



ANNUAL REPORT

08

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CORPORATE DIRECTORY**PRINCIPAL PLACE OF BUSINESS**

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Subiaco, Western Australia 6008
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Fax: +61 (8) 9381 4056
www.pharmaust.com

ASX CODE: PAA

ABN: 35 094 006 023

REGISTERED OFFICE

50 Derby Road
Subiaco, Western Australia 6008
Tel: +61 (8) 9380 6550
Fax: +61 (8) 9381 4056

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

EPICHEM – 100% owned subsidiary

Epichem generated a profit for shareholders through its fee-for-service contract work, whilst continuing to generate potentially valuable intellectual property through in-house and collaborative research projects.

Expansion of the client base continued with products and services exported to clients in the USA, Canada, Mexico, Puerto Rico, Columbia, Brazil, South Africa, India, The Netherlands, France and Switzerland.

Epichem's collaboration with Murdoch and Monash Universities to discover new drugs for the treatment of African sleeping sickness progressed well with the project being funded by the Swiss-based Drugs for Neglected Diseases initiative (DNDi)

Epichem also began a collaborative project with Curtin University to develop an orally available treatment for diabetes.

After balance date event

On the 19 August, 2008 Epichem secured its largest single contract to date with Swiss-based Drugs for Neglected Diseases initiative (DNDi). The contract, worth close to \$3 million over three years, will see Epichem provide the synthetic and medicinal chemistry component for DNDi's recently established consortium to discover and develop new drugs for the treatment of Chagas disease. www.dndi.org

CORPORATE

During the period, PharmAust faced many significant distractions and unnecessary costs and the company's financial results clearly reflect these issues. Total revenues were down as sales for wholly owned subsidiary PharmAust Manufacturing Pty Ltd were not included for the last four months of the financial year.

Notwithstanding this, Epichem Pty Ltd's overall revenues were up 46% from the previous year and company directors look forward to continued growth in the Drug Discovery and Development area.

The timely and significant increase in the companies positive cash position, achieved through the sale of the CBTE shareholding will be further improved through the sale of existing property assets. This positive cash position will no doubt present many opportunities.

The Directors of PharmAust continue to endeavour to restore value for all shareholders primarily by strengthening the companies balance sheet through reduced expenditures, profitable operation of subsidiaries, maintaining a strong cash position and identifying in a timely fashion value driven future investment opportunities..

DIRECTORS & OFFICERS

- On 3 August 2007, Mr Simon Owen was appointed as a Director of PharmAust Limited.
- Mr Henry Gulev, also accepted an invitation to join the Board as a Non Executive Director.
- Dr Wayne Best resigned as Director of the Company on the 3RD of August 2008 and Dr Paul D'Sylva also tendered his resignation as Managing Director and a director of the Company on the same day.
- Mr Manraj Khosa was replaced as company secretary in August 2007 by Mr Sam Wright and Mr Simon Owen who were appointed as joint Company Secretaries.

PHARMAUST MANUFACTURING (PAM)

The Board of PAA undertook an extensive and detailed assessment of PAM to determine its long-term value and future

Review of Operations

and concluded that the parent company would need to continue to contribute significantly more capital to PAM in order for it to approach self-sustainability.

On the 4 March, 2008 PAA placed PAM into voluntary administration with Ferrier Hodgson being appointed as Joint and Several Administrators to implement an orderly sale process which it has now completed and PAM is now in the process of being liquidated.

PAA retains ownership of PAM's former premises at 71 Division Street and directors are currently in the process of securing a purchaser for the land and buildings currently which have been previously valued in excess of \$3million.

SALE OF SHAREHOLDING (CBTE)

PAA announced on the 31st March, 2008 that it had executed documentation for the sale of its entire shareholding in Commonwealth Biotechnologies Inc ("CBTE"). Under the terms of the agreement, PAA agreed to sell its entire shareholding to Venturepharm Laboratories Limited for US\$3,117,500 subject to the satisfaction of certain conditions. The consideration was paid into escrow within 7 days of the date of execution of the agreement.

After balance date event

The transaction was completed and announced on the 15th of September 2008.

UNMARKETABLE PARCELS

PAA mailed a letter to shareholders of unmarketable parcels on 2 June 2008. A marketable parcel is defined by ASX Limited (ASX) Listing Rules as a parcel of securities of not less than \$500.

After balance date event

On the 1 August, 2008 PAA advised that it had sold 3,705,686 shares on market as a result of the above.

ANZ / PRIMEBROKER

On 12 May 2008, an announcement was made by Australia and New Zealand Banking Group Limited (ANZ) regarding transactions entered into pursuant to Australian Master Securities Lending Agreements with the ANZ subsequently lodging substantial shareholding notices.

No current Director's of PharmAust had any margin loans with Primebroker.

After balance date event

On the 28 July 2008, ANZ ceased to be a substantial holder with respect to PharmAust Limited.

RIGHTS ISSUE

PAA announced on 29 August 2007, that the Company was proposing to undertake a 1 for 1 entitlement issue fully underwritten at 3 cents per Share to raise approximately \$3,550,618.

PharmAust Limited received valid acceptances from shareholders for 46,592,496 shares raising \$1,397,774

In resolving to proceed with the Issue the Board noted that it came at a very difficult time in the Company's development.

With few cash reserves the Company was operating upon a limited working capital facility.

Review of the Company's position and a review of budget requirements confirmed the quantum of funds required.

Whilst the Board considered a number of different funding options it formed the view, that if funds were to be raised at a historically low level, they should be done on a basis that affords all shareholders with the first option to participate.

WORKING CAPITAL AND RE-FINANCE FACILITY

Following on from the defeat of a resolution at the EGM held on 20 August 2007, the Company has an urgent requirement for working capital. The company negotiated and accepted a Facility which provided it with up to \$300,000 of working capital on substantive terms.

EXTRAORDINARY GENERAL MEETING - 22 OCTOBER, 2007

On 22 August, 2007 a notice was received from a shareholder who held more than 5% of the votes that may be cast at a general meeting, Mr Graham Darcy. The notice contained a request to call a General Meeting of PharmAust to move a resolution for the removal of the current directors and to appoint new directors.

The directors of PharmAust convened a shareholder meeting in accordance with the request and the Corporations Act. The Results of the Extraordinary General Meeting were that THE MAJORITY OF SHAREHOLDERS VOTES WERE CAST AGAINST THE APPOINTMENT OF MR PETER REMTA, MR BRIAN JOHN AND MR OWEN COOTE TO THE PHARMAUST BOARD.

RE-ISSUED ANNUAL REPORT

On the 17 October, 2007 PAA referred to the purported Annual Report of the Company released to the ASX on 12 October 2007. The Company confirmed that it needed to re-issue the financial report and that the reissued financial report would replace the previously issued financial report.

SUSPENSION FROM OFFICIAL QUOTATION

As a result of PharmAust Limited not receiving audited figures from Commonwealth Biotechnologies the company was not able to release Full Year Accounts to the market and on the 2 October 2007, PAA was suspended from official quotation with Trading reinstated as soon as practicable.

LEGAL

The PAA Board received notification from its lawyers on the 26 September, 2007 that Chimaera Capital Ltd had commenced Court proceedings against the Company and its Directors with a view to obtain an injunction against the Company's Entitlements Issue to all shareholders.

The application for an interlocutory injunction brought by Chimaera Capital Limited against the Company's current Entitlement Issue was subsequently dismissed in the Federal Court.

In handing down judgment, His Honour Justice French found:

- that there was no triable issue that the Entitlements Issue was for an improper purpose;
- there was no credible evidence, other than speculation, that there was any prejudice to Chimaera, or other shareholders;
- that the re-financing of the NAB Facility, together with the provision of working capital, negotiated by the Board addressed the Company's needs and was reasonable and appropriate;

Review of Operations

- that the Directors acted reasonably in all respects; and
- that if there is a 'settled' caretaker Director principle, that the Directors had not acted in any fashion to offend it. Costs were reserved for determination at the conclusion of the proceedings.

The Board believes that the judgment supported its view that it has acted reasonably at all times and in the interests of all shareholders.

On the 9th of April 2008 the legal action instituted by Chimaera Capital Limited was discontinued by an agreement between the parties reached on the terms that, the action be settled without admission of liability by either party, that it be discontinued, that each party bear its own costs and that there was to be a deed of confidentiality.

NOTICE OF REQUEST TO WIND UP THE COMPANY / EXTRAORDINARY GENERAL MEETING.

PAA made an announcement referring to an announcement made on 14 September 2007 enclosing a notice of meeting prepared by certain shareholders of the Company including Mr Graham Darcy to convene a meeting to be held on 10 October 2007.

The Company retracted that announcement on the basis that the Notice was invalid at law, as the Company had already convened an Extraordinary Meeting for 22 October 2007.

The Notice was not lodged, or authorised, by the Company, and the Company confirmed that shareholders of the Company should disregard the Notice.

The Company also confirmed that it had received a further requisition under section 249D of the Corporations Act for the Company to consider a resolution that the Company be voluntarily wound up.

