HALCYGEN PHARMACEUTICALS LIMITED

ABN 76 115 832 963

FINANCIAL REPORT

FOR THE YEAR ENDED

30 JUNE 2008

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CORPORATE INFORMATION

DIRECTORS:	Dr Roger Aston (Chairman and CEO) Mr Craig Bottomley Hon. Ron Best Mr Bruce Mathieson Mr Ian Scholes
COMPANY SECRETARY:	Mr Aaron Finlay
REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS:	Level 10 470 Collins Street Melbourne VIC 3000 Telephone: (03) 8614 7777 Facsimile: (03) 9614 7022
AUDITORS:	Ernst & Young 8 Exhibition Street Melbourne VIC 3000
SOLICITORS:	Blake Dawson Waldron Level 39 101 Collins Street Melbourne VIC 3000
SHARE REGISTRY:	Computershare Investor Services Pty Ltd Level 2, Reserve Bank Building 45 St George's Terrace Perth WA 6000 Telephone: (08) 9323 2000 Facsimile: (08) 9323 2033
BANKERS:	ANZ Banking Group Limited Level 6 287 Collins Street Melbourne VIC 3000
ABN:	76 115 832 963
DOMICILE AND COUNTRY OF INCORPORATION:	Australia
LEGAL FORM OF ENTITY:	Public company listed on the Australian Securities Exchange

Your directors submit their report for the year ended 30 June 2008.

DIRECTORS

The names and details of the Company's directors in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Dr Roger Aston
Chairman and Chief Executive Officer
Appointed 18 August 2005

Previously at Wellcome plc (now Glaxo SmithKline), Dr Roger 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).

Mr Craig Bottomley
Executive Director and Chief Operating Officer
Appointed 28 November 2005

Mr Craig 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 America, 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.

Hon. Ron Best
Non-Executive 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 of Australia 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 Bruce Mathieson
Non-Executive Director
Appointed 16 February 2007

Mr Bruce Mathieson is currently a director and chief operating officer of Australian Leisure and Hospitality Group Limited, a joint venture between Woolworths Limited and the Mathieson Family. The ALH Group owns approximately 260 hotels and 450 retail outlets across Australia, and employs more than 14,000 staff. The total annual turnover of the ALH Group is in excess of $1.6 billion.

Mr Mathieson has operated in the hotel, leisure and hospitality industry since 1974 and is a well respected member of the Australian business community. He has previously served as a director of the Carlton Football Club. He is trained as an engineer, and brings management and transactional experience from across a number of industries to the Board.

Mr Ian Scholes
Non-Executive Director
Appointed 17 October 2007

Mr Ian Scholes has extensive financial and corporate advisory experience, both in Australia and internationally. Mr Scholes has held senior roles within Merrill Lynch Australia, most recently as Vice Chairman of Investment Banking and continues to have an ongoing advisory role. Previously Mr Scholes has held the position of Executive General Manager in National Australia Bank, running their corporate and institutional banking division. Mr Scholes is currently a partner and Chief Executive Officer of Chord Capital Pty Ltd, a director of St Vincent's Health and is Chairman of the St Vincent's Foundation.

Directorships of other listed companies

Name	***Company***	***Commenced***	***Ceased***
Dr R Aston	Clinuvel Pharmaceuticals Limited	4 April 2005	-
	pSivida Limited	1 December 2000	15 November 2005
		20 December 2006	1 May 2007
	Avantogen Limited	5 February 2001	16 September 2005
	Ascent Pharmahealth Ltd	4 February 2008	-
Mr C Bottomley	-	-	-
Hon R Best	-	-	-
Mr B Mathieson	-	-	-
Mr I Scholes	-	-	-

Interests in the shares and options of the Company

As at the date of this report, the interests of the directors in the shares and options of HalcyGen Pharmaceuticals Limited were:

Name	***Number of ordinary shares***	***Number of options over ordinary shares***
Dr R Aston	9,551,000	1,250,000
Mr C Bottomley	2,280,000	3,250,000
Hon R Best	184,000	1,000,000
Mr B Mathieson	3,987,345	250,000
Mr I Scholes	50,000	250,000

COMPANY SECRETARY

Mr Aaron Finlay
Appointed 18 August 2005

Mr Finlay is a Chartered Accountant and Chartered Company Secretary with over 16 years' experience in the accounting and finance profession.

Mr Finlay was previously Chief Financial Officer and Company Secretary for ASX and NASDAQ listed pSivida Limited. Prior to this he was 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. Mr Finlay is currently a non-executive director of ASX-listed GSF Corporation Limited and ETW Corporation Limited.

PRINCIPAL ACTIVITY

The Company's principal activity during the year was to bring to the market reformulated existing drugs, known as "SuperGenerics".

RESULTS AND REVIEW OF OPERATIONS

The Company's net loss attributable to members of the Company for the financial year ended 30 June 2008 was $3,472,806 (financial year ended 30 June 2007: $1,823,975).

On 5 July 2007, the Company announced the successful evaluation of its lead product, an anti-fungal drug, SUBA-Itraconazole in the first of two pharmacokinetic studies in man. The trial demonstrated that the Company's formulation of Itraconazole is absorbed twice as effectively as the lead marketed form of the drug, Sporonox.

On 6 August 2007, the Company announced its second clinical study of its lead product, anti-fungal drug SUBA-Itraconazole. The trial optimised the capsule formulation that the Company aims to evaluate in phase III trials and file for registration next year.

On 11 September 2007, the Company announced the successful evaluation of the second pharmacokinetic study which demonstrated that the Company's formulation of Itraconazole is absorbed twice as effectively as the lead marketed form of the drug and was absorbed effectively in the fed and fasted states.

On 17 October 2007, the Company announced that Mr Ian Scholes had been appointed as a non-executive director.

After completing its initial public offering in June 2007, HalcyGen announced to its shareholders the successful completion of two pharmacokinetic studies with SUBA-Itraconazole. This brought the number of studies conducted with SUBA-Itraconazole in Australia to five and clearly demonstrated the superiority of the SUBA formulation compared with the market leading formulation, Sporanox® (Janssen Limited, a subsidiary of Johnson and Johnson).

As required by regulatory authorities in the US, in anticipation for filing for registration, commercial scale batches of SUBA-itraconazole have been manufactured. This once again demonstrates HalcygGen's excellent relationship with its partner Mayne Pharma International (Hospira Inc.).

In October 2007 HalcyGen met with the FDA in the US to establish a clear route to registration. Following this, in May 2008, the FDA allowed HalcyGen's Investigational New Drug (IND) application which enabled the commencement of US clinical studies.

Under HalcyGen's IND a program of five US pharmacokinetic studies approved by the FDA is ongoing. A multi-centre comparative study in onychomycosis (toe-nail fungal infection) will begin in the US in September 2008.

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 year, other than those referred to in the review of operations.

DIVIDENDS

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

UNISSUED SHARES UNDER OPTION

As at the date of this report there were 6,500,000 unissued ordinary shares under option (6,500,000 at the reporting date). Details of these options are as follows:

Date Options Granted	***Expiry Date***	***Exercise price***	***Number under option***
25 August 2005	30 June 2010	$0.10	3,000,000
25 July 2006	30 June 2010	$0.10	250,000
17 April 2007	17 April 2011	$0.60	1,250,000
17 April 2007	17 April 2012	$0.60	1,750,000
30 November 2007	30 November 2012	$0.60	250,000

Option holders do not have any right, by virtue of the option, to participate in any share issue of the Company.

Shares issued as a result of the exercise of options
During the financial year no options were exercised.

EVENTS SUBSEQUENT TO BALANCE DATE

On 17 July 2008 the Company announced that it had successfully completed the recruitment and dosing of the first of three pivotal pharmacokinetic studies scheduled under its Investigational New Drug application recently approved by the FDA.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

REMUNERATION REPORT (audited)

This report outlines the remuneration arrangements in place for the key management personnel ("KMP") and includes all directors and executives of HalcyGen Pharmaceuticals Limited.

