HALCYGEN
PHARMACEUTICALS

HALCYGEN PHARMACEUTICALS LIMITED

ABN 76 115 832 963

FINANCIAL REPORT

FOR THE PERIOD ENDED

30 JUNE 2006

CONTENTS

COMPANY DIRECTORY

DIRECTORS:	Hon. Ron Best Mr Craig Bottomley Dr Roger Aston
COMPANY SECRETARY:	Mr Aaron Finlay
REGISTERED AND PRINCIPAL OFFICE:	Level 12, BGC Centre 28 The Esplanade PERTH WA 6000 Telephone: (08) 9327 8989 Facsimile: (08) 9327 8900
BANKERS:	HSBC Bank Australia Limited 188 St George's Terrace PERTH WA 6000
AUDITORS:	KPMG Central Park 152 – 158 St Georges Terrace PERTH WA 6000
SOLICITORS:	Blake Dawson Waldron Level 19, Forrest Centre 221 St George's Terrace PERTH WA 6000
ABN:	76 115 832 963
DOMICILE AND COUNTRY OF INCORPORATION:	Australia
LEGAL FORM OF ENTITY:	Unlisted Public Company

The directors present their report together with the financial report of HalcyGen Pharmaceuticals Limited ("the Company") for the period ended 30 June 2006:

Directors

The directors of the Company at any time during or since the end of the financial period are:

Mr Craig Bottomley
Director
Appointed 28 November 2005

Mr Bottomley has over 20 years' experience in establishing and developing commercial ventures. Mr Bottomley has been involved in the manufacturing, importing, exporting and marketing of products for his own companies. He has established national and international sales distribution channels for both locally developed and imported product lines. Regions of commercial activities included the United States of Am erica, the United Kingdom, Hong Kong, Singapore and New Zealand.

After the year 2000, he divested his own company interests to focus on investments in public companies. He has close associations with the share broking industry and also with professional investors. He has been involved in numerous capital raisings and business strategies for listed companies.

Dr Roger Aston
Director
Appointed 18 August 2005

Previously at Wellcome plc (now Glaxo SmithKline), Dr Aston has more than 20 years of experience in the pharmaceutical and biotechnology industries. His previous positions have included CEO of Peptech Limited (Australia), director of Cambridge Antibody Technology Limited (UK) and Chairman of Cambridge Drug Discovery Limited (UK – now BioFocus plc). Dr Aston was also founder and CEO of Biokine Technology Ltd (UK) prior to its acquisition by the Peptech Group. Dr Aston was also a co-founder of pSivida Ltd.

During the past 20 years of his career, Dr Aston has been closely involved in the development of many successful pharmaceutical and biotechnology companies. With extensive experience including; negotiating global licence agreements, overseeing product registration activities with the US Food and Drug Administration (FDA), the establishment and implementation of guidelines and operating procedures for manufacturing and clinical trials, overseeing manufacturing of human and veterinary products, private and public fund raising activities and the introduction of corporate governance procedures in accordance with Greenbury and Cadbury guidelines (UK) and Sarbanes Oxley (USA).

Hon. Ron Best
Director
Appointed 26 July 2006

The Hon. Ron Best is a highly respected former member of the Victorian Parliament (1998 to 2002), having held a number of senior positions in the National Party including; Parliamentary Secretary, Shadow Minister for Housing and Spokesman for Health, Housing, Racing, Sport and Recreation. Mr Best has also been a member of various Parliamentary Committees including the Public Accounts and Estimates Committee, the Environmental and Natural Resources Committee and a Board Member of the Victorian Health Promotion Foundation. Prior to his political career, Mr Best was the owner of a successful food distribution business and General Manager of the Glacier Food Group. Mr Best is a consultant to PFD Food Services Pty Ltd, one of Australia's largest privately owned food service companies.

Mr Gavin Rezos
Director
Appointed 18 August 2005
Resigned 24 July 2006

Mr Rezos graduated in Law from the University of Western Australia, has been admitted as a barrister and solicitor in Western Australia, England and New South Wales and practised in London in corporate finance before joining the merchant bank Midland Montagu in 1990 (now HSBC Investment Bank plc).