This requisition was sent from the same party that purported to send the Notice discussed above and one of the parties that had issued an earlier requisition.

On 24 October 2007 PAA received a withdrawal of the request to voluntarily wind up the company and later cancel the related EGM.

The board apologised for any the inconvenience to shareholders that this had caused.

EXTRAORDINARY GENERAL MEETING 20 AUGUST, 2007

PAA held an Extraordinary General Meeting of on the 20 August, 2007 with the resolution to ratify a Placement to CAMOFI Master LDC being defeated on a show of hands.

DIRECTORS' REPORT

Your Directors present their report on the Company and the entities it controlled for the financial year ended 30 June 2008.

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 |

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, focused on contract drug discovery and development.

Operating Results

The results of the consolidated entity for the period ended 30 June 2008 was a loss, after income tax expense, of \$5,767,973 (2007: \$3,606,048 – 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 30 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 managerial experience and a practical working knowledge of the securities industry in Australia and overseas. Mr McLarty's role at PharmAust Limited includes day to day management, strategic planning, fundraising and the development and promotion of the company's business along with the introduction of new projects.

Review of Operations

Mr McLarty is also currently a Non Executive Director of Avation Plc a leasing company with a total fleet of 11 aircraft worth in excess of US\$125m, currently on long term commercial leases to a range of operators in Europe, the US and Australia. He is a founding director of PharmAust.

Interests in Shares and Options

Mr McLarty holds 8,550,548 Ordinary Fully Paid shares in PharmAust; 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.

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

Qualifications

DipAcc. AFin ACIS

Experience

Sam Wright is experienced in the administration of ASX listed companies, corporate governance and corporate finance. He joined the Company as the Financial Controller for PharmAust Manufacturing Pty Ltd in September 2006 and was appointed Company Secretary for PharmAust Limited in August 2007. Sam is an affiliate of the Chartered Secretaries of Australia and associate of the Financial Services Institute of Australasia. He has over ten years experience in the pharmaceutical, biotech and healthcare industry and has also filled the role of Director and Company Secretary with a number of unlisted companies.

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.

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 2008, and the number of meetings attended by each director was:

| Directors | Meetings of Directors | |
|-----------|-------------------------|-----------------|
| | Eligible to Participate | Number Attended |
| B McLarty | 6 | 6 |
| S Owen | 5 | 5 |
| H Gulev | 4 | 4 |
| P D'Sylva | 1 | 1 |
| W Best | 1 | 1 |

Interests in the Shares and Options of the Company

At 30 June 2008, the interests of the directors in Shares and Options of the company were:

| Director | Ordinary Shares | Options of Ordinary Shares |
|-------------------|-----------------|----------------------------|
| Mr Bryant McLarty | 8,550,548 | 3,000,000 |
| Mr Simon Owen | Nil | Nil |
| Mr Henry Gulev | Nil | Nil |

Review of Operations

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:

- 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

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of these proceedings.

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 APES 110 Code of Ethics for Professional Accountants, 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 | 4,374 |
|-------------------------|-------|

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.

Review of Operations

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:

| 2008 | Cash, salary & commissions | Short-term benefits Cash profit share | Non-cash benefit | Other | Post Employment Benefits Super- annuation |
|-------------------|--------------------------------------|---|---------------------|---------|--|
| | \$ | \$ | \$ | \$ | \$ |
| Directors | | | | | |
| Paul D'Sylva | 24,038 | - | - | - | 2,163 |
| Bryant McLarty | 120,833 | - | - | - | - |
| Wayne Best | 130,000 | - | - | - | 11,700 |
| Simon Owen | 150,256 | - | - | - | 2,273 |
| Henry Gulev | 20,833 | - | - | - | - |
| Executives | | | | | |
| Sam Wright | 69,550 | - | - | - | - |
| | 515,510 | - | - | - | 16,136 |
| | Other long term benefits Other | Share-based payment | | Total | Performance related |
| | \$ | Shares \$ | Options \$ | \$ | % |
| Directors | | | | | |
| Paul D'Sylva | - | - | - | 26,201 | - |
| Bryant McLarty | - | - | 26,803 | 147,636 | 18% |
| Wayne Best | - | - | - | 141,700 | - |
| Simon Owen | - | - | - | 152,529 | - |
| Henry Gulev | - | - | - | 20,833 | - |
| Executives | | | | | |
| Sam Wright | - | - | - | 69,550 | - |
| | - | - | 26,803 | 558,449 | |

| 2007 | Short-term benefits Cash, salary & commissions \$ | Cash profit \$ | Non-cash share \$ | Other benefit \$ | Post Employment Benefits Superannuation \$ | |
|-------------------|---|-------------------------------------|----------------------|---------------------|--|--------------------------|
| 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 | |

Director's Report

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

Signed in accordance with the Board of Directors.



BRYANT MCLARTY
Director

Signed at Perth, Western Australia this 26th day of September 2008

Annual Report Disclosure on Corporate Governance

PharmAust Limited is a drug discovery and development 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.

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.

The amount of remuneration for all key management personnel, including all monetary and non-monetary components, are detailed in 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.

The Board sets out below its "if not why not" report in relation to those matters of corporate governance where the Company's practices depart from the Recommendations

| Recommendation | Pharmaust Limited current practice |
|--|---|
| 1.1 Companies should establish the functions reserved for the board and those delegated to senior executives and disclose those functions. | Satisfied. Board Charter is available at www.pharmaust.com in the Corporate Governance Statement. |
| 1.2 Companies should disclose the process for evaluating the performance of senior executives. | Satisfied. Board Performance Evaluation Policy is available at www.pharmaust.com in the Corporate Governance Statement. |
| 2.1 A majority of the board should be independent directors. | Not Satisfied. The Board considers that given the size and nature of the Company the current Board is appropriate. |
| 2.2 The chair should be an independent director. | Not Satisfied. Given the size and nature of the Company, Mr Owen is considered the most appropriate Director to act as Chairman. |

Recommendation
PharmAust Limited current practice

| | | |
|-----|---|---|
| 2.3 | The roles of chair and Chief Executive Officer should not be exercised by the same individual. | Not Satisfied. |
| | | Given the size and nature of the Company, Mr Owen is considered the most appropriate Director to act as Chairman and fulfil the functions of Chief Executive Officer in his capacity as Executive Chairman. |
| 2.4 | The board should establish a nomination committee. | Not Satisfied. |
| | | The Board consider that given the current size of the Board (3), this function is efficiently achieved with full Board participation. Accordingly, the Board has not established a nomination committee. |
| 2.5 | Companies should disclose the process for evaluating the performance of the board, its committees and individual directors. | Satisfied. |
| | | Board Performance Evaluation Policy is available at www.pharmaust.com in the Corporate Governance Statement. |
| 3.1 | Companies should disclose a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> • The practices necessary to maintain confidence in the company's integrity • The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders • The responsibility and accountability of individuals for reporting and investigating reports of unethical practices. | Satisfied. |
| | | The Code of conduct is available at www.pharmaust.com in the Corporate Governance Statement. |
| 3.2 | Companies should establish a policy concerning trading in company securities by directors, senior executives and employees, and disclose the policy or a summary of that policy. | Satisfied. |
| | | The Trading Policy is available at www.pharmaust.com in the Corporate Governance statement. |
| 4.1 | The board should establish an audit committee. | Not Satisfied. |
| | | The Board consider that given the current size of the Board (3), this function is efficiently achieved with full Board participation. Accordingly, the Board has not established an audit committee. |
| 4.2 | The board committee should be structured so that it: <ul style="list-style-type: none"> • Consists only of non-executive directors • Consists of a majority of independent directors • Is chaired by an independent chair, who is not chair of the board • Has at least three members | Not Satisfied. |
| | | The Company has adopted a policy which includes Executive Directors as audit committee members. |
| 4.3 | The audit committee should have a formal charter. | Satisfied. |
| | | Audit Committee charter is available at www.pharmaust.com in the Corporate Governance statement. |

| Recommendation | PharmAust Limited current practice |
|---|--|
| 5.1 Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at senior executive level for that compliance and disclose those policies or a summary of those policies. | Satisfied. Continuous disclosure policy is available at www.pharmaust.com in the Corporate Governance statement. |
| 6.1 Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of their policy. | Satisfied. Shareholders communication strategy is available at www.pharmaust.com in the Corporate Governance statement. |
| 7.1 Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies. | Satisfied. Risk management program is available at www.pharmaust.com in the Corporate Governance statement. |
| 7.2 The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks. | Satisfied. The Board, including the Executive Chairman, routinely consider risk management matters. |
| 7.3 The board should disclose whether it has received assurance from the chief executive officer (or equivalent) and the chief financial officer (or equivalent) that the declaration provided in accordance with section 295A of the corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. | Satisfied. The Board has received a section 295A declaration pursuant to the 2008 financial period. |
| 8.1 The board should establish a remuneration committee. | Not Satisfied. The Board consider that given the current size of the Board, this function is efficiently achieved with full Board participation. Accordingly, the Board has not established a remuneration committee. |
| 8.2 Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives. | The structure of Directors' remuneration is disclosed in the remuneration report of the annual report. |

Further information about the Company's corporate governance practices is set out on the Company's web site at www.pharmaust.com

RSM Bird Cameron Partners

Chartered Accountants

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AUDITOR INDEPENDENCE DECLARATION

I declare that, to the best of my knowledge and belief, in relation to the audit of the financial report of PharmAust Limited for the financial year ended 30 June 2008 there have been no contraventions of:

- (i) the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

RSM Bird Cameron Partners

RSM BIRD CAMERON PARTNERS
Chartered Accountants

D J Wall

D J WALL
Partner

Perth, WA

Dated: *26 September 2008*

INDEPENDENT AUDITOR'S REPORT

TO THE MEMBERS OF

PHARMAUST LIMITED

Report on the Financial Report

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

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(a), 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on 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 entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal 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.