Executives are those directly accountable for the operational management and strategic direction of the Company.

Key management personnel details

The directors of HalcyGen Pharmaceuticals Limited during the year were:

- Dr Roger Aston – Chairman and Chief Executive Officer
- Mr Craig Bottomley – Executive Director and Chief Operating Officer
- Hon Ron Best – Non-Executive Director
- Mr Bruce Mathieson – Non-Executive Director
- Mr Ian Scholes – Non-Executive Director (appointed 17 October 2007)

The Company executive of HalcyGen Pharmaceuticals Limited during the year was:

- Mr Aaron Finlay – Company Secretary and Chief Financial Officer

In addition to the Chief Executive Officer and Chief Operating Officer, Mr Finlay was the only other executive of the Company during the year.

Remuneration Policy

The Board of Directors is responsible for determining and reviewing compensation arrangements for the Directors and Executive Officers. The Board will assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team. Such officers are paid their base emolument in cash only.

To assist in achieving this objective, the Board will link the nature and amount of executive Directors' and officers' emoluments to the Company's financial and operational performance.

REMUNERATION REPORT (audited) continued

Remuneration paid to the Company's directors and executives is also determined with reference to the market level of remuneration for other listed biotechnology companies in Australia. This assessment is undertaken with reference to advice and comment provided by various executive search firms operating in the sector. Consideration of the Company's predominantly research and development stage of development is taken into account in this review.

Fixed remuneration

Executive directors
Fixed remuneration consists of a base remuneration package, which includes directors' fees, salaries, consulting fees and employer contributions to superannuation funds.

Fixed remuneration levels for executive directors and executive officers are reviewed annually by the Board through a process that considers the employee's personal development, achievement of key performance objectives for the year, industry benchmarks wherever possible and CPI data.

Key performance indicators (KPIs) are individually tailored by the Board for each executive director and executive officer each year, and reflect an assessment of how that employee can fulfil their particular responsibilities in a way that best contributes to Company performance and shareholder wealth in that year. The Board determines actual payments to directors and reviews their remuneration annually, based on independent external advice, relativities and the duties and accountabilities of the directors.

Non-executive directors
Total remuneration for non-executive directors is determined by resolution of shareholders. The maximum available aggregate remuneration approved for non-executive directors is $200,000. Non-executive directors do not receive any other retirement benefits other than a superannuation guarantee contribution required by government regulation, which is currently 9% of their fees, except where arrangements are made with the non-executive director whereby directors' fees are paid as contributions to a superannuation fund.

Non-executive directors may provide specific consulting advice to the Company upon direction from the Board. Remuneration for this work is made at market rates.

Performance-linked remuneration

Key management personnel may receive bonuses and/or share options based on achievement of specific goals related to performance against individual KPIs and to the performance of the Company as a whole as determined by the directors based on a range of factors. These factors include traditional financial considerations such as operating performance, cash consumption, deals concluded, increases in the market capitalisation of the Company and successful capital raisings and also industry-specific factors relating to the advancement of the Company's research and development activities and intellectual property portfolio, collaborations and relationships with scientific institutions, third parties and internal employees. These measures were chosen as they represent the key drivers for the short term success of the business and provide a framework for delivering long term value.

REMUNERATION REPORT (audited) continued

Stock options are awarded under the Employee Share Option Plan to the Company's executive directors and executives and are determined on the individuals' performance against milestones, the level of involvement in achieving the corporate milestones and goals and to an extent the relativity between executives. Non-executive directors may also participate in the Company's Employee Share Option Plan, given the Company's size and stage of development and the necessity to attract the highest calibre of professionals to the role, whilst maintaining the Company's cash reserves.

Elements of key management personnel remuneration

Remuneration packages contain the following key elements:

a) Short-term benefits – salary / fees, bonuses and other benefits;

b) Post-employment benefits – superannuation; and

c) Share-based payments – share options granted under the Employee Share Option Plan as disclosed in Note 22 to the financial statements.

The following table discloses key management personnel remuneration during the financial year from the Company:

2008

	Short-term benefits			Post-employment	Share-based payments	Total	Proportion related to performance
	Directors' fees	Salary	Other benefits	Super-annuation	Options *		
	$	$	$	$	$	$	%
Directors							
Dr R Aston	35,000	315,000	-	31,500	141,434	522,934	27.0%
Mr C Bottomley	35,000	176,505	-	19,035	84,861	315,401	26.9%
Hon R Best	-	-	-	38,150	58,165	96,315	-
Mr B Mathieson	35,000	-	-	3,150	56,574	94,724	-
Mr I Scholes #	26,250	-	-	2,363	38,230	66,842	-
Total	131,250	491,505	-	94,198	379,264	1,096,217	
Executive							
Mr A Finlay	-	144,000	41,000	18,000	56,574	259,574	21.8%

* These options had no intrinsic value at the time of issue.

\# A total of 250,000 options were issued to Mr I Scholes on 30 November 2007. The options are exercisable at $0.60 each. The options are subject to a one year vesting period and expire on 30 November 2012. Each option had a fair value of $0.26 at grant date.

REMUNERATION REPORT (audited) continued

2007

	Short-term benefits			Post-employ-ment	Share-based payments	Total	Proportion related to perfor-mance
	Directors' fees	Salary	Other benefits	Super-annuation	Options * #		
	$	$	$	$	$	$	%
Directors							
Dr R Aston	35,000	212,334	-	21,450	193,759	462,543	41.9%
Mr C Bottomley	32,083	91,667	-	11,137	116,255	251,142	46.3%
Hon R Best	-	-	-	34,971	37,194	72,165	-
Mr B Mathieson	14,583	-	-	1,313	14,581	30,477	-
Mr G Rezos	-	-	-	-	-	-	-
Total	81,666	304,001	-	68,871	361,789	816,327	
Executive							
Mr A Finlay	-	16,667	-	1,500	77,503	95,670	81.0%

* These options had no intrinsic value at the time of issue.

\# A total of 250,000 options were issued to a party related to Hon R Best on 25 July 2006. The options are exercisable at $0.10 each. The options, which were subject to a one year vesting period, vested on 25 July 2007 and expire on 30 June 2010. Each option had a fair value of $0.10 at grant date.

A total of 1,250,000 options were issued to parties related to Dr R Aston (625,000 options), Mr C Bottomley (375,000 options) and Mr A Finlay (250,000 options) on 17 April 2007. The options are exercisable at $0.60 each. The options vested at the time of issue and expire on 17 April 2011. Each option had a fair value of $0.25 at grant date.

A further 1,750,000 options were issued to parties related to Dr R Aston (625,000 options), Mr C Bottomley (375,000 options), Hon R Best (250,000 options), Mr B Mathieson (250,000 options) and Mr A Finlay (250,000 options) on 17 April 2007. The options are exercisable at $0.60 each. The options, which were subject to a one year vesting period, vested on 17 April 2008 and expire on 17 April 2012. Each option had a fair value of $0.28 at grant date.

REMUNERATION REPORT (audited) continued

Value of options issued to key management personnel

The following table discloses the options granted as part of remuneration during the year:

	Options granted Value at grant date	Options exercised Intrinsic value at exercise date	Options lapsed Value at time of lapse	Total value of options granted, exercised and lapsed	Value of options included in remuneration for the year	Percentage of total remuneration for the year that consists of options
	$	$	$	$	$	%
Dr R Aston	-	-	-	-	141,434	27.0%
Mr C Bottomley	-	-	-	-	84,861	26.9%
Hon R Best	-	-	-	-	58,165	60.4%
Mr B Mathieson	-	-	-	-	56,574	59.7%
Mr I Scholes	65,384	-	-	65,384	38,230	57.2%
Mr A Finlay	-	-	-	-	56,574	21.8%
Total	65,384	-	-	65,384	435,838	

Employment contracts

The Company has entered into standard appointment agreements (fixed remuneration and short term incentives) with all key management personnel. These agreements provide for an indefinite period of appointment subject to reappointment requirements at annual general meetings under the terms of the constitution. The employment may be terminated pursuant to the Corporations Act and the Company's Constitution, in certain prescribed circumstances (such as bankruptcy, conviction of an offence, unsound mind). The director may resign by notice in writing at any time.

