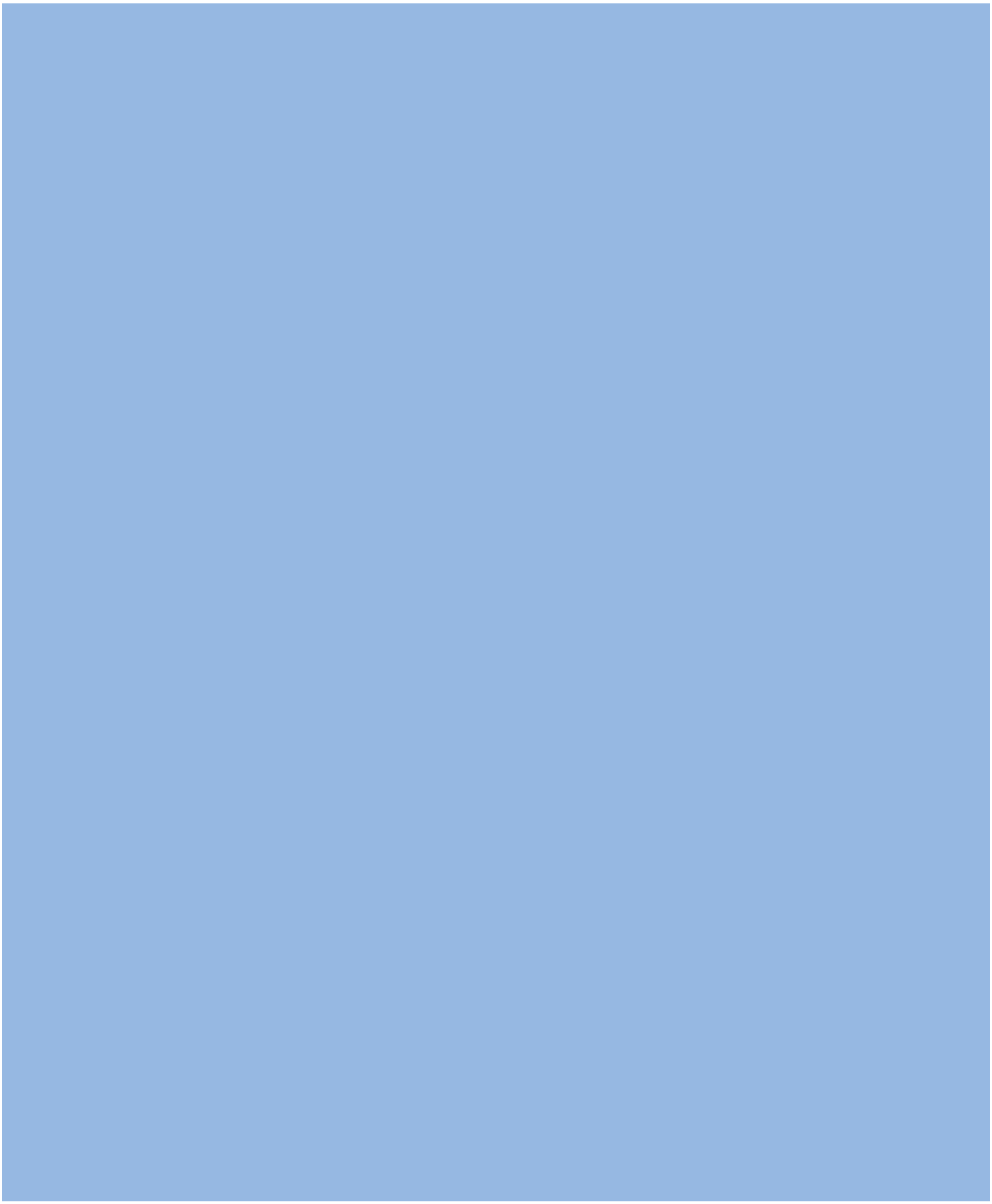
Epitan Limited 2005 Annual Report to Shareholders



Contents

Company profile
Chairman's letter
Managing Director's report
Directors
Management and consultants
PMLE
Review of Operations
- EPT1647 project
- EpiPharm Pty Ltd

Statutory financial section
- Corporate governance statement
- Directors' report
- Financial report and statements
- Directors' declaration
- Independent audit report
- ASX additional information

Glossary
Corporate directory

Epitan Limited ABN 88 089 644 119
Level 13, 1 Collins Street, Melbourne VIC 3000 Australia
Telephone +61 3 9660 4900
Facsimile +61 3 9660 4999
mail@epitan.com.au
investorrelations@epitan.com.au
www.epitan.com

Notice of meeting
The Annual General Meeting
will be held on:
Friday 28 October, 2005 commencing at 10:00am
Venue:
Stamford Plaza Hotel,
111 Little Collins Street, Melbourne 3000
(Edinburgh Room on Level 1)

Company profile

Epitan Limited is a Melbourne-based pharmaceutical company committed to delivering innovative dermatology products. Epitan holds the worldwide rights to develop and commercialise its leading drug candidate EPT1647 and through its wholly-owned subsidiary EpiPharm Pty Ltd markets and distributes a number of in-licensed dermatology products in Australia and New Zealand.

