17 October, 2007

The Manager
Company Announcements
Australian Stock Exchange Limited
*Via Electronic Lodgement*

Dear Sir/Madam

**RE-ISSUED ANNUAL REPORT**

Pharmaust Limited (**Company**) refers to the purported Annual Report of the Company released to the ASX on 12 October 2007.

The Company confirms that it needs to re-issue the financial report and that the re-issued financial report replaces the previously issued financial report. The re-issued financial report is attached to this announcement.

The reason for the re-issue of the financial report is after due consideration of the Australian Securities Exchange's decision to not remove the suspension of the Company's shares from quotation on the lodgement of the previously issued financial report, the directors met over subsequent days to review the issue of the Company's control of Commonwealth Biotechnologies Inc. (**CBI**). Considering current events and after a detailed analysis of the requirements of AASB 127 Consolidated and Separate Financial Statements, the Company has come to the view that it is now unable to satisfy the concept of control in accordance with AASB 127.

The investment of CBI has now been brought to account using the equity method of accounting in accordance with AASB 128 Investment in Associates.

Upon lodgement of the superseded financial report with the ASX, the Company consolidated its accounts with those of CBI based largely upon the common role of Managing Director held by Paul D'Sylva at both companies during the period of acquisition of CBI to 30 June 2007.

The now superseded financial report had been heavily qualified by the Company's auditor due to the Company being unable to obtain audited information from CBI on a timely basis.

The Company was not aware of the nature and gravity of the Auditors Report to the consolidated accounts until late last week. The Company misunderstood the nature of the qualification to the consolidated accounts that the Auditors indicated would be required. The Company in fact understood that whilst the accounts would be "heavily qualified" that they would nonetheless be prepared in accordance with the Corporations Act. What the Company failed to understand was that the nature of the disclaimer made by the Auditor would of itself, mean that the requirements of section 297 of the Corporations Act ("true and fair view") could not be met and therefore the accounts would not be in accordance with the requirements of the Corporations Act. Under the pressures of time, it was not until the Board realised its mistake late on Friday afternoon that it reviewed the issue of consolidation and came to the conclusion that this was no longer a valid approach. The Board had until this point in time accepted the state of affairs inherited from previous management and had not been alerted to the issue.

At this point in time the Board considered the requirements of AASB 127 to determine whether it was able to continue to maintain that “consolidation” remained a valid stance. As a consequence of the Board’s direct consideration, over the course of Friday evening (12 October 2007) and Saturday 13 October 2007, the Board formed the view that the requirements of AASB 127 were not satisfied with respect to the basis for preparing accounts on a consolidated basis.

In the Auditors Report, without qualifying their opinion, the Auditors drew attention to the current financial circumstances of the Company which indicate “the existence of a material uncertainty which may cast significant doubt about the Company’s ability to continue as a going concern”. With regard to this the Board notes that the Auditors were unable to take into account the fully underwritten rights issue for approximately $3,500,000 which is about to be realised by the Company. In this event no such concern would exist.

The Company can confirm that there is no cross-guarantee or exposure to CBI which would be likely to create a potential open ended liability for the Company.

The Company is satisfied that the re-issued financial report attached has been prepared and issued in accordance with the Corporations Act.

The Company also wishes to confirm that as at 30 June 2007 the percentage of the Company’s revenue/activities derived from CBI/Mimotopes, on a practical basis, is nil. As disclosed in the Company’s Entitlements Issue Prospectus of 12 September 2007 no operating revenue or cash balance is available to the Company. As such, the discrepancy between the ‘consolidated’ accounts and the ‘real position’ was regarded as material to note to investors.

If you have any queries regarding the re-issued financial report please contact the Company Secretary, Sam Wright on 08 9311 0700.

Yours sincerely,

**Simon Owen**
**Chairman**
**PharmAust Limited**

PharmAust Limited ABN 35 094 006 023. 71 Division Street Welshpool WA 6106
Ph (08) 9311 0700 Fax (08) 9311 0799

PharmAust
LIMITED

# REISSUED Annual Report 2007

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# CORPORATE DIRECTORY

## PRINCIPAL PLACE OF BUSINESS

71 Division Street
Welshpool, Western Australia 6106
Tel +61 (8) 9311 0700 Fax +61 (8) 9311 0799
www.PharmAust.com
**ASX CODE:** PAA
**ABN:** 35 094 006 023

## REGISTERED OFFICE

71 Division Street
Welshpool, Western Australia 6106
Tel +61 (8) 9311 0700 Fax +61 (8) 9311 0799

## DIRECTORS

Mr Bryant McLarty
Mr Simon Owen
Mr Henry Gulev

## COMPANY SECRETARIES

Mr Sam Wright
Mr Simon Owen

## SHARE REGISTRY

Computershare Investor Services Pty Limited
Level 2 Reserve Bank Building
45 St George's Terrace
Perth, Western Australia 6000

## SOLICITORS

Fairweather & Lemonis
Level 9, 172 St Georges Tce
Perth, Western Australia 6805

## AUDITORS

RSM Bird Cameron Partners
8 St Georges Terrace
Perth, Western Australia 6000

## STOCK EXCHANGE

Australian Stock Exchange
Exchange Plaza
2 The Esplanade
Perth, Western Australia 6000

# REVIEW OF OPERATIONS

## PHARMAUST MANUFACTURING

PharmAust Manufacturing continues to work hard toward the companies' objective to be recognised as a successful and innovative provider of diversified pharmaceutical products and services.

**Highlights:**

- 5 year definitive distribution agreement signed with a top 20 global generic pharmaceutical company to supply an initial five high value generic prescription medicines into the Australian market.
- Approval for "PharmAust Simvastatin" from the Australian Therapeutic Goods Administration (TGA), our generic version of the cholesterol lowering drug Simvastatin.
- Approval for PharmAust Paracetamol and Ibuprofen from the TGA.
- A first contract to provide GMP compliant product development and analytical services to an Australian biotech company in phase 2 development of their product. The first of a number of projects with other companies importantly aimed at building the PAM revenue base by utilising the spare capability of our service functions and fully utilising our valuable GMP-TGA drug manufacturing license.

It is important to note that the highlights are the result of delivery against previously signed agreements and that every single person at PharmAust Manufacturing delivered these highlights through professionalism, ingenuity, hard work and effort.

Overall, PharmAust Manufacturing progressed steadily despite the steep learning curve.

The contract signed earlier in the year with Woolworths subsidiary Progressive to manufacture the entire sunscreen range for its premium generic brand Signature Range moved ahead and the contract with Australian supermarket chain IGA to manufacture cough and cold products for its generic, high-volume Black & Gold brand also progressed well.

Further, a major European retailer purchased PharmAust Health branded personal disinfectant and allied personal care products to their stores in the Eastern States. This has opened up a new front in the retail grocery environment and major effort is underway to re-brand PharmAust products and sell PharmAust brands.

Tenders were secured to supply several state governments with a range of hospital products – notably disinfectants and antiseptics into Queensland hospitals, supply is underway. Tenders were also secured and supply is underway to private healthcare groups with antiseptics/disinfectants and allied personal care products which are then used in private hospitals.

Sales professionals at PharmAust Manufacturing continue to work hard on product development and technology transfer of OTC and personal care products with external companies. The major aim is to secure larger, long term manufacturing contracts.

Everyone at PharmAust Manufacturing continues to endeavour to institute cost savings programs aimed at reducing total delivered cost of products. Negotiating price reductions on key high volume raw materials, implementing improved and more efficient manufacturing processes, continuing to source packaging material from cost effective overseas suppliers are all part of this effort.

## EPICHEM

- Epichem experienced robust domestic demand for contracts synthesis services, from several leading Australian drug discovery companies.
- Epichem has hired three new chemists in 2007 and aims to employ several more before the year is out to cope with the increasing demand for its discovery services and catalogue compounds.
- Sales of Epichem's analytical standards continued to grow with a dedicated "Sales & Supplies Manager" being appointed with approximately 30 products now available and new products being added regularly. They are exported worldwide with the majority going to the North American market.

- A collaboration with Murdoch and Monash Universities to discover new drugs to treat Human African Trypanosomiasis continued to progress well. The project completed its first year and the funding body, Drugs for Neglected Diseases initiative, approved funding for the second year.

Epichem should not be underestimated. It is a steadily growing company which is beginning to gain momentum. Its people are recognised worldwide as being some of the best and as a result it services an international clientele ranging from small operations to large multinational pharmaceutical companies.

The two laboratories in Perth and Melbourne, have some of the best equipment available for the synthesis of drug analogue libraries and intermediates.

Every single member of the team at Epichem continues work hard for shareholders through the delivery of world class innovative solutions in synthetic and medicinal chemistry.

**COMMONWEALTH BIOTECHNOLOGIES**

PharmAust completed the sale of subsidiary Mimotopes Pty Ltd to Commonwealth Biotechnologies Inc (NASDAQ: CBTE) for a consideration of 2.15 million CBI shares being 39.5% of the issued share capital of CBI.

Commonwealth Biotechnologies Inc (CBI) specializes in life sciences R&D outsourcing and offers cutting edge expertise and a complete array of most current synthetic and analytical technologies in the areas of biodefense, laboratory support and contract research. CBI is located in Richmond, Virginia. www.cbi-biotech.com.

Completion followed CBI shareholder approval of the Sale Agreement executed between the two companies in November 2006. The PharmAust Managing Director was appointed CEO of CBI.

**CORPORATE**

**Board Changes**

On the 2nd of October 2006 the resignation of John Thompson from the Board was announced. The board thanked Mr Thompson for his efforts and wished him well for the future.

Mr Bryant McLarty resigned as an Executive Director of the Company on the 24th of October 2006 but remained as a Non-Executive Director on the PharmAust Board. The Company thanked Mr McLarty for his efforts as an executive over the past three years.

**Capital Raisings**

A Melbourne-based Capital Markets company underwrote a A$1.25M Share Purchase Plan in conjunction with a placement of A$1.25M of shares on a pari passu basis to the SPP (Placement), with both issues at 10c per share. On the 9 November 2006 it was announced that the Share Purchase Plan and Placement were completed.

On the 20 April 2007 PharmAust undertook a placement to an International Investor of 8,250,000 shares and 8,250,000 options. Additionally, PharmAust also flagged a non-renounceable pro-rata rights offer of 35,750,000 shares and 35,750,000 options to its shareholders, to raise up to $3,575,000 with an offer to underwrite to the extent of 17,875,000 shares and 17,875,000 options, subject to certain conditions.

**Advanced Healthcare Group**

On the 31st of July 2006 PharmAust announced that it had become a substantial holder in the Advance Healthcare Group Limited (AHG). Approximately one month later, AHG advised the ASX that PharmAust had initiated proceedings in the WA Supreme Court relating to a decision by the Chairman of the AHG A.G.M held on 2 August 2006 not to accept as valid a corporate representative appointment sent by facsimile during the meeting. PharmAust sought to overturn the result of a number of resolutions and the cancellation of various share and convertible notes.

On the 5 January 2007 PharmAust then announced that it had submitted to the board of AHG a merger proposal. On the 13 February 2007 PharmAust announced that it had made the decision not proceed with an offer due to a number of issues.

By order made on 15 June 2007, the proceedings in the Supreme Court were discontinued on the basis that there be no order as to costs except that AHG and the other defendants were ordered to pay PharmAust's costs of the application to discontinue the proceedings.

# DIRECTORS' REPORT

Your directors present their report on the Company and the entities it controlled for the financial year ended 30 June 2007.

## Directors

The following persons held office as directors of PharmAust Limited during the financial year and up to the date of this report:

| | |
|---|---|
| Simon Owen | Chairman (appointed 3 August 2007) |
| Bryant McLarty | |
| Henry Gulev | Appointed 23 August 2007 |
| Wayne Best | Resigned 3 August 2007 |
| Paul D'Sylva | Resigned 3 August 2007 |
| John Thompson | Resigned 3 October 2006 |

## Principal Activities

The principal continuing activities during the period of the consolidated entity, constituted by PharmAust Limited and the entities it controlled during the year, focussed on Pharmaceutical Manufacturing and Services.

## Operating Results

The results of the consolidated entity for the period ended 30 June 2007 was a loss, after income tax expense, of $3,606,048 (2006: $2,752,284 – loss).

## Dividends

Since the end of the previous financial year, no dividend has been paid, declared or recommended.

## Significant Changes in State of Affairs

A review of events during the reporting period can be found in the review of operations.

## Subsequent Events

No matters or circumstances have arisen, since the end of the financial year, which significantly affected, or may significantly affect, the operations of the company, the results of those operations, or the state of affairs of the company in subsequent financial years, other than as outlined in Note 29 of the Notes to the Financial Statements.

## Future Developments

In the opinion of the Directors disclosure of information regarding likely developments in the consolidated entity's operations and the expected results of those operations in subsequent financial years could prejudice the company's interests. Accordingly this information has not been included in this report.