Company performance

In considering the Company's performance and its effect on shareholder wealth, the Board have regard to a broad range of factors, some of which are financial and others of which relate to the scientific progress on the Company's projects, results of trials, relationship building with research institutions, collaborations etc. The Board also gives consideration to the Company's result and cash consumption for the year. It does not utilise earnings per share as a performance measure or contemplate payment of any dividends in the short to medium term given that all efforts are currently being expended to build the business and establish self-sustaining revenue streams. The Company is of the view that any adverse movement in the Company's share price related to an industry trend or other similar non-specific economic condition should not be a punitive factor in assessing the performance of individuals.

DIRECTORS' MEETINGS

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

	Board of directors	
	Held	***Attended***
Dr R Aston	9	9
Mr C Bottomley	9	9
Hon R Best	9	9
Mr B Mathieson	9	7
Mr I Scholes	7	7

INDEMNIFICATION AND INSURANCE OF OFFICERS

During the financial year, the Company maintained an insurance policy which indemnifies the Directors and Officers of HalcyGen Pharmaceuticals Limited in respect of any liability incurred in connection with the performance of their duties as Directors or Officers of the Company. The Directors made a personal contribution toward the premium to satisfy Section 199B of the Corporations Act 2001. The Company's insurers have prohibited disclosure of the amount of the premium payable and the level of indemnification under the insurance contract.

NON-AUDIT SERVICES

The following non-audit services were provided by the Company's auditor, Ernst & Young Australia. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

	$
Taxation services	12,750

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration received by the Company is included on page 14, following the directors' report.

Dated this 29th day of September 2008.

Signed in accordance with a resolution of the directors.

Roger Aston
Director

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Auditor's Independence Declaration to the Directors of HalcyGen Pharmaceuticals Limited

In relation to our audit of the financial report of HalcyGen Pharmaceuticals Limited for the financial year ended 30 June 2008, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

David Petersen
Partner
29 September 2008

HalcyGen's Board and Corporate Governance

The Board of directors of HalcyGen Pharmaceuticals Limited is responsible for the corporate governance of the Company and is committed to applying the ASX Corporate Governance Council *Corporate Governance Principles and Recommendations* ("ASX Principles") where practicable. The Board guides and monitors the business and affairs of the Company on behalf of the shareholders. It is a requirement of the Board that the Company maintains high standards of ethics and integrity at all times.

The ASX Principles are an important regulatory guide for listed companies reporting on their corporate governance practices. Under ASX Listing Rule 4.10.3, listed companies must disclose the extent to which they have followed the ASX Principles, and if any of the recommendations have not been followed then the Company must explain why not.

The requirements under Listing Rule 4.10.3 apply to HalcyGen since the Company's listing on the Australian Securities Exchange on 29 June 2007 and this corporate governance statement sets out and explains any departures by the Company from the ASX Principles during the year ended 30 June 2008.

The HalcyGen Corporate Governance Website

Important information relating to the Company's corporate governance policies and practices are set out on the Company's website at www.halcygen.com. The following documents are available on this website:

- Board Charter;
- Code of Conduct;
- Communications Strategy Policy;
- Continuous Disclosure Policy;
- Securities Trading Policy.

The corporate governance section of HalcyGen's website was first made available from 27 June 2007 and the documents referred to above were available from that date. The Company will continue to update its policies and practices to reflect developing corporate governance requirements and practices.

The Role of the Board and the Board Charter

The Board's Duties

As the Board acts on behalf of and is accountable to the shareholders, the Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations and strives to meet those expectations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks.

The role of the Board is to oversee and guide the management of HalcyGen with the aim of protecting and enhancing the interests of its shareholders and taking into account the interests of other stakeholders including employees and the wider community.

The Board has adopted a formal Charter which clearly establishes the relationship between the Board and management and describes their functions and responsibilities. A summary of the Board Charter has been posted on the corporate governance section of the Company's website.

The Board is responsible for setting the strategic direction of the Company, establishing goals for management and monitoring the achievement of those goals. The Managing Director is responsible to the Board for the day to day management of the Company.

Code of Conduct

Directors of the Company are also subject to HalcyGen's Code of Conduct (see further discussion below). The Code of Conduct is considered by the Board to be an effective way to guide the behaviour of all directors and employees and demonstrates the Company's commitment to ethical and compliant practices.

The Composition of HalcyGen's Board

The composition of the Board is determined in accordance with the following principles and guidelines:

- the Board should comprise at least 3 directors;
- the Board should comprise directors with an appropriate range of qualifications and expertise; and
- the Board shall meet regularly and follow meeting guidelines set down to ensure all directors are made aware of, and have available all necessary information, to participate in an informed discussion of all agenda items.

As at the date of this report, the Board comprises an executive chairperson, a further executive director and three non-executive independent directors. Details of the directors are set out in the Directors' Report.

Independence of Directors

The Board has reviewed the position and associations of each of the five directors in office at the date of this report and considers that three of the directors are independent. In considering whether a director is independent, the Board has regard to the independence criteria in ASX Corporate Governance Principle 2 and other facts, information and circumstances that the Board considers relevant. The Board assesses the independence of new directors upon appointment and reviews their independence, and the independence of other directors, as appropriate.

The Board considers that Hon Best meets the criteria in Principle 2. He has no material business or contractual relationship with the Company, other than as a director and no conflicts of interest which could interfere with the exercise of independent judgement. Accordingly, he is considered to be independent.

The Board considers that Mr Mathieson meets the criteria in Principle 2. He has no material business or contractual relationship with the Company, other than as a director, and no conflicts of interest which could interfere with the exercise of independent judgement. Accordingly, he is considered to be independent.

The Board considers that Mr Scholes meets the criteria in Principle 2. He has no material business or contractual relationship with the Company, other than as a director, and no conflicts of interest which could interfere with the exercise of independent judgement. Accordingly, he is considered to be independent.

Dr Aston and Mr Bottomley are employed in an executive capacity by the Company and so are not considered to be independent.

The HalcyGen Board did not have a majority of independent directors throughout the entire financial year, and therefore was not in compliance with Recommendation 2.1 for the period, however as at the end of the period the Company had a majority of independent directors. The Company has not been in compliance with Recommendation 2.2 which states that the chairperson should be an independent director. Dr Aston has been contracted by the Company to provide executive services, recognising his skills and abilities as beneficial to the Company in an extended capacity and noting that Dr Aston currently acts as the Company's Managing Director.

The directors will continue to monitor the composition of the Board to ensure its structure remains appropriate and consistent with effective management and good governance.

Appointment, Election and Re-Election of Directors

The Constitution of the Company requires one third of the directors, other than the Managing Director, to retire from office at each Annual General Meeting. Directors who have been appointed by the Board are required to retire from office at the next Annual General Meeting and are not taken into account in determining the number of directors to retire at that Annual General Meeting. Directors cannot hold office for a period in excess of three years or later than the third Annual General Meeting following their appointment without submitting themselves for re-election. Retiring directors are eligible for re-election by shareholders.

Nomination and Appointment of New Directors

Recommendations of candidates for new directors are made by the directors for consideration by the Board as a whole. If it is necessary to appoint a new director to fill a vacancy on the Board or to complement the existing Board, a wide potential base of possible candidates is considered. If a candidate is recommended by a director, the Board assesses that proposed new director against a range of criteria including background, experience, professional skills, personal qualities, the potential for the candidate's skills to augment the existing Board and the candidate's availability to commit to the Board's activities. If these criteria are met and the Board appoints the candidate as a director, that director must retire at the next following General Meeting of Shareholders and will be eligible for election by shareholders at that General Meeting.