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

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 2008 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; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a).

Report on the Remuneration Report

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

Auditor's Opinion

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

RSM Bird Cameron Partners.

RSM BIRD CAMERON PARTNERS
Chartered Accountants

D J Wall.

D J WALL
Partner

Perth, WA

Dated: *26 SEPTEMBER 2008*

DIRECTORS' DECLARATION

The directors of the company declare that:

1. the 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 2008 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.



Bryant McLarty
Director

Signed at Perth, Western Australia this 26th day of September 2008

Income Statement
INCOME STATEMENT
For the year ended 30 June 2008

| | NOTE | CONSOLIDATED ENTITY | | PARENT ENTITY | |
|--|------|---------------------|--------------------|--------------------|--------------------|
| | | 2008 | 2007 | 2008 | 2007 |
| | | \$ | \$ | \$ | \$ |
| Revenue | 2 | 2,696,396 | 4,576,111 | - | - |
| Other income | 2 | 282,502 | 3,591,895 | 383,125 | 6,020,988 |
| | | 2,978,898 | 8,168,006 | 383,125 | 6,020,988 |
| Raw materials and consumables used | | (711,178) | (2,124,218) | - | - |
| Employee benefits expense | | (2,079,880) | (4,327,803) | (240,065) | (843,382) |
| Depreciation expense | | (296,292) | (528,672) | (69,982) | (69,379) |
| Loss on deconsolidation of subsidiary | | (923,267) | - | - | - |
| Impairment of non current assets | | (776,735) | (760,882) | (3,897,091) | (5,643,221) |
| Finance costs | | (129,302) | (125,725) | (129,302) | (99,073) |
| Administration expense | | (2,272,343) | (3,414,339) | (1,313,219) | (1,141,859) |
| Share of loss of associate | | (1,557,874) | (492,415) | - | - |
| Loss before income tax expense | 3 | (5,767,973) | (3,606,048) | (5,266,534) | (1,775,926) |
| Income tax expense | 4a | - | - | - | - |
| Loss after income tax expense | | (5,767,973) | (3,606,048) | (5,266,534) | (1,775,926) |
| Net loss attributable to members of the parent entity | | (5,767,973) | (3,606,048) | (5,266,534) | (1,775,926) |
| Basic earnings per share (cents per share) | 19 | (2.74) | (3.50) | | |
| Diluted earnings per share (cents per share) | 19 | (2.74) | (3.50) | | |

The accompanying notes form part of these financial statements.

BALANCE SHEET
As at 30 June 2008

| | NOTE | CONSOLIDATED ENTITY | | PARENT ENTITY | |
|---|------|---------------------|-------------------|------------------|------------------|
| | | 2008 | 2007 | 2008 | 2007 |
| | | \$ | \$ | \$ | \$ |
| CURRENT ASSETS | | | | | |
| Cash and cash equivalents | 5 | 817,361 | 272,423 | 630,510 | 121,994 |
| Trade and other receivables | 6a | 109,644 | 199,483 | - | 2,812 |
| Inventories | 7 | - | 478,545 | - | - |
| Other current assets | 8 | 150,648 | 46,178 | 150,648 | - |
| Land and building - held for sale | 9 | 2,930,000 | - | 2,930,000 | - |
| Investments accounted for using the equity method – held for sale | 11 | 3,387,164 | - | - | - |
| TOTAL CURRENT ASSETS | | 7,394,817 | 996,629 | 3,711,158 | 124,806 |
| NON-CURRENT ASSETS | | | | | |
| Trade and other receivables | 6e | - | - | - | - |
| Financial assets | 10 | 19,100 | 2,000 | 3,406,264 | 5,710,153 |
| Investments accounted for using the equity method | 11 | - | 5,721,773 | - | - |
| Property, plant and equipment | 12 | 578,686 | 3,447,620 | 18,518 | 2,368,684 |
| Intangible assets | 13 | - | - | - | - |
| TOTAL NON-CURRENT ASSETS | | 597,786 | 9,171,393 | 3,424,782 | 8,078,837 |
| TOTAL ASSETS | | 7,992,603 | 10,168,022 | 7,135,940 | 8,203,643 |
| CURRENT LIABILITIES | | | | | |
| Trade and other payables | 14 | 630,704 | 607,728 | 375,199 | 55,976 |
| Short-term borrowings | 15a | 1,376,060 | 1,434,729 | 1,376,060 | 1,328,144 |
| Short-term provisions | 16 | 71,593 | 166,544 | 5,852 | 21,217 |
| TOTAL CURRENT LIABILITIES | | 2,078,357 | 2,209,001 | 1,757,111 | 1,405,337 |
| NON-CURRENT LIABILITIES | | | | | |
| Long-term borrowings | 15b | - | 123,859 | - | - |
| TOTAL NON-CURRENT LIABILITIES | | 123,859 | - | - | - |
| TOTAL LIABILITIES | | 2,078,357 | 2,332,860 | 1,757,111 | 1,405,337 |
| NET ASSETS | | 5,914,246 | 7,835,162 | 5,378,829 | 6,798,306 |
| EQUITY | | | | | |
| Issued capital | 17a | 27,690,944 | 24,386,582 | 27,690,944 | 24,386,582 |
| Reserves | 18 | 1,048,730 | 506,035 | 542,695 | - |
| Accumulated losses | | (22,825,428) | (17,057,455) | (22,854,810) | (17,588,276) |
| TOTAL EQUITY | | 5,914,246 | 7,835,162 | 5,378,829 | 6,798,306 |

The accompanying notes form part of these financial statements.

Statement Of Changes In Equity
STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2008
Consolidated Entity

| | 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 |
| | Issued Capital | Accumulated Losses | Asset Revaluation Reserve | General Reserve | Total Equity |
| | \$ | \$ | \$ | \$ | \$ |
| As at 1 | | | | | |
| July 2007 | 24,386,582 | (17,057,455) | - | 506,035 | 7,835,162 |
| Loss for the year | - | (5,767,973) | - | - | (5,767,973) |
| Share of associate company's reserve increments | - | - | - | - | - |
| Share-based payments | 26,803 | - | - | - | 26,803 |
| Shares issued (net) | 3,277,559 | - | - | - | 3,277,559 |
| Revaluation increment | - | - | 542,695 | - | 542,695 |
| As at | | | | | |
| 30 June 2008 | 27,690,944 | (22,825,428) | 542,695 | 506,035 | 5,914,246 |

The accompanying notes form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2008

Parent Entity

| | 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 |

| | Issued Capital | Accumulated Losses | Asset Revaluation Reserve | General Reserve | Total Equity |
|--------------------------|-------------------|-----------------------|---------------------------------|--------------------|------------------|
| | \$ | \$ | \$ | \$ | \$ |
| As at | | | | | |
| 1 July 2007 | 24,386,582 | (17,588,276) | - | - | 6,798,306 |
| Loss for the year | - | (5,266,534) | - | - | (5,266,534) |
| Share based payments | 26,803 | - | - | - | 26,803 |
| Shares issued (net) | 3,277,559 | - | - | - | 3,277,559 |
| Revaluation increment | - | - | 542,695 | - | 542,695 |
| As at | | | | | |
| 30 June 2008 | 27,690,944 | (22,854,810) | 542,695 | - | 5,378,829 |

The accompanying notes form part of these financial statements.

