



PharmAust Limited

ABN 35 094 006 023

Half Yearly Report – December 2007

“Results for announcement to the market”

Result	Change	Amount
Revenue from Ordinary Activities	Down 52%	\$1,630,679
Loss from Ordinary Activities after Tax Attributable to Members	Up 49%	\$3,796,820
Net Loss Attributable to Members	Up 49%	\$3,796,820

It is not proposed that a dividend be declared for this reporting period.

Reporting Period: Half Year Ending 31 December 2007

Previous Reporting Period: Half Year Ending 31 December 2006

This information is given to ASX in accordance with Listing Rule 4.2A.
The information should be read in conjunction with the 2007 Annual Financial Report of the Company.

**PHARMAUST LIMITED
ABN 35 094 006 023
AND ITS CONTROLLED ENTITIES**

**Interim Financial Report
for the half-year ended 31 December 2007**

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DIRECTORS' REPORT AND INTERIM RESULTS FOR SIX MONTHS TO 31 DECEMBER 2007

The directors of PharmAust Limited submit the financial report of the consolidated entity for the half year ended 31 December 2007.

DIRECTORS

The names of the directors who held office during or since the end of the half-year are:

Simon Owen	
Bryant McLarty	
Henry Gulev	
Wayne Best	Resigned 3 August 2007
Paul D'Sylva	Resigned 3 August 2007

INTERIM RESULTS

PharmAust Limited (ASX: PAA) announced a net loss after tax for the six months to 31 December 2007 of \$3,796,820.

A closer analysis of these results shows that the Company's trading activities are approximately \$1 million better than for the same period last year. This is predominantly attributable to the sale of the Mimotopes business, some recent improvement to the operations of PharmAust Manufacturing Pty Ltd and the continued positive development of Epichem Pty Ltd.

This improvement however, has been offset and overshadowed by a significant write-down in relation to PAA's investment in Commonwealth Biotechnologies Inc (CBI), which acquired the Mimotopes business from PharmAust in February 2007 in return for 2,150,000 shares in CBI.

The change to the carrying value of these CBI shares has resulted from a review that has been conducted in light of the Board's greater understanding of the restrictions attaching to the sale of the shares. The Board was not advised of these important sale restrictions at the time of entering the transaction, nor was it made aware of these factors subsequently.

The circumstances giving rise to this situation and the subsequent relationship between the Company, CBI and the Company's former Managing Director will be the subject of further review by the Board.

The revised carrying value has been based upon an indicative off-market offer from an unrelated third party. The offer is currently being considered and negotiated by the Board. In the event that this transaction does not proceed, the Board will again review the carrying value based upon the restrictions that apply to those shares and the ability of the Company to have those restrictions removed.

This factor and the successful raising of urgently required capital has seen the Company's net tangible assets (NTA) per share fall from 6.6 cents to 3.1 cents over the period.

The fall in the NTA per share should be balanced by the fact that PharmAust retains several valuable assets and successfully raised cash prior to the recent upheaval in the financial markets.

As previously stated, the Board has conducted an extensive, detailed assessment of the PharmAust businesses and their prospects. This review is close to being finalised and PharmAust expects to provide the market with further information in the near-term.

The assessment process has involved an investigation of the long-term value and future of all of the Company's assets, with a strong focus on the ability of those assets to create value for shareholders in the current market conditions.

During the period, Epichem Pty Ltd recorded good revenues, with Total Revenue rising by 22% on the same period last year and strong demand for the Company's drug discovery services. Epichem's current facility is now operating at capacity and discussions are currently underway to procure additional laboratory space to allow the Company to continue to grow.

DIRECTORS' REPORT AND INTERIM RESULTS FOR SIX MONTHS TO 31 DECEMBER 2007 (Cont.)

PharmAust Manufacturing Pty Ltd (PAM) also saw revenues increase significantly during the half-year ended December 2007, with Total Revenue rising by 38% compared to the same period last year. In addition, significant cost reductions were achieved during the half, with monthly Net Loss figures decreasing by almost 50% from an average of \$200,000 per month in July, down to below \$100,000 in November and December, allowing for extraordinary items.