Mr Rezos has extensive Australian and international investment banking experience across a range of industries and in a number of geographical locations including Europe, Latin America, the Middle East and Asia. Mr Rezos is currently Managing Director of ASX listed pSivida Limited and a principal of Viaticus Capital Pty Ltd, a specialist biotechnology venture capital and corporate advisory company. He was formerly an Investment Banking Director of the HSBC Group, with previous regional roles based in London, Sydney and Dubai.

Mr Anthony Grist
Director
Appointed 18 August 2005
Resigned 28 November 2005

Mr Grist has extensive experience of managing public companies and of capital markets. Mr Grist is currently Chairman of Amcom Telecommunications Limited, a publicly listed telecommunications carrier. He was previously the Head of Corporate Finance at an Australian stockbroking company before forming a private investment group.

Mr Grist has arranged equity funding in the telecommunications, healthcare, biotechnology and resources sectors for a number of Australian, UK and Canadian companies and has extensive international experience in the management of public companies.

Unless indicated otherwise, all directors held their position as a director throughout the entire financial period and up to the date of this report.

Company Secretary

Mr Aaron Finlay
Company Secretary
Appointed 18 August 2005

Mr Finlay is a chartered accountant with 15 years' experience in the accounting profession.

Mr Finlay joined ASX listed pSivida Limited in May 2004 as Chief Financial Officer and Company Secretary. His previous role was as INVESCO Australia's Chief Financial Officer where he had responsibility for the operations of finance, as well as the compliance, legal, and human resources functions. Prior to that position, Mr Finlay was head of group tax and treasury for INVESCO's global operations in London. Prior to joining INVESCO, Mr Finlay worked for PricewaterhouseCoopers (then Price Waterhouse) in London and Perth for 7 years.

Principal activity

The Company was dormant during the financial period.

Results and review of operations

For the financial period ending 30 June 2006, the loss attributable to members of the Company was $8,897.

The Company was incorporated as a public company on 18 August 2005, issuing 20,000,000 ordinary shares.

Significant changes in the state of affairs

In the opinion of the directors, there were no matters that significantly affected the state of affairs of the Company during the financial period in review.

Dividends

The directors recommend that no amount be paid by way of dividend. No dividend has been paid or declared since the start of the financial period.

Unissued shares under option

Unissued ordinary shares of the Company under option at the date of signing this report are as follows:

Date Options Granted	Expiry Date	Issue price of shares	Number under option
25 August 2005	30 June 2010	$0.10	5,000,000
27 July 2006	30 June 2010	$0.10	250,000

Events subsequent to balance date

On 24 July 2006 Mr Gavin Rezos resigned as a director of the Company.

On 26 July 2006 the Hon Ron Best was appointed a director of the Company.

On 31 July 2006 the Company entered into an agreement with Mayne Pharmaceuticals for the exclusive global rights to develop two proprietary drugs currently in development by Mayne Pharma, "Minocycline" and "Itraconazole". These two anti-infectives (bacterial and fungal infections respectively) will provide the initial focus for development and subsequent sale and/or license to a global pharmaceutical company or marketing partner. The current global market for these two products is approximately US$1 billion (out of a total anti-fungals market of US$5 billion).

On 18 September 2006 the Company issued 28,099,000 ordinary shares at 15 cents per share, raising $4,214,850, before issue costs.

Likely developments

Information on likely developments in the operations of the Company and the expected results of operations have not been included in this annual financial report because the directors believe it would be likely to result in unreasonable prejudice to the Company.

Directors' meetings

The number of directors' meetings held and number of meetings attended by each of the directors of the Company during the financial period were as follows:

	Board of directors	
	Held	**Attended**
Mr G Rezos	4	4
Mr C Bottomley	2	2
Dr R Aston	4	4
Mr A Grist	2	2

Insurance of officers

The Company did not pay insurance premiums for its directors and officers during the period ended 30 June 2006.