HalcyGen's Board Meetings

The Board met 9 times between 1 July 2007 and 30 June 2008.

The Board meets formally at least eight times each year, and from time to time meetings are convened outside the scheduled dates to consider issues of importance.

Directors' attendance at Board meetings is detailed on page 13 of this annual report.

Performance Review

The Board has not adopted any formal procedures for the review of the performance of the Board, however the Board has committed to an informal assessment process, facilitated by the Chairman in consultation with HalcyGen's professional advisors, which is currently considered to meet the Board's obligations sufficiently.

The Board aims to ensure that shareholders are informed of all information necessary to assess the performance of the directors. Information is communicated to the shareholders through:

- the annual report which is distributed to all shareholders;
- the half-yearly report;
- the annual general meeting and other meetings to obtain shareholder approval for Board actions as appropriate; and
- continuous disclosure in accordance with ASX Listing Rule 3.1 and the Company's continuous disclosure policy.

Board Members' Rights to Independent Advice

The Board has procedures to allow directors, in the furtherance of their duties as directors or members of a Committee, to seek independent professional advice at the Company's expense, subject to the prior written approval of the Chairman.

HalcyGen's Board Committees

The Board has established the following committees to advise and support the Board in carrying out its duties:

- Audit Committee;
- Nomination Committee; and
- Remuneration Committee.

Audit Committee

It is the Board's responsibility to ensure that an effective internal control framework exists within the Company, including internal controls to deal with both the effectiveness and efficiency of significant business processes. Effective internal controls include the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information.

The Board has established an Audit Committee, which operates under a Charter approved by the Board, and has delegated the responsibility for the establishment and maintenance of a framework of internal control and ethical standards for the management of the Company to the Audit Committee.

The duties and responsibilities of the Audit Committee include:
(a) ensuring appropriate Company's accounting policies and procedures are defined, adopted and maintained;
(b) ensuring that Company operating and management reporting procedures, and the system of internal control, are of a sufficiently high standard to provide timely, accurate and relevant information as a sound basis for management of the Company's business;
(c) reviewing the Financial Statements prior to their approval by the Board;
(d) reviewing the scope of work including approval of strategic and annual audit plans and effectiveness of both the external and internal audit functions within the Company;
(e) ensuring that appropriate processes are in place to ensure compliance with all legal requirements affecting the Company;
(f) ensuring that all internal and industry codes of conduct and standards of corporate behaviour are being complied with;

(g) appointing, on recommendation by the Managing Director, a person(s) responsible for Internal Audit functions as specified from time to time by, and in accordance with, the Committee's Terms of Reference;
(h) making recommendations to the Board of Directors on the appointment, reappointment or replacement (subject, if applicable, to shareholder ratification), monitoring of effectiveness, and independence of the external auditors.
(i) actioning any other business processes or functions which may be referred to it by the Board of Directors.

The operation and responsibilities of the Audit Committee are generally consistent with ASX Principle 4. The Committee met three times during the financial year ended 30 June 2008.

The members of the Audit and Compliance Committee at the date of this report were:

- Mr I Scholes – Chairman;
- Hon R Best; and
- Mr B Mathieson.

The Audit Committee was established on 26 November 2007 and therefore the Company did not comply with Recommendation 4.2 of the ASX Principles for the entire year, however as at the date of this report the Audit Committee consists of three independent directors, in accordance with the ASX Principles.

Appointment of External Auditors

The Audit Committee is directly responsible for the appointment, reappointment or replacement (subject, if applicable, to shareholder ratification), remuneration, monitoring of effectiveness, and independence of the external auditors, including resolution of disagreements between management and the auditor regarding financial reporting.

The Committee must pre-approve all audit and non-audit services provided by the external auditors and must not engage the external auditors to perform any non-audit/assurance services that may impair or appear to impair the external auditor's judgement or independence in respect of the Company. The Committee may delegate pre-approval authority to a member of the Committee. The decisions of any Audit and Compliance Committee member to whom pre-approval authority is delegated must be presented to the full Committee at its next scheduled meeting.

When reviewing the auditor's independence, the committee will require the rotation of the audit partner at least once every 5 years, in accordance with the *Corporations Act 2001*.

Nomination Committee

The Board has established a Nomination Committee to assist the Board in selecting candidates for the position of director.

The members of the Nomination Committee at the date of this report were:

- Hon R Best – Chairman;
- Dr R Aston; and
- Mr B Mathieson.

The primary purpose of the Nomination Committee as set out in its Terms of Reference is to support and advise the Board in fulfilling their responsibilities to shareholders in ensuring that the Board is comprised of individuals who are best able to discharge the responsibilities of directors having regard to the law and standards of governance by:

- Assessing the skills required on the Board, and the extent to which the required skills are represented on the Board;
- Establishing processes for the review of the performance of individual directors and the Board as a whole; and
- Establishing processes for the identification of suitable candidates for appointment to the Board.

The operation and responsibilities of the Nomination Committee are generally consistent with ASX Principle 2.

The Committee met once during the financial year ended 30 June 2008.

The Nomination Committee was established on 26 November 2007 and therefore the Company did not comply with Recommendation 2.4 of the ASX Principles for the entire year.

Remuneration Committee

The Board has established a Remuneration Committee to assist the Board in ensuring that appropriate and effective remuneration packages and policies are implemented within HalcyGen for the Chief Executive Officer, executive directors and direct reports to the Chief Executive Officer. The Committee's role also extends to the review of non-executive directors' fees.

The Remuneration Committee shall comprise at least three members and the members of the Remuneration Committee at the date of this report were:

- Mr B Mathieson – Chairman;
- Dr R Aston; and
- Mr I Scholes.

The duties and responsibilities of the Remuneration Committee as set out in its Terms of Reference are:

- To review and recommend to the Board, remuneration policies and packages for the Chief Executive Officer, executive directors and direct reports to the Chief Executive Officer.
- To recommend to the Board any changes in remuneration policy including superannuation, other benefits and remuneration structure for executives and which is likely to have a material impact on the Company.
- To review and recommend to the Board proposals for employee and non-executive director equity plans.
- To review and recommend to the Board proposals for short and long term incentive programmes for executives.
- To review and recommend to the Board any changes to non-executive directors' fees.
- To ensure there is a proper performance management process in place throughout the organisation and that it is operating effectively.

- To be informed of:
    - current trends in executive remuneration and associated incentive initiatives;
    - legislative issues associated with executive remuneration programmes.

The Committee met once during the financial year ended 30 June 2008. The Nomination Committee was established on 26 November 2007 and therefore the Company did not comply with Recommendation 8.1 of the ASX Principles for the entire year.

Remuneration for directors and executives

A brief discussion on the Company's remuneration policies in respect of directors and executives is set out on pages 8 to 10 of this annual report. Detailed disclosure of the remuneration paid to the Company's directors and executives is set out on pages 10 to 12.

Integrity in Financial Reporting

Consistent with ASX Principle 7.3, the Company's financial report preparation and approval process for the financial year ended 30 June 2008 involved both the Chief Executive Officer and the Chief Financial Officer providing detailed representations to the Board covering:

- compliance with the Company's accounting policies and relevant accounting standards;
- the accuracy of the financial statements and that they provide a true and fair view;
- integrity and objectivity of the financial statements; and
- effectiveness of the system of internal control.

Risk Identification and Management

The Board accepts that taking and managing risk is central to building shareholder value and the Board is responsible for the Company's risk management strategy. Management is responsible for implementing the Board's strategy and for developing policies and procedures to assist the Board to identify, manage and mitigate the risks across HalcyGen's operations.

The Company employs executives and retains consultants each with the requisite experience and qualifications to enable the Board to manage the risks to the Company. The Board reviews risks to the Company at regular Board meetings.