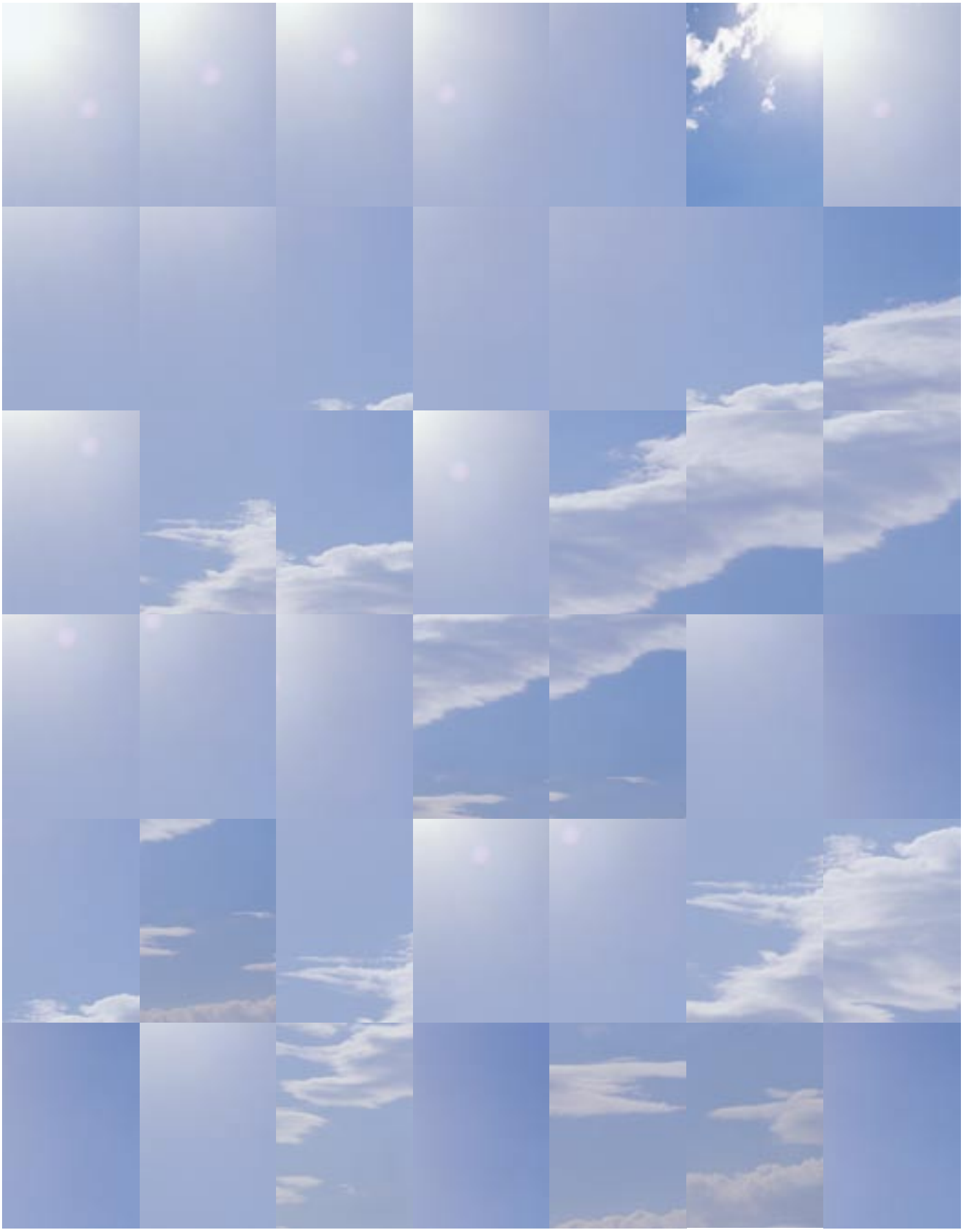
EPT1647 is a photoprotective agent which stimulates the production of eumelanin in the skin. This is achieved through a biochemical process known as melanogenesis which results in the development of a natural tan without the need for exposure to ultraviolet (UV) light. This places Epitan in a pre-eminent position for the treatment of various UV-associated skin diseases and disorders as well as the reduction or prevention of skin damage from UV radiation exposure.

There are many UV-related skin diseases and disorders. Clearly the most prevalent of these in Caucasian populations is sunburn (caused by natural or simulated UV radiation). Repeated sunburn is a precursor to pre-cancerous skin lesions (actinic keratoses) and skin cancers. In addition, there are a number of other idiopathic photodermatoses (UV-related skin disorders with no known cause), the most prevalent of which is Polymorphous Light Eruption (PMLE).

Epitan's first trials of EPT1647 during the period 2001 to 2003 continued those conducted by the originators at the University of Arizona. The first two trials (Phase I & II) primarily focused on investigating the safety profile and the drug's efficacy in preventing/reducing the skin damage associated with UV radiation exposure through the measurement of surrogate markers of sunburn.

Epitan recognises that a route to market via a sunburn indication represents a challenging regulatory hurdle. In 2004, Epitan began examining PMLE as a potential indication, and as a result of encouraging observations in a recent European study, the company has refined its clinical development strategy to focus on PMLE as its first indication.

EpiPharm is a pharmaceutical products business committed to delivering therapeutic solutions for clinicians and their patients through its portfolio of prescription dermatology products. EpiPharm is Australia's only pharmaceutical company dedicated to prescription dermatology products.



Dear Shareholder,

The year was a challenging one for biotechnology companies as positive investor sentiment ebbed away in late 2004.

The company's share price, in line with many of our fellow biotechnology companies, experienced significant volatility and came under sustained pressure in the second half of the financial year.