## Information on Directors

### Mr. Bryant McLarty – Executive Director

| | |
|---|---|
| Experience | Mr McLarty has extensive hands on practical experience in the securities industry in Australia. Mr McLarty's role at PharmAust Limited includes strategic planning, fundraising and the development and promotion of the Company's business along with the introduction of new projects. Mr McLarty was a founding director of PharmAust. |
| Interests in Shares and Options | Mr McLarty holds 2,578,424 Ordinary Fully Paid shares in PharmAust; 2,000,000 listed options to acquire a further 2,000,000 Ordinary Fully Paid shares; and 3,000,000 executive options to acquire a further 3,000,000 Ordinary Fully Paid shares. |
| Previous Directorships (last 3 years) ASX Listed Companies | Other than his Directorship of PharmAust Limited, Mr McLarty held a directorship at Wytomic Limited from 8 January 2006 to 26 July 2006. |

## DIRECTORS' REPORT (Cont.)

**Mr. Simon Owen – Executive Director & Company Secretary**

| | |
|---|---|
| Qualifications | B Juris. L.L.B |
| Experience | Mr Owen has over 15 years of experience as a corporate and commercial lawyer and corporate consultant with particular focus upon emerging enterprises. He has acted as both a Non-Executive and Executive director of a number of listed and public companies. Simon has undertaken significant capital raising assignments and has developed extensive networks and contacts throughout Australia and internationally. He has significant experience in the formulation and delivery of strategic goals of developing enterprises. His various roles have provided extensive experience of acquisitions, capital raisings, licensing, joint ventures, corporate development opportunities, investments and corporate structuring. |
| Interests in Shares and Options | Nil |
| Previous Directorships (last 3 years) ASX Listed Companies | Nil |

**Mr. Henry Gulev – Non-Executive Director**

| | |
|---|---|
| Qualifications | B.Pharm M.P.S |
| Experience | A community pharmacist for more than 20 years and state board member for Chemmart at Symbion Health Limited for more than 10 years. Mr Gulev has a wealth of experience, commercial acumen and keen interest in the development of pharmaceuticals and inception of new products. He is the owner of the highly innovative and successful The Downs Pharmacy Wembley Downs and has been a community pharmacist since graduating from the WA Institute of Technology (now Curtin University of Technology) in 1980. |
| Interests in Shares and Options | Nil |
| Previous Directorships (last 3 years) ASX Listed Companies | Nil |

**Company Secretary**

**Mr. Sam Wright – Company Secretary**

| | |
|---|---|
| Experience | Sam Wright has worked as the Financial Controller for PharmAust Manufacturing Pty Ltd from September 2006 and prior to that worked in finance for pharmaceutical wholesaler, Cottman Australia for ten years. He was appointed Company Secretary for PharmAust Limited in August 2007. |

**Indemnification and Insurance of Directors and Officers**

During the year, the Company did carry Directors and Officer Indemnity insurance.

The Company's Constitution provides that except as may be prohibited by Sections 199A and 199B of the Corporations Act every Officer, auditor or agent of the Company shall be indemnified out of the property of the Company against any liability incurred by him in his capacity as Officer, auditor or agent of the Company or any related corporation in respect of any act or omission whatsoever and howsoever occurring or in defending any proceedings whether civil or criminal.

## DIRECTORS' REPORT (Cont.)

### Meetings of Directors

The number of meetings of the Company's directors (including meetings of committees of directors) held during the year ended 30 June 2007, and the number of meetings attended by each director was:

| | Meetings of Directors | |
|---|---|---|
| Directors | Eligible to Participate | Number Attended |
| B McLarty | 9 | 9 |
| P D'Sylva | 9 | 9 |
| W Best | 9 | 9 |
| J Thompson | 2 | 2 |

### Interests in the Shares and Options of the Company

At 30 June 2007, the interests of the directors in Shares and Options of the company were:

| Director | Ordinary Shares | Options of Ordinary Shares |
|---|---|---|
| Mr B McLarty | 2,578,424 | 5,000,000 |
| Dr P D'Sylva | 3,727,220 | 6,094,592 |
| Dr Wayne Best | 1,446,733 | 2,553,229 |

### Share Options

No person entitled to exercise any of the following options has by virtue of the options, any right to participate in any share issue of any other body corporate.

At the date of this report, the number of options outstanding are:

- Listed 62,983,110 - Exercise price of 30 cents to be exercised on or before 30 November 2007
- Unlisted 1,842,402 - Exercise price of 37.5 cents to be exercised on or before 30 June 2008
- Executive 3,250,000 - Exercise price of 20 cents to be exercised on or before 31 December 2008 (subject to vesting criteria)
- Executive 6,500,000 - Exercise price of 22 cents to be exercised on or before 31 December 2008 (subject to vesting criteria)
- Unlisted 8,250,000 - Exercise price of 15 cents to be exercised on or before 23 April 2010

Each Option converts to one Ordinary Fully Paid Share.

No Options have been granted or exercised since the end of the reporting period.

### Environmental Regulation

The Company is subject to a range of environmental regulation. During the year PharmAust Limited met all reporting requirements under any relevant legislation. There were no incidents which required reporting.

### Proceedings on Behalf of the Company

The proceedings are a pre-action discovery application in the Supreme Court of WA (by Jonathan Remta) seeking discovery of certain documents relating to the recent EGM. The application has been opposed and PharmAust has filed an application to have the proceedings struck out on the basis that Mr Remta has no standing to bring the application, alternatively it discloses no reasonable cause of action, alternatively it is an abuse of the process of the Court.

## DIRECTORS' REPORT (Cont.)

### Non-audit Services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Company and the consolidated entity are important.

Details of the amounts paid or payable to the auditor RSM Bird Cameron Partners non-audit services provided during the year are set out below.

The Board of Directors has considered the position and is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 because none of the services undermine the general principles relating to auditor independence as set out in Professional Statement F1, including reviewing or auditing the auditor's own work, acting in a management or a decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risk and rewards.

Details of the amount paid or payable to the auditor of PharmAust Limited in relation to the provision on non-audit services are set out below:

| | $ |
|---|---|
| Tax compliance services | 30,130 |

### Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is included within these financial statements.

# Remuneration Report (Audited)

This report details the nature and amount of remuneration for each director and executive of PharmAust Limited.

## Remuneration Policy

The remuneration of directors and executives of PharmAust Limited has been designed to align director and executive objectives with shareholder and business objectives by providing a fixed remuneration component and offering specific long-term incentives based on key performance areas affecting the Company's financial results. The Board of PharmAust Limited believes the remuneration policy to be appropriate and effective in its ability to attract and retain the best executives and directors to run and manage the Company, as well as create goal congruence between directors, executives and shareholders.

All executives receive a base salary (which is based on factors such as length of service and experience) and superannuation whilst some executives receive fringe benefits. The Board reviews executive packages periodically by reference to the Company's performance, executive performance and comparable information from industry sectors and other listed companies in similar industries.

The performance of executives is measured against criteria agreed regularly with each executive and is based on factors including the forecast growth of the consolidated entity's profits and shareholders' value.

The remuneration is designed to attract the highest calibre of executives and reward them for performance that results in long-term growth in shareholder wealth. The goal of the remuneration structures it to align the remuneration packages of the executives with the Company's performance and specifically the Company's earnings and the consequences of the Company's performance on shareholder wealth including dividends, returns of capital and capital appreciation.

Executives, other than directors will also be entitled to participate in the employee share and option arrangements.

The executive directors and executives receive a superannuation guarantee contribution required by the government, which is currently 9%, and do not receive any other retirement benefits. Individuals, however, have the option to sacrifice part of their salary to increase payments towards superannuation.

All remuneration paid to directors and executives is valued at the cost to the company and expensed. Any shares given to directors and executives will be valued as the difference between the market price of those shares and the amount paid by the director or executive. Any options granted will be valued by an independent expert using the Black-Scholes, Binomial or any other methodologies that the independent expert deems appropriate.

The Board policy is to remunerate non-executive directors at market rates for comparable companies for time, commitment and responsibilities. The Board (excluding the relevant director) determines payments to the non-executive directors and reviews their remuneration regularly, based on market practice, duties and accountability. Independent external advice is sought when required. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting. Fees for non-executive directors are not linked to the performance of the Company.

# Remuneration Report (Cont.)

## Remuneration of Directors and Specified Executives

Details of the nature and amount of each element of remuneration of each Director of the Company for the financial year are as follows:

| 2007 | **Short-term benefits** Cash, salary & commissions $ | Cash profit share $ | Non-cash benefit $ | Other $ | **Post Employment Benefits** Super-annuation $ |
|---|---|---|---|---|---|
| *Directors* | | | | | |
| John Thompson | 13,761 | - | - | - | 1,239 |
| Paul D'Sylva | 263,678 | - | - | - | 23,731 |
| Bryant McLarty | 114,199 | - | - | 100,000 | - |
| Wayne Best | 130,000 | - | - | - | 11,700 |
| *Executives* | | | | | |
| John Moursounidis | 140,282 | - | - | - | 12,625 |
| Winton Willesee | 123,185 | - | - | - | 11,034 |
| Collette Sims | 49,739 | - | - | - | 3,688 |
| | 834,844 | - | - | 100,000 | 64,017 |

| | **Other long term benefits** Other $ | **Share-based payment** Shares $ | Options $ | **Total** $ | **Performance related** % |
|---|---|---|---|---|---|
| *Directors* | | | | | |
| John Thompson | - | - | - | 15,000 | - |
| Paul D'Sylva | - | - | 26,735 | 314,144 | 9% |
| Bryant McLarty | - | - | 26,735 | 240,934 | 11% |
| Wayne Best | - | - | 13,364 | 155,064 | 9% |
| *Executives* | | | | | |
| John Moursounidis | - | - | - | 152,907 | - |
| Winton Willesee | - | - | 10,025 | 144,244 | 7% |
| Collette Sims | - | - | 10,025 | 63,452 | 16% |
| | - | - | 86,884 | 1,085,745 | |

## Remuneration Report (Cont.)

| 2006 | Short-term benefits | | | | Post Employment Benefits |
|---|---|---|---|---|---|
| | Cash, salary & commissions $ | Cash profit share $ | Non-cash benefit $ | Other $ | Superannuation $ |
| *Directors* | | | | | |
| John Thompson | 55,044 | - | - | - | 4,954 |
| Paul D'Sylva | 224,039 | - | - | - | 20,162 |
| Bryant McLarty | 214,318 | - | 11,476 | - | 16,781 |
| Wayne Best | 130,002 | - | - | - | 11,700 |
| Kee Kirk Chin | 16,000 | - | - | - | - |
| *Executives* | | | | | |
| John Moursounidis | 140,004 | - | - | - | 12,600 |
| Wayne Sampson | 106,216 | - | - | - | 9,559 |
| Jim Eadie | 95,598 | - | - | - | 21,482 |
| Colette Sims | 90,384 | - | - | - | 8,135 |
| Winton Willesee | 100,282 | - | - | - | 9,025 |
| | 1,171,887 | - | 11,476 | - | 114,398 |

| | Other long term benefits | Share-based payment | | Total | Performance related |
|---|---|---|---|---|---|
| | Other $ | Shares $ | Options $ | $ | % |
| *Directors* | | | | | |
| John Thompson | - | - | - | 59,998 | - |
| Paul D'Sylva | - | - | 16,699 | 260,900 | 6% |
| Bryant McLarty | - | - | 16,699 | 259,274 | 6% |
| Wayne Best | - | - | 8,353 | 150,055 | 6% |
| Kee Kirk Chin | - | - | - | 16,000 | - |
| *Executives* | | | | | |
| John Moursounidis | - | 700 | 6,262 | 159,566 | 14% |
| Wayne Sampson | - | 700 | - | 116,475 | 1% |
| Jim Eadie | - | 700 | - | 117,780 | 1% |
| Colette Sims | - | 700 | - | 99,219 | 1% |
| Winton Willesee | - | 700 | 6,262 | 116,269 | 16% |
| | - | 3,500 | 54,275 | 1,355,536 | |

### Service Contracts

| Name | Date of Commencement of Contract | Base Amount $ | Period of Notice Required to Terminate | Termination Payments Provided in Contract |
|---|---|---|---|---|
| John Moursounidis | 29 April 2005 | 152,600 | Six Months | Six months entitlements as per notice period. No further entitlements payable. |

Other directors and executives do not have their employment formalised in a service agreement.

Signed in accordance with the Board of Directors.

**SIMON OWEN**
**Director**

Signed at Perth, Western Australia this 16th day of October 2007

# Annual Report Disclosure on Corporate Governance

PharmAust Limited is a pharmaceutical manufacturing and services company. The Company has established, and continues to refine and improve procedures to ensure a culture of good corporate governance exists and is respected across the PharmAust Group of companies.

## Foundations for Management and Oversight - Board of Directors/Executive Management

The Board consists of Executive Chairman Simon Owen, Executive Director Bryant McLarty and Non-Executive Director Henry Gulev. The Company's Constitution requires that one third of the members of the Board retire by rotation each year but are eligible for re-election. Any new director appointed holds office only until the next general meeting and is then eligible for re-election.

The Board will ensure that any such person to be appointed as a director possesses an appropriate level of qualifications, expertise and experience. Due to its size, the full Board fulfils the duties of a Nomination Committee governed by the Nomination Committee Charter.

The Board's primary role is the optimisation of Company performance and protection and enhancement of shareholder value. Due care is taken to ensure the directors are aware of their responsibilities, obligations and corporate expectations as directors of PharmAust Limited.

The Board has reserved the following matter;

- oversight of the company, including its control and accountability systems;
- appointing and removing the chief executive officer (or equivalent);
- ratifying the appointment and, where appropriate, the removal of the chief financial officer (or equivalent) and the company secretary;
- input into and final approval of management's development of corporate strategy and performance objectives;
- reviewing and ratifying systems of risk management and internal compliance and control, codes of conduct, and legal compliance;
- monitoring senior management's performance and implementation of strategy, and ensuring appropriate resources are available;
- approving and monitoring the progress of major capital expenditure, capital management, and acquisitions and divestitures;
- approving and monitoring financial and other reporting.