Securities Trading by Directors and Employees

HalcyGen adopted a Securities Trading Policy on 22 March 2007. The policy summarises the law relating to insider trading and sets out the policy of the Company on directors, officers, employees and consultants dealing in securities of the Company.

A summary of the Securities Trading Policy has been posted to the corporate governance section of the Company's website. This policy is provided to all directors and employees and compliance with it is reviewed on an ongoing basis in accordance with the Company's risk management systems.

Continuous Disclosure

HalcyGen has established policies and procedures in order to comply with its continuous and periodic disclosure requirements under the *Corporations Act 2001* (Commonwealth) and the ASX Listing Rules. The Board has adopted a formal Continuous Disclosure Policy, a summary of which is available from the corporate governance section of the Company's website. The Continuous Disclosure Policy was adopted on 23 April 2007, and is consistent with the informal policies and practices of the Board that were in place prior to the formal adoption of the Continuous Disclosure Policy document.

The Company Secretary has primary responsibility for the disclosure of material information to ASIC and ASX and maintains a procedural methodology for disclosure, as well as for record keeping.

The Company's Continuous Disclosure Policy requires all management to notify the Chief Executive Officer, or the Company Secretary in his absence, of any potentially material information as soon as practicable. The Policy also sets out what renders information material.

The Board reviews the Company's compliance with this policy on an ongoing basis and will update it from time to time, if necessary.

Shareholder Communications

The Board's formal policy on communicating with shareholders, its Communications Strategy Policy, is available from the corporate governance section of the Company's website and supplements the Company's Continuous Disclosure Policy.

The aim of the Communications Strategy Policy is to make known HalcyGen's methods for disclosure to shareholders and the general public. The Policy details the steps between disclosure to ASIC and ASX and communication to shareholders, with the Company's website playing an important role in HalcyGen's communications strategy.

The Board reviews this policy and compliance with it on an ongoing basis.

To add further value to the Company's communications with shareholders, the external auditor will be requested to attend the Company's AGM and be available to answer shareholders' questions about the conduct of the audit and the preparation and content of the auditor's report.

Conduct and Ethics

The HalcyGen Code of Conduct was adopted on 22 March 2007. The Code covers a broad range of issues and refers to those practices necessary to maintain confidence in the Company's integrity, including procedures in relation to:

- compliance with the law;
- financial records;
- contributions to political parties, candidates or campaigns;
- occupational health and safety;
- confidential information;
- conflict of interest;
- efficiency;
- equal opportunity;

- corporate bribery; and
- membership to industry and professional associations.

The Code directs individuals to report any contraventions of the Code to their superior or the Chief Executive Officer.

INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

	Note	2008 $	2007 $
Interest revenue		820,814	140,112
Corporate office expenses	6	(2,050,210)	(1,141,206)
Research expenses		(2,243,410)	(822,881)
Loss before income tax		(3,472,806)	(1,823,975)
Income tax expense	8	-	-
Loss attributable to members of the Company		(3,472,806)	(1,823,975)
Loss per share (cents)			
Basic and diluted	9	(4.56)	(4.13)

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

	Note	2008 $	2007 $
Current Assets			
Cash and cash equivalents	20(a)	11,530,625	15,303,308
Trade and other receivables	10	47,249	80,163
Other current assets	11	70,473	70,018
Total Current Assets		11,648,347	15,453,489
Non-Current Assets			
Plant and equipment	12	44,932	56,969
Total Non-Current Assets		44,932	56,969
Total Assets		11,693,279	15,510,458
Current Liabilities			
Trade and other payables	13	228,783	985,985
Other financial liabilities	14	3,334	3,333
Provisions	15	20,513	1,282
Total Current Liabilities		252,630	990,600
Non-Current Liabilities			
Other financial liabilities	14	2,222	5,556
Total Non-Current Liabilities		2,222	5,556
Total Liabilities		254,852	996,156
Net Assets		11,438,427	14,514,302
Equity			
Contributed equity	16	15,868,975	15,907,882
Reserves	17	875,130	439,292
Accumulated losses	18	(5,305,678)	(1,832,872)
Total Equity		11,438,427	14,514,302

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 30 JUNE 2008

	Contributed equity	Reserves	Accum-ulated losses	Total
	$	$	$	$
Balance at 1 July 2007	15,907,882	439,292	(1,832,872)	14,514,302
Loss for the year	-	-	(3,472,806)	(3,472,806)
Total recognised income and expense	-	-	(3,472,806)	(3,472,806)
Shares issue costs	(38,907)	-	-	(38,907)
Share options issued	-	435,838	-	435,838
Balance at 30 June 2008	15,868,975	875,130	(5,305,678)	11,438,427
Balance at 1 July 2006	30,000	-	(8,897)	21,103
Loss for the year	-	-	(1,823,975)	(1,823,975)
Total recognised income and expense	-	-	(1,823,975)	(1,823,975)
Shares issued, net of issue costs	15,877,882	-	-	15,877,882
Share options issued	-	439,292	-	439,292
Balance at 30 June 2007	15,907,882	439,292	(1,832,872)	14,514,302

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

	Note	2008 $	2007 $
Cash flows from operating activities			
Cash payments for research and development expenditure		(2,275,087)	(656,461)
Cash payments to suppliers and employees		(1,571,635)	(722,367)
Interest received		820,814	140,112
Net cash flows used in operating activities	20(b)	(3,025,908)	(1,238,716)
Cash flows from investing activities			
Payments for plant and equipment		(10,295)	(61,940)
Net cash flows used in investing activities		(10,295)	(61,940)
Cash flows from financing activities			
Proceeds from issue of shares		-	16,914,850
Payment of share issue costs		(736,480)	(339,395)
Net cash flows from financing activities		(736,480)	16,575,455
Net increase / (decrease) in cash and cash equivalents		(3,772,683)	15,274,799
Cash and cash equivalents at beginning of year		15,303,308	28,509
Cash and cash equivalents at end of year	20(a)	11,530,625	15,303,308

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

1. CORPORATE INFORMATION

HalcyGen Pharmaceuticals Limited ("the Company") is a company limited by shares incorporated and domiciled in Australia, whose shares are publicly traded on the Australian Securities Exchange. The financial report for the year ended 30 June 2008 was authorised for issue by the directors on 29 September 2008 in accordance with a resolution of the directors.

The nature of the operations and principal activities of the Company are described in the Directors' Report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial report is a general purpose financial report which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has been prepared on a historical cost basis.

The financial report is presented in Australian dollars.

(b) Compliance with IFRS

The financial report complies with Australian Accounting Standards as issued by the Australian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(c) New accounting standards and interpretations

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective have not been adopted by the Company for the annual reporting period ended 30 June 2008. These are outlined in the table below:

Reference	Title	Nature of change to accounting policy	Application date of standard (reporting period commences on or after)	Impact on financial report	Application date for Company
AASB 8 and AASB 2007-3	Operating Segments and consequential amendments to other Australian Accounting Standards	New standard replacing AASB 114 *Segment Reporting*, which adopts a management reporting approach to segment reporting.	1 January 2009	AASB 8 is a disclosure standard so will have no direct impact on the amounts included in the Company's financial statements. It could impact on the Company's segment disclosure.	1 July 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Reference	Title	Nature of change to accounting policy	Application date of standard (reporting period commences on or after)	Impact on financial report	Application date for Company
AASB 101 (Revised) and AASB 2007-8	Presentation of Financial Statements and consequential amendments to other Australian Accounting Standards	Introduces a statement of comprehensive income. Other revisions include impacts on the presentation of items in the statement of changes in equity, new presentation requirements for restatements or reclassifications of items in the financial statements, changes in the presentation requirements for dividends and changes to the titles of the financial statements.	1 January 2009	These amendments are only expected to affect the presentation of the Company's financial report and will not have a direct impact on the measurement and recognition of amounts disclosed in the financial report.	1 July 2009
AASB 2008-1	Amendments to Australian Accounting Standard – Share-based Payments: Vesting Conditions and Cancellations	The amendments clarify the definition of 'vesting conditions', introducing the term 'non-vesting conditions' for conditions other than vesting conditions as specifically defined and prescribe the accounting treatment of an award that is effectively cancelled because a non-vesting condition is not satisfied.	1 January 2009	The Company has share-based payment arrangements that may be affected by these amendments. However, the Group has not yet determined the extent of the impact, if any.	1 July 2009
AASB 2008-5 and 2008-6	Amendments to Australian Accounting Standards arising from the Annual Improvements Project	The improvements project is an annual project that provides a mechanism for making non-urgent, but necessary, amendments to IFRSs. The IASB has separated the amendments into two parts: Part 1 deals with changes the IASB identified resulting in accounting changes; Part II deals with either terminology or editorial amendments that the IASB believes will have minimal impact.	1 January 2009 except for amend-ments to IFRS 5, which are effective from 1 July 2009.	The Company has not yet determined the extent of the impact of the amendments, if any.	1 July 2009