PharmAust has also commenced essential and long overdue capital investments in PAM's operational capacity and established a highly competent management team. All of this is consistent with the statements made by the Board at the time of the Rights Issue last year.

It is unfortunate that during the period, significant resources were diverted towards dealing with a number of actions brought about by a group of disaffected Shareholders. These funds and the Board's time could have been deployed far more profitably to the benefit of all shareholders.

PharmAust's consistent advice is that this continued litigation is without legal merit or commercial rationale.

REVIEW OF OPERATIONS

PharmAust Limited (ASX: PAA) is an Australian-owned diversified business focused on the manufacture and distribution of pharmaceutical & healthcare products and the provision of contract chemistry and drug discovery services.

The following is an update in relation to PharmAust's operations for the six months to 31 December 2007.

Epichem Pty Ltd (PharmAust 100%)

Epichem provides contract chemistry services to the drug discovery and pharmaceutical industries, in addition to generating its own intellectual property through various in-house and collaborative research activities.

Epichem recorded good revenues and profits in the six months ending 31 December 2007, with the company experiencing strong demand for both its Discovery Services and Catalogue Sales. Epichem revenues increased significantly during the half-year ended 31 December 2007, with Total Revenue rising by 22% compared to the same period last year.

During the period, three new chemists were employed to cope with the increase in demand, bringing the total number of Epichem staff to 14.

These new positions mean that Epichem's current facility is now operating at capacity. Discussions are currently underway to procure additional laboratory space to allow the company to continue to grow in order to meet this increased demand.

During the period, Epichem was part of a successful grant application to iVEC - a joint venture between CSIRO, Central TAFE, Curtin University of Technology, the University of Western Australia (UWA) and Murdoch University. iVEC provides access to cutting edge high performance computers and visualisation laboratories. Epichem will provide synthetic and medicinal chemistry expertise to support the computational chemistry being undertaken at the universities.

Epichem's research project into new treatments for African Sleeping Sickness is progressing well. The project is a collaboration with Murdoch University and the Centre for Drug Candidate Optimisation with funding provided by the Drugs for Neglected Diseases *initiative*. Recent preliminary studies have shown that Epichem's lead compound is able to cure the disease in mice when given orally.

In November 2007, Epichem's Managing Director, Dr Wayne Best, was invited to present a seminar at the "New Chemical Technologies Workshop" held in Shanghai. The workshop was organised by the University of Sydney and the Shanghai Institute of Organic Chemistry and was sponsored by the Australian Department of Education, Science and Training. Participation was by invitation only with nine speakers from Australia and 10 from China. The title of Dr Best's presentation was "Efficient Production of Analogue Libraries" where he outlined some of the techniques and equipment used at Epichem to synthesise analogue libraries for drug discovery projects.

DIRECTORS' REPORT AND INTERIM RESULTS FOR SIX MONTHS TO 31 DECEMBER 2007 (Cont.)

PharmAust Manufacturing Pty Ltd (PharmAust 100%)

PharmAust Manufacturing (PAM) is a contract manufacturing business focusing on the development and production of low level therapeutic skincare, suncare and toiletry products as well as over-the-counter products for wholesale, retail and public health clients. PAM undertakes this for noble brands, generic suppliers and also manufactures a selection of own-brand products which are distributed through its sales and marketing division, PharmAust Health.

PAM revenues increased significantly during the half-year ended 31 December 2007, with Total Revenue rising by 38% compared to the same period last year.

In addition, significant cost reductions were achieved during the half, with PAM's monthly Net Loss figures decreasing by almost 50% from an average of \$200,000 per month in July, down to \$100,000 in November and December.

During the period, PAM commenced its largest ever order for Natural Instinct, an Australian natural skincare company. PAM's on-going relationship with Natural Instinct is an important element of its improved financial performance and is still to be finalised. This will partly depend on the Company's ability to develop new key products that fit the client's requirements.

A range of other contracts were also secured for a variety of nationally recognised brands to manufacture products including cosmetics, bodycare, cleaning products and pharmacy lines.

Several government tenders were also successful during the period, with PAM securing the contract to supply Lanolin to the NSW health system.