## Board Structure

The Board of Directors comprises two Executive Directors, Mr Simon Owen (Chairman), Mr Bryant McLarty and one Non-Executive Director, Mr Henry Gulev. Mr Gulev is considered by the Board of Directors as independent for the purposes of the Australian Stock Exchange Corporate Governance Council "Principles of Good Corporate Governance and Best Practice Recommendations".

As an independent director if Mr Gulev considers it necessary he can take independent professional advice at the Company's expense.

The Policy on the selection and appointment of new directors was formalised and has been adopted by the Board and is displayed on the Company's website. The period in office of each director is discussed in the Directors Report within this annual report.

## Promote Ethical and Reasonable Decision Making

The Company has adopted the appropriate codes of conduct in accordance with the recommendations of ASX Corporate Governance Council.

# Annual Report Disclosure on Corporate Governance (Cont.)

## Ethical Standards

PharmAust Limited is committed to the highest standards of ethical business conduct. As part of that commitment, PharmAust Limited has established a Code of Conduct to guide executives, management and staff in carrying out their duties and responsibilities and guide directors and executives as to the practices necessary to maintain confidence in the Company's integrity, and the responsibilities and accountability of individuals for reporting and investigating reports of unethical practices. The Code is subject to ongoing review to ensure that PharmAust Limited's standards of behaviour and corporate culture reflect best practice in corporate governance. The Code is based on the key principles identified by the Australian Institute of Company Directors.

In addition, the Board has guidelines dealing with disclosure of interests by directors in participating and voting at Board meetings where any such interests are discussed. In accordance with the Corporations Act, any director with a material personal interest in a matter being considered by the Board must not be present when the matter is being considered, and may not vote on the matter.

The Board has adopted a policy to guide directors, officers and employees with regard to trading in the Company's securities. A formal policy has been adopted designed to ensure compliance with the provisions of the Corporations Act by executive staff who may be in possession of sensitive information concerning the Company's affairs.

## Disclosure

The Company has a written policy designed to ensure compliance with ASX Listing Rules and all other regulatory requirements for disclosures. Additionally the Company has adopted a policy designed to ensure procedures to implement the policy are suitable and effective.

## Identification and Management of Risk

The Board has adopted a formal Risk Management Strategy which along with the Board's collective experience should assist in enabling accurate identification of the principal risks which may affect the Company's business. Identifying key operational risks and their management are recurring items for deliberation at Board meetings.

The Company's operational team is responsible for mitigation and management of all risks in relation to the Company's operations.

## Enhance Performance - Remuneration Fairly & Responsibly

The essence of the Company's current remuneration practices is to competitively set remuneration, including incentives to executive directors and senior management, to motivate key executives to pursue the long term growth and success of the Company within an appropriate control framework and to demonstrate a clear relationship between corporate and key executive performance and remuneration.

Further details of directors' remuneration during the financial year are set out in the Company's Financial Report and Remuneration Report.

The full Board acting to fulfil the duties of the remuneration committee sets, in accordance with the Remuneration Policy, the terms and conditions for the chief executive officer and other senior executives. The full Board reviews executive packages regularly by reference to company performance, executive performance, and comparable information from industry sectors, other listed companies and independent advice. The policy is designed to attract the highest calibre executives and reward them for performance which results in long-term growth in shareholder value.

Executives, other than directors, are also entitled to participate in the employee share and option arrangements.

Non-executive directors are paid by means of fees only and do not participate in schemes designed for remuneration of executives. Non-executive directors do not receive options or bonus payments and are not provided with retirement benefits other than statutory superannuation.

## Annual Report Disclosure on Corporate Governance (Cont.)

The amount of remuneration for all directors and the five highest-paid executives, including all monetary and non-monetary components, are detailed in the Note 23 to the financial report. All remuneration paid to executives is valued at the cost to the Company and expensed.

The payment of bonuses, share options and other incentive payments are reviewed by the Board as part of the review of executive remuneration.

**Interest of Stakeholders**

The formal Code of Conduct designed to promote ethical and responsible decision making sets the framework for dealing with all stakeholders in the Company. It is designed to ensure that directors have regard for the interests of all stakeholders of the Company.

**Explanation for Departure from Best Practice Recommendations**

The Company has complied with each of the Ten Essential Corporate Governance principles and the corresponding Best Practice Recommendations as published by ASX Corporate Governance Council ("ASX Principles and Recommendations"), other than in relation to the matters specified on the following page.

| Principle No | Best Practice Recommendation | | Best Practice Recommendations Compliance | Reasons for Non Compliance |
|---|---|---|---|---|
| 2 | 2.1 | The majority of the Board should be independent directors. | Only one of the three Directors is considered independent under ASX Corporate Governance current practice guidelines. | The Board considers that given the size of the Company the present Board structure is appropriate. The Board considers that the present small and nimble Board including the executive directors, motivated to perform as a result of their shareholding in the company and involvement in day-to-day activities, is appropriate. |

The Company's Corporate Governance section on its website, makes publicly available all relevant corporate governance policies and disclosures.

**RSM! Bird Cameron Partners**
Chartered Accountants

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GPO Box R1253 Perth WA 6844
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**AUDITOR'S INDEPENDENCE DECLARATION**
**TO THE BOARD OF DIRECTORS OF**
**PHARMAUST LIMITED**

As lead audit partner for the audit of the financial report of PharmAust Limited for the year ended 30 June 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

This independence declaration supersedes our independence declaration dated 12 October 2007 relating to the previously issued and now superseded financial report.

RSM Bird Cameron Partners.

RSM BIRD CAMERON PARTNERS
Chartered Accountants

D J Wall.

D J WALL
Partner

Perth, WA
Dated: 16 October 2007

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**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF
PHARMAUST LIMITED**

We have audited the accompanying financial report of PharmAust Limited ("the company"), which comprises the balance sheet as at 30 June 2007, 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 of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

We have also audited the remuneration disclosures contained in the directors' report. As permitted by the *Corporations Regulations 2001*, the company has disclosed information about the remuneration of directors and executives ("remuneration disclosures"), required by Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "remuneration report" in the directors' report and not in the financial report.

*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 Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control 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 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

The directors of the company are also responsible for the remuneration disclosures contained in the directors' report.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We have 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. Our responsibility is to also express an opinion on the remuneration disclosures contained in the directors' report based on our audit.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company'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 company's internal control. 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 and the remuneration disclosures contained in the directors' report.

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

*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

*Auditor's Opinion on the AASB 124 Remuneration Disclosures Contained in the Directors' Report*

In our opinion the remuneration disclosures that are contained in the directors' report comply with Accounting Standard AASB 124.

*Auditor's Opinion on the Revised Financial Report*

In our opinion:

(a) The financial report of PharmAust Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and of their 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.

(b) The financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

*Material Uncertainty Regarding Continuation as a Going Concern*

Without qualifying our opinion, we draw attention to Note 1 in the financial statements, which indicates that:

(a) during the year ended 30 June 2007, the company incurred a net loss of $1,775,926 and the consolidated entity incurred a net loss of $5,429,390;

(b) at balance date the company has net current liabilities of $1,280,531 and the consolidated entity has net current liabilities of $1,212,372; and

(c) a requisition has been made to have the shareholders voluntarily wind up the company.

These matters, along with others as set forth in Note 1, indicate the existence of a material uncertainty which may cast significant doubt about the company's ability to continue as a going concern.

*Reissued Financial Report*

Without qualifying our opinion, we draw attention to the following matter. As indicated in Note 1 to the financial statements, the attached financial report of PharmAust Limited for the financial year ended 30 June 2007 is a "reissued financial report" and supersedes the financial report signed by the directors, and lodged with the Australian Stock Exchange ("ASX"), on 12 October 2007. This audit report supersedes our audit report dated 12 October 2007 relating to the previously issued and now superseded financial report.

RSM Bird Cameron Partners.

RSM BIRD CAMERON PARTNERS
Chartered Accountants

D J WALL
Partner

Perth, WA
Dated: 16 October 2007

# DIRECTORS' DECLARATION

The directors of the company declare that:

1. the reissued financial statements and notes are in accordance with the Corporations Act 2001 and:

   (a) comply with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001; and

   (b) give a true and fair view of the company's and consolidated entity's financial position as at 30 June 2007 and their performance for the year ended on that date;

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

The directors have been given the signed declarations by the Chief Executive Officer and Chief Financial Officer as required by Section 295A of the Corporations Act 2001.

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

**Simon Owen**
**Director**

Signed at Perth, Western Australia this 16th day of October 2007

# INCOME STATEMENT
## For the year ended 30 June 2007

| | | CONSOLIDATED ENTITY | | PARENT ENTITY | |
|---|---|---|---|---|---|
| | | 2007 | 2006 | 2007 | 2006 |
| | NOTE | $ | $ | $ | $ |
| Revenue | 2 | 4,576,111 | 6,105,754 | - | - |
| Other income | 2 | 3,591,895 | 791,733 | 6,020,988 | 1,103,227 |
| | | 8,168,006 | 6,897,487 | 6,020,988 | 1,103,227 |
| Raw materials and consumables used | | (2,124,218) | (1,962,606) | - | - |
| Employee benefits expense | | (4,327,803) | (4,546,516) | (843,382) | (734,764) |
| Depreciation expense | | (528,672) | (419,242) | (69,379) | (11,914) |
| Loss on disposal of assets | | - | (1,383) | - | - |
| Impairment of non current assets | | (760,882) | (150,000) | (5,643,221) | (1,421,568) |
| Finance costs | | (125,725) | (77,253) | (99,073) | (77,253) |
| Administration expense | | (3,414,339) | (2,492,771) | (1,141,859) | (744,011) |
| Share of loss of associate | | (492,415) | - | - | - |
| Loss before income tax expense | 3 | (3,606,048) | (2,752,284) | (1,775,926) | (1,886,283) |
| Income tax expense | 4a | - | - | - | - |
| Loss after income tax expense | | (3,606,048) | (2,752,284) | (1,775,926) | (1,886,283) |
| **Net loss attributable to members of the parent entity** | | **(3,606,048)** | **(2,752,284)** | **(1,775,926)** | **(1,886,283)** |
| Basic earnings per share (cents per share) | 18 | (3.50) | (3.69) | | |

*The accompanying notes form part of these financial statements.*

# BALANCE SHEET
## As at 30 June 2007

| | | Consolidated Entity | | Parent Entity | |
|---|---|---|---|---|---|
| | Note | 2007 $ | 2006 $ | 2007 $ | 2006 $ |
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | 5 | 272,423 | 328,830 | 121,994 | 126,286 |
| Trade and other receivables | 6a | 199,483 | 936,042 | 2,812 | 35,000 |
| Inventories | 7 | 478,545 | 479,560 | - | - |
| Other current assets | 8 | 46,178 | 42,000 | - | 14,355 |
| TOTAL CURRENT ASSETS | | 996,629 | 1,786,432 | 124,806 | 175,641 |
| NON-CURRENT ASSETS | | | | | |
| Trade and other receivables | 6b | - | - | - | 2,308,571 |
| Financial assets | 9 | 2,000 | 2,000 | 5,710,153 | 562,000 |
| Investments accounted for using the equity method | 10 | 5,721,773 | - | - | - |
| Property, plant and equipment | 11 | 3,447,620 | 6,994,133 | 2,368,684 | 2,430,175 |
| Intangible assets | 12 | - | 387,093 | - | - |
| TOTAL NON-CURRENT ASSETS | | 9,171,393 | 7,383,226 | 8,078,837 | 5,300,746 |
| **TOTAL ASSETS** | | 10,168,022 | 9,169,658 | 8,203,643 | 5,476,387 |
| CURRENT LIABILITIES | | | | | |
| Trade and other payables | 13 | 607,728 | 879,814 | 55,976 | 97,291 |
| Short-term borrowings | 14a | 1,434,729 | 134,894 | 1,328,144 | 5,334 |
| Short-term provisions | 15 | 166,544 | 236,948 | 21,217 | 48,257 |
| TOTAL CURRENT LIABILITIES | | 2,209,001 | 1,251,656 | 1,405,337 | 150,882 |
| NON-CURRENT LIABILITIES | | | | | |
| Long-term borrowings | 14b | 123,859 | 231,554 | - | - |
| TOTAL NON-CURRENT LIABILITIES | | 123,859 | 231,554 | - | - |
| **TOTAL LIABILITIES** | | 2,332,860 | 1,483,210 | 1,405,337 | 150,882 |
| **NET ASSETS** | | **7,835,162** | **7,686,448** | **6,798,306** | **5,325,505** |
| EQUITY | | | | | |
| Issued capital | 16a | 24,386,582 | 21,137,855 | 24,386,582 | 21,137,855 |
| Reserves | 17 | 506,035 | 2,941,752 | - | - |
| Accumulated losses | | (17,057,455) | (16,393,159) | (17,588,276) | (15,812,350) |
| **TOTAL EQUITY** | | **7,835,162** | **7,686,448** | **6,798,306** | **5,325,505** |