Cash Flow Statement
CASH FLOW STATEMENT
For the year ended 30 June 2008

| | NOTE | CONSOLIDATED ENTITY | | PARENT ENTITY | |
|---|------|---------------------|-------------|---------------|-------------|
| | | 2008 | 2007 | 2008 | 2007 |
| | | \$ | \$ | \$ | \$ |
| Cash Flows From Operating Activities | | | | | |
| Receipts from customers | | 2,406,768 | 4,588,145 | 10,268 | 10,965 |
| Payments to suppliers and employees | | (4,735,125) | (8,665,140) | (1,166,172) | (1,717,189) |
| Interest received | | 64,312 | 11,866 | 59,516 | 11,866 |
| Interest and other costs of finance | | (129,302) | (125,725) | (129,302) | (99,073) |
| Net cash used in operating activities | 22b | (2,393,347) | (4,190,854) | (1,225,690) | (1,793,431) |
| Cash Flows From Investing Activities | | | | | |
| Payments for property, plant and equipment | | (156,746) | (218,602) | (15,167) | (7,888) |
| Payments for financial assets | | - | (934) | - | (934) |
| Loans to controlled entities | | - | - | (1,576,102) | (2,686,692) |
| Net cash used in investing activities | | (156,746) | (219,536) | (1,591,269) | (2,695,514) |
| Cash Flows From Financing Activities | | | | | |
| Proceeds from share issues | | 3,277,559 | 3,161,843 | 3,277,559 | 3,161,843 |
| Proceeds from borrowings | | 1,376,060 | 1,328,144 | 1,376,060 | 1,328,144 |
| Repayment of borrowings | | (1,558,588) | (136,004) | (1,328,144) | (5,334) |
| Net cash provided by financing activities | | 3,095,031 | 4,353,983 | 3,325,475 | 4,484,653 |
| Net increase/(decrease) in cash held | | 544,938 | (56,407) | 508,516 | (4,292) |
| Cash at the beginning of the financial year | | 272,423 | 328,830 | 121,994 | 126,286 |
| Cash at the end of the financial year | 22a | 817,361 | 272,423 | 630,510 | 121,994 |

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 30 June 2008

1. SIGNIFICANT ACCOUNTING POLICIES

The 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 financial report was authorised for issue on 26 September 2008 by the Board of Directors.

The 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 \$5,266,534 and \$5,767,973 respectively for the year ended 30 June 2008 and at balance date, the parent and consolidated entity have net current assets of \$1,954,047 and \$5,316,460 respectively. These factors indicate significant uncertainty whether the Company and consolidated entity will continue as going concerns and therefore whether they will realise their assets and extinguish their liabilities in the normal course of business and at the amounts stated in the financial report.

The Board considers that the company and consolidated entity are going concerns and declare that the company and consolidated entity will be able to pay their debts as and when they become due and payable for twelve month period from the date of this financial report.

Subsequent to balance date, the Company completed the sale of its investment in Commonwealth Biotechnologies Inc. for consideration of \$3,500,000.

Further funding can be derived from the potential sale of the land and buildings at 71 Division Street Welshpool.

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 financial report does not contain any adjustments to the amounts or classification of recorded assets or liabilities that might be necessary if the Company or consolidated entity does not continue as going concerns.

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.

(a) Statement of Compliance

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).

Notes To The Financial Statements

(b) Adoption of new and revised standards

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2008 reporting periods. The director's assessment of the impact of new standards and interpretations that may affect the Company is set out below.

- (i) AASB 8 Operating Segments and AASB 2007-3 Amendments to Australian Accounting Standards arising from AASB 8

AASB 8 and AASB 2007-3 are effective for annual reporting periods commencing on or after 1 January 2009. AASB 8 will result in a significant change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on financial performance. The information being reported will be based on what the key decision makers use internally for evaluating segment performance and deciding how to allocate resources to operating segments. The directors have not yet decided when to adopt AASB 8. Application of AASB 8 may result in different segments, segment results and different types of information being reported in the segment note of the financial report. However, at this stage, it is not expected to affect any of the amounts recognised in the financial statements.

- (ii) Revised AASB 123 Borrowing Costs and AASB 2007-6 Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and - when adopted - will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the Company, as the Company already capitalises borrowing costs on qualifying assets.

- (iii) Revised AASB 101 Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101

A revised AASB 101 was issued in September 2007 and is applicable for annual reporting periods beginning on or after 1 January 2009. It requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Company intends to apply the revised standard from 1 July 2009.

(c) 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.

(d) 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.

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 Company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(e) Inventories

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

(f) 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

Notes To The Financial Statements

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 the revaluation reserve in equity; all other decreases are charged to the income statement.

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.

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.

(g) 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.

(h) 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.

(i) 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.

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.

(j) 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.

(k) 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.

(l) 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.

(m) 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.

Notes To The Financial Statements

(n) 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.

(o) 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.

(p) 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).

(q) 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.

(r) 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 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.

(s) 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.

Notes To The Financial Statements
(t) 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.

(u) 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 company is of the view that there are no critical accounting estimates and judgments in this financial report.

| | CONSOLIDATED ENTITY | | PARENT ENTITY | |
|---|---------------------|-----------|---------------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$ | \$ | \$ | \$ |
| 2. REVENUE | | | | |
| Sales | 2,696,396 | 4,576,111 | - | - |
| OTHER INCOME | | | | |
| Interest received | 64,312 | 11,866 | 59,516 | 11,866 |
| Profit on sale of non current assets | - | 3,567,994 | - | 5,708,153 |
| Gain on revaluation of shares | 17,100 | - | 17,100 | - |
| Gain on revaluation of land & buildings | 102,905 | - | 102,905 | - |
| Rental income | - | 2,832 | 153,336 | 292,836 |
| Intercompany charge | - | - | 40,000 | - |
| Other revenue | 98,185 | 9,203 | 10,268 | 8,133 |
| | 2,978,898 | 3,591,895 | 383,125 | 6,020,988 |

3. LOSS FOR THE YEAR
3a Expenses
Finance costs:

| | | | | |
|------------|---------|---------|---------|--------|
| - external | 129,302 | 125,725 | 129,302 | 99,073 |
|------------|---------|---------|---------|--------|

3b Significant revenue and expenses

The following significant relevant revenue and expense items are relevant in explaining the financial performance:

| | | | | |
|-------------------------------------|-----------|-----------|-------------|-------------|
| Profit on sale of non current asset | - | 3,567,994 | - | 5,708,153 |
| Impairment of non-current assets | | | | |
| - plant and equipment | - | (373,788) | - | - |
| - investments | (776,735) | - | (2,320,989) | (665,934) |
| - intangibles | - | (387,094) | - | - |
| - loans to controlled entities | - | - | (1,576,102) | (4,977,287) |

| | CONSOLIDATED ENTITY | | PARENT ENTITY | |
|---|---------------------|-------------|---------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$ | \$ | \$ | \$ |
| 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 | (5,767,973) | (3,606,048) | (5,266,533) | (1,775,926) |
| Prima facie tax benefit at 30% (2007:30%) | (1,730,392) | (1,081,814) | (1,579,960) | (532,778) |
| Tax effect of: | | | | |
| - Write-downs to recoverable amounts | - | 228,265 | 472,831 | 1,692,966 |
| - Share-based payments | 8,041 | 26,065 | 8,041 | 26,065 |
| - Share of loss of associate | - | 147,724 | - | - |
| - Other non-allowable items | 4,430 | 908,752 | 2,974 | 340,457 |
| - Deferred tax asset used not previously brought to account | - | (1,868,079) | - | (1,526,710) |
| - Deferred tax asset not brought to account | 1,717,921 | 1,639,087 | 1,096,114 | - |
| | - | - | - | - |

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) | 6,342,316 | 5,426,041 | 3,033,586 | 2,654,636 |
| Deferred tax liability at 30% tax rate (not recognised) | 1,960,910 | 2,478,576 | 655,603 | 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 | 817,361 | 272,423 | 630,510 | 121,994 |
|--------------|---------|---------|---------|---------|

Notes To The Financial Statements

| | CONSOLIDATED ENTITY | | PARENT ENTITY | |
|--|---------------------|------|---------------|------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$ | \$ | \$ | \$ |

6. TRADE AND OTHER RECEIVABLES
6a CURRENT

| | | | | |
|---------------|---------|---------|---|-------|
| Trade debtors | 109,644 | 199,483 | - | 2,812 |
|---------------|---------|---------|---|-------|

Trade debtors: Payment terms are 30 days from the date of recognition.

6b Impaired trade receivables

The directors have assessed the balance of trade receivables for impairment. No amounts of trade receivables are considered impaired.

6c Past due but not impaired

As of 30 June 2008, trade receivables of \$58,895 (2007 - \$109,835) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

| | | | | |
|-------------------|--------|---------|---|---|
| 30 to 60 days | 40,238 | 33,255 | - | - |
| 61 days and above | 18,657 | 76,580 | - | - |
| | 58,895 | 109,835 | - | - |

Based on the credit history of these other classes, it is expected that these amounts will be received when due. The Company does not hold any collateral in relation to these receivables.

6d Fair value and credit risk

Due to the short-term nature of these receivables, their carrying amount is assumed to approximate their fair value.

The maximum exposure to credit risk at the reporting date is the carrying amount of each class of receivables mentioned above.

6e NON CURRENT
Loans receivable from controlled entities

| | | | | |
|----------------------------|---|---|-------------|-------------|
| Amounts due | - | - | 6,493,210 | 4,977,287 |
| Provision for non recovery | - | - | (6,493,210) | (4,997,287) |
| | - | - | - | - |

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 | | PARENT ENTITY | |
|--|---------------------|---------|---------------|------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$ | \$ | \$ | \$ |
| 7. INVENTORIES | | | | |
| Finished goods | - | 478,545 | - | - |
| 8. OTHER CURRENT ASSETS | | | | |
| Prepayments | 150,648 | 46,178 | 150,648 | - |
| 9. LAND AND BUILDINGS - HELD FOR SALE | | | | |
| Fair value | 2,930,000 | - | 2,930,000 | - |

The valuation basis of fair value is based on amounts for which the asset could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition. The revaluation was based on independent assessments by a Certified Practising Valuer.