I am pleased however that in spite of the company's weaker share price, last year was Epitan's busiest to date. In addition to a very active clinical trial program which continued to progress our leading drug candidate, EPT1647, towards commercialisation, we also saw the successful establishment of EpiPharm, Australia's only pharmaceutical company dedicated to prescription dermatology. It is particularly pleasing to have recorded our first revenue from product sales.

As announced recently, I will be stepping down as your Chairman at the conclusion of the AGM in October 2005. Dr Roger Aston, who joined the Board in April 2005, was unanimously voted by your Board to assume the Chairman's responsibility. Roger brings significant corporate and scientific experience at an international level to Epitan at an important time in the development of our leading drug candidate.

As retiring Chairman, I extend my thanks to shareholders for their support.

The year ahead promises to be very exciting with firstly the prospect of the EPT1647 project advancing into Phase III clinical trials as the next step towards commercialisation and secondly EpiPharm maturing into a solid Australian dermatology business.

Dr Wayne Millen
Chairman

Dr Wayne Millen
Chairman

Managing Director's Report

- → Significant progress in EPT1647 – PMLE chosen as initial indication
- → Two international patents filed
- → Excellent results from smaller implant
- → EpiPharm – First product sales
  - Five products in portfolio
  - PBS listing for Exorex®
- → $9.6 million fresh capital
- → Regulatory Affairs Manager appointed

Iain Kirkwood
Managing Director

My key priority as the new Managing Director is to grow Epitan into Australia's leading prescription dermatology business.

To achieve this objective we need to:

i) get our leading drug candidate EPT1647 to market, and

ii) build a speciality pharmaceutical business focused on prescription dermatology

How are we achieving this with EPT1647 and EpiPharm?

Firstly, we have demonstrated in clinical trials that EPT1647 is a photoprotective agent. As such, it has the potential to address a number of UV-related disorders and diseases as shown in the accompanying diagram. These include sunburn, PMLE (a skin disorder which is characterized by recurrent, abnormal reactions to sunlight), actinic keratoses and others. Two clinical trials completed during the year were very successful. Our dose escalation trial led to a significant formulation discovery wherein considerably less drug is required when EPT1647 is delivered in a sustained release manner. This discovery has resulted in a full international patent filing which is likely to provide our strongest intellectual property asset. The results from the study enabled the defining of the minimum effective dose. The new 'final' formulation is expected to be ready in November 2005 for use in the final Phase II and III studies.

The second trial completed was a success in that, following encouraging observations, we took the pragmatic decision to address PMLE as our initial indication for regulatory approval. This does not mean we have abandoned the use of our drug as a preventative agent for skin damage arising from UV exposure (e.g. sunburn). The refinement of our clinical trial strategy recognises that the regulatory challenge for skin damage arising from UV exposure is likely to be more time consuming and therefore costly. All the work we have done to date is very valuable and relevant because it has shown our drug is effective and we have not identified any major safety concerns. Importantly, all the accumulated preclinical and clinical data will be essential to our regulatory application.

There is no cure for PMLE which, as is explained later in this report, represents a significant potential market. Between 3-5% of the population in Australia, approximately 10% of the population in USA and up to 21% of Northern Europeans suffer from PMLE. We also recognise the commercial imperative of getting our drug to market as soon as possible as a photoprotective agent. The PMLE indication affords us that opportunity.

The observations of the Principal Investigators in the European pilot PMLE study indicated the activity of EPT1647 as a photoprotective agent. In choosing PMLE as the primary indication, a clear clinical and regulatory strategy can be defined. The primary endpoints that will need to be met in a Phase III study will be based on a measurable reduction of some or all of the individual symptoms that make up PMLE. Although PMLE has been selected as the first indication for EPT1647, future trials are still planned to widen its potential. These indications may include sunburn, with the clinical endpoint being the reduction in the number of episodes of sunburn in individuals with very fair skin over a summer period, and the reduction of the number of new pre-cancerous lesions (actinic keratoses) appearing in the subject group who are most at risk. There are also many other UV-associated diseases and disorders for which EPT1647 is expected to provide medical benefit.

Secondly, a crucial element of building a self-sustaining business is to ensure a substantial share of EPT1647 revenue is captured by Epitan. Over the past 12 months we have been establishing a business to market and distribute dermatology products in preparation for the launch of EPT1647. This business, formerly Epitan Pharmaceuticals, was renamed EpiPharm in February 2005.