*The accompanying notes form part of these financial statements.*

# PHARMAUST LIMITED
# STATEMENT OF CHANGES IN EQUITY
# For the year ended 30 June 2007

**Consolidated Entity**

| | Issued Capital $ | Accumulated Losses $ | Asset Revaluation Reserve $ | General Reserve $ | Total Equity $ |
|---|---|---|---|---|---|
| **As at 1 July 2005** | **17,653,481** | **(13,785,088)** | **-** | **-** | **3,868,393** |
| Loss for the year | - | (2,752,284) | - | - | (2,752,284) |
| Revaluation of property, plant and equipment | - | - | 3,085,965 | - | 3,085,965 |
| Depreciation of revalued assets | - | 144,213 | (144,213) | - | - |
| Share-based payments | 54,275 | - | - | - | 54,275 |
| Shares issued (net) | 3,430,099 | - | - | - | 3,430,099 |
| **As at 30 June 2006** | **21,137,855** | **(16,393,159)** | **2,941,752** | **-** | **7,686,448** |

| | Issued Capital $ | Accumulated Losses $ | Asset Revaluation Reserve $ | General Reserve $ | Total Equity $ |
|---|---|---|---|---|---|
| **As at 1 July 2006** | **21,137,855** | **(16,393,159)** | **2,941,752** | **-** | **7,686,448** |
| Loss for the year | - | (3,606,048) | - | - | (3,606,048) |
| Transfer upon sale of revalued asset | - | 2,941,752 | (2,941,752) | - | - |
| Share of associate company's reserve increments | - | - | - | 506,035 | 506,035 |
| Share-based payments | 86,884 | - | - | - | 86,884 |
| Shares issued (net) | 3,161,843 | - | - | - | 3,161,843 |
| **As at 30 June 2007** | **24,386,582** | **(17,057,455)** | **-** | **506,035** | **7,835,162** |

*The accompanying notes form part of these financial statements.*

# PHARMAUST LIMITED
# STATEMENT OF CHANGES IN EQUITY
# For the year ended 30 June 2007

**Parent Entity**

| | Issued Capital $ | Accumulated Losses $ | Asset Revaluation Reserve $ | General Reserve $ | Total Equity $ |
|---|---|---|---|---|---|
| **As at 1 July 2005** | **17,653,481** | **(13,926,067)** | **-** | **-** | **3,727,414** |
| Loss for the year | - | (1,886,283) | - | - | (1,886,283) |
| Share-based payments | 54,275 | - | - | - | 54,275 |
| Shares issued (net) | 3,430,099 | - | - | - | 3,430,099 |
| **As at 30 June 2006** | **21,137,855** | **(15,812,350)** | **-** | **-** | **5,325,505** |

| | Issued Capital $ | Accumulated Losses $ | Asset Revaluation Reserve $ | General Reserve $ | Total Equity $ |
|---|---|---|---|---|---|
| **As at 1 July 2006** | **21,137,855** | **(15,812,350)** | **-** | **-** | **5,325,505** |
| Loss for the year | - | (1,775,926) | - | - | (1,775,926) |
| Share based payments | 86,884 | - | - | - | 86,884 |
| Shares issued (net) | 3,161,843 | - | - | - | 3,161,843 |
| **As at 30 June 2007** | **24,386,582** | **(17,588,276)** | **-** | **-** | **6,798,306** |

The accompanying notes form part of these financial statements.

# CASH FLOW STATEMENT
## For the year ended 30 June 2007

| | NOTE | CONSOLIDATED ENTITY 2007 $ | CONSOLIDATED ENTITY 2006 $ | PARENT ENTITY 2007 $ | PARENT ENTITY 2006 $ |
|---|---|---|---|---|---|
| Cash Flows From Operating Activities | | | | | |
| Receipts from customers | | 4,588,145 | 6,132,215 | 10,965 | 36,601 |
| Payments to suppliers and employees | | (8,665,140) | (9,152,499) | (1,717,189) | (1,382,298) |
| Interest received | | 11,866 | 47,807 | 11,866 | 19,218 |
| Interest and other costs of finance | | (125,725) | (77,253) | (99,073) | (77,253) |
| Net cash used in operating activities | 21b | (4,190,854) | (3,049,730) | (1,793,431) | (1,403,732) |
| Cash Flows From Investing Activities | | | | | |
| Payments for property, plant and equipment | | (218,602) | (275,612) | (7,888) | (58,976) |
| Payments for financial assets | | (934) | - | (934) | - |
| Proceeds from sale of financial assets | | - | 74,417 | - | 74,417 |
| Payments for intangible assets | | - | (380,093) | - | - |
| Loans disbursed | | - | (35,000) | - | (35,000) |
| Loans to controlled entities | | - | - | (2,686,692) | (1,758,846) |
| Net cash used in investing activities | | (219,536) | (616,288) | (2,695,514) | (1,778,405) |
| Cash Flows From Financing Activities | | | | | |
| Proceeds from share issues | | 3,161,843 | 3,484,374 | 3,161,843 | 3,484,374 |
| Proceeds from borrowings | | 1,328,144 | - | 1,328,144 | - |
| Repayment of borrowings | | (136,004) | (119,678) | (5,334) | (21,113) |
| Net cash provided by financing activities | | 4,353,983 | 3,364,696 | 4,484,653 | 3,463,261 |
| Net increase/(decrease) in cash held | | (56,407) | (301,322) | (4,292) | 281,124 |
| Cash at the beginning of the financial year | | 328,830 | 630,152 | 126,286 | (154,838) |
| Cash at the end of the financial year | 21a | 272,423 | 328,830 | 121,994 | 126,286 |

*The accompanying notes form an integral part of these financial statements.*

# NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 30 June 2007

1 SIGNIFICANT ACCOUNTING POLICIES

The reissued financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards (including the Australian Accounting Interpretations).

The reissued financial report covers the consolidated entity of PharmAust Limited and controlled entities, and PharmAust Limited as an individual parent entity. PharmAust Limited is a listed public company, incorporated and domiciled in Australia.

The following is a summary of the material accounting policies adopted by the consolidated entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

**Basis of Preparation**

As disclosed in the financial statements, the parent and consolidated entity recorded losses of $1,775,926 and $3,606,048 respectively for the year ended 30 June 2007 and at balance date, the parent and consolidated entity have net current liabilities of $1,280,531 and $1,212,372 respectively.

The Board considers that the Company and consolidated entity are going concerns (subject to a vote on a motion for the voluntary winding up of the Company, to be conducted at an Extraordinary General Meeting on 8 November 2007) and recognises that additional funding is required to ensure that the Company can continue to fund its and the consolidated entity's operations for the twelve month period from the date of this financial report. Further funding, if required, can be derived from either one or a combination of the following:

*Subsequent events*

- The Company negotiated and accepted a loan facility which provided the Company with working capital as required and agreed by the lender ($300,000 has been provided to the Company by the lender at the date of this report). The lender has also taken an assignment of the NAB's entire position with regard to the Company, which consists of $181,789 in hire purchase agreements and $1,376,060 relating to a secured bank overdraft (amounts includes interest and fees). All working capital and hire purchase agreements are to be repaid upon successful completion of the rights issue.
- The Company has undertaken an entitlement issue and settled the terms of that issue to be a 1 for 1 entitlement issue at 3 cents per Share to raise approximately $3,550,618 as disclosed in Note 28, issued pursuant to the Corporations Act 2001.

*Potential events*

- The sale of the land and buildings at 71 Division Street Welshpool.
- The sale of the Company's investment in Commonwealth Biotechnologies Inc. PharmAust Limited currently holds 2,150,000 shares in Commonwealth Biotechnologies Inc which is listed on the NASDAQ. These shares are currently in escrow until 24 November 2007.

Accordingly, the Directors believe that the Company will obtain sufficient funding to enable it and the consolidated entity to continue as going concerns and that it is appropriate to adopt that basis of accounting in the preparation of the financial report.

The accounting policies set out below have been consistently applied to all years presented.

*Reporting Basis and Conventions*

The financial report has been prepared on an accruals basis and is based on historical costs modified by the revaluation of selected non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

# NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 30 June 2007

1 SIGNIFICANT ACCOUNTING POLICIES (Cont.)

(a) Reissued Financial Report

This reissued financial report replaces the previously issued financial report lodged with the Australian Stock Exchange on 12 October 2007.

The reason for the reissue of the financial report dated 12 October 2007 is after due consideration of the Australian Stock Exchange's decision to not remove the suspension of the Company's shares from quotation on the lodgement of the previously issued financial report, the directors met over subsequent days to review the issue of the Company's control of CBI. Considering current events and after a detailed analysis of the requirements of AASB 127 Consolidated and Separate Financial Statements, the Company has come to the view that it is now unable to satisfy the concept of control in accordance with AASB 127.

The investment of Commonwealth Biotechnologies Inc has now been brought to account using the equity method of accounting in accordance with AASB 128 Investment in Associates.

(b) Statement of Compliance

The reissued financial report was authorised for issue on 16 October 2007.

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS).

(c) Adoption of new and revised standards

No new Australian Accounting Standards that have been issued but are not yet effective have been applied in the preparation of this financial report. Such standards are not expected to have a material impact on the Company's financial report on initial application.

(d) Principles of Consolidation

A controlled entity is any entity PharmAust Limited has the power to control the financial and operating policies so as to obtain benefits from its activities.

All controlled entities have a June financial year-end.

All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

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

(e) Income Tax

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using the tax rates that have been enacted or are substantially enacted by the balance date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

# NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 30 June 2007

1 SIGNIFICANT ACCOUNTING POLICIES (Cont.)

(e) Income Tax (cont.)

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

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

(f) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs are assigned on the basis of weighted average costs.

(g) Property, Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation and impairment losses.

*Property*
Freehold land and buildings are shown at their fair value (being the amount for which an asset could be exchanged between knowledgeable willing parties in an arms length transaction), based on periodic, but at least triennial, valuations by external independent valuers, less subsequent depreciation for buildings.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the re-valued amount of the asset.

*Plant and Equipment*
Plant and equipment are measured on the cost basis.

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the assets employment and subsequent disposal. The expected net cash flows have been discounted to their present values in determining recoverable amounts.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the consolidated entity and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to a revaluation reserve in equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the re-valued carrying amount of the asset charged to the income statement and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

*Depreciation*
The depreciable amount of all property, plant and equipment including building and capitalised leased assets, but excluding freehold land, is depreciated on a straight line basis over their useful lives to the consolidated entity commencing from the time the asset is held ready for use. Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

# NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 30 June 2007

1 SIGNIFICANT ACCOUNTING POLICIES (Cont.)

(g) Property, Plant and Equipment (cont.)

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

| *Class of Fixed Asset* | *Depreciation Rate* |
|---|---|
| Buildings | 2.5% |
| Leasehold improvements | 2.5% |
| Plant and equipment | 5-33% |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These gains and losses are included in the income statement. When re-valued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

(h) Leases

Leases of fixed assets where substantially all the risks and benefits incidental to the ownership of the asset, but not the legal ownership that are transferred to entities in the consolidated entity are classified as finance leases.

Finance leases are capitalised by recording an asset and a liability at the lower of the amounts equal to the fair value of the leased property or the present value of the minimum lease payments, including any guaranteed residual values. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

Leased assets are depreciated on a straight-line basis over the shorter of their estimated useful lives or the lease term.

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

(i) Financial Instruments

*Recognition*
Financial instruments are initially measured at cost on trade date, which includes transaction costs, when the related contractual rights or obligations exist. Subsequent to initial recognition these instruments are classified as "financial assets at fair value through profit and loss" as they are acquired principally for the purpose of selling in the short term. Realised and unrealised gains and losses arising from changes in the fair value of these assets are included in the income statement in the period in which they arise.

*Fair value*
Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, with reference to similar instruments and option pricing models.

*Impairment*
At each reporting date, the directors assesses whether there is objective evidence that a financial instrument has been impaired. Impairment losses are recognised in the income statement.

# NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 30 June 2007

1 SIGNIFICANT ACCOUNTING POLICIES (Cont.)

(j) Impairment of Assets

At each reporting date, the Company reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such an indication exists, the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the income statement.

Impairment testing is performed annually for goodwill and intangible assets with indefinite lives.

Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

(k) Intangibles

*Patents and trademarks*
Patents and trademarks are recognised at cost of acquisition. Patents and trademarks have an indefinite life and are carried at cost less any impairment losses.

*Licences*
Patents and trademarks are recognised at cost of acquisition. Licences have a finite life of 10 years and are carried at cost less any accumulated amortisation and any impairment losses.

(l) Investments in Associates

Investments in associate companies are recognised in the financial statements by applying the equity method of accounting. The equity method of accounting recognises the consolidated entity's share of post-acquisition reserves of its associates.

(m) Employee Benefits

Provision is made for the company's liability for employee benefits arising from services rendered by employees to balance date. Employee benefits that are expected to be settled within one year have been measured at the amounts expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those benefits.

(n) Provisions

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.

(o) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(p) Trade and other receivables

Trade receivables, which generally have 30-90 day terms, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when there is objective evidence that the consolidated entity will not be able to collect the debts. Bad debts are written off when identified.

# NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 30 June 2007

1 SIGNIFICANT ACCOUNTING POLICIES (Cont.)

(q) Revenue

Revenue from the sale of goods is recognised upon delivery of goods to the customer.

Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

All revenue is stated net of the amount of goods and services tax (GST).