Notes To The Financial Statements

| | CONSOLIDATED ENTITY | | PARENT ENTITY | |
|--|---------------------|-------|---------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$ | \$ | \$ | \$ |
| 10. FINANCIAL ASSETS | | | | |
| Shares in controlled entities - cost | - | - | 1,575,948 | 1,646,882 |
| Provision for diminution in value | - | - | (1,575,948) | (1,646,882) |
| | - | - | - | - |
| Shares in associated entities - cost | - | - | 5,708,153 | 5,708,153 |
| Provision for diminution in value | - | - | (2,320,989) | - |
| | - | - | 3,387,164 | 5,708,153 |
| Financial assets held for trading | | | | |
| Shares in listed securities - fair value | 19,100 | 2,000 | 29,100 | 12,000 |
| Provision for diminution in value | - | - | (10,000) | (10,000) |
| | 19,100 | 2,000 | 19,100 | 2,000 |
| Total financial assets | 19,100 | 2,000 | 3,406,264 | 5,710,153 |
| 10a Movements in Carrying Amounts | | | | |
| Shares in controlled entities | | | | |
| Carrying amount at beginning of the year | - | - | - | 560,000 |
| Additions | - | - | - | 70,934 |
| Disposals | - | - | - | - |
| Impairment losses | - | - | - | (630,934) |
| Carrying amount at end of the year | - | - | - | - |
| Shares in associated entities | | | | |
| Carrying amount at beginning of the year | - | - | 5,708,153 | - |
| Additions | - | - | - | - |
| Additions through acquisition of associated entity- | - | - | - | 5,708,153 |
| Disposals | - | - | - | - |
| Impairment losses | - | - | (2,320,989) | - |
| Carrying amount at end of the year | - | - | 3,387,164 | 5,708,153 |
| Financial assets held for trading | | | | |
| Carrying amount at beginning of the year | 2,000 | 2,000 | 2,000 | 2,000 |
| Additions | 17,100 | - | 17,100 | - |
| Disposals | - | - | - | - |
| Impairment losses | - | - | - | - |
| Carrying amount at end of the year | 19,100 | 2,000 | 19,100 | 2,000 |
| | 19,100 | 2,000 | 3,406,264 | 5,710,153 |

| | CONSOLIDATED ENTITY | | PARENT ENTITY | |
|--|---------------------|-----------|---------------|------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$ | \$ | \$ | \$ |
| 11. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD | | | | |
| Associated companies | | | | |
| – current (held for sale) | 3,387,164 | - | - | - |
| Associated companies | | | | |
| – non current | - | 5,721,773 | - | - |
| 11a Movements during the year in Equity Accounted Investment in Associated Companies | | | | |
| CURRENT | | | | |
| Cost of investment in associate at beginning of the financial year | - | - | - | - |
| Transfer from non current classification | 5,721,773 | | | |
| Share of the associate's loss after income tax | (1,557,874) | - | - | - |
| Share of the associate company's reserve increments arising during the year | - | - | - | - |
| Impairment loss | (776,735) | - | - | - |
| | 3,387,164 | - | - | - |
| NON CURRENT | | | | |
| Cost of investment in associate at beginning of the financial year | 5,721,773 | - | | |
| Additions | - | 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 | - | - |
| Impairment loss | - | - | - | - |
| Transfer to current classification | (5,721,773) | - | | |
| | - | 5,721,773 | | |
| 11b Equity accounted profits of associates broken down as follows: | | | | |
| Share of associate's loss before income tax | (1,557,874) | (492,415) | - | - |
| Share of associate's income tax relating to the loss | - | - | - | - |
| Share of associate's loss after income tax | (1,557,874) | (492,415) | - | - |

Notes To The Financial Statements

| | CONSOLIDATED ENTITY | | PARENT ENTITY | |
|---|----------------------------|-------------|----------------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$ | \$ | \$ | \$ |
| 11c Summarised Presentation of Aggregate Assets, Liabilities and Performance of Associates | | | | |
| Current assets | 2,312,439 | 4,219,784 | - | - |
| Non current assets | 4,754,315 | 5,651,430 | - | - |
| Total assets | 7,066,753 | 9,871,214 | - | - |
| Current liabilities | 2,127,143 | 3,026,004 | - | - |
| Non current liabilities | 1,388,005 | 2,146,882 | - | - |
| Total liabilities | 3,515,148 | 5,172,886 | - | - |
| Net assets | 3,551,605 | 4,698,328 | - | - |
| Revenues | 1,417,390 | 1,876,606 | - | - |
| Share of associate's loss after income tax | (1,557,874) | (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. | | | | |
| Market value of investments in Commonwealth Biotechnologies Inc. (listed on NASDAQ) | | | | |
| | 3,085,680 | 9,450,179 | - | - |
| The carrying value of the investment is greater than the market value at balance date as the Company has signed a sale agreement with Venturepharm Laboratories Limited for US\$3,117,500. | | | | |
| 12. PROPERTY, PLANT AND EQUIPMENT | | | | |
| Land and buildings | | | | |
| Independent valuation (June 2006) | - | 2,414,000 | - | 2,414,000 |
| Independent valuation (April 2008) | 2,930,000 | - | 2,930,000 | - |
| Accumulated depreciation | - | (64,800) | - | (64,800) |
| Transfer to land and buildings held for sale | (2,930,000) | - | (2,930,000) | - |
| | - | 2,349,200 | - | 2,349,200 |
| Plant and equipment | | | | |
| Cost | 816,421 | 2,161,631 | 39,676 | 52,303 |
| Accumulated depreciation | (237,735) | - | (689,723) | (373,488) |
| Accumulated impairment losses | (21,158) | - | (32,819) | - |
| | 578,686 | 1,098,420 | 18,518 | 19,484 |
| | 578,686 | 3,447,620 | 18,518 | 2,368,684 |

| | CONSOLIDATED ENTITY | | PARENT ENTITY | |
|---|---------------------|-------------|---------------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$ | \$ | \$ | \$ |
| Reconciliations: | | | | |
| Land and Buildings | | | | |
| Carrying amount at beginning of the year | 2,349,200 | 2,414,000 | 2,349,200 | 2,414,000 |
| Additions | - | - | - | - |
| Write-back of previous devaluation | 102,905 | - | 102,905 | - |
| Revaluation increment | 542,695 | - | 542,695 | - |
| Depreciation expense | (64,800) | (64,800) | (64,800) | (64,800) |
| Transfer to land and buildings held for sale | (2,930,000) | - | (2,930,000) | - |
| Carrying amount at end of the year | - | 2,349,200 | - | 2,349,200 |
| Leasehold improvements | | | | |
| Carrying amount at beginning of the year | - | 1,876,250 | - | - |
| Written down value of assets at date of disposal of controlled entity | - | (1,852,500) | - | - |
| Depreciation expense | - | (23,750) | - | - |
| Carrying amount at end of the year | - | - | - | - |
| Plant and equipment | | | | |
| Carrying amount at beginning of the year | 1,098,420 | 2,703,883 | 19,484 | 16,175 |
| Additions | 156,746 | 218,602 | 15,167 | 7,888 |
| Impairment losses | - | (373,788) | - | - |
| Disposals | (10,950) | (21,652) | (10,950) | - |
| Written down value of assets at date of disposal of controlled entity | (434,037) | (988,503) | - | - |
| Depreciation expense | (231,493) | (440,122) | (5,183) | (4,579) |
| Carrying amount at end of the year | 578,686 | 1,098,420 | 18,518 | 19,484 |
| | 578,686 | 3,447,620 | 18,518 | 2,368,684 |

13. INTANGIBLE ASSETS

| | | | | |
|-------------------------------|---|-----------|---|---|
| TGA license | | | | |
| Cost | - | 380,093 | - | - |
| Accumulated impairment losses | - | (380,093) | - | - |
| | - | - | - | - |
| Patent | | | | |
| Cost | - | 157,000 | - | - |
| Accumulated impairment losses | - | (157,000) | - | - |
| | - | - | - | - |

Notes To The Financial Statements

| | CONSOLIDATED ENTITY | | PARENT ENTITY | |
|----------------------------------|---------------------|---------------|---------------|------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$ | \$ | \$ | \$ |
| Consolidated entity | TGA license | Patent | Total | |
| 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) | |
| | - | - | - | |
| Year ended 30 June 2008 | | | | |
| Balance at the beginning of year | - | - | - | |
| Additions | - | - | - | |
| Disposals | - | - | - | |
| Amortisation charge | - | - | - | |
| Impairment losses | - | - | - | |
| Closing value at 30 June 2008 | - | - | - | |

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.