Adoption of new accounting standard

The Company has adopted *AASB 7 Financial Instruments: Disclosures* and all consequential amendments which became applicable on 1 July 2007. The adoption of this standard has only affected the disclosure in these financial statements. There has been no affect on profit and loss or the financial position of the entity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign currency translation

Functional and presentation currency
Both the functional and presentation currency of HalcyGen Pharmaceuticals Limited is Australian dollars ($).

Transactions and balances
Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

(e) Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity 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.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(f) Trade and other receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for any uncollectible amounts.

Collectibility of trade receivables is reviewed on an ongoing basis. Debts that are known to be uncollectible are written off when identified. An allowance for doubtful debts is raised when there is objective evidence that the Company will not be able to collect the debt.

(g) Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a straight-line basis over the estimated useful life of the assets as follows:

Plant and equipment	Over 3 years

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each financial year end.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or asset and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the lease item are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in profit or loss.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Lease incentives are recognised in the income statement as an integral part of the total lease expense.

(i) Trade and other payables

Trade payables and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

(j) Provisions and employee benefits

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the balance sheet date. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the time value of money and the risks specific to the liability.

Employee leave benefits
Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Share-based payment transactions

The Company provides benefits to its employees (including key management personnel) in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

In the event that an employee leaves the Company prior to the vesting of any share-based payment previously granted to the employee, the share-based payment will be forfeited. Where an employee leaves the Company subsequent to the vesting but prior to the expiry of share-based payments granted, the Board has absolute discretion to determine whether or not such share-based payments will lapse. In the event that the Company's Employee Share Option Plan was cancelled, this would not affect the rights of employees in relation to previously issued share-based payments.

The cost of these equity-settled transactions with employees is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black-Scholes option pricing model.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the vesting period.

(l) 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 from the proceeds.

(m) Revenue recognition

Interest revenue
Revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest revenue over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

(n) Income tax and other taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Income tax and other taxes (continued)

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Other taxes
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.

(o) Loss per share

Basic loss per share is calculated by dividing the net loss for the reporting period by the weighted average number of ordinary shares of the Company.

(p) Research expenditure

Research costs are expensed as incurred.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company's principal financial instruments comprise cash and short-term deposits.

The Company manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Company's financial risk management policy. The objective of the policy is to support the delivery of the Company's financial targets whilst protecting future financial security.

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk and liquidity risk. The Company uses different methods to measure and manage different types of risks to which it is exposed. These include monitoring levels of exposure to interest rate and foreign exchange risk and assessments of market forecasts for interest rate and foreign exchange rates. Liquidity risk is monitored through the development of future rolling cash flow forecasts.

Primary responsibility for identification and control of financial risks rests with the Board. The Board reviews and agrees policies for managing each of the risks identified below.

Risk exposures and responses

Interest rate risk

The Company's exposure to market interest rates relates primarily to the Company's cash and short-term deposits.

At balance date, the Company had the following financial assets exposed to interest rate risk:

	2008	2007
	$	$
Cash at bank and in hand	255,269	15,252,493
Short-term deposit	11,275,356	50,815
Net exposure	11,530,625	15,303,308

The following sensitivity analysis is based on the interest rate risk exposures in existence at the balance sheet date.

At balance date, if interest rates had moved, as illustrated in the table below, with all other variables held constant, net loss and equity would have been affected as follows:

	Net loss Higher / (lower)		Equity Higher / (lower)	
	2008	2007	2008	2007
	$	$	$	$
+1% (100 basis points)	(115,306)	(153,033)	115,306	153,033
-1% (100 basis points)	115,306	153,033	(115,306)	(153,033)

The movements are due to higher / lower interest revenue from cash balances.

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Company has transactional currency exposures. Such exposure arises from purchases by the Company in currencies other than the functional currency.

Approximately 8% of the Company's costs are denominated in currencies other than the functional currency.

The Company also holds cash assets in United States dollars.

At balance date the Company had the following exposure to US$ foreign currency:

	2008	2007
	$	$
Cash at bank	2,599,500	-
Trade creditors	(53)	-
Net exposure	2,599,447	-

Credit risk

Credit risk arises from the financial assets of the Company, which comprise cash and cash equivalents. The Company's exposure to credit risk arises from potential default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

The Company does not hold any credit derivatives to offset its credit exposure. The Company's exposure to credit risk is minimal.

Liquidity risk

The Company's objective is to maintain adequate funding to meet its needs, currently represented by cash and short-term deposits sufficient to meet the Company's current cash requirements.

The remaining contractual maturities of the Company's financial liabilities are:

6 months or less	228,783	985,985

3. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 30 june 2008 and 30 June 2007.

The Company monitors capital with reference to the net debt position. The Company includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents. The Company's current policy is to keep the net debt position negative, such that cash and cash equivalents exceeds debt.

	2008	2007
	$	$
Trade and other payables	228,783	985,985
Less cash and short term deposits	(11,530,625)	(15,303,308)
Net debt	(11,301,842)	(14,317,323)

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements and estimates on historical experience and on other various factors it believes to be reasonable under the circumstances, the result of which form the basis of the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions and conditions.

Management has identified the following critical accounting policies for which significant judgements, estimates and assumptions are made. Actual results may differ from these estimates under different assumptions and conditions and may materially affect financial results or the financial position reported in future periods.

Further details of the nature of these assumptions and conditions may be found in the relevant notes to the financial statements.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (continued)

Significant accounting judgements

Research and development costs

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following are demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

Taxation

The Company's accounting policy for taxation requires management's judgement in assessing whether deferred tax assets are recognised on the balance sheet. Deferred tax assets, including those arising from unrecouped tax losses, capital losses and temporary differences, are recognised only where it is considered more likely than not that they will be recovered, which is dependent on the generation of sufficient future taxable profits.

Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future revenues, operating costs, capital expenditure and other capital management transactions. Judgements are also required about the application of income tax legislation. These judgements and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of other tax losses and temporary differences not yet recognised.

Significant accounting estimates and assumptions

Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined using the Black Scholes option pricing model, with the assumptions detailed in Note 16(c). The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

5. REVENUE

	2008	2007
	$	$
Interest	820,814	140,112
Total revenues from ordinary activities	820,814	140,112

6. EXPENSES

	2008	2007
Depreciation	22,332	4,971
Statutory and listing expenses	87,082	11,122
Minimum lease payments – operating lease	41,803	10,563
Audit fees	61,000	54,505
Foreign exchange loss	61,618	3
Employee benefits expense		
Wages and salaries	927,696	435,699
Defined contribution superannuation expense	83,855	38,287
Share-based payments expense	435,838	439,292
Other employee benefits expense	58,504	19,636
	1,505,893	932,914
Research and development expenses	2,243,410	822,881

7. AUDITORS' REMUNERATION

	2008	2007
Auditors of the Company		
- audit and review of financial reports	61,000	35,000
- taxation services	12,750	-
	73,750	35,000

8. INCOME TAX

The prima facie tax on operating loss differs from the income tax provided in the accounts as follows:

	2008 $	2007 $
Loss before income tax expense	(3,472,806)	(1,818,537)
Prima facie tax benefit on loss at 30% (2007: 30%)	1,041,842	547,192
Tax effect of amounts which are not deductible (taxable) in calculating taxable income	(709)	(362)
Tax effect of current year tax losses for which no deferred tax asset has been recognised	(1,041,133)	(546,830)
Income tax benefit / (expense)	-	-

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

The Company has tax losses for which no deferred tax asset is recognised on the balance sheet that arose in Australia of $5,302,107 (2007: $1,831,663) and are available indefinitely for offset against future profits subject to continuing to meet the relevant statutory test.