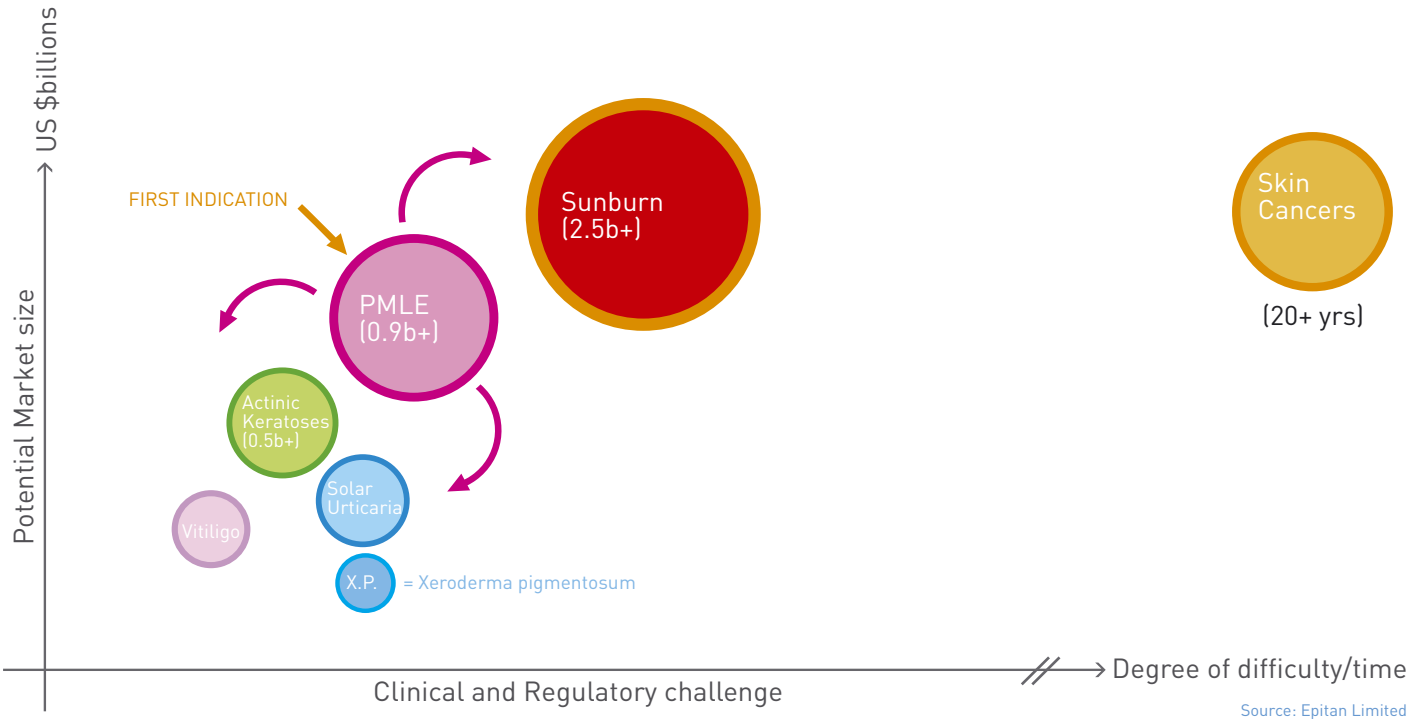
There are many regional pharmaceutical companies with excellent dermatology products which do not find their way to the Australian and New Zealand markets. EpiPharm is

actively exploiting this opportunity. We have built a portfolio of five products and we continue to source other prescription dermatology products that are available in international markets but not in Australia. We are applying strict economic criteria in screening potential drug candidates and consult extensively with our Medical Advisory Panel as well as key opinion leaders and prescribers. On 18th August 2005, Epitan announced that Exorex has been reccommended by the Pharmaceutical Benefits Advisory Committee (PBAC) for Pharmaceutical Benefits Scheme (PBS) reimbursment. Exorex is exclusively marketed in Australia by EpiPharm.
Earlier in the year we attempted to raise sufficient fresh capital on London's Alternative Investment Market (AIM) to ensure the company's drug development program could be properly funded over the next two years. It was unfortunate that market conditions in the UK deteriorated for biotechnology listings. In spite of the excellent investor reception and publicity we received, the capital raising and associated AIM listing had to be suspended. We have since augmented our cash resources with a modest but valuable capital raising.
Dr Dennis Wright joined us in March 2005 in the important position of Regulatory Affairs Manager. Dennis's career spans 24 years in the pharmaceutical industry, including a range of regulatory, clinical research and pharmacovigilance positions with major public companies including Pfizer (Australia) Pty Ltd, CSL Limited and, most recently, Mayne Pharma Pty Ltd, where he was Regulatory Affairs Manager.

In August 2005, Dr Stuart Humphrey, our Clinical Manager retired. Since our clinical trial footprint has now expanded into Europe and we plan to enter the USA, we took the opportunity to appoint ORION Clinical Services. ORION is a clinical development specialist and, with operations in both Europe and USA, is well positioned to assist us in these countries.
The key objectives for the next year include moving EPT1647 into Phase III trials, growing EpiPharm's sales and product portfolio within our resources and continuing to seek corporate partners and opportunities for the USA and European markets.
Finally, the dedication, hard work and contribution of Epitan's employees are exemplary and I thank them all for this loyalty.

- Epitan's primary objective is to bring EPT1647 to the market in the shortest possible timeframe as a prescription photoprotective agent.
- Following the conduct of recent Phase I and II clinical studies, Epitan expects that, in order to complete its primary objective, EPT1647 will be firstly indicated for the prevention or reduction of the clinical symptoms associated with PMLE.
- Epitan's secondary objective is to expand the indications for EPT1647 to include other associated UV-related skin damage that may increase the risk of skin cancer.

Risk Reward ratio of different indications for EPT1647



Source: Epitan Limited

Directors

Director's Biographies

Dr Wayne Millen

BSc (Hons) PhD FRACI C CHEM AFAIM (aged 64), Non-Executive Chairman

Dr Millen founded Epitan Limited. He has a PhD in chemistry and biochemistry from the University of Western Australia and is a Chartered Chemist with over 35 years experience operating his own commercial enterprises.

Dr Millen has extensive experience in venture and development capital investment with an emphasis on companies involved in technological innovation, and has been the lead investor and strategist in several private and listed public companies.

He has established and managed a number of start-up enterprises and brings to the company operational skills embracing corporate, technological and marketing disciplines. Dr Millen's scientific and business experience, along with his entrepreneurial ability, was instrumental in establishing Epitan.