14 TRADE AND OTHER CREDITORS

| | | | | |
|------------------------------|---------|---------|---------|--------|
| Trade creditors and accruals | 630,704 | 607,728 | 375,199 | 55,976 |
|------------------------------|---------|---------|---------|--------|

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

15. BORROWINGS

15a Current

| | | | | |
|---------------------|-----------|-----------|-----------|-----------|
| Secured liabilities | | | | |
| Line of credit | 1,376,060 | 1,328,144 | 1,376,060 | 1,328,144 |
| Lease liability | - | 106,585 | - | - |
| | 1,376,060 | 1,434,729 | 1,376,060 | 1,328,144 |

15b Non current

| | | | | |
|---------------------|---|---------|---|---|
| Secured liabilities | | | | |
| Lease liability | - | 123,859 | - | - |
| | - | 123,859 | - | - |

| | CONSOLIDATED ENTITY | | PARENT ENTITY | |
|--|---------------------|-----------|---------------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$ | \$ | \$ | \$ |
| 15. BORROWINGS | | | | |
| 15c Total current and non current secured liabilities: | | | | |
| Line of credit | 1,376,060 | 1,328,144 | 1,376,060 | 1,328,144 |
| Lease liability | - | 230,444 | - | - |
| | 1,376,060 | 1,558,588 | 1,376,060 | 1,328,144 |

Terms and conditions:

The line of credit is secured by a registered mortgage over the 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 is 10% (2007 – 10%).

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

16 SHORT TERM PROVISIONS

| | | | | |
|-----------------------|--------|---------|-------|--------|
| Employee entitlements | 71,593 | 166,544 | 5,852 | 21,217 |
|-----------------------|--------|---------|-------|--------|

17. ISSUED CAPITAL

17a Issued and paid up capital

| | | | | |
|---|------------|------------|------------|------------|
| 236,707,878 (2007: 118,353,939) fully paid ordinary shares | 27,690,944 | 24,386,582 | 27,690,944 | 24,386,582 |
|---|------------|------------|------------|------------|

17b Movement in issued capital

| | 2008 No. | 2008 \$ |
|--------------------------------------|-------------|------------|
| At the beginning of reporting period | 118,353,939 | 24,386,582 |
| Rights issued during the year | 118,353,939 | 3,550,618 |
| Share issue costs | - | (273,059) |
| Share option expense | - | 26,803 |
| Balance at 30 June 2008 | 236,707,878 | 27,690,944 |

17c Options on Issue

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)

Notes To The Financial Statements

17d 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.

17e Capital Management

Management controls the capital of the company in order to maintain a good debt to equity ratio, provide the shareholders with adequate returns and ensure that the company can fund its operations and continue as a going concern.

The company's debt and capital includes ordinary share capital and financial liabilities, supported by financial assets.

There are no externally imposed capital requirements.

Management effectively manages the company's capital by assessing the company's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the company since the prior year. The gearing ratio's for the year ended 30 June 2008 and 30 June 2007 are as follows:

| | CONSOLIDATED ENTITY | | PARENT ENTITY | |
|--------------------------------|---------------------|-----------|---------------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$ | \$ | \$ | \$ |
| Total borrowings | 1,376,060 | 1,558,588 | 1,376,060 | 1,328,144 |
| Less cash and cash equivalents | (817,361) | (272,423) | (630,510) | (121,994) |
| Net debt | 558,699 | 1,286,165 | 745,550 | 1,206,150 |
| Total equity | 5,914,246 | 7,835,162 | 5,378,829 | 6,798,306 |
| Total capital | 6,472,945 | 9,121,327 | 6,124,379 | 8,004,456 |
| Gearing ratio | 9% | 14% | 12% | 15% |

18. Reserves

18a Asset Revaluation Reserve

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

18b 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.

| | CONSOLIDATED ENTITY | |
|--|----------------------------|-------------|
| | 2008 | 2007 |
| | \$ | \$ |
| 19. EARNINGS PER SHARE | | |
| Net loss attributable to members of parent entity | 5,767,973 | 3,606,048 |
| Weighted average number of ordinary shares outstanding during the year used in calculating basic earnings per share. | 210,191,422 | 102,888,898 |

19a. 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.

19b. 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.

20. AUDITORS' REMUNERATION

| | CONSOLIDATED ENTITY | | PARENT ENTITY | |
|---|----------------------------|-------------|----------------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$ | \$ | \$ | \$ |
| Remuneration of RSM Bird Cameron Partners as auditors of the parent entity for: | | | | |
| - auditing or reviewing of the financial report | | | | |
| - taxation services | 96,000 | 4,374 | 79,000 | 30,130 |
| | 96,000 | 4,374 | 79,000 | 30,130 |
| | 100,374 | 109,130 | 100,374 | 109,130 |

21. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The main purpose of these financial instruments is to finance the company's operations. The company has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. It is, and has been throughout the entire period under review, the company's policy that no trading in financial instruments shall be undertaken.

The main risks arising from the company's financial instruments are cash flow interest rate risk and equity price risk. Other minor risks are either summarised below or disclosed at Note 6 in the case of credit risk and Note 17 in the case of capital risk management. The Board reviews and agrees policies for managing each of these risks.

Cash Flow Interest Rate Risk

The Company's exposure to the risks of changes in market interest rates relates primarily to the Company's short-term

Notes To The Financial Statements

deposits with a floating interest rate. These financial assets with variable rates expose the company to cash flow interest rate risk. All other financial assets and liabilities in the form of receivables and payables are non-interest bearing. The Company does not engage in any hedging or derivative transactions to manage interest rate risk.

The following tables set out the carrying amount by maturity of the Company's exposure to interest rate risk and the effective weighted average interest rate for each class of these financial instruments.

The Company has not entered into any hedging activities to cover interest rate risk. In regard to its interest rate risk, the Company does not have a formal policy in place to mitigate such risks.

**2008
CONSOLIDATED ENTITY**

| | 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 and cash equivalents | 7.50% | 817,361 | - | - | - | 817,361 |
| Trade and other receivables | - | - | - | - | 109,644 | 109,644 |
| Other financial assets | - | - | - | - | 19,100 | 19,100 |
| Total financial assets | | 817,361 | - | - | 128,744 | 946,105 |
| Financial liabilities | | | | | | |
| Trade and other payables | - | - | - | - | 630,704 | 630,704 |
| Interest bearing liabilities | 10% | - | 1,376,060 | - | - | 1,376,060 |
| Total financial liabilities | | - | 1,376,060 | - | 630,704 | 2,006,764 |
| Net Financial Assets/(Liabilities) | | | | | | |
| | | 817,361 | (1,376,060) | - | (501,960) | (1,060,659) |

**2007
CONSOLIDATED ENTITY**

| | 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 and cash equivalents | 2.41% | 272,423 | - | - | - | 272,423 |
| Trade and other receivables | - | - | - | - | 199,483 | 199,483 |
| Other financial assets | - | - | - | - | 2,000 | 2,000 |
| Total financial assets | | 272,423 | - | - | 201,483 | 473,906 |
| Financial liabilities | | | | | | |
| Trade and other 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 |
| Net Financial Assets/(Liabilities) | | | | | | |
| | | 272,423 | (1,434,729) | (123,859) | (406,245) | (1,692,410) |

2008**PARENT EQUITY**

| | 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 and cash equivalents | 7.50% | 630,510 | - | - | - | 630,510 |
| Trade and other receivables | - | - | - | - | - | - |
| Other financial assets | - | - | - | - | 3,406,264 | 3,406,264 |
| Total financial assets | | 630,510 | - | - | 3,406,264 | 4,036,774 |
| Financial liabilities | | | | | | |
| Trade and other payables | - | - | - | - | 375,199 | 375,199 |
| Interest bearing liabilities | 10% | - | 1,376,060 | - | - | 1,376,060 |
| Total financial liabilities | | - | 1,376,060 | - | 375,199 | 1,751,259 |
| Net Financial | | | | | | |
| Assets/(Liabilities) | | 630,510 | (1,376,060) | - | 3,031,065 | 2,285,515 |

2007**PARENT EQUITY**

| | 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 and cash equivalents | 2.41% | 121,994 | - | - | - | 121,994 |
| Trade and other receivables | - | - | - | - | 2,812 | 2,812 |
| Other financial assets | - | - | - | - | 5,710,153 | 5,710,153 |
| Total financial assets | | 121,994 | - | - | 5,712,965 | 5,834,959 |
| Financial liabilities | | | | | | |
| Trade and other payables | - | - | - | - | 55,976 | 55,976 |
| Interest bearing liabilities | 8.55% | - | 1,328,144 | - | - | 1,328,144 |
| Total financial liabilities | | - | 1,328,144 | - | 55,976 | 1,384,120 |
| Net Financial | | | | | | |
| Assets/(Liabilities) | | 121,994 | (1,328,144) | - | 5,656,989 | 4,450,839 |

Interest rate sensitivity analysis*Consolidated*

At 30 June 2008, if interest rates had changed by 10% during the entire year with all other variables held constant, profit for the year and equity would have been \$-6,130 lower/higher, mainly as a result of lower/higher interest income from cash and cash equivalents.

Notes To The Financial Statements

A sensitivity of 10% has been selected as this is considered reasonable given the current level of both short term and long term Australian dollar interest rates. A 10% increase sensitivity would move short term interest rates at 30 June 2008 from around 7.50% to 8.25% (10% decrease : 6.75%) representing a 75 basis points shift. This would represent two to three increases which is reasonably possible in the current environment with the bias coming from the Reserve Bank of Australia and confirmed by market expectations that interest rates in Australia are more likely to move up than down in the coming period.