(r) Goods and services tax

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

(s) Share-based payment transactions

The consolidated entity provides benefits to employees (including senior executives) of the Company in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

When provided, 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 by an external valuer using a black-scholes model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of PharmAust Limited (market conditions) if applicable. The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the vesting period).

The consolidated entity provides benefits to employees (including senior executives) of the Company in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions).

When provided, 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 by an external valuer using a black-scholes model.

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the Company's best estimate of the number of equity instruments that will ultimately vest. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date. The income statement charge or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is only conditional upon a market condition.

If the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee, as measured at the date of modification.

If an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award and designated as a replacement award on the date that it is granted, the cancelled

# NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 30 June 2007

1 SIGNIFICANT ACCOUNTING POLICIES (Cont.)

(s) Share-based payment transactions (cont.)

and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding options is reflected as additional share dilution in the computation of earnings per share.

(t) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(u) Earnings per share

Basic earnings per share is calculated as net profit attributable to members of the parent, adjusted to exclude any costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, adjusted for any bonus element.

(v) Critical Accounting Estimates and Judgements

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Board of Directors have resolved to bring to account the investment in Commonwealth Biotechnologies Inc. by applying the equity method of accounting in accordance with Accounting Standard AASB 128 Investments in Associates.

Except for the matter referred to in the preceding paragraph, the company is of the view that there are no critical accounting estimates and judgments in this financial report.

# NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 30 June 2007

| | | Consolidated Entity 2007 $ | Consolidated Entity 2006 $ | Parent Entity 2007 $ | Parent Entity 2006 $ |
|---|---|---|---|---|---|
| 2 | REVENUE | | | | |
| | Sales | 4,576,111 | 6,105,754 | - | - |
| | OTHER INCOME | | | | |
| | Interest received | 11,866 | 47,807 | 11,866 | 19,217 |
| | Profit on sale of non current assets | 3,567,994 | 6,417 | 5,708,153 | 6,417 |
| | Write-back of previous devaluation of land and buildings | - | 600,008 | - | 600,008 |
| | Rental income | 2,832 | - | 292,836 | 231,961 |
| | Management fees | - | - | - | 180,000 |
| | Other revenue | 9,203 | 137,501 | 8,133 | 65,624 |
| | | 3,591,895 | 791,733 | 6,020,988 | 1,103,227 |
| 3 | LOSS FOR THE YEAR | | | | |
| (a) | Expenses | | | | |
| | Finance costs: | | | | |
| | - external | 125,725 | 77,253 | 99,073 | 77,253 |
| (b) | Significant revenue and expenses | | | | |
| | The following significant relevant revenue and expense items are relevant in explaining the financial performance: | | | | |
| | Write-back of previous devaluation of land and buildings | - | 600,008 | - | 600,008 |
| | Profit on sale of non current asset | 3,567,994 | 6,417 | 5,708,153 | 6,417 |
| | Impairment of non-current assets | | | | |
| | - plant and equipment | (373,788) | - | - | - |
| | - investments | - | - | (630,934) | (141,238) |
| | - intangibles | (387,094) | (150,000) | - | - |
| | - loans to controlled entities | - | - | (4,977,287) | (1,280,330) |

# NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 30 June 2007

| | CONSOLIDATED ENTITY | | PARENT ENTITY | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | $ | $ | $ | $ |

4 INCOME TAX EXPENSE

4a No income tax is payable by the company or consolidated entity as they incurred losses for the year for income tax purposes.

| | | | | |
|---|---|---|---|---|
| Loss before income tax | (3,606,048) | (2,752,284) | (1,775,926) | (1,886,283) |
| Prima facie tax benefit at 30% (2006:30%) | (1,081,814) | (825,685) | (532,778) | (565,885) |
| Tax effect of: | | | | |
| - Write-downs to recoverable amounts | 228,265 | 87,371 | 1,692,966 | 426,470 |
| - Share-based payments | 26,065 | 23,632 | 26,065 | 23,632 |
| - Share of loss of associate | 147,724 | - | - | - |
| - Other non-allowable items | 908,752 | (373,181) | 340,457 | (216,313) |
| - Deferred tax asset used not previously brought to account | - | - | (311,328) | - |
| - Deferred tax asset not brought to account | 1,639,087 | 1,087,863 | - | 332,096 |
| - Deferred tax liability not brought to account | (1,868,079) | - | (1,215,382) | - |
| | - | - | - | - |

4b Deferred tax asset

The potential deferred tax asset arising from tax losses and temporary differences has not been recognised as an asset because recovery of tax losses and recovery of temporary differences is not probable.

| | | | | |
|---|---|---|---|---|
| Deferred tax asset at 30% tax rate (not recognised) | 5,426,041 | 3,786,954 | 2,654,636 | 2,965,964 |
| Deferred tax liability at 30% tax rate (not recognised) | 2,478,576 | 610,497 | 1,215,382 | - |

PharmAust Limited and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the Tax Consolidation Regime. PharmAust Limited is responsible for recognising the current and deferred tax assets and liabilities for the tax consolidated group. The tax consolidated group has entered a tax sharing agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

5 CASH AND CASH EQUIVALENTS

| | | | | |
|---|---|---|---|---|
| Cash at bank | 272,423 | 328,830 | 121,994 | 126,286 |

# NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 30 June 2007

| | Consolidated Entity 2007 $ | Consolidated Entity 2006 $ | Parent Entity 2007 $ | Parent Entity 2006 $ |
|---|---|---|---|---|
| **6 TRADE AND OTHER RECEIVABLES** | | | | |
| **6a Current** | | | | |
| Trade debtors | 199,483 | 901,042 | 2,812 | - |
| Loans receivable | - | 35,000 | - | 35,000 |
| | 199,483 | 936,042 | 2,812 | 35,000 |

Trade debtors: Payment terms are 30 days from the date of recognition.
Loans receivable: Loans are payable within 12 months.

| | Consolidated Entity 2007 $ | Consolidated Entity 2006 $ | Parent Entity 2007 $ | Parent Entity 2006 $ |
|---|---|---|---|---|
| **6b Non current** | | | | |
| Loans receivable from controlled entities | | | | |
| Amounts due | - | - | 4,977,287 | 4,253,022 |
| Provision for non recovery | - | - | (4,997,287) | (1,944,451) |
| | - | - | - | 2,308,571 |

Loans receivable from controlled entities: All loans are payable at call and are on an interest free basis. No demand will be made within 12 months of the date of this report.

| | Consolidated Entity 2007 $ | Consolidated Entity 2006 $ | Parent Entity 2007 $ | Parent Entity 2006 $ |
|---|---|---|---|---|
| **7 INVENTORIES** | | | | |
| Finished goods | 478,545 | 479,560 | - | - |
| **8 OTHER CURRENT ASSETS** | | | | |
| Prepayments | 46,178 | 42,000 | - | 14,355 |

# NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 30 June 2007

| | | Consolidated Entity 2007 $ | Consolidated Entity 2006 $ | Parent Entity 2007 $ | Parent Entity 2006 $ |
|---|---|---|---|---|---|
| 9 | FINANCIAL ASSETS | | | | |
| | Shares in controlled entities - cost | - | - | 1,575,948 | 1,575,948 |
| | Provision for diminution in value | - | - | (1,575,948) | (1,015,948) |
| | | - | - | - | 560,000 |
| | Shares in associated entities - cost | - | - | 5,708,153 | - |
| | Provision for diminution in value | - | - | - | - |
| | | | | 5,708,153 | |
| | Financial assets held for trading | | | | |
| | Shares in listed securities | 82,934 | 12,000 | 82,934 | 12,000 |
| | Provision for diminution in value | (80,934) | (10,000) | (80,934) | (10,000) |
| | | 2,000 | 2,000 | 2,000 | 2,000 |
| | Total financial assets | 2,000 | 2,000 | 5,710,153 | 562,000 |
| 9a | Movements in Carrying Amounts | | | | |
| | *Shares in controlled entities* | | | | |
| | Carrying amount at beginning of the year | - | - | 560,000 | 710,000 |
| | Additions | - | - | - | - |
| | Disposals | - | - | - | - |
| | Impairment losses | - | - | (560,000) | (150,000) |
| | Carrying amount at end of the year | - | - | - | 560,000 |
| | *Shares in associated entities* | | | | |
| | Carrying amount at beginning of the year | - | - | - | - |
| | Additions | - | - | - | - |
| | Additions though acquisition of associated entity | - | - | 5,708,153 | - |
| | Disposals | - | - | - | - |
| | Impairment losses | - | - | - | - |
| | Carrying amount at end of the year | - | - | 5,708,153 | - |
| | *Financial assets held for trading* | | | | |
| | Carrying amount at beginning of the year | 2,000 | 77,800 | 2,000 | 77,800 |
| | Additions | 70,934 | - | 70,934 | - |
| | Disposals | - | (75,800) | - | (75,800) |
| | Impairment losses | (70,934) | - | (70,934) | - |
| | Carrying amount at end of the year | 2,000 | 2,000 | 2,000 | 2,000 |
| | | 2,000 | 2,000 | 5,710,153 | 562,000 |

# NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 30 June 2007

| | | Consolidated Entity 2007 $ | Consolidated Entity 2006 $ | Parent Entity 2007 $ | Parent Entity 2006 $ |
|---|---|---|---|---|---|
| 10 | INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD | | | | |
| | Associated companies | 5,721,773 | - | - | - |
| 10a | Movements during the year in Equity Accounted Investment in Associated Companies | | | | |
| | Cost of investment in associate at acquisition (February 2007) | 5,708,153 | - | - | - |
| | Share of the associate's loss after income tax | (492,415) | - | - | - |
| | Share of the associate company's reserve increments arising during the year | 506,035 | - | - | - |
| | | 5,721,773 | - | - | - |
| 10b | Equity accounted profits of associates broken down as follows: | | | | |
| | Share of associate's loss before income tax | (492,415) | - | - | - |
| | Share of associate's income tax relating to the loss | - | - | - | - |
| | Share of associate's loss after income tax | (492,415) | - | - | - |
| 10c | Summarised Presentation of Aggregate Assets, Liabilities and Performance of Associates | | | | |
| | Current assets | 4,219,784 | - | - | - |
| | Non current assets | 5,651,430 | - | - | - |
| | Total assets | 9,871,214 | - | - | - |
| | Current liabilities | 3,026,004 | - | - | - |
| | Non current liabilities | 2,146,882 | - | - | - |
| | Total liabilities | 5,172,886 | - | - | - |
| | Net assets | 4,698,328 | - | - | - |
| | Revenues | 1,876,606 | - | - | - |
| | Share of associate's loss after income tax | (492,415) | - | - | - |

Ownership interest in Commonwealth Biotechnologies Inc. at the company's balance sheet date was 39.5% of ordinary shares. The reporting date of Commonwealth Biotechnologies Inc. is 31 December 2007.

| | Consolidated Entity 2007 $ | Consolidated Entity 2006 $ | Parent Entity 2007 $ | Parent Entity 2006 $ |
|---|---|---|---|---|
| Market value of investments in Commonwealth Biotechnologies Inc. (listed on NASDAQ) | 9,450,179 | - | - | - |

# NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 30 June 2007

| | Consolidated Entity 2007 $ | Consolidated Entity 2006 $ | Parent Entity 2007 $ | Parent Entity 2006 $ |
|---|---|---|---|---|
| **11 PROPERTY, PLANT AND EQUIPMENT** | | | | |
| Land and buildings | | | | |
| Independent valuation (June 2006) | 2,414,000 | 2,414,000 | 2,414,000 | 2,414,000 |
| Accumulated depreciation | (64,800) | - | (64,800) | - |
| | 2,349,200 | 2,414,000 | 2,349,200 | 2,414,000 |
| Leasehold improvements | | | | |
| Independent valuation (December 2005) | - | 1,900,000 | - | - |
| Accumulated depreciation | - | (23,750) | - | - |
| | - | 1,876,250 | - | - |
| Plant and equipment | | | | |
| Cost | 2,161,631 | 1,962,083 | 52,303 | 44,415 |
| Independent valuation (December 2005) | - | 1,279,541 | - | - |
| Accumulated depreciation | (689,723) | (537,741) | (32,819) | (28,240) |
| Accumulated impairment losses | (373,488) | - | - | - |
| | 1,098,420 | 2,703,883 | 19,484 | 16,175 |
| | 3,447,620 | 6,994,133 | 2,368,684 | 2,430,175 |

Reconciliations:

| | Consolidated Entity 2007 $ | Consolidated Entity 2006 $ | Parent Entity 2007 $ | Parent Entity 2006 $ |
|---|---|---|---|---|
| *Land and Buildings* | | | | |
| Carrying amount at beginning of the year | 2,414,000 | 1,760,000 | 2,414,000 | 1,760,000 |
| Additions | - | 53,392 | - | 53,392 |
| Write-back of previous devaluation | - | 600,608 | - | 600,608 |
| Depreciation expense | (64,800) | - | (64,800) | - |
| Carrying amount at end of the year | 2,349,200 | 2,414,000 | 2,349,200 | 2,414,000 |
| *Leasehold improvements* | | | | |
| Carrying amount at beginning of the year | 1,876,250 | - | - | - |
| Revaluation increments | - | 1,900,000 | - | - |
| Disposals | - | - | - | - |
| Written down value of assets at date of disposal of controlled entity | (1,852,500) | - | - | - |
| Depreciation expense | (23,750) | (23,750) | - | - |
| Carrying amount at end of the year | - | 1,876,250 | - | - |
| *Plant and equipment* | | | | |
| Carrying amount at beginning of the year | 2,703,883 | 1,339,903 | 16,175 | 23,105 |
| Additions | 218,602 | 583,807 | 7,888 | 4,984 |
| Impairment losses | (373,788) | - | - | - |
| Revaluation increments | - | 1,185,965 | - | - |
| Disposals | (21,652) | (10,300) | - | - |
| Written down value of assets at date of disposal of controlled entity | (988,503) | - | - | - |
| Depreciation expense | (440,122) | (395,492) | (4,579) | (11,914) |
| Carrying amount at end of the year | 1,098,420 | 2,703,883 | 19,484 | 16,175 |
| | 3,447,620 | 6,994,133 | 2,368,684 | 2,430,175 |

## NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 30 June 2007

| | Consolidated Entity 2007 $ | Consolidated Entity 2006 $ | Parent Entity 2007 $ | Parent Entity 2006 $ |
|---|---|---|---|---|
| **12 INTANGIBLE ASSETS** | | | | |
| TGA license | | | | |
| Cost | 380,093 | 380,093 | - | - |
| Accumulated impairment losses | (380,093) | - | - | - |
| | - | 380,093 | | |
| Patent | | | | |
| Cost | 157,000 | 157,000 | - | - |
| Accumulated impairment losses | (157,000) | (150,000) | - | - |
| | - | 7,000 | - | - |
| | - | 387,093 | - | - |

| **Consolidated entity** | **TGA license** | **Patent** | **Total** |
|---|---|---|---|
| **Year ended 30 June 2006** | | | |
| Balance at the beginning of year | - | 157,000 | 157,000 |
| Additions | 380,093 | - | 380,093 |
| Disposals | - | - | - |
| Amortisation charge | - | - | - |
| Impairment losses | - | (150,000) | (150,000) |
| | 380,093 | 7,000 | 387,093 |
| **Year ended 30 June 2007** | | | |
| Balance at the beginning of year | 380,093 | 7,000 | 387,093 |
| Additions | - | - | - |
| Disposals | - | - | - |
| Amortisation charge | - | - | - |
| Impairment losses | (380,093) | (7,000) | (387,093) |
| Closing value at 30 June 2007 | - | - | - |

Intangible assets, other than goodwill, have finite useful lives. The values of both the TGA licence and the patent have been impaired, resulting in a closing balance of nil on both of these intangible assets.

# NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 30 June 2007

| | | Consolidated Entity 2007 $ | Consolidated Entity 2006 $ | Parent Entity 2007 $ | Parent Entity 2006 $ |
|---|---|---|---|---|---|
| 13 | TRADE AND OTHER CREDITORS | | | | |
| | Trade creditors and accruals | 607,728 | 879,814 | 55,976 | 97,291 |

Payment terms are 30 days from receipt of goods and/or services rendered.

| | | Consolidated Entity 2007 $ | Consolidated Entity 2006 $ | Parent Entity 2007 $ | Parent Entity 2006 $ |
|---|---|---|---|---|---|
| 14 | BORROWINGS | | | | |
| 14a | Current | | | | |
| | Secured liabilities | | | | |
| | Line of credit | 1,328,144 | - | 1,328,144 | - |
| | Lease liability | 106,585 | 134,894 | - | 5,334 |
| | | 1,434,729 | 134,894 | 1,328,144 | 5,334 |
| 14b | Non current | | | | |
| | Secured liabilities | | | | |
| | Lease liability | 123,859 | 231,554 | - | - |
| | | 123,859 | 231,554 | - | - |
| 14c | Total current and non current secured liabilities: | | | | |
| | Line of credit | 1,328,144 | - | 1,328,144 | - |
| | Lease liability | 230,444 | 366,448 | - | 5,334 |
| | | 1,558,588 | 366,448 | 1,328,144 | 5,334 |

*Terms and conditions:*

The line of credit is secured by a registered mortgage over the Parent Company's land and buildings at 71 Division Street, Welshpool. The line of credit is payable on demand and subject to periodic review. Interest is charged at prevailing market rates and the weighted average interest rate as at 30 June 2007 is 10.03%.

The finance leases are secured by chattel mortgages over the specific assets.

| | | Consolidated Entity 2007 $ | Consolidated Entity 2006 $ | Parent Entity 2007 $ | Parent Entity 2006 $ |
|---|---|---|---|---|---|
| 15 | SHORT TERM PROVISIONS | | | | |
| | Employee entitlements | 166,544 | 236,948 | 21,217 | 48,257 |

# NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 30 June 2007

| | Consolidated Entity 2007 $ | Consolidated Entity 2006 $ | Parent Entity 2007 $ | Parent Entity 2006 $ |
|---|---|---|---|---|
| **16 ISSUED CAPITAL** | | | | |
| **16a Issued and paid up capital** | | | | |
| 118,353,939 (2006: 85,103,939) fully paid ordinary shares | 24,386,582 | 21,137,855 | 24,386,582 | 21,137,855 |

16b Movement in issued capital

| | 2007 No. | 2007 $ |
|---|---|---|
| At the beginning of reporting period | 85,103,939 | 21,137,855 |
| Shares issued during the year | | |
| - 26 October 2006 | 12,500,000 | 1,250,000 |
| - 9 November 2006 | 5,790,000 | 579,000 |
| - 28 November 2006 | 6,710,000 | 671,000 |
| - 20 April 2007 | 8,250,000 | 825,000 |
| Share option expense | - | 86,884 |
| Share raising costs | - | (163,157) |
| Balance at 30 June 2007 | 118,353,939 | 24,386,582 |

16c Options on Issue

62,983,110 Options - Strike Price = 30c, Expiry Date = 30 November 2007 (Listed on ASX – PAAOA)
1,842,402 Options - Strike Price = 37.5c, Expiry Date = 30 June 2008 (Unlisted)
6,500,000 Options - Strike Price = 22c, Expiry Date = 31 December 2008 (Unlisted)
3,250,000 Options - Strike Price = 20c, Expiry Date = 31 December 2008 (Unlisted)
8,250,000 options – Strike Price = 15c, Expiry Date = 23 April 2010 (Unlisted)

16d Terms and Conditions

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 the Company, ordinary shares rank after all other shareholders and creditors and are fully entitled to any proceeds from liquidation.

Ordinary shares issued as a result of the exercise of options, will rank equally and on the same terms and conditions as all other shareholders.

17 Reserves

17a Asset Revaluation Reserve

The asset revaluation reserve records revaluations of non-current assets. Under certain circumstances dividends can be declared from this reserve.

17b General Reserve

The general reserve records increments/decrements of the reserves in the financial report of the Commonwealth Biotechnologies Inc. which relates to PharmAust Limited, in accordance with the equity method of accounting.

# NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 30 June 2007

| | CONSOLIDATED ENTITY 2007 $ | CONSOLIDATED ENTITY 2006 $ |
|---|---|---|
| 18 EARNINGS PER SHARE | | |
| Net loss attributable to members of parent entity | 3,606,048 | 2,752,284 |
| Weighted average number of ordinary shares outstanding during the year used in calculating basic earnings per share. | 102,888,898 | 74,653,900 |

18a Basic Earnings per Share

Basic earnings per share is determined by dividing the loss from ordinary activities after income tax attributable to members of PharmAust Limited by the weighted average number of ordinary shares outstanding during the financial period, adjusted for any bonus elements in ordinary shares issued during the year.

18b Diluted Earnings per Share

Diluted earnings per share has not been calculated as there were no options on issue which would be potential ordinary shares having a dilutive effect.

19 Auditors' Remuneration

| | CONSOLIDATED ENTITY | | CONSOLIDATED ENTITY | |
|---|---|---|---|---|
| | 2007 $ | 2006 $ | 2007 $ | 2006 $ |
| Remuneration of RSM Bird Cameron Partners as auditors of the parent entity for: | | | | |
| - auditing or reviewing of the financial report | 79,000 | 57,915 | 79,000 | 57,915 |
| - taxation services | 30,130 | 23,026 | 30,130 | 23,026 |
| | 109,130 | 80,941 | 109,130 | 80,941 |

20 FINANCIAL INSTRUMENTS

20a Credit Risk Exposures

The maximum exposure to credit risk on financial assets of the consolidated entity which have been recognised on the Balance Sheet, other than investments in shares, is the carrying amount, net of any provisions for doubtful debts.

20b Interest Rate Risk Exposures

The consolidated entity's exposure to interest rate risk which is the risk that a financial instruments value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rate for each class of financial assets and financial liabilities is set out below.

# NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 30 June 2007

20 FINANCIAL INSTRUMENTS (Cont.)

20b Interest Rate Risk Exposures (cont.)

**2007**

| | Weighted Average Interest Rate | Floating Interest Rate | Fixed Interest Rate Within 1 Year | Fixed Interest Rate Within 1-5 Years | Non-Interest Bearing | Total |
|---|---|---|---|---|---|---|
| Financial Assets | | | | | | |
| Cash | 2.41% | 272,423 | - | - | - | 272,423 |
| Receivables | - | - | - | - | 199,483 | 199,483 |
| Other financial assets | - | - | - | - | 2,000 | 2,000 |
| Total financial assets | | 272,423 | - | - | 201,483 | 473,906 |
| Financial liabilities | | | | | | |
| Payables | - | - | - | - | 607,728 | 607,728 |
| Interest bearing liabilities | 8.55% | - | 1,434,729 | 123,859 | - | 1,558,588 |
| Total financial liabilities | | - | 1,434,729 | 123,859 | 607,728 | 2,166,316 |

**2006**

| | Weighted Average Interest Rate | Floating Interest Rate | Fixed Interest Rate Within 1 Year | Fixed Interest Rate Within 1-5 Years | Non-Interest Bearing | Total |
|---|---|---|---|---|---|---|
| Financial Assets | | | | | | |
| Cash | 1.19% | 328,830 | - | - | - | 328,830 |
| Receivables | - | - | - | - | 936,042 | 936,042 |
| Other financial assets | - | - | - | - | 2,000 | 2,000 |
| Total financial assets | | 328,830 | - | - | 938,042 | 1,266,872 |
| Financial liabilities | | | | | | |
| Payables | - | - | - | - | 879,814 | 879,814 |
| Interest bearing liabilities | 8.52% | - | 134,894 | 231,554 | - | 366,448 |
| Total financial liabilities | | | 134,894 | 231,554 | 879,814 | 1,246,262 |

20c Net Fair Value of Financial Assets and Liabilities

The net fair value of cash and cash equivalents and non-interest bearing monetary financial assets and financial liabilities of the consolidated entity approximates their carrying value.

The net fair value of other monetary financial assets and financial liabilities is based upon market prices where a market exists or by discounting the expected future cash flows by the current interest rates for assets and liabilities with similar risk profiles.

# NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 30 June 2007

21 NOTES TO THE CASH FLOW STATEMENT

21a Reconciliation of Cash

| | CONSOLIDATED ENTITY | | PARENT ENTITY | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| | $ | $ | $ | $ |
| Cash at bank | 272,423 | 328,830 | 121,994 | 126,286 |

21b Reconciliation of net cash used in operating activities to loss after income tax

| | CONSOLIDATED ENTITY 2007 $ | CONSOLIDATED ENTITY 2006 $ | PARENT ENTITY 2007 $ | PARENT ENTITY 2006 $ |
|---|---|---|---|---|
| Loss after income tax | (3,606,048) | (2,752,284) | (1,775,926) | (1,886,283) |
| Depreciation | 528,672 | 419,242 | 69,379 | 11,914 |
| (Profit)/ loss on disposal of non-current assets | (3,567,994) | 1,383 | (5,708,153) | (6,417) |
| Write-down in value of non current assets | 760,882 | 150,000 | 5,643,221 | 1,421,568 |
| Write-back of previous devaluation of land and buildings | - | (600,008) | - | (600,008) |
| Share based payments | 86,884 | 54,275 | 86,884 | 54,275 |
| Share of loss of associate | 492,415 | - | - | - |
| Movement in assets and liabilities: | | | | |
| Receivables | 736,559 | (117,457) | (54,837) | (440,983) |
| Inventory | 1,015 | (175,269) | - | - |
| Other assets | (4,178) | 25,097 | 14,355 | (14,355) |
| Payables | 451,343 | (212,200) | (41,314) | 8,300 |
| Provisions | (70,404) | 157,491 | (27,040) | 48,257 |
| Net cash used in operating activities | (4,190,854) | (3,049,730) | (1,793,431) | (1,403,732) |

21c Disposal of Entities

During February 2007, the controlled entity – Mimotopes Pty Ltd was sold.
Consideration for the sale was 2,150,000 shares in Commonwealth Biotechnologies Inc, which is a NASDAQ listed company.

| | CONSOLIDATED ENTITY 2007 $ | CONSOLIDATED ENTITY 2006 $ | PARENT ENTITY 2007 $ | PARENT ENTITY 2006 $ |
|---|---|---|---|---|
| Disposal price | 5,708,153 | - | 5,708,153 | - |
| Comprised of: | - | - | - | - |
| Cash | 5,708,153 | - | 5,708,153 | - |
| Shares | | - | | - |
| | 5,708,153 | | 5,708,153 | |
| Assets and liabilities at disposal date: | | | | |
| Cash | 138,436 | - | - | - |
| Receivables | 842,913 | - | - | - |
| Other assets | 42,686 | - | - | - |
| Property, plant and equipment | 2,841,003 | - | - | - |
| Payables | (1,569,873) | - | - | - |
| Interest bearing liabilities | (15,604) | - | - | - |
| Provisions | (139,402) | - | - | - |
| Net assets at disposal date | 2,140,159 | - | - | - |
| Net gain on disposal | 3,567,994 | - | 5,708,153 | - |
| | 5,708,153 | - | 5,708,153 | - |

# NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 30 June 2007

21 NOTES TO THE CASH FLOW STATEMENT

21d Credit Standby Arrangements with Banks

| | | | | |
|---|---|---|---|---|
| The consolidated entity had access to the following bank overdraft facility at balance date: | | | | |
| Facility available | 1,350,000 | 1,350,000 | 1,350,000 | 1,350,000 |
| Facility utilised | (1,328,144) | - | (1,328,144) | - |
| Facility not utilised | 21,856 | 1,350,000 | 21,856 | 1,350,000 |

22 SHARE BASED PAYMENTS

The following share-based payments existed at 30 June 2007:

**Options**
On 14 November 2005, 3,250,000 unlisted options expiring on 31 December 2008 exercisable at 20 cents were issued to key management personnel. Vesting conditions of the options are that the Company achieve a return of equity of 12% or a market capitalisation of $18,000,000 for 10 consecutive trading days. Fair value of the options was valued at 5.6 cents and was determined using a Black Scholes option pricing model, applying the following inputs: underlying share price 19 cents, risk free rate of 5.12%, share price volatility of 61% and a discount factor of 35% for the achievement of the performance hurdles required to be met. The share-based payment expense of this issue charged to the income statement for the year ended 30 June 2007, was $60,889 (2006:$38,034) based on an expected vesting period of 3 years. At balance date, no options have vested and therefore, none have been exercised.