Dr Helmer Agersborg

BS PhD (aged 76), Non-Executive Deputy Chairman

Dr Agersborg is Chairman and President of Melanotan Corp, President of Afferon Corp and a director of Virxsys Corporation. He was formerly President of WyethAyerst Research.

During his 40 years in the pharmaceutical industry, companies under his direction have had more than 50 new drug applications approved in the USA, many Investigational New Drugs (INDs) accepted and many marketing applications approved outside the USA.

Iain Kirkwood

MA (Hons) (Oxon) FCPA FFTP CA MAICD (aged 53), Managing Director and Chief Executive Officer

Mr Kirkwood has over the last 25 years held a range of senior financial positions with major public companies in Australia, the UK and the US, including F.H. Faulding & Co Limited, Santos Limited and Pilkington plc. He was the Chief Financial Officer of F.H. Faulding and Co Limited prior to its acquisition by Mayne Group in 2001.

He is a Chartered Accountant, CPA, former President of the Finance and Treasury Association of Australia and a member of the Institute of Company Directors.

He brings to Epitan extensive financial, commercial and strategic experience.

Mr Kirkwood is also a Non Executive Director of Medical Developments International Limited (ASX:MVP) and Vision Group Holdings Limited (ASX:VGH).

Dr Roger Aston

BSc PhD (aged 49), Non-Executive Director

Dr Aston has more than 20 years experience in the pharmaceutical and biotechnology industries. His previous positions included Director of Cambridge Antibody Technology Limited (UK), Chairman of Cambridge Drug Discovery Limited (UK) (now BioFocus plc), founder and CEO of Biokine Technology Ltd (UK) prior to its acquisition by the Peptech Group, and CEO of Peptech Limited.

Dr Aston is also a founder and CEO of UK-based pSiMedica Limited, and CEO of pSiOncology, the group's joint venture in Singapore. He is a Director of pSivida Limited (ASX:PSD) and an Executive Director of Avantogen Limited (ASX:ACU).

Stanley McLiesh

BEd (aged 68), Non-Executive Director

Mr McLiesh was formerly General Manager, Pharmaceuticals at CSL Limited (ASX:CSL), where he was closely involved in the transition of CSL from government ownership through corporatisation to an ASX listed company.

While at CSL, Mr McLiesh brokered numerous in-licensing agreements with international companies enabling CSL to expand profitably into new markets.

He has also been closely involved in a number of merger and acquisition negotiations, the establishment of partnerships and collaborative relationships and the negotiation of supply agreements for CSL's export products to international markets. Mr McLiesh is a Non-Executive Director of Unilife Limited (ASX:UNI).

Dr Terence Winters

BSc PhD (aged 63), Non-Executive Director

Dr Winters is a Director of four private US-based companies, including Melanotan Corp, and is a Special Limited Partner of Valley Ventures, a US$60 million venture capital fund based in Scottsdale, Arizona, USA.

In 1983, he co-founded, and is a General Partner of, Columbine Venture Fund, which has invested over US$125 million in life science and technology companies in the Western USA. Successful companies from the fund have included Orthologic Corp (NASDAQ:OLGC), CollaGenex Pharmaceuticals, Inc. (NASDAQ:CGPI), Nanophase Technologies Corporation (NASDAQ:NANX), Curis, Inc (NASDAQ:CRIS), Neogen Corporation (NASDAQ:NEOG) and Microgenics Corporation (acquired by Boehringer Mannheim in 1992).

Management and Consultants

Iain Kirkwood

MA (Hons) (Oxon) FCPA FFTP CA MAICD,
Managing Director and Chief Executive Officer

Mr Kirkwood has over the last 25 years held a range of senior financial positions with major public companies in Australia, the UK and the US, including F.H. Faulding & Co Limited, Santos Limited and Pilkington plc. He was the Chief Financial Officer of F.H.Faulding & Co Limited prior to its acquisition by Mayne Group in 2001.

He is a Chartered Accountant, CPA, former President of the Finance and Treasury Association of Australia and a member of the Institute of Company Directors.

As such, he brings to Epitan extensive financial, commercial and strategic experience.

Mr Kirkwood is currently also a Non Executive Director of Medical Developments International Limited (ASX:MVP) and Vision Group Holdings Limited (ASX:VGH).

Davina Gunn

BA (Hons),
Manager Investor Relations and Marketing

Davina was Vice-President, HSBC Securities for four years, based in London and New York. She was initially an analyst then joined the Institutional Equity sales desk advising a wide range of Fund Managers and Hedge Funds across all sectors. Her experience in the financial markets of Europe, USA and Australia make her well suited to her role in Investor Relations and Marketing.

Dr Stuart Humphrey

BSc (Hons) PhD,
former Manager Clinical Development
(retired August 2005)

David Iles

BCom CPA,
Group Accountant and Company Secretary

David has worked in New Zealand, Papua New Guinea and Australia in a variety of accounting roles in diverse businesses. He ran his own accounting practice for six years providing accounting and taxation services for small businesses.

David is responsible for all management and statutory accounting and secretarial services.

Michael Kleinig

BAppSc (Chem/Bio),
Project Manager, EPT1647

Michael has broad experience in project management, process development (from research scale through to commercial scale), immunology and protein chemistry.

He was formerly a Senior Research Scientist at CSL Limited where he was employed for 15 years, working in research and development in both the Pharmaceutical and Bioplasma divisions. He graduated from Swinburne Institute of Technology with a double major in Applied Chemistry and Biochemistry.