9. LOSS PER SHARE

Classification of securities as ordinary shares

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

Classification of securities as potential ordinary shares

There are currently no securities to be classified as dilutive potential ordinary shares on issue.

	2008 Number	2007 Number
Weighted average number of ordinary shares used in the calculation of basic loss per share	76,099,000	44,157,025
	$	$
Net loss	(3,472,806)	(1,823,975)

9. LOSS PER SHARE (continued)

The loss per share calculation as disclosed on the income statement does not include instruments that could potentially dilute basic earnings per share in the future as these instruments were anti-dilutive in the periods presented. A summary of such instruments is as follows:

Equity securities	Number of securities	Number of potential ordinary shares
Options over ordinary shares	6,500,000	6,500,000

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of these financial statements.

10. OTHER RECEIVABLES

	2008 $	2007 $
Current		
Other debtors	47,249	80,163

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.

11. OTHER ASSETS

Current		
Prepayments	70,473	70,018

12. PLANT AND EQUIPMENT

	2008	2007
	$	$
Gross carrying amount		
Balance at beginning of year	61,940	-
Additions	10,295	61,940
Balance at end of year	72,235	61,940
Accumulated depreciation		
Balance at beginning of year	4,971	-
Depreciation expense	22,332	4,971
Balance at end of year	27,303	4,971
Net book value		
At end of year	44,932	56,969

13. TRADE AND OTHER PAYABLES

Current		
Trade creditors	134,743	166,420
Other creditors	94,040	819,565
	228,783	985,985

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 of recognition. Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

Information regarding liquidity risk exposure is set out in Note 3.

14. OTHER FINANCIAL LIABILITIES

Current		
Lease incentive liability	3,334	3,333
Non-current		
Lease incentive liability	2,222	5,556

Lease incentive liabilities represent lease incentives received in the first year of a three year lease of office premises, which must be recognised over the life of the lease for accounting purposes.

15. PROVISIONS

	2008 $	2007 $
Provision for employee entitlements		
Balance at beginning of year	1,282	-
Net arising and utilised during the year	19,231	1,282
Balance at end of year	20,513	1,282
Current	20,513	1,282

16. CONTRIBUTED EQUITY

(a) Issued capital

	2008 $	2007 $
Ordinary shares, fully paid	15,868,975	15,907,882

(b) Movements in share capital

	2008 Number	2007 Number	2008 $	2007 $
Balance at beginning of year	76,099,000	21,000,000	15,907,882	30,000
Issued during the year				
Share placements	-	53,099,000	-	16,714,850
Options exercised	-	2,000,000	-	200,000
Share issue costs	-	-	(38,907)	(1,036,968)
Balance at end of year	76,099,000	76,099,000	15,868,975	15,907,882

16. CONTRIBUTED EQUITY (continued)

(c) Share options

	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	Balance at end of year Number	Options exercisable at end of year Number
2008 year								
Unlisted options	$0.10	30/06/10	3,000,000	-	-	-	3,000,000	3,000,000
Unlisted options	$0.10	30/06/10	250,000	-	-	-	250,000	250,000
Unlisted options	$0.60	17/04/11	1,250,000	-	-	-	1,250,000	1,250,000
Unlisted options	$0.60	17/04/12	1,750,000	-	-	-	1,750,000	1,750,000
Unlisted options	$0.60	30/11/12	-	250,000	-		250,000	-
			6,250,000	250,000	-	-	6,500,000	6,250,000
2007 year								
Unlisted options	$0.10	30/06/10	5,000,000	-	(2,000,000)	-	3,000,000	3,000,000
Unlisted options	$0.10	30/06/10	-	250,000	-	-	250,000	-
Unlisted options	$0.60	17/04/11	-	1,250,000	-	-	1,250,000	1,250,000
Unlisted options	$0.60	17/04/12	-	1,750,000	-	-	1,750,000	-
			5,000,000	3,250,000	(2,000,000)	-	6,250,000	4,250,000

For share options granted during the financial year the fair value of the options granted was determined using the Black-Scholes option pricing model (refer to Note 2(k)). The following weighted average inputs to that model were used:

	2008	2007
Number of options over shares	250,000	3,250,000
Black-Scholes model fair value	$0.262	$0.258
Share price at grant date	$0.470	$0.473
Exercise price	$0.600	$0.562
Expected volatility	70.0%	70.0%
Option life	4.61 years	4.15 years
Expected dividends	-	-
Risk-free rate	6.270%	6.175%

The expected volatility was determined based on historical volatility of similar companies, and with reference to the Company’s stage of development.

(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.

17. RESERVES

Employee equity benefits reserve

The employee equity benefits reserve is used to record the value of share-based payments provided to employees, including key management personnel, as part of their remuneration.

	2008	2007
	$	$
Balance at beginning of year	439,292	-
Issue of options to employees	435,838	439,292
Balance at end of year	875,130	439,292

18. ACCUMULATED LOSSES

Balance at beginning of year	(1,832,872)	(8,897)
Net loss after tax	(3,472,806)	(1,823,975)
Balance at end of year	(5,305,678)	(1,832,872)

19. SEGMENT REPORTING

The Company operates in one business segment, being the biotechnology sector, and one geographical segment, being Australia.

20. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand and in banks and deposits at call.

Cash and cash equivalents at the end of the year as shown in the cash flow statement comprise the following:

Cash at bank and in hand	255,269	15,252,493
Short-term deposit	11,275,356	50,815
	11,530,625	15,303,308

Cash at bank attracts floating interest at current market rates.

The short-term deposits are made for periods of up to 3 months, and earn interest at the respective short-term deposit rates.

20. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

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

	2008	2007
	$	$
Net loss after income tax	(3,472,806)	(1,823,975)
Adjustments for:		
Depreciation	22,332	4,971
Share options expensed	435,838	439,292
Changes in assets and liabilities		
(Increase) in receivables	32,915	(80,113)
(Increase) in prepayments	(455)	(70,017)
Increase in creditors	(59,629)	280,955
Increase in provisions	19,230	1,282
Increase in other financial liabilities	(3,333)	8,889
Net cash used in operating activities	(3,025,908)	(1,238,716)

21. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors and other key management personnel

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

- Dr Roger Aston – Chairman and Chief Executive Officer
- Mr Craig Bottomley – Executive Director and Chief Operating Officer
- Hon Ron Best – Non-Executive Director
- Mr Bruce Mathieson – Non-Executive Director
- Mr Ian Scholes – Non-Executive Director (appointed 17 October 2007)

Other key management personnel consisted of:

- Mr Aaron Finlay – Company Secretary and Chief Financial Officer

(b) Compensation of key management personnel

	2008	2007
Short-term employee benefit	807,755	402,333
Post-employment benefits	112,198	70,371
Share-based payments	435,838	439,292
	1,355,791	911,996

21. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(c) Equity instrument disclosures relating to key management personnel