Non-audit services

The Company did not employ its auditor, (KPMG) to engage in any non-audit assignments during the financial period.

Auditor's independence declaration

The auditor's independence declaration is included on page 9 of the financial report.

Dated this 20th day of December 2006.

Signed in accordance with a resolution of the directors.

Roger Aston
Director

KPMG

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of HalcyGen Pharmaceuticals Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2006 there have been:

(i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

Robert Kelly

R C Kelly
Partner

Perth
Dated: 20/12/06

INCOME STATEMENT FOR THE PERIOD ENDED 30 JUNE 2006

	Notes	Company 2006 $
Revenues from continuing operations	2	744
Other income		-
Corporate office expenses		(9,641)
Loss before income tax		(8,897)
Income tax benefit	4	-
Loss from continuing operations		(8,897)
Loss attributable to members of the Company		(8,897)
Basic loss per share (cents)	5	(0.04)

This income statement should be read in conjunction with the accompanying notes to the financial statements.

BALANCE SHEET AS AT 30 JUNE 2006

	Notes	Company 2006 $
Current Assets		
Cash and cash equivalents	6	28,509
Receivables	7	50
Total Current Assets		28,559
Total Assets		28,559
Current Liabilities		
Payables	8	7,456
Total Current Liabilities		7,456
Total Liabilities		7,456
Net Assets		21,103
Equity		
Contributed equity	9	30,000
Accumulated losses	10	(8,897)
Total Equity		21,103

This balance sheet should be read in conjunction with the accompanying notes to the financial statements.

STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD ENDED 30 JUNE 2006

	Issued capital $	Accumulated losses $	Total $
Balance at 18 August 2005	20,000	-	20,000
Loss attributable to members of the parent entity	-	(8,897)	(8,897)
Total recognised income and expense	-	(8,897)	(8,897)
Shares issued, net of issue costs	10,000	-	10,000
Share options issued	-	-	-
Balance at 30 June 2006	30,000	(8,897)	21,103

The above statements of changes in equity should be read in conjunction with the accompanying notes to the financial statements.

CASH FLOW STATEMENT FOR THE PERIOD ENDED 30 JUNE 2006

	Notes	Company 2006 $
Cash flow from operating activities		
Cash payments in the course of operations		(2,235)
Interest received		744
Net cash flows from operating activities	13(b)	(1,491)
Cash flows from financing activities		
Proceeds from issue of shares		30,000
Net cash flows from financing activities		30,000
Net (decrease) / increase in cash held		28,509
Cash at the beginning of the financial period		-
Cash at the end of the financial period	13(a)	28,509

This cash flow statement should be read in conjunction with the accompanying notes to the financial statements.

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

HalcyGen Pharmaceuticals Ltd ("the Company") is a company domiciled in Australia. These financial statements are presented in Australian dollars. The financial report was authorised for issue by the directors on 19 December 2006.

The significant policies which have been adopted in the preparation of this financial report are:

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with Australian equivalents to International Financial Reporting Standards (A-IFRS), Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

Application of AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards"

The financial statements are the first HalcyGen Pharmaceuticals Limited financial statements to be prepared in accordance with A-IFRS. AASB 1 "First-time Adoption of Australian Equivalents to International Financial Reporting Standards" has been applied in preparing these financial statements.

Historical Cost Convention

These financial statements have been prepared on the basis of historical costs and except where stated, does not take into account changing money values or fair values of non-current assets.

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ended 30 June 2006. There are no anticipated changes to HalcyGen's accounting policies in future periods as a result of these changes.

These accounting policies have been consistently applied by the Company.

(b) Revenue recognition

Interest revenue

Interest revenue is recognised as it accrues, taking into account the effective yield on the financial asset.

(c) Taxation

Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

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

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

Goods and Services Tax (GST)
Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case, it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST recoverable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

(d) Earnings per share

Basic earnings per share ("EPS") is calculated by dividing the net profit attributable to members of the parent entity for the reporting period, after excluding any costs of servicing equity (other then ordinary shares and converting preference shares classified as ordinary shares of EPS calculation purposes), by weighted average number of ordinary shares of the Company, adjusted for any bonus issue.