His primary responsibilities at Epitan are to manage the EPT1647 project as well as to investigate new delivery methods for EPT1647 and secure a suitable commercial scale manufacturer of the synthetic peptide.

Chris Rossidis

BSc,
Manager Pharmaceutical Products

Chris has broad experience of the pharmaceutical industry after spending 15 years in sales, marketing and business development roles at Eli Lilly Australia, GlaxoSmithKline Australia and latterly CSL.

As CSL's Business Development Manager, he was responsible for supporting CSL's growth through identifying and evaluating new prescription medicines.

He is primarily responsible for the establishment and development of a dermatology products business in Australia and New Zealand, through sourcing and in-licensing a range of products within the field of dermatology.

Dr Dennis Wright

BPharm MSc PhD, Manager Regulatory Affairs

Dennis has a broad range of experience in the pharmaceutical industry spanning nearly 25 years.
He spent more than 17 years at CSL working predominantly in regulatory affairs with nearly a decade as Regulatory Affairs Manager. During this time Dennis was responsible for the registration of a number of key products in Australia and the management of regulatory strategy for development projects. Most recently he was Pharmacovigilance and Regulatory Affairs Manager for the Australian and New Zealand operations of Mayne Pharma (ASX:MAY). He has a Pharmacy degree and post-graduate qualifications from University of Sydney and Health Economics qualifications from Monash University, Melbourne.
Dennis is responsible for all regulatory matters and progressing EPT1647 through to marketing approval in Australia, New Zealand and internationally. He is also responsible for obtaining registration for newly acquired and in-licensed dermatology products.

Consultants

Dr Alan Irvine

Medical Director, ORION Clinical Services

Dr Alan Irvine graduated in medicine then specialised in anaesthetics prior to entering the pharmaceutical industry in 1983. From 1984 to 1988 he was Head of Clinical Research with Sanofi UK. In 1988 he was promoted to Head of International Clinical Development with Sanofi Research based in France. In 1989 he moved to Laboratories Fournier where he held the position of Director of Development and Regulatory Affairs with responsibilities encompassing the US, Japan and Europe. His pharmaceutical experience covers diverse therapeutic areas.
Since returning to the UK in 1997, Dr Irvine co-founded ORION Clinical Services with Dr Fabrice Chartier. ORION Clinical Services is a full service Contract Research Organisation with offices in Europe, North America and Australia providing full clinical development and regulatory support to ethical pharmaceutical and biotechnology companies. ORION Clinical Services has activities in 24 countries worldwide.
Dr Irvine serves on several DSMBs and Safety and Efficacy Monitoring Boards and is a member of the Medical Committee of the Association of the British Pharmaceutical Industry.