On 14 November 2005, 6,500,000 unlisted options expiring on 31 December 2008 exercisable at 20 cents were issued to key management personnel. Vesting conditions of the options are that the Company achieve a return of equity of 15% or a market capitalisation of $22,000,000 for 10 consecutive trading days.

Fair value of the options was valued at 1.2 cents and was determined using a Black Scholes option pricing model, applying the following inputs: underlying share price 19 cents, risk free rate of 5.12%, share price volatility of 61% and a discount factor of 85% for the achievement of the performance hurdles required to be met. The share-based payment expense of this issue charged to the income statement for the year ended 30 June 2007 was $25,995 (2006:$16,241) based on an expected vesting period of 3 years. At balance date, no options have vested and therefore, none have been exercised.

Weighted average exercise price of options issued for share-based payments as at 30 June 2007 was 21.3 cents (2006:21.3 cents).

23 KEY MANAGEMENT PERSONNEL NOTE

23a Key management personnel

Names and positions held of consolidated and parent entity key management personnel in office at any time during the financial year are:

| *Person* | *Position* |
|---|---|
| John Thompson | Chairman |
| Paul D'Sylva | Managing Director |
| Bryant McLarty | Executive Director |
| Wayne Best | Executive Director |
| John Moursounidis | Chief Executive Officer – PharmAust Manufacturing |
| Collete Sims | General Manager – Epichem |
| Winton Willesee | Company Secretary |

# NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 30 June 2007

23 KEY MANAGEMENT PERSONNEL NOTE (Cont.)

23b Compensation Practices

The remuneration policy of the Company as it applies to key management personnel is disclosed in the Remuneration Report contained in the Directors' Report.

23c Remuneration of Key Management Personnel

The remuneration paid to key management personnel is disclosed in the Remuneration Report contained in the Directors' Report.

The remuneration paid to key management personnel as disclosed in the Remuneration Report is summarised by:

| | 2007<br>$ | 2006<br>$ |
|---|---|---|
| Short term benefits | 934,844 | 1,183,363 |
| Post employment benefits | 64,017 | 114,398 |
| Other long term benefits | - | - |
| Share based payment | 86,884 | 57,775 |
| | 1,085,745 | 1,355,536 |

23d Compensation Options – Options Granted as Compensation

No options were granted as compensation for the during the year ended 30 June 2007. However, the following options are still available to exercise which were granted last financial year.

| Key Management Personnel | Vested No. | Grant No. | Grant Date | Value per Option at Grant Date | Exercise Price | First Exercise Date | Last Exercise Date |
|---|---|---|---|---|---|---|---|
| Paul D'Sylva | - | 1,000,000 | 14 Nov 05 | 5.6c | 20c | On Vesting | 31 Dec 2008 |
| | | 2,000,000 | 14 Nov 05 | 1.2c | 22c | On Vesting | 31 Dec 2008 |
| Bryant McLarty | - | 1,000,000 | 14 Nov 05 | 5.6c | 20c | On Vesting | 31 Dec 2008 |
| | | 2,000,000 | 14 Nov 05 | 1.2c | 22c | On Vesting | 31 Dec 2008 |
| Wayne Best | - | 500,000 | 14 Nov 05 | 5.6c | 20c | On Vesting | 31 Dec 2008 |
| | | 1,000,000 | 14 Nov 05 | 1.2c | 22c | On Vesting | 31 Dec 2008 |
| John Moursounidis | - | 375,000 | 14 Nov 05 | 5.6c | 20c | On Vesting | 31 Dec 2008 |
| | | 750,000 | 14 Nov 05 | 1.2c | 22c | On Vesting | 31 Dec 2008 |
| Winton Willesee | - | 375,000 | 14 Nov 05 | 5.6c | 20c | On Vesting | 31 Dec 2008 |
| | | 750,000 | 14 Nov 05 | 1.2c | 22c | On Vesting | 31 Dec 2008 |
| | - | 9,750,000 | | | | | |

For the unvested options with an exercise price of 20c to vest, the Company must achieve:

- a Return on Equity of 12% in a financial year; or
- a Market Capitalisation of $18,000,000 for 10 consecutive trading days on ASX.

For the unvested options with an exercise price of 22c to vest, the Company must achieve:

- a Return on Equity of 15% in a financial year; or
- a Market Capitalisation of $22,000,000 for 10 consecutive trading days on ASX.

All options were granted for nil consideration.

# NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 30 June 2007

## 23 KEY MANAGEMENT PERSONNEL NOTE (Cont.)

### 23e Options and Rights Holdings by Key Management Personnel

| **2007 - Number** | Balance 1 July 06 | Granted as Compensation | Options Exercised* | Net Change Other* | Balance 30 June 07 | Total Vested | Total Exercisable | Total Unexercisable |
|---|---|---|---|---|---|---|---|---|
| Bryant McLarty | 5,000,000 | - | - | - | 5,000,000 | 2,000,000 | 2,000,000 | 3,000,000 |
| John Thompson | - | - | - | - | - | - | - | - |
| Paul D'Sylva | 5,946,722 | - | - | 147,870 | 6,094,592 | 3,094,592 | 3,094,592 | 3,000,000 |
| Wayne Best | 2,528,340 | - | - | (24,889) | 2,553,229 | 1,053,229 | 1,028,340 | 1,500,000 |
| John Moursounidis | 1,125,000 | - | - | - | 1,125,000 | - | - | 1,125,000 |
| Colette Sims | 585,000 | - | - | - | 585,000 | 585,000 | 585,000 | - |
| Winton Willesee | 1,759,913 | - | - | (634,913) | 1,125,000 | - | - | 1,125,000 |

The net change other column above includes those options that have been forfeited by holders as well as options issued during the year.

### 23f Shareholdings by Key Management Personnel

| **2007 - Number** | Balance 1 July 2006 | Received as Compensation | Net Change Other* | Balance 30 June 2007 |
|---|---|---|---|---|
| Bryant McLarty | 2,683,995 | - | (105,571) | 2,578,424 |
| John Thompson | 595,450 | - | (595,450) | - |
| Paul D'Sylva | 3,446,336 | - | 280,884 | 3,727,220 |
| Wayne Best | 1,553,400 | - | (106,667) | 1,446,733 |
| John Moursounidis | 55,000 | - | - | 55,000 |
| Colette Sims | 812,500 | - | - | 812,500 |
| Winton Willesee | 61,667 | - | (56,667) | 5,000 |

* Net change other refers to shares purchased or sold during the financial year, except for John Thompson, which refers to his shareholding at the time of his resignation as a director.

## 24 RELATED PARTY TRANSACTIONS

There were no related party transactions other than loans from the parent entity to controlled entities (disclosed at note 6) and key management personnel transactions (disclosed at note 23).

## 25 CONTINGENT LIABILITIES

PharmAust Limited and Ganehill Pty Ltd have resolved the dispute involving issues related to the stability of Invisible Zinc Sunscreen. The matter will be settled once PharmAust makes payment of $80,000 to Ganehill by the end of October 2007.

## 26 SEGMENT REPORTING

The consolidated entity operates in one business segment, being the pharmaceutical industry and one geographical segment, being Australasia.

# NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 30 June 2007

27 COMMITMENTS FOR EXPENDITURE

27a Finance leases

| | Consolidated Entity 2007 $ | Consolidated Entity 2006 $ | Parent Entity 2007 $ | Parent Entity 2006 $ |
|---|---|---|---|---|
| Not later than 12 months | 120,408 | 150,403 | - | 5,386 |
| Between 12 months and 5 years | 138,062 | 274,257 | - | - |
| | 258,470 | 424,660 | - | 5,386 |
| Less unexpired interest charges | (28,026) | (58,212) | - | (52) |
| | 230,444 | 366,448 | - | 5,334 |
| Represented by: | | | | |
| Current liability | 106,585 | 134,894 | - | 5,334 |
| Non current liability | 123,859 | 231,554 | | - |
| | 230,444 | 366,448 | - | 5,334 |

27b Operating Leases

Non-cancellable operating leases contracted for but not capitalised in the financial statements

| | Consolidated Entity 2007 $ | Consolidated Entity 2006 $ | Parent Entity 2007 $ | Parent Entity 2006 $ |
|---|---|---|---|---|
| Minimum lease payments: | | | | |
| Not later than one year | - | 16,755 | - | 16,755 |
| Later than one year but not later than five years | - | - | - | - |
| Greater than five years | - | - | - | - |
| | - | 16,755 | - | 16,755 |

28 INVESTMENT IN CONTROLLED ENTITIES

28a Controlled Entities Consolidated

| | Country of Corporation | Class of Shares | Equity Holding 2007 % | Equity Holding 2006 % |
|---|---|---|---|---|
| Parent Entity: | | | | |
| PharmAust Limited | Australia | - | - | - |
| Name of Controlled Entity: | | | | |
| Mimotopes Pty Ltd | Australia | Ordinary | - | 100 |
| PharmAust Manufacturing Pty Ltd | Australia | Ordinary | 100 | 100 |
| Animal Health Pharmaceuticals Pty Ltd | Australia | Ordinary | 100 | 100 |
| Epichem Pty Ltd | Australia | Ordinary | 100 | 100 |
| PharmAust Health Pty Ltd | Australia | Ordinary | 100 | 100 |
| PharmAust Chemistry Limited | Australia | Ordinary | 100 | 100 |
| Echo Technologies (Thailand) Ltd | Thailand | Ordinary | 100 | 100 |
| Echo Technologies (Hong Kong) Ltd | Hong Kong | Ordinary | 100 | 100 |
| Echo Travel Solutions Sdn Bhd | Malaysia | Ordinary | 100 | 100 |

28b Disposal of Controlled Entities

During February 2007, the parent entity disposed of its 100% interest in Mimotopes Pty Ltd. An operating loss of $245,443 after income tax was attributable to the members of the parent entity from 1 July 2006 to the date of disposal.

# NOTES TO THE FINANCIAL STATEMENTS
## For the year ended 30 June 2007

29 AFTER BALANCE DATE EVENTS

Subsequent to the reporting period, the PharmAust Limited has taken part in the following transactions:

- In view of his commitment to the role of Managing Director of Commonwealth Biotechnologies Inc in the United States, Dr Paul D'Sylva tendered his resignation as the Company's Managing Director and further as a Company Director.

- Dr Wayne Best tendered his resignation to concentrate on developing PharmAust Limited's subsidiary Epichem Pty Ltd.

- Mr Simon Owen was appointed as a Director of PharmAust Limited.

- Mr Henry Gulev, a community pharmacist for more than 20 years accepted an invitation to join the Board as a Non Executive Director.

- Following on from the defeat of the resolution at the EGM held on Monday 20 August 2007 the Company had an urgent requirement for working capital. Additionally the Company's current credit facility with the National Australia Bank (NAB) had expired on 31 July 2007. The Company negotiated and accepted a loan facility which provided the Company with working capital as required and agreed by the lender ($300,000 has been provided to the Company by the lender at the date of this report). The lender has also taken an assignment of the NAB's entire position with regard to the Company, which consists of $181,789 in hire purchase agreements and $1,376,060 relating to a secured bank overdraft (amounts includes interest and fees). All working capital and hire purchase agreements are to be repaid upon successful completion of the rights issue.

- The Company proposed to undertake an entitlement issue and settled the terms of that issue to be a 1 for 1 entitlement issue at 3 cents per Share to raise approximately $3,550,618 (Issue). A prospectus was subsequently lodged with the ASX and ASIC.