(e) Trade Receivables

Trade and other receivables are stated at their amortised cost less impairment losses. See accounting policy (g).

(f) Payables

Payables are stated at their amortised cost. Payables are not interest bearing and are normally settled on 60 day terms.

(g) Impairment

The carrying amounts of the Company's assets, other than deferred tax assets (see accounting policy c), are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the income statement, unless an asset has previously been revalued, in which case the impairment loss is recognised as a reversal to the extent of that previous revaluation with any excess recognised through profit or loss.

Calculation of recoverable amount
The recoverable amount of the Company's receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e., the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted.

Impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. Significant receivables are individually assessed for impairment.

The recoverable amount of other assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(h) Employee benefits

Wages, salaries, annual leave and sick leave
Liabilities for employee entitlements to wages, salaries, annual leave and sick leave expected to be settled within 12 months of the period-end represent present obligations resulting from employees' services provided up to the reporting date, calculated at undiscounted amounts based on current wage and salary rates that the Company expects to pay as at reporting date, including related on-costs.

Superannuation
The Company and other controlled entities contribute to several defined contribution superannuation plans. Contributions are charged against income as they are made.

(i) Cash and cash equivalents

For cash flow statement preparation purposes, cash and cash equivalents includes cash on hand, deposits held on call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(j) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(k) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different from those of segments operating in other economic environments.

(l) Period of report and comparative information

As a result of the Company's incorporation on 18 August 2005, the annual report covers the period from 18 August 2005 to 30 June 2006.

2. REVENUE FROM CONTINUING OPERATIONS

	2006
	$
Revenues from continuing operations	
Interest	744
Total revenues from ordinary activities	744

3. AUDITORS' REMUNERATION

Audit Services	
Auditors of the Company	
- audit and review of financial reports	3,000

4. TAXATION

The prima facie tax, using tax rates applicable in the country of operation, on operating loss differs from the income tax provided in the accounts as follows:

Loss from ordinary activities before income tax expense	(8,897)
Prima facie tax benefit on loss from ordinary activities at 30%	2,669
Tax effect of amounts which are not deductible (taxable) in the calculating taxable income	-
Movements in deferred taxes in relation to temporary differences	-
Income tax benefit attributable to ordinary activities	2,669
Tax effect of current year tax losses for which no deferred tax asset has been recognised	(2,669)
Income tax expense / (benefit)	-

Net deferred tax assets have not been brought to account as it is not probable within the immediate future that tax profits will be available against which deductible temporary differences and tax losses can be utilised.

5. EARNINGS PER SHARE

Classification of securities as ordinary shares

The Company has only one category of ordinary shares included in basic earnings per share.

Classification of securities as potential ordinary shares

There are currently no securities to be classified as dilutive potential ordinary shares on issue and therefore no diluted earnings per share has been calculated or disclosed.

	2006 Number
Weighted average number of ordinary shares used in the calculation of basic earnings per share	20,977,918
	$
Basic Loss	(8,897)

6. CASH AND CASH EQUIVALENTS

Cash	28,509

7. RECEIVABLES

	2006 $
Current	
Other debtors	50

Other debtors include amounts outstanding for goods and services tax (GST). These amounts are non-interest bearing and have repayment terms applicable under the relevant government authority.

8. PAYABLES

	2006 $
Current	
Other creditors	7,456

(a) Trade and other creditor amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 days or recognition.

9. CONTRIBUTED EQUITY

(a) Issued capital

Ordinary shares, fully paid	30,000

(b) Movements in share capital

	2006 Number	2006 $
Balance at beginning of year	20,000,000	20,000
Issued during the year		
Share placements	1,000,000	10,000
Balance at end of year	21,000,000	30,000

(c) Share Options

2006 year

HalcyGen Pharmaceuticals Limited	Exercise price	Expiry date	Balance at beginning of year Number	Granted during the year Number	Exercised during the year Number	Expired during the year Number	Forfeited during the year Number	Balance at end of year Number
Unlisted options	$0.10	30/06/10	-	5,000,000	-	-	-	5,000,000

(d) Terms and conditions of contributed equity

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings.