A number of new opportunities are currently under negotiation, including a major new manufacturing partnership with a growing pharmacy buying group.

It is to be noted however, that the business still needs to consolidate further substantial orders of a consistent nature to return to operational profit.

As previously announced, Mr Graeme Kibell commenced as the new CEO of PharmAust Manufacturing. Mr Kibell has strong manufacturing credentials and was most recently General Manager of Manufacturing for a West Australian subsidiary of a global corporation where he was responsible for managing all aspects of manufacturing, logistics, technical and finance.

AUDITOR'S INDEPENDENCE DECLARATION

In accordance with section 307 of the Corporations Act 2001, the Directors have obtained a declaration of independence from RSM Bird Cameron Partners, the consolidated entity's auditors.

This report is signed in accordance with a resolution of the Board.



Simon Owen
Director

Signed at Perth this 29th day of February 2008

PHARMAUST LIMITED
INCOME STATEMENT
For the half-year ended 31 December 2007

	Consolidated	
	31 December 2007 \$	31 December 2006 \$
Revenue	1,630,679	3,390,329
Administration	(1,126,433)	(1,599,349)
Employee benefits expense	(1,354,824)	(2,739,878)
Borrowing costs	(83,419)	(41,036)
Cost of sales	(422,652)	(1,201,508)
Share based payments expense	(13,473)	(43,802)
Depreciation	(190,103)	(315,593)
Share of loss of associate	(735,261)	-
Impairment of investment in associate	(1,501,334)	-
Loss before income tax	(3,796,820)	(2,550,837)
Income tax expense	-	-
Net loss after income tax expense	(3,796,820)	(2,550,837)
Basic loss per share (cents per share)	(2.07)	(2.76)
Diluted loss per share (cents per share)	(2.07)	(2.76)

The accompanying notes form part of these financial statements

PHARMAUST LIMITED
BALANCE SHEET
As at 31 December 2007

Consolidated			
	Note	31 December 2007 \$	30 June 2007 \$
CURRENT ASSETS			
Cash and cash equivalents		1,921,691	272,423
Trade and other receivables		994,016	199,483
Inventories		778,670	478,545
Other assets		153,505	46,178
TOTAL CURRENT ASSETS		3,847,882	996,629
NON CURRENT ASSETS			
Financial assets		2,000	2,000
Investments accounted for using the equity method	2	3,485,178	5,721,773
Property, plant and equipment		3,309,337	3,447,620
TOTAL NON CURRENT ASSETS		6,796,515	9,171,393
TOTAL ASSETS		10,644,397	10,168,022
CURRENT LIABILITIES			
Trade and other payables		1,793,205	607,728
Short-term borrowings		1,376,060	1,434,729
Short-term provisions		145,758	166,544
TOTAL CURRENT LIABILITIES		3,315,023	2,209,001
NON CURRENT LIABILITIES			
Long-term borrowings		-	123,859
TOTAL NON CURRENT LIABILITIES		-	123,859
TOTAL LIABILITIES		3,315,023	2,332,860
NET ASSETS		7,329,374	7,835,162
EQUITY			
Issued capital	3	27,677,614	24,386,582
Reserves		506,035	506,035
Accumulated losses		(20,854,275)	(17,057,455)
TOTAL EQUITY		7,329,374	7,835,162
Net Tangible Assets per share (cents per share)		3.1	6.6

The accompanying notes form part of these financial statements

PHARMAUST LIMITED
STATEMENT OF CHANGES IN EQUITY
For the half-year ended 31 December 2007

	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 period	-	(2,550,837)	-	-	(2,550,837)
Share-based payments	43,802	-	-	-	43,802
Shares issued (net)	2,474,000	-	-	-	2,474,000
Depreciation of revalued assets	-	144,212	(144,212)	-	-
As at 31 December 2006	23,655,657	(18,799,784)	2,797,540	-	7,653,413

	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 period	-	(3,796,820)	-	-	(3,796,820)
Share-based payments	13,473	-	-	-	13,473
Shares issued (net)	3,277,559	-	-	-	3,277,559
As at 31 December 2007	27,677,614	(20,854,275)	-	506,035	7,329,374