- A Supplementary Prospectus was lodged dated 21 September 2007. Among other things the supplementary prospectus announced that the Company had received a requisition from shareholders to put a motion to resolve to wind up the Company and that the Company was in receipt of correspondence from lawyers representing a group of shareholders asserting dissatisfaction with the Entitlement Issue. As a result of the Requisition and the correspondence threatening proceedings by certain dissatisfied shareholders, the lender of the working capital facility revised the conditions of its facility and reserved its right to take such action as it considers appropriate in its absolute discretion, once settlement of the re-financing transaction has occurred, if it considers that it needs to protect its position as a secured lender.

- The Company received a requisition from shareholders to convene an extraordinary general meeting (8 November 2007) to vote on the following resolutions:
  - Voluntary winding up of the Company; and,
  - Appointment of a liquidator.

- An extraordinary general meeting (22 October 2007) has been convened to vote on the following resolutions:
  - Appointment of Mr Peter Remta as a Director;
  - Appointment of Mr Brian John as a Director;
  - Appointment of Mr Owen Coote as a Director;
  - Removal of Mr Bryant McLarty as a Director;
  - Removal of Mr Simon Owen as a Director;
  - Removal of other appointed Directors.

- The Board of Directors have resolved to bring to account the investment in Commonwealth Biotechnologies Inc. by applying the equity method of accounting in accordance with Accounting Standard AASB 128 Investments in Associates.

# SHAREHOLDER INFORMATION

Additional information required by the Australian Stock Exchange Limited Listing Rules, and not disclosed elsewhere in this report.

## SHAREHOLDINGS

On 27 September 2007, Chimera Capital Limited lodged Form 603 with the ASX giving notice of becoming a substantial shareholder with 6,250,000 shares and 6.04% voting power.

On 24 July 2007, Graham James Darcy & Lynne Christine Darcy T/F The Darcy Family Superannuation Fund lodged Form 603 with the ASX giving notice of becoming a substantial shareholder with 9,375,000 shares and 7.92% voting power.

## CLASS OF SHARES AND VOTING RIGHTS

The voting rights attached to the Fully Paid Ordinary shares of the Company are:

(a) at a meeting of members or classes of members each member entitled to vote may vote in person or by proxy or by attorney; and

(b) on a show of hands every person present who is a member has one vote, and on a poll every person present in person or by proxy or attorney has one vote for each ordinary share held.

There are no voting rights attached to any Options on issue.

### DISTRIBUTION OF SHAREHOLDERS

| Spread of Holdings | Number of Holders | Units |
|---|---|---|
| 1 – 1,000 | 189 | 93,128 |
| 1,001 – 5,000 | 298 | 854,258 |
| 5,001 – 10,000 | 189 | 1,575,940 |
| 10,001 – 100,000 | 578 | 24,841,522 |
| 100,001 – over | 173 | 90,824,091 |
| | 1,427 | 118,188,939 |

There were 697 shareholders holding less than a marketable parcel.
Percentage held by 20 largest shareholders is 44.61%.

There are 165,000 shares subject to a holding lock. These shares were issued under an employee share scheme and will be escrowed until 30 June 2009.

There is no current on-market buy back taking place.

### DISTRIBUTION OF LISTED OPTIONHOLDERS

| Spread of Holdings | Number of Optionholders | Units |
|---|---|---|
| 1 – 1,000 | 72 | 28,380 |
| 1,001 – 5,000 | 122 | 326,913 |
| 5,001 – 10,000 | 84 | 605,554 |
| 10,001 – 100,000 | 248 | 9,014,677 |
| 100,001 – over | 84 | 53,007,586 |
| | 610 | 62,983,110 |

Percentage held by 20 largest option holders is 59.66%

## SHAREHOLDER INFORMATION (Cont.)

### SCHEDULE OF UNLISTED OPTIONS

| SPREAD OF HOLDINGS | NUMBER OF OPTIONHOLDERS | UNITS |
|---|---|---|
| 1 – 1,000 | - | - |
| 1,001 – 5,000 | - | - |
| 5,001 – 10,000 | - | - |
| 10,001 – 100,000 | 5 | 142,402 |
| 100,001 – over | 4 | 1,700,000 |
| | 9 | 1,842,402 |

Option Details: This class of 1,842,402 unlisted options has a strike price of 37.5c and expire on 30 June 2008.

522 Investments Pty Ltd and Number 7 Investments Pty Ltd are both holders of June 2008 options representing 32.6% each of this class of options.

### SCHEDULE OF EXECUTIVE OPTIONS

| SPREAD OF HOLDINGS | NUMBER OF OPTIONHOLDERS | UNITS |
|---|---|---|
| 1 – 1,000 | - | - |
| 1,001 – 5,000 | - | - |
| 5,001 – 10,000 | - | - |
| 10,001 – 100,000 | - | - |
| 100,001 – over | 5 | 9,750,000 |
| | 5 | 9,750,000 |

Option Details: 3,250,000 unlisted executive options (strike 20c, expiry 31 December 2008 subject to vesting) held by five holders. 6,500,000 unlisted executive options (strike 22c, expiry 31 December 2008 subject to vesting) held by five holders

Bryant McLarty <Family A/C> and Pamela Joan D'Sylva each hold 3,000,000 executive options representing 30.8% of the executive options on issue.

During the reporting period the Company used its cash and assets in a manner consistent with its business objectives.

## SHAREHOLDER INFORMATION (Cont.)

## TWENTY LARGEST SHAREHOLDERS (as at 11 October 2007)

**Top 20 holders of ORDINARY SHARES (GROUPED) as at 11 Oct 2007**

| Rank | Name | Units | % of Issued Capital |
|---|---|---|---|
| 1 | CHIMAERA CAPITAL LIMITED | 12,470,000 | 10.54 |
| 2 | CITICORP NOMINEES PTY LIMITED | 9,412,300 | 7.95 |
| 3 | MR GRAHAM JAMES DARCY + MRS LYNNE CHRISTINE DARCY <THE DARCY FAMILY SUPER A/C> | 9,375,000 | 7.92 |
| 4 | MRS PAMELA JOAN D'SYLVA | 2,696,850 | 2.28 |
| 5 | MR PETER HOWELLS | 2,361,905 | 2.00 |
| 6 | MR BRYANT MCLARTY <THE MCLARTY FAMILY A/C> | 2,009,124 | 1.70 |
| 7 | MR OWEN JOHN COOTE | 1,502,333 | 1.27 |
| 8 | MR BRIAN MERVYN JOHN + MRS CHRISTINE CECILIA JOHN <THE CHRISTINE JOHN S/F A/C> | 1,500,000 | 1.27 |
| 9 | MR WAYNE MORRIS BEST | 1,412,510 | 1.19 |
| 10 | MR OWEN JOHN COOTE + MRS MONIQUE RENEE COOTE <PLATONIC SUPER FUND A/C> | 1,376,288 | 1.16 |
| 11 | MR WILLIAM TANNAHILL FLEMING <EST WILLIAM FLEMING SNR A/C> | 1,000,000 | 0.84 |
| 12 | MR ROBERT SLADE FORBES | 1,000,000 | 0.84 |
| 13 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 884,972 | 0.75 |
| 14 | DR COLETTE GLORIA SIMS | 812,500 | 0.69 |
| 15 | DIACAF HOLDINGS PTY LTD <DUNCAN SUPERANNUATION A/C> | 800,000 | 0.68 |
| 16 | PERTH SELECT SEAFOODS PTY LTD | 700,000 | 0.59 |
| 17 | JASA PTY LTD | 666,715 | 0.56 |
| 18 | MR ALAN ALHOVIRTA | 650,000 | 0.55 |
| 19 | MR MARK WAYNE BRADFIELD + MRS ABBY BRADFIELD <MARK BRADFIELD S/F A/C> | 615,849 | 0.52 |
| 20 | MR BRIAN JOHN FAITHFULL | 606,564 | 0.51 |
| | **Top 20 holders of ORDINARY SHARES (GROUPED) as at 11 Oct 2007** | **51,852,910** | **43.81** |

## SHAREHOLDER INFORMATION (Cont.)

### TWENTY LARGEST OPTIONHOLDERS (Listed Options – PAAOA)
### (as at 11 October 2007)

**Top 20 holders of LST OPTS EXP 30/11/07 @ 30C as at 11 Oct 2007**

| Rank | Name | Units | % of Issued Capital |
|---|---|---|---|
| 1 | MR GRAHAM JAMES DARCY + MRS LYNNE CHRISTINE DARCY <THE DARCY FAMILY SUPER A/C> | 7,000,000 | 11.11 |
| 2 | MR SATIS ARNOLD | 3,578,093 | 5.68 |
| 3 | DR JANE CHARLOTTE YOVICH | 3,549,261 | 5.64 |
| 4 | DIXSON TRUST PTY LIMITED | 3,166,667 | 5.03 |
| 5 | MRS PAMELA JOAN D'SYLVA | 2,500,000 | 3.97 |
| 6 | MR ANTHONY PETER WATSON | 2,380,000 | 3.78 |
| 7 | MR BRYANT MCLARTY <THE MCLARTY FAMILY A/C> | 2,000,000 | 3.18 |
| 8 | MR ANTHONY PETER WATSON | 2,000,000 | 3.18 |
| 9 | MR JAMES KELSEY NUGENT | 1,829,083 | 2.90 |
| 10 | MR BRIAN MERVYN JOHN + MRS CHRISTINE CECILIA JOHN <BRIAN JOHN SUPER FUND A/C> | 1,350,000 | 2.14 |
| 11 | MR ROBERT EDWARD ROBERTSON + MRS INGRID IRENE ROBERTSON | 1,283,333 | 2.04 |
| 12 | MRS JULIE ANGELA DUNN | 1,053,320 | 1.67 |
| 13 | MISS CHING FONG WAN | 1,000,000 | 1.59 |
| 14 | MR WAYNE MORRIS BEST | 975,006 | 1.55 |
| 15 | MR NATHAN DOUGLAS FARRELLY | 800,000 | 1.27 |
| 16 | MR COLIN EARL GARNSWORTHY BENNETT + MRS BURNICE ANNE BENNETT | 770,000 | 1.22 |
| 17 | AZALEA FAMILY HOLDINGS PTY LTD <NO 2 A/C> | 634,913 | 1.01 |
| 18 | MR TONY DAY | 621,012 | 0.99 |
| 19 | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 540,088 | 0.86 |
| 20 | DR COLETTE GLORIA SIMS | 538,333 | 0.85 |
| | **Top 20 holders of LST OPTS EXP 30/11/07 @ 30C as at 11 Oct 2007** | **37,569,109** | **59.66** |

## SHAREHOLDER INFORMATION (Cont.)

### TWENTY LARGEST OPTIONHOLDERS (Unlisted Options –)
### (as at 11 October 2007)

**Top 20 holders of UNL OPT EXP 30/06/08 EXC 0.375 as at 11 Oct 2007**

| Rank | Name | Units | % of Issued Capital |
|---|---|---|---|
| 1 | 522 INVESTMENTS PTY LTD | 600,000 | 32.57 |
| 2 | NUMBER 7 INVESTMENTS PTY LTD | 600,000 | 32.57 |
| 3 | MRS ALEXANDRA BROWN | 300,000 | 16.28 |
| 4 | MS SARAH ALLCHURCH | 200,000 | 10.86 |
| 5 | DR WAYNE BEST | 53,334 | 2.89 |
| 6 | DR COLETTE GLORIA SIMS | 46,667 | 2.53 |
| 7 | DR YOLANTA MALGORZATA GRUCHLIK | 14,667 | 0.80 |
| 8 | DR JY DANIEL CHARTRES | 13,867 | 0.75 |
| 9 | DR MARCK NORRET | 13,867 | 0.75 |
| | **Top 20 holders of UNL OPT EXP 30/06/08 EXC 0.375 as at 11 Oct 2007** | **1,842,402** | **100.00** |

**Top 20 holders of UNL OPTIONS EXP 31/12/08 @ 22C as at 11 Oct 2007**

| Rank | Name | Units | % of Issued Capital |
|---|---|---|---|
| 1 | MRS PAMELA JOAN D'SYLVA | 2,000,000 | 30.77 |
| 2 | MR BRYANT MCLARTY <THE MCLARTY FAMILY A/C> | 2,000,000 | 30.77 |
| 3 | MR WAYNE MORRIS BEST | 1,000,000 | 15.38 |
| 4 | DR JOHN MOURSOUNIDIS | 750,000 | 11.54 |
| 5 | MR WINTON WILLESEE <FAMILY A/C> | 750,000 | 11.54 |
| | **Top 20 holders of UNL OPTIONS EXP 31/12/08 @ 22C as at 11 Oct 2007** | **6,500,000** | **100.00** |

**Top 20 holders of UNL OPTIONS EXP 31/12/08 @20C as at 11 Oct 2007**

| Rank | Name | Units | % of Issued Capital |
|---|---|---|---|
| 1 | MRS PAMELA JOAN D'SYLVA | 1,000,000 | 30.77 |
| 2 | MR BRYANT MCLARTY <THE MCLARTY FAMILY A/C> | 1,000,000 | 30.77 |
| 3 | MR WAYNE MORRIS BEST | 500,000 | 15.38 |
| 4 | DR JOHN MOURSOUNIDIS | 375,000 | 11.54 |
| 5 | MR WINTON WILLESEE <FAMILY A/C> | 375,000 | 11.54 |
| | **Top 20 holders of UNL OPTIONS EXP 31/12/08 @ 20C as at 11 Oct 2007** | **3,250,000** | **100.00** |