Based on the sensitivity analysis only interest revenue from variable rate deposits and cash balances are impacted resulting in a decrease or increase in overall income.

Parent

At 30 June 2008, if interest rates had changed by 10% during the entire year with all other variables held constant, profit for the year and equity would have been \$4,729 lower/higher, mainly as a result of lower/higher interest income from cash and cash equivalents.

A sensitivity of 10% has been selected as this is considered reasonable given the current level of both short term and long term Australian dollar interest rates. A 10% increase sensitivity would move short term interest rates at 30 June 2008 from around 7.50% to 8.25% (10% decrease : 6.75%) representing a 75 basis points shift. This would represent two to three increases which is reasonably possible in the current environment with the bias coming from the Reserve Bank of Australia and confirmed by market expectations that interest rates in Australia are more likely to move up than down in the coming period.

Based on the sensitivity analysis only interest revenue from variable rate deposits and cash balances are impacted resulting in a decrease or increase in overall income.

Liquidity risk

The Company manages liquidity risk by maintaining sufficient cash reserves and marketable securities and through the continuous monitoring of budgeted and actual cash flows.

| | CONSOLIDATED ENTITY | | PARENT ENTITY | |
|-----------------------|---------------------|---------|---------------|--------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$ | \$ | \$ | \$ |
| Contracted maturities | | | | |
| Payables | | | | |
| - less than 30 days | 603,704 | 607,728 | 375,199 | 55,976 |

Price risk

The Company is not exposed to price risk.

Foreign exchange risk

The consolidated entity is exposed to foreign exchange rate arising from various currency exposures, primarily with respect to the US dollar.

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the company's functional currency. The risk is measured using sensitivity analysis.

The Consolidated Entity's exposure to foreign currency risk at the reporting date was as follows:

| | USD \$ | 2008 EUR \$ | GBP \$ | USD \$ | 2007 EUR \$ | GBP \$ |
|-------------------|-----------|-------------------|-----------|-----------|-------------------|-----------|
| Trade receivables | 22,975 | - | - | 20,564 | - | - |
| Trade payables | (5,098) | (1,247) | (142) | (1,669) | - | - |

Foreign currency risk sensitivity analysis

At 30 June, the effect on profit and equity as a result of changes in the value of the Australian Dollar to the foreign currencies, with all other variables remaining constant is as follows:

| | 2008 Change in profit and equity with a +/- 10% in AUD to | | | 2007 Change in profit and equity with a +/- 10% in AUD to | | |
|-------------------|---|-----------|-----------|---|-----------|-----------|
| | USD \$ | EUR \$ | GBP \$ | USD \$ | EUR \$ | GBP \$ |
| Trade receivables | 2,209 | - | - | 1,977 | - | - |
| Trade payables | 490 | 76 | 7 | 160 | - | - |

Reconciliation of net financial assets to net assets

| | CONSOLIDATED ENTITY 2008 \$ | CONSOLIDATED ENTITY 2007 \$ | PARENT ENTITY 2008 \$ | PARENT ENTITY 2007 \$ |
|--|--------------------------------------|--------------------------------------|--------------------------------|--------------------------------|
| Net financial assets/(Liabilities) | (1,060,659) | (1,692,410) | 2,285,515 | 4,450,839 |
| Inventories | - | 478,545 | - | - |
| Other current assets | 150,648 | 46,178 | 150,648 | - |
| Land and building - held for sale | 2,930,000 | - | 2,930,000 | - |
| Investments accounted for using the equity method | | | | |
| – held for sale | 3,387,164 | 5,721,773 | - | - |
| Property, plant and equipment | 578,686 | 3,447,620 | 18,518 | 2,368,684 |
| Short-term provisions | (71,593) | (166,544) | (5,852) | (21,217) |
| Net assets | 5,914,246 | 7,835,162 | 5,378,829 | 6,798,306 |

Net fair values

For assets and other liabilities the net fair value approximates their carrying value. The parent and consolidated entity have no material financial assets or liabilities that are readily traded on organised markets at balance date and have no financial assets where the carrying amount exceeds net fair values at balance date.

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

22. NOTES TO THE CASH FLOW STATEMENT

22a Reconciliation of Cash

Notes To The Financial Statements

| | CONSOLIDATED ENTITY 2008 \$ | CONSOLIDATED ENTITY 2007 \$ | PARENT ENTITY 2008 \$ | PARENT ENTITY 2007 \$ |
|--|--|--|--|--|
| Cash at bank | 817,361 | 272,423 | 630,510 | 121,994 |
| 22b Reconciliation of net cash used in operating activities to loss after income tax | | | | |
| Loss after income tax | (5,767,973) | (3,606,048) | (5,266,534) | (1,775,926) |
| Depreciation | 296,292 | 528,672 | 69,982 | 69,379 |
| (Profit)/ loss on disposal of non-current assets | 10,951 | (3,567,994) | 10,951 | (5,708,153) |
| Write-down in value of non current assets | 1,557,874 | 760,882 | - | 5,643,221 |
| Write-back of previous devaluation of land and buildings | (120,005) | - | (120,005) | - |
| Share based payments | 26,803 | 86,884 | 26,803 | 86,884 |
| Share of loss of associate | - | 492,415 | - | - |
| Loss on disposal of subsidiary | 923,267 | - | - | - |
| Impairment of non current assets | 776,735 | - | 1,576,102 | - |
| Movement in assets and liabilities: | | | | |
| Receivables | (387,813) | 736,559 | - | (54,837) |
| Inventory | (121,786) | 1,015 | - | - |
| Other assets | (261,752) | (4,178) | 2,197,543 | 14,355 |
| Payables | 683,610 | 451,343 | 294,833 | (41,314) |
| Provisions | (9,550) | (70,404) | (15,365) | (27,040) |
| Net cash used in operating activities | (2,393,347) | (4,190,854) | (1,225,690) | (1,793,431) |

22c 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 |
| Facility utilised | - | (1,328,144) | - | (1,328,144) |
| Facility not utilised | - | 21,856 | - | 21,856 |

23 SHARE BASED PAYMENTS

The following share-based payments existed at 30 June 2008:

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 2008, was \$18,762 (2007: \$60,889) 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 2008 was \$8,041 (2007: \$25,995) 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 2008 was 21.3 cents (2007: 21.3 cents).

24. KEY MANAGEMENT PERSONNEL NOTE

24a 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 |
|----------------|--|
| Paul D'Sylva | Managing Director (resigned 3 July 2007) |
| Bryant McLarty | Executive Director |
| Wayne Best | Executive Director (resigned 3 July 2007) |
| Simon Owen | Executive Director |
| Henry Gulev | Non-Executive Director (appointed 3 July 2007) |
| Sam Wright | Company Secretary |

24b 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.

24c Remuneration of Key Management Personnel

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

24d Compensation Options – Options Granted as Compensation

No options were granted as compensation for during the year ended 30 June 2008.

24e Options and Rights Holdings by Key Management Personnel

Notes To The Financial Statements

| 2008 - Number | Balance 1 July 07 | Granted as Compensation | Options Exercised* | Net Change Other* | Balance 30 June 08 | Total Vested | Total Exercisable | Total Un-Exercisable |
|----------------------|--------------------------|--------------------------------|---------------------------|--------------------------|---------------------------|---------------------|--------------------------|-----------------------------|
| Bryant McLarty | 5,000,000 | - | - | (2,000,000) | 3,000,000 | - | - | 3,000,000 |
| Wayne Best | 2,553,229 | - | - | (1,053,229) | 1,500,000 | - | - | 1,500,000 |

No other key management personnel held options in the Company.

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

24f Shareholdings by Key Management Personnel

| 2008 - Number | Balance 1 July 2007 | Received as Compensation | Net Change Other* | Balance 30 June 2008 |
|----------------------|----------------------------|---------------------------------|--------------------------|-----------------------------|
| Bryant McLarty | 2,578,424 | - | 5,972,124 | 8,550,548 |
| Wayne Best | 1,446,733 | - | 714,223 | 2,160,956 |
| Sam Wright | - | - | 25,000 | 25,000 |

No other key management personnel held shares in the Company.

* Net change other refers to shares purchased or sold during the financial year.

25. 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 24).

26. CONTINGENT LIABILITIES

There are no contingent liabilities at the date of this report.