Dr Perry Robins

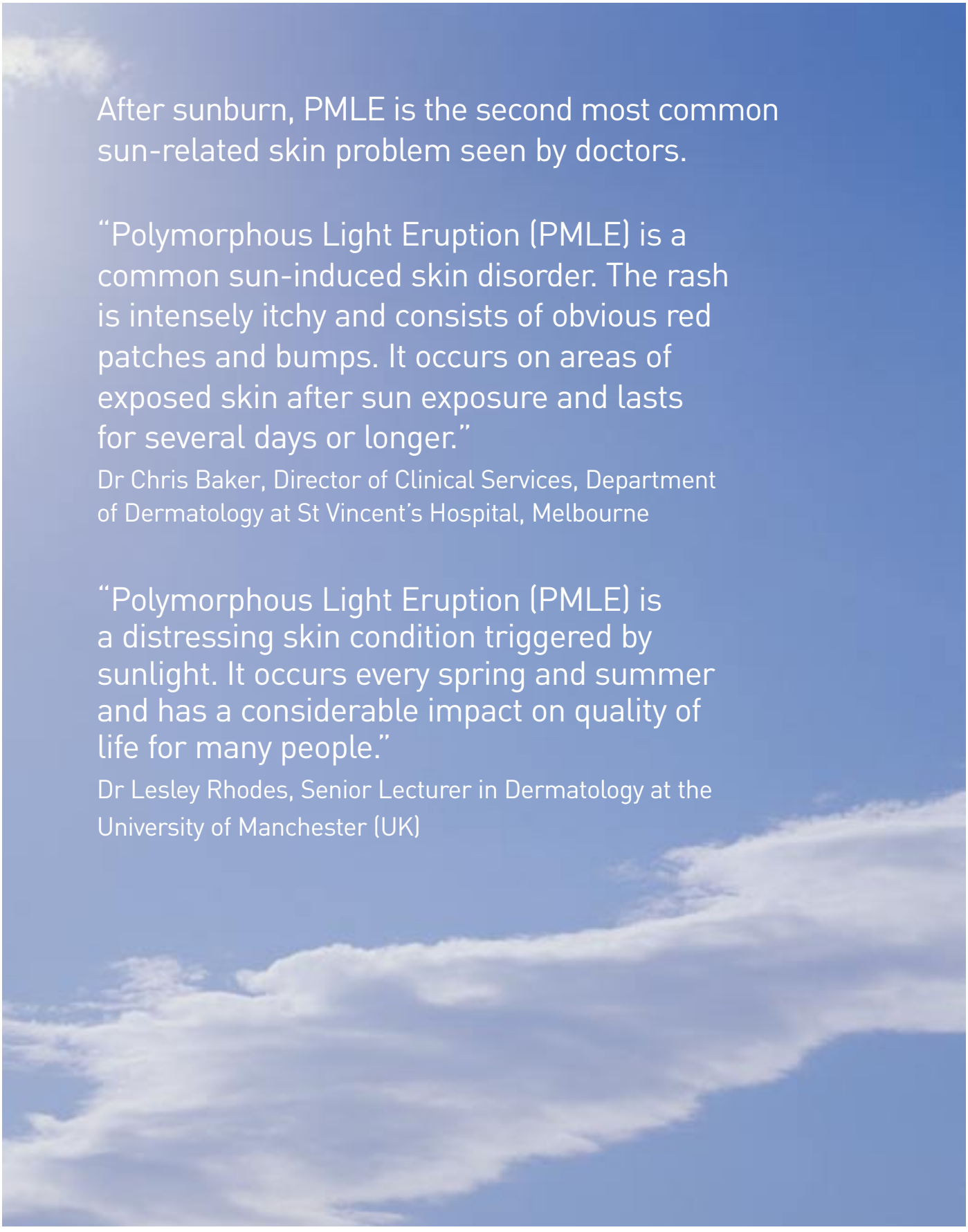
Medical Advisory Consultant

Dr Perry Robins is a New York-based skin cancer specialist. He is a Professor of Dermatology and Chief of the Mohs Micrographic Surgery Unit at New York University Medical Centre. Dr Robins joined Epitan in February 2004 as a Medical Advisory Consultant to facilitate the expansion of Epitan's clinical trials into the US and Europe.
Dr Robins has practised medicine for more than 35 years, treating more than 40,000 skin cancer patients. As an accomplished educator in his field, Dr Robins has trained 60 doctors from around the world who are now leaders in dermatology and skin cancer care, and he has lectured in 34 countries. At present, he performs more than 1,000 surgical procedures annually and conducts training workshops for his peers in advanced techniques of dermatological surgery.
Dr Robins is founder and President of the Skin Cancer Foundation, an international organisation dedicated to skin cancer research and education. The advisory board and medical councils of the Skin Cancer Foundation comprise more than 144 leading international physicians who are distinguished members of the scientific and medical communities and members of the business and professional sectors.
Dr Robins is also the founder and President of the International Society of Dermatologic Surgery, founder/former President of the American College of Mohs Micrographic Surgery and former President of the American Society of Dermatologic Surgery.

Dr Ella Toombs

Regulatory Advisory Consultant

Dr Ella Toombs was a dermatology specialist with the US Food and Drug Administration (FDA) for 13 years, most of these in the FDA Division of Dermatologic Drugs. During this time Dr Toombs reviewed numerous IND proposals for novel drug applications and traditional dermatologics. Her primary focus is to assist Epitan prepare its Investigational New Drug (IND) application for EPT1647. Dr Toombs is the Washington DC representative on the advisory Board of Dermatology and a member of the National Medical Association and American Association of Pharmaceutical Physicians.
She is currently a consultant in private practice specialising in aesthetic dermatology.



After sunburn, PMLE is the second most common sun-related skin problem seen by doctors.

"Polymorphous Light Eruption (PMLE) is a common sun-induced skin disorder. The rash is intensely itchy and consists of obvious red patches and bumps. It occurs on areas of exposed skin after sun exposure and lasts for several days or longer."

Dr Chris Baker, Director of Clinical Services, Department of Dermatology at St Vincent's Hospital, Melbourne

"Polymorphous Light Eruption (PMLE) is a distressing skin condition triggered by sunlight. It occurs every spring and summer and has a considerable impact on quality of life for many people."

Dr Lesley Rhodes, Senior Lecturer in Dermatology at the University of Manchester (UK)

What is PMLE?

PMLE is a skin disorder which is characterised by recurrent, abnormal delayed reactions to sunlight. It is the most common of the idiopathic photodermatoses. Photodermatoses are skin changes, i.e. rashes, induced by ultraviolet light. With no cure, PMLE represents a significant unmet medical need with sources estimating that there are 100 million sufferers worldwide. Sometimes known as sun poisoning, the cause is unknown but PMLE is a common reaction to sunlight (ultraviolet light) that occurs in light-sensitive individuals. After sunburn, PMLE is the second most common sun-related skin problem seen by doctors.

Symptoms and Causes

Common symptoms of PMLE include non-scarring, itchy, red papules, vesicles or plaques on skin exposed to light. These symptoms usually occur within the period between 30 minutes and two hours after sun exposure. Symptoms may resolve within hours or remain for up to two weeks. The etiology of the disorder is unknown, however it is likely to involve or be dependent upon UV radiation and other factors. What is known is that PMLE most often occurs in the spring/summer months. Presentation of the disease during the winter months has not been quantified, however it is suggested that patients who have PMLE symptoms during winter often have more severe outbreaks during summer. Lesions most often occur on seasonally covered areas as they begin to be exposed to sunlight, usually during spring. During summer, as the skin becomes more exposed to the sun, frequently exposed areas may become hardened to the effects of sunlight, resulting in a decrease of lesions in these areas.