The accompanying notes form part of these financial statements

PHARMAUST LIMITED
CASH FLOW STATEMENT
For the half-year ended 31 December 2007

	Consolidated	
	31 December 2007	31 December 2006
	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers	817,046	3,195,000
Payments to suppliers and employees	(2,136,445)	(5,384,429)
Interest received	19,100	9,874
Interest and other costs of finance paid	(55,309)	(41,036)
Net cash used in operating activities	<u>(1,355,608)</u>	<u>(2,220,591)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for plant and equipment	(62,045)	(56,770)
Payments for investments	-	(933)
Net cash used in investing activities	<u>(62,045)</u>	<u>(57,703)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from share issue	3,277,559	2,474,000
Proceeds from borrowings	300,000	-
Payments of borrowings	(510,638)	(62,526)
Net cash provided by financing activities	<u>3,066,921</u>	<u>2,411,474</u>
Net increase in cash held	1,649,268	133,180
Cash at beginning of the financial period	<u>272,423</u>	<u>328,830</u>
Cash at end of the financial period	<u>1,921,691</u>	<u>462,010</u>

The accompanying notes form part of these financial statements

PHARMAUST LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2007

1. BASIS OF PREPARATION OF HALF-YEAR FINANCIAL STATEMENTS

This general purpose financial report for the interim half-year reporting period ended 31 December 2007 has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

Australian Accounting Standards include Australian equivalents to International Financial Reporting Standards (IFRS). Compliance with the Australian equivalents to IFRS (AIFRS) ensures that the financial report, comprising the financial statements and notes of PharmAust Limited, comply with IFRS.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report should be read in conjunction with the annual report for the year ended 30 June 2007 and any public announcements made by PharmAust Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Basis of Preparation

As disclosed in the financial statements, the consolidated entity recorded a loss of \$3,796,820 and a cash outflow from operating activities of \$1,355,608 for the half-year ended 31 December 2007 and at balance date, had net current assets of \$532,859. These factors indicate significant uncertainty whether the consolidated entity will continue as a going concern and therefore whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

The Directors believe after consideration of the above matters, there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable and is a going concern because of the following factors:

- The ability to issue of additional shares under the Corporations Act 2001;
- The potential for sale of the Company's investment in Commonwealth Biotechnologies Inc (CBI). PharmAust Limited currently holds 2,150,000 shares in CBI (refer to note 2 in this financial report); and/or
- The potential for sale of the land and buildings at 71 Division Street, Welshpool.

Accordingly, the Directors believe that the consolidated entity will obtain sufficient funding to enable it to continue as a going concern and that it is appropriate to adopt that basis of accounting in the preparation of this half-year 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 consolidated entity does not continue as a going concern.

PHARMAUST LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2007

2 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	31 December 2007 \$	30 June 2007 \$
Commonwealth Biotechnologies Inc		
Opening balance	5,721,773	-
Acquisition of associate	-	5,708,153
Share of loss of associate	(735,261)	(492,415)
Share of movement in reserves of associate	-	506,035
Impairment loss	(1,501,334)	-
	<hr/>	<hr/>
Closing balance	3,485,178	5,721,773

The carrying value of the CBI shares has been reviewed in light of the Board's greater understanding of the restrictions attaching to the sale of those shares which were not factors which were previously advised to the Board at the time of entering the transaction or subsequently. Consequently the revised carrying value has been based upon an indicative off-market offer from an unrelated third party. The offer is in the process of being considered and negotiated by the Board. In the event that this transaction does not proceed the Board will again review the carrying value based upon the restrictions that apply to those shares and the ability of the Company to have those restrictions removed.

The CBI shares were released from escrow during the half-year and the ultimate realisation of the carrying value of the CBI shares is dependent upon, among other things:

- the successful negotiation for the sale of the shares as mentioned above; and/or
- the successful registration of the shares with the US Securities and Exchange Commission to enable the shares to be traded on the NASDAQ.