(i) Option holdings

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

2008

Name	Balance at start of year Number	Granted during year as remun-eration Number	Exercised during year Number	Other changes during year Number	Balance at end of year Number	Options vested and exercisable at end of year Number
Directors						
Dr R Aston	1,250,000	-	-	-	1,250,000	1,250,000
Mr C Bottomley	3,250,000	-	-	-	3,250,000	3,250,000
Hon R Best	1,000,000	-	-	-	1,000,000	1,000,000
Mr B Mathieson	250,000	-	-	-	250,000	250,000
Mr I Scholes *	-	250,000	-	-	250,000	-
	5,750,000	250,000	-	-	6,000,000	5,750,000
Other key management personnel						
Mr A Finlay	500,000	-	-	-	500,000	500,000
Total	6,250,000	250,000	-	-	6,500,000	6,250,000

* Balance at date of appointment

21. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(c) Equity instrument disclosures relating to key management personnel (continued)

(i) Option holdings (continued)

2007

Name	Balance at start of year Number	Granted during year as remun-eration Number	Exercised during year Number	Other changes during year Number	Balance at end of year Number	Options vested and exercisable at end of year Number
Directors						
Dr R Aston	-	1,250,000	-	-	1,250,000	625,000
Mr C Bottomley	2,500,000	750,000	-	-	3,250,000	2,875,000
Hon R Best *	500,000	500,000	-	-	1,000,000	500,000
Mr B Mathieson *	-	250,000	-	-	250,000	-
Mr G Rezos **	-	-	-	-	-	-
	3,000,000	2,750,000	-	-	5,750,000	4,000,000
Other key management personnel						
Mr A Finlay	-	500,000	-	-	500,000	250,000
Total	3,000,000	3,250,000	-	-	6,250,000	4,250,000

* Balance at date of appointment
** Balance at date of resignation

(ii) Share holdings

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

21. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(c) Equity instrument disclosures relating to key management personnel (continued)

(ii) Share holdings (continued)

2008

Name	Balance at start of the year Number	Received during the year on exercise of options Number	Other changes during the year Number	Balance at end of the year Number
Directors				
Dr R Aston	9,551,000	-	-	9,551,000
Mr C Bottomley	2,250,000	-	30,000	2,280,000
Hon R Best	184,000	-	-	184,000
Mr B Mathieson	3,140,000	-	847,345	3,987,345
Mr I Scholes *	-	-	50,000	50,000
	15,125,000	-	927,345	16,052,345
Other key management personnel				
Mr A Finlay	1,000,000	-	-	1,000,000
Total	16,125,000	-	927,345	17,052,345

* Balance at date of appointment

2007

Name	Balance at start of the year Number	Received during the year on exercise of options Number	Other changes during the year Number	Balance at end of the year Number
Directors				
Dr R Aston	9,051,000	-	500,000	9,551,000
Mr C Bottomley	3,549,000	-	(1,299,000)	2,250,000
Hon R Best *	-	-	184,000	184,000
Mr B Mathieson *	2,050,000	-	1,090,000	3,140,000
Mr G Rezos **	3,000,000	-	-	3,000,000
	17,650,000	-	475,000	18,125,000
Other key management personnel				
Mr A Finlay	1,000,000	-	-	1,000,000
Total	18,650,000	-	475,000	19,125,000

* Balance at date of appointment
** Balance at date of resignation

21. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(d) Other transactions with key management personnel

The Company had no other transactions with related parties during the financial years ended 30 June 2008 or 30 June 2007.

Amounts owing to directors, director-related parties and other related parties at 30 June 2008 and 30 June 2007 were nil.

22. SHARE-BASED PAYMENTS PLANS

(a) Recognised share-based payments expense

The expense recognised for employee services received during the year is shown in the table below:

	2008 $	2007 $
Expense arising from equity-settled share-based payment transactions	435,838	439,292

(b) Employee Share Option Plan (ESOP)

An employee share option plan has been established where directors and employees of the Company may be issued with options over the ordinary shares of HalcyGen Pharmaceuticals Limited. Shareholders approved the plan at the AGM held on 17 April 2007. The options, issued for nil consideration, are issued in accordance with guidelines established by the directors of HalcyGen Pharmaceuticals Limited.

Each employee share option converts into one ordinary share in HalcyGen Pharmaceuticals Limited on exercise. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

		2008 Number of options	2008 Weighted average exercise price $	2007 Number of options	2007 Weighted average exercise price $
Balance at beginning of financial year	a	500,000	0.60	-	-
Granted during financial year	b	-	-	500,000	0.60
Exercised during financial year	c	-	-	-	-
Forfeited during financial year	e	-	-	-	-
Balance at end of financial year	f	500,000	0.60	500,000	0.60
Exercisable at end of financial year		500,000	0.60	250,000	0.60

22. SHARE-BASED PAYMENTS PLANS (continued)

(b) Employee Share Option Plan (ESOP) (continued)

(a) Balance at beginning of financial year

Options – series	Number	Grant date	Vesting date	Expiry date	Exercise price $
2008					
Issued 17 April 2007	250,000	17/04/07	17/04/07	17/04/11	$0.60
Issued 17 April 2007	250,000	17/04/07	17/04/08	17/04/12	$0.60
	500,000				

No ESOP options had been issued as at 1 July 2006.

(b) Granted during financial year

No ESOP options were issued during the year ended 30 June 2008.

Options – series	Number	Grant date	Vesting date	Expiry date	Exercise price $
2007					
Issued 17 April 2007	250,000	17/04/07	17/04/07	17/04/11	$0.60
Issued 17 April 2007	250,000	17/04/07	17/04/08	17/04/12	$0.60
	500,000				

(c) Exercised during financial year

No ESOP options were exercised during the years ended 30 June 2008 or 30 June 2007.

(d) Forfeited during financial year

No ESOP options were forfeited during the years ended 30 June 2008 or 30 June 2007.

(e) Balance at end of financial year

Options – series	Number	Grant date	Vesting date	Expiry date	Exercise price $
2008					
Issued 17 April 2007	250,000	17/04/07	17/04/07	17/04/11	$0.60
Issued 17 April 2007	250,000	17/04/07	17/04/08	17/04/12	$0.60
	500,000				
2007					
Issued 17 April 2007	250,000	17/04/07	17/04/07	17/04/11	$0.60
Issued 17 April 2007	250,000	17/04/07	17/04/08	17/04/12	$0.60
	500,000				

23. COMMITMENTS AND CONTINGENCIES

(a) Commitments

Leasing commitments

The Company has entered into an operating lease on building office space for a three year term. Future minimum rentals payable under this operating lease are as follows:

	2008	2007
	$	$
Within one year	43,858	42,171
After one year but not more than five years	26,171	70,029
Total minimum lease payments	70,029	112,201

(b) Contingencies

The Company had no contingent liabilities as at 30 June 2008.

24. 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.

25. SUBSEQUENT EVENTS

On 17 July 2008 the Company announced that it had successfully completed the recruitment and dosing of the first of three pivotal pharmacokinetic studies scheduled under its Investigational New Drug application recently approved by the FDA.

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of HalcyGen Pharmaceuticals Limited, I state that:

1. In the opinion of the directors:

   (a) the financial statements, notes and the additional disclosures included in the directors' report designated as audited, of the Company are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the Company's financial position as at 30 June 2008 and of its performance for the year ended on that date; and

      (ii) complying with Accounting Standards and 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. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2008.

On behalf of the Board

Roger Aston
Director

Melbourne, 29 September 2008

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Independent auditor's report to the members of HalcyGen Pharmaceuticals Limited

Report on the Financial Report

We have audited the accompanying financial report of HalcyGen Pharmaceuticals Limited, which comprises the balance sheet as at 30 June 2008, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.

Auditor's Opinion

In our opinion:

1. the financial report of HalcyGen Pharmaceuticals Limited is in accordance with the *Corporations Act 2001*, including:
   (i) giving a true and fair view of the financial position of HalcyGen Pharmaceuticals Limited at 30 June 2008 and of its performance for the year ended on that date; and
   (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 12 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of HalcyGen Pharmaceuticals Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

David Petersen
Partner
Melbourne
29 September 2008