have not been brought to account in these financial statements.

(a) Public Share Offer

EpiTan Ltd has undertaken a public share offer and will issue between 8 million and 16 million shares at \$0.50 to raise between \$4.0 million and \$8.0 million. Transaction costs associated with the offer are expected to be between \$490,000 and \$640,000.

| | Economic Entity 30 June 2000 \$ | Parent Entity 30 June 2000 \$ |
|--|--|--|
| 16. LEASE COMMITMENTS | | |
| (a) Operating Lease Commitments | | |
| Non-cancellable operating leases Contracted for but not capitalised in the accounts: | | |
| Payable | 67,710 | 67,710 |
| - not later than 1 year | 120,046 | 120,046 |
| - later than 1 but not later than 5 years | - | - |
| - later than 5 years | - | - |
| | <u>187,756</u> | <u>187,756</u> |
| 17. GROUP COMPANIES | | |
| Subsidiary: MelanoTan (Australia) Pty Ltd Country of Incorporation: Australia Percentage Owned: 100% | | |
| 18. DIRECTORS' REMUNERATION AND RETIREMENT BENEFITS | | |
| Remuneration paid or payable to all directors of the entity. | 134,377 | 134,377 |
| Number of directors whose income from the entity was within the following bands: | | |
| \$10,000 - \$19,999 | 1 | 1 |
| \$20,000 - \$29,999 | 1 | 1 |
| \$90,000 - \$99,999 | 1 | 1 |

19. RELATED PARTY TRANSACTIONS

| | | | |
|-----|--|---------|---------|
| (a) | The ultimate parent entity is EpiTan Limited | | |
| (b) | Two companies controlled by Dr. A. Millen provided funding of day to day operations until EpiTan Limited was able to obtain its own funds. Total amounts paid to those director related entities was: | 135,723 | 135,723 |
| (c) | A company controlled by Mr. G. L. Salthouse provided secretarial services to EpiTan Limited. This amounted to: | 10,000 | 10,000 |
| (d) | The direct, indirect and beneficial holdings of directors and director-related entities in shares and share options of the parent entity at 30 June 2000 were: Shares: 16,833,003 fully paid ordinary \$1 shares Share options: 16,833,003 | | |

20. AUDITOR'S REMUNERATION

| | | |
|---|---------------|---------------|
| Remuneration of the auditor of the parent entity for: | | |
| - auditing the financial report | 6,900 | 6,900 |
| - other services | 16,455 | 16,455 |
| | <u>23,355</u> | <u>23,355</u> |

Directors' Declaration

The directors of the company declare that:

1. the financial statements and notes, as set out on pages 6 to 18:
 - (a) comply with Accounting Standards and the Corporations Law; and
 - (b) give a true and fair view of the financial position as at 30 June 2000 and performance for the period ended on that date of the company and economic entity;
2. In the director's 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.


G.L. SALTHOUSE
DIRECTOR


W.A. MILLEN
DIRECTOR

Dated this 22nd day of September, 2000.



INDEPENDENT AUDIT REPORT

To the Members,

EPITAN LIMITED
A.C.N. 089 644 119

SCOPE

We have audited the financial report of EpiTan Limited and controlled entity for the period ended 30 June 2000 as set out on pages 6 to 19. The financial report includes the consolidated financial report of the consolidated entity comprising the company and the entity it controlled at the period's end. The company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the company.

Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements and statutory requirements 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 and controlled entity is in accordance with:

- (a) the Corporations Law, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2000 and of their performance for the period ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations; and
- (b) other mandatory professional reporting requirements.

WILLIAM BUCK
Chartered Accountants
Melbourne.

K.W. GLYNN
Partner

Dated this 25th day of September, 2000.