3 CONTRIBUTED EQUITY

	31 December 2007 \$	30 June 2007 \$
Issued Capital		
Ordinary shares – fully paid	<hr/> 27,677,614	<hr/> 24,386,582
Movement in ordinary shares on issue	Number	\$
Balance at beginning of period	118,353,939	24,386,582
Rights issue	118,353,939	3,550,618
Directors option expense	-	13,473
Share transaction costs	-	(273,059)
	<hr/>	<hr/>
Balance at end of period	236,707,878	27,677,614

PHARMAUST LIMITED
NOTES TO THE FINANCIAL STATEMENTS
For the half-year ended 31 December 2007

4 DIVIDENDS

There have been no dividends declared or recommended and no distributions made to shareholders or other persons during the period.

5 SEGMENT INFORMATION

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

6 CONTINGENT LIABILITIES

Since the last annual reporting date the Company and its current Board have been the subject of litigation brought by the Company's single largest shareholder, Chimaera Capital Limited and Chimaera CM Pty Ltd in the Federal Court of Australia. Amongst the relief sought by the applicant is an order for damages. The action was initially commenced seeking injunctive relief and failed. The Applicant has nonetheless determined to continue with the proceedings.

All Directors are indemnified by the Company in respect of the actions that they have undertaken in that capacity.

7 EVENTS SUBSEQUENT TO REPORTING DATE

There have not been any matters or circumstances that have arisen since the reporting date, that have 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 future financial periods.

**PHARMAUST LIMITED
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 the Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*;
 - (b) give a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance, as represented by the results of its operations, changes in equity and its cash flows for the half-year ended 31 December 2007.
- 2) At the date of this statement there are reasonable grounds to believe that PharmAust Limited will be able to pay its debts when they become due and payable.

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



Simon Owen
Director

Signed at Perth the 29th day of February 2008

RSM Bird Cameron Partners

Chartered Accountants

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of PharmAust Limited (the consolidated entity) which comprises the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, accompanying notes to the financial statements and the directors' declaration. The consolidated entity comprises both PharmAust Limited (the company) and the entities it controlled during the half-year.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year 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 half-year 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.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of an Interim Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including:

- giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and its performance for the half-year ended on that date; and
- complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

As the auditor of PharmAust Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Liability limited by a
scheme approved under
Professional Standards
Legislation

Major Offices in:
Perth, Sydney, Melbourne,
Adelaide and Canberra
ABN 36 965 185 036

RSM Bird Cameron Partners is an
independent member firm of RSM
International, an affiliation of independent
accounting and consulting firms.



Independence

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

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of PharmAust Limited is not in accordance with the *Corporations Act 2001* including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2007 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

Material Uncertainty Regarding Continuation as a Going Concern

Without qualification to the above conclusion, we draw attention to Note 1 in the financial report, which indicates that:

- (a) during the half-year ended 31 December 2007, the consolidated entity incurred a net loss of \$3,796,820 and a cash outflow from operating activities of \$1,355,608; and
- (b) at balance date the consolidated entity has net current assets of \$532,859.

These conditions indicate the existence of a material uncertainty which may cast significant doubt about the consolidated entity's ability to continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

Material Uncertainty Regarding the Carrying Value of Investments Accounted for using the Equity Method

Without qualification to the above conclusion, we draw attention to Note 2 in the financial report, which states that the carrying value of the company's investment in Commonwealth Biotechnologies Inc. is dependent on factors, the outcomes of which are uncertain at the date of this report.

These matters indicate the existence of a material uncertainty which may cast significant doubt about the carrying value of investments accounted for using the equity method.

RSM Bird Cameron Partners

RSM BIRD CAMERON PARTNERS
Chartered Accountants

D J Wall

D J WALL
Partner

Perth, WA

Dated: 29 FEBRUARY 2008

RSM Bird Cameron Partners

Chartered Accountants

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AUDITOR'S INDEPENDENCE DECLARATION TO THE BOARD OF DIRECTORS OF PHARMAUST LIMITED

As lead audit partner for the review of the financial report of PharmAust Limited for the half-year ended 31 December 2007, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

This declaration is in respect of PharmAust Limited and the entities it controlled during the period.

RSM Bird Cameron Partners.

RSM BIRD CAMERON PARTNERS
Chartered Accountants

D J Wall.

D J WALL
Partner

Perth, WA

Dated: **29 FEBRUARY 2008**