In the event of winding up of the Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

10. ACCUMULATED LOSSES

	2006
Balance at beginning of period	-
Net loss attributable to members of the	(8,897)

Company	
Balance at end of period	(8,897)

11. SEGMENT REPORTING

The Company operates in one geographical segment, being Australia.

12. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors and other key management personnel

The directors of HalcyGen Pharmaceuticals Limited during the financial year were:

- Dr R Aston (appointed 18 August 2005)
- Mr C Bottomley (appointed 28 November 2005)
- Mr G Rezos (appointed 18 August 2005)
- Mr A Grist (appointed 18 August 2005, resigned 28 November 2005)

Other key management personnel consisted of:

- Mr A Finlay

(b) Key management personnel compensation

	2006 $
Short-term employee benefits	-
Post-employment benefits	-
Share-based payments	-
	-

(c) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on exercise of such options

5,000,000 options were granted to key management personnel on 25 August 2005 with an exercise price of $0.10 and an expiry date of 30 June 2010 as detailed in note 12 (c) (i) below.

The fair value of the services received in return for the share options granted was measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted was determined based on the Black-Scholes formula and was not material at the date the options were granted. The model inputs were the share price of $0.001, the exercise price of $0.10, expected volatility of 70 per cent, no expected dividends, a term of 4.36 years and a risk free interest rate of 5.55%.

(ii) *Option holdings*

The number of options over ordinary shares in the Company held during the financial year by each director of Alto Energy International Limited and other key management personnel of the group, including their personally related parties, are set out below.

Name	Balance at start of the year Number	Granted during the year as remun-eration Number	Exercised during the year Number	Other changes during the year Number	Balance at end of the year Number	Options Vested and exercisable at end of the year Number
Dr R Aston	-	-	-	-	-	-
Mr A Grist *	-	-	-	1,250,000	1,250,000	1,250,000
Mr G Rezos	-	-	-	1,250,000	1,250,000	1,250,000
Mr C Bottomley	-	-	-	2,500,000	2,500,000	2,500,000
Mr A Finlay	-	-	-	-	-	-
Total	-	-	-	5,000,000	5,000,000	5,000,000

* Balance at date of resignation

(iii) *Share holdings*

The number of shares in the Company held during the financial period by each director of HalcyGen Pharmaceuticals Limited, including their personally related parties, is set out below. There were no shares granted during the reporting period as compensation.

2006

Name	Balance at start of the period Number	Received during the period on exercise of options Number	Other changes during the period Number	Balance at end of the period Number
Directors				
Dr R Aston	9,600,000	-	(549,000)	9,051,000
Mr A Grist *	4,000,000	-	(1,000,000)	3,000,000
Mr G Rezos	4,000,000	-	(1,000,000)	3,000,000
Mr C Bottomley	-	-	3,549,000	3,549,000
Mr A Finlay	1,000,000	-	-	1,000,000
Total	18,600,000	-	1,000,000	19,600,000

* Balance at date of resignation

(d) Other transactions with key management personnel

The Company had no transactions with related parties during the financial period ended 30 June 2006.

Amounts owing to directors, director-related parties and other related parties at 30 June 2006 were nil.

13. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Cash

For the purposes of the cash flow statement, cash includes cash on hand and in banks and deposits at call, net of outstanding bank overdrafts.

Cash at the end of the year as shown in the cash flow statement is reconciled to the related item in the balance sheet as follows:

	2006
	$
Cash assets	28,509

Cash at bank attracts floating interest at current market rates.