Prevalence

PMLE is most common in temperate climates where there are distinct changes between seasons. It is reported to affect 15% of the UK and European populations, including approximately 21% of people in Sweden.[1, 2, 3] Approximately 10% of the US population and 3-5% of the Australian population also suffer from PMLE.[2,3]

Treatment Options

While several treatments are available for PMLE, there is no cure. Prophylactic therapy such as avoiding sunlight, wearing protective clothing and using broad spectrum sunscreens remains a key factor in the care of patients with PMLE. Other preventative treatment options include controlled exposure to UV light (phototherapy) at the beginning of spring for several weeks to prevent flare-ups throughout the summer and oral corticosteroids in conjunction with phototherapy to avoid eruption during therapy. Topical corticosteroids, antihistamines, antimalarial medication and beta-carotene are often used if preventative measures have failed.[3]

References:
[1] Tutrone WD, Thornton Spann C, Scheinfeld N, Deleo VA, Polymorphic Light Eruption, Dermatologic Therapy, Vol 16 (2003), pg 28 – 29.
[2] Pao C, Norris PG, Corbett M, Hawk JLM, Polymorphic light eruption: prevalence in Australia and England, British Journal of Dermatology, 130 (1994), pg 62 - 64
[3] Shirin S, Polymorphis Light Eruption, eMedicine (2005), Department of Dermatology, University of California, Irvine Medical Centre, (www.emedicine.com/derm/topic342.htm)

Review of Operations

EPT1647 (formerly MELANOTAN™) Project

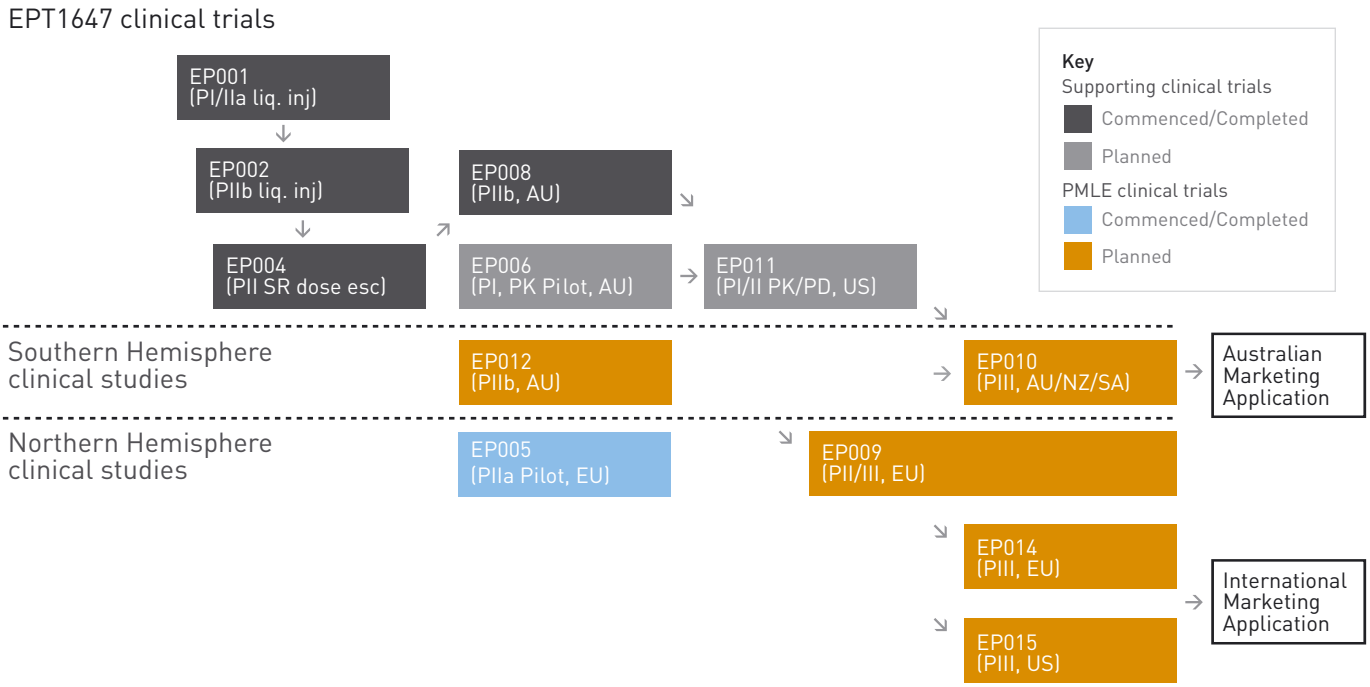
From June 2005, Epitan chose to use EPT1647 as the new non-proprietary name for Epitan's MELANOTAN™ to avoid confusion with other chemicals such as MELANOTAN-II (or MT-II) and melatonin (the jet-lag related drug).
A number of media articles have confused MELANOTAN™ with these chemicals and Epitan recognises that this could be detrimental from a regulatory and commercial perspective.
MELANOTAN™ is still Epitan's brand name for [Nle^4, D-Phe^7] -α-MSH.

Background/History

EPT1647, a synthetic peptide, stimulates the body to make eumelanin, the dark pigment of the skin which is known to have photoprotective effects on the skin from exposure to both UV-A and UV-B radiation. Simply, EPT1647 is a photoprotective agent that acts by increasing the levels of eumelanin in the skin without the need to expose it to UV radiation.
Work on the development of EPT1647 and the peptide family to which it belongs dates to the mid-1980s when a group of scientists at the University of Arizona developed more potent and stable forms of the naturally occurring hormone, α-MSH. This hormone was known to be produced on exposure to sunlight and to be responsible for the development of eumelanin, the natural pigment in the skin. However, α-MSH has a short half-life in the body and would not have been suitable to use as a drug to induce eumelanin production. Professor Victor Hruby, a noted peptide chemist, set out to create analogues of α-MSH to investigate whether molecules could be found that duplicated its action, were more stable in the bloodstream