27. SEGMENT REPORTING

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

28 COMMITMENTS FOR EXPENDITURE

Finance leases

| | CONSOLIDATED ENTITY | | PARENT ENTITY | |
|---------------------------------|---------------------|----------|---------------|------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$ | \$ | \$ | \$ |
| Not later than 12 months | - | 120,408 | - | - |
| Between 12 months and 5 years | - | 138,062 | - | - |
| | - | 258,470 | - | - |
| Less unexpired interest charges | - | (28,026) | - | - |
| | - | 230,444 | - | - |
| Represented by: | | | | |
| Current liability | - | 106,585 | - | - |
| Non current liability | | 123,859 | | |
| | - | 230,444 | - | - |

29. INVESTMENT IN CONTROLLED ENTITIES

29a Controlled Entities Consolidated

| | COUNTRY OF CORPORATION | CLASS OF SHARES | EQUITY HOLDING 2008 % | EQUITY HOLDING 2007 % |
|---------------------------------------|------------------------|-----------------|-----------------------------|-----------------------------|
| Parent Entity: | | | | |
| PharmAust Limited | Australia | - | - | - |
| Name of Controlled Entity: | | | | |
| PharmAust Manufacturing Pty Ltd | Australia | Ordinary | Nil | 100 |
| Animal Health Pharmaceuticals Pty Ltd | Australia | Ordinary | 100 | 100 |
| Epichem Pty Ltd | Australia | Ordinary | 100 | 100 |
| PharmAust Health Pty Ltd | Australia | Ordinary | Nil | 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 |

29b Disposal of Controlled Entities

Notes To The Financial Statements
2008

On 7 March 2008, PharmAust Limited put wholly owned subsidiary PharmAust Manufacturing Pty Ltd into administration which resulted in the disposal of the controlled entity. This resulted in a loss on deconsolidation of \$923,267.

| | CONSOLIDATED ENTITY | | PARENT ENTITY | |
|--|---------------------|------|---------------|------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$ | \$ | \$ | \$ |
| Disposal price | Nil | - | - | - |
| Assets and liabilities at disposal date: | | | | |
| Cash | 42,060 | - | - | - |
| Receivables | 477,653 | - | - | - |
| Stock | 600,331 | - | - | - |
| Other current assets | 157,282 | - | - | - |
| Property and equipment | 434,037 | - | - | - |
| Payables(702,695) | - | - | - | - |
| Provisions | (85,401) | - | - | - |
| Net assets written off | 923,267 | - | - | - |

An operating loss of \$1,236,467 after income tax was attributable to the members of the parent entity from 1 July 2007 to the date of disposal.

2007

During February 2007, the parent entity disposed of its 100% interest in Mimotopes Pty Ltd.

Consideration for the sale was 2,150,000 shares in Commonwealth Biotechnologies Inc, which is a NASDAQ listed company.

| | | | | |
|--|-------------|---|-----------|---|
| Disposal price | 5,708,153 | - | 5,708,153 | - |
| Comprised of: | | | | |
| Cash | - | - | - | - |
| 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 | - |

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.

30. AFTER BALANCE DATE EVENTS

Subsequent to the reporting period, the Company successfully completed the sale of its majority investment in Commonwealth Biotechnologies Inc for a sum in excess of AUD\$3,500,000.

SHAREHOLDER INFORMATION

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

SHAREHOLDINGS

On 13 May 2008, ANZ Banking Group Limited lodged a form 603 with the ASX giving notice of becoming a substantial shareholder with 25,795,911 shares and 10.9% voting power arising under transactions entered into pursuant to Australian Master Lending Agreements (AMSLA's).

On 28 July 2008 ANZ Banking Group Limited lodged a form 605 declaring that it had ceased to be a substantial shareholder of the Company

On 29 July 2008, Ramornie Limited lodged a form 603 with the ASX giving notice of becoming a substantial shareholder with 16,111,732 shares and 6.91% voting power.

On 1 August 2008, Peter Vassileff lodged a form 603 with the ASX giving notice of becoming a substantial shareholder with 20,654,569 shares and 8.73% 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 | 183 | 83,624 |
| 1,001 – 5,000 | 290 | 821,386 |
| 5,001 – 10,000 | 181 | 1,506,668 |
| 10,001 – 100,000 | 483 | 20,099,881 |
| 100,001 – over | 217 | 214,031,314 |
| | 1,354 | 236,542,873 |

There were 0 shareholders holding less than a marketable parcel.

Percentage held by 20 largest shareholders is 58.72%.

Shareholder Information

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.

SCHEDULE OF UNLISTED OPTIONHOLDERS

| SPREAD OF HOLDINGS | NUMBER OF HOLDERS | UNITS |
|--------------------|-------------------|-----------|
| 1-1,000 | - | - |
| 1,001-5,000 | - | - |
| 5,001-10,000 | - | - |
| 10,001-100,000 | - | - |
| 100,001-over | 5 | 3,250,000 |
| | 5 | 3,250,000 |

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

SCHEDULE OF UNLISTED OPTIONHOLDERS

| SPREAD OF HOLDINGS | NUMBER OF HOLDERS | UNITS |
|--------------------|-------------------|-----------|
| 1-1,000 | - | - |
| 1,001-5,000 | - | - |
| 5,001-10,000 | - | - |
| 10,001-100,000 | - | - |
| 100,001-over | 5 | 6,500,000 |
| | 5 | 6,500,000 |

Option Details: 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.

TWENTY LARGEST SHAREHOLDERS (as at 29 Aug 2008)

| Rank | Name | Units | % of Issued Capital |
|------|---|-------------|---------------------|
| 1. | MR GRAHAM JAMES DARCY MRS LYNNE CHRISTINE DARCY THE DARCY FAMILY SUPER A/C 14 TUART LANE APPLECROSS WA | 20,000,000 | 8.45 |
| 2 | RAMORNIE LIMITED 8A VISTA MOUNT DAVIS 52 MOUNT DAVIS ROAD POKFULAM HONG KONG | 17,311,732 | 7.31 |
| 3 | SAYERS INVESTMENTS (ACT) PTY LIMITED THE SAYERS INVEST NO 2 A/C C/-JDV LIMITED PO BOX 8555 PERTH BC WA | 13,000,000 | 5.49 |
| 4 | MENZIES LIMITED 4A VISTA MOUNT DAVIS 52 MOUNT DAVIS ROAD POKFULAM HONG KONG | 11,300,000 | 4.77 |
| 5 | NUMBER 7 INVESTMENTS PTY LTD GPO BOX 5458 SYDNEY NSW | 8,750,000 | 3.70 |
| 6 | BRYANT MCLARTY DALKEITH WA 6009 | 8,550,548 | 3.61 |
| 7 | SILKTREE INVESTMENTS PTY LTD PETER VASSILEFF SUPER A/C 10 OWSTON STREET MOSMAN PARK WA | 6,760,158 | 2.86 |
| 8 | CHIMAERA CAPITAL LIMITED LEVEL 4 349 COLLINS STREET MELBOURNE VIC | 5,658,517 | 2.39 |
| 9 | ZACHARIAH INVESTMENTS PTY LTD M A W FAMILY A/C 282 BELGRAVIA STREET CLOVERDALE WA | 5,453,320 | 2.30 |
| 10 | MRS DIANA BARNETT PO BOX 1039 MUDGEES NSW | 5,000,000 | 2.11 |
| 11 | LOTON HOLDINGS PTY LTD THE LEE KAMIL S/F A/C C/- ENTRUST PMS PO BOX 5637 PERTH ST GEORGES TCE WA | 4,944,311 | 2.09 |
| 12 | MR PETER HOWELLS PO BOX 712 NEDLANDS WA | 4,723,810 | 2.00 |
| 13 | MR MARK WAYNE BRADFIELD MRS ABBY BRADFIELD MARK BRADFIELD S/F A/C 282 BELGRAVIA STREET CLOVERDALE WA | 4,700,737 | 1.99 |
| 14 | MR PETER VASSILEFF PITCH INVESTMENTS A/C 62 BAY VIEW TERRACE MOSMAN PARK WA | 4,514,058 | 1.91 |
| 15 | SILKTREE INVESTMENTS PTY LTD VASSILEFF SUPER FUND A/C PO BOX 332 WEST PERTH WA | 3,333,333 | 1.41 |
| 16 | SNOWFALL HOLDINGS PTY LTD C/- 92 HANWORTH STREET BALCATTA WA | 3,333,333 | 1.41 |
| 17 | SILKTREE INVESTMENTS PTY LTD 62 BAY VIEW TERRACE MOSMAN PARK WA | 3,223,132 | 1.36 |
| 18 | CLEO HOLDINGS PTY LTD 22 WILLIAMSON ROAD KARDINYA WA | 3,000,000 | 1.27 |
| 19 | MS NICOLE GALLIN MR KYLE HAYNES GH SUPER FUND A/C 96 ROSALIE STREET SHENTON PARK WA | 3,000,000 | 1.27 |
| 20 | MR GERALD JAMES VAN BLOMMESTEIN MRS GILLIAN VAN BLOMMESTEIN VAN BLOMMESTEIN SUPER A/C 69 CHRYSOSTOM STREET TRIGG WA | 2,420,769 | 1.02 |
| | | 138,977,758 | 58.72 |

Shareholder Information

Top 20 holders of UNL OPTIONS EXP 31/12/08 @ 22C as at 31 August 2008

| 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 29 Aug 2008 | | 6,500,000 | 100.00 |

Top 20 holders of UNL OPTIONS EXP 31/12/08 @20C as at 31 August 2008

| 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 29 Aug 2008 | | 3,250,000 | 100.00 |

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