(b) Reconciliation of operating loss after income tax to net cash used in operating activities

Operating loss after income tax	(8,897)
Changes in assets and liabilities	
(Increase) in receivables	(50)
Increase in creditors	7,456
Net cash (used in) operating activities	(1,491)

14. FINANCIAL INSTRUMENTS

(a) Interest rate risk exposures

The Company is exposed to interest rate risk through primary financial assets and liabilities. The carrying amounts of financial assets and financial liabilities (including derivatives) held at balance date approximate their estimated net fair values and are given below. Short term instruments where carrying amounts approximate net fair values, are omitted. The net fair value of a financial asset or a financial liability is the amount at which the asset could be exchanged, or liability settled in a current transaction between willing parties after allowing for transaction costs.

The Company's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

	Notes	Floating interest rate $	Non-interest bearing $	Total $	Weighted rate %
2006					
Financial assets					
Cash	6	28,509	-	28,509	4.15%
Financial liabilities					
Payables	7	-	7,456	7,456	

(b) Net fair values of financial assets and liabilities

The net fair values of the financial assets and liabilities at balance date of HalcyGen Pharmaceuticals Limited approximate the carrying amounts in the financial statements, except where specifically stated.

(c) Credit risk exposure

The Company's maximum exposure to credit risk to each class of recognised financial asset is the carrying amount, net of any provisions for doubtful debts, of those assets as indicated in the balance sheet. As the Company does not currently have any significant debtors, lending, stock levels or any other credit risk, a formal credit risk management policy is not maintained.

15. CONTINGENCIES AND COMMITMENTS

The Company had no contingent liabilities or commitments as at 30 June 2006.

16. DIVIDENDS

No dividend has been declared or paid during the current financial year or the prior financial year.

The Company does not have any franking credits available for current or future years as it is not in a tax paying position.

17. SUBSEQUENT EVENTS

On 24 July 2006 Mr Gavin Rezos resigned as a director of the Company.

On 26 July 2006 the Hon Ron Best was appointed a director of the Company.

On 31 July 2006 the Company entered into an agreement with Mayne Pharmaceuticals for the exclusive global rights to develop two proprietary drugs currently in development by Mayne Pharma, "Minocycline" and "Itraconazole". These two anti-infectives (bacterial and fungal infections respectively) will provide the initial focus for development and subsequent sale and/or license to a global pharmaceutical company or marketing partner. The current global market for these two products is approximately US$1 billion (out of a total anti-fungals market of US$5 billion).

On 18 September 2006 the Company issued 28,099,000 ordinary shares at 15 cents per share, raising $4,214,850, before issue costs.

DIRECTORS' DECLARATION

1 In the opinion of the directors of HalcyGen Pharmaceuticals Limited ("the Company"):

(a)the financial statements and notes, set out on pages 9 to 24, are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the financial position of the Company as at 30 June 2006 and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and

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

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2 The directors have been given the declarations by the chief executive officer and chief financial officer for the financial year ended 30 June 2006 pursuant to Section 295A of the Corporations Act 2001.

Dated at.......................................Perth......20th...... day of......December......2006.

Signed in accordance with a resolution of the directors:

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Roger Aston
Director

KPMG

Independent audit report to members of HalcyGen Pharmaceuticals Limited

Scope

The financial report and directors' responsibility

The financial report comprises the income statement, statement of changes in equity, balance sheet, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for HalcyGen Pharmaceuticals Limited (the "Company"), for the year ended 30 June 2006.

The directors of the Company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for preparing the relevant reconciling information regarding the adjustments required under the Australian Accounting Standard AASB 1 *First-time Adoption of Australian equivalents to International Financial Reporting Standards*.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the Company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001*, Australian Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the Company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

Audit opinion

In our opinion, the financial report of HalcyGen Pharmaceuticals Limited is in accordance with:

a) the *Corporations Act 2001*, including:

   i. giving a true and fair view of the Company's financial position as at 30 June 2006 and of its performance for the financial year ended on that date; and

KPMG

ii. complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b) other mandatory financial reporting requirements in Australia.

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Robert Kelly

R C Kelly
Partner

Perth
Dated: 20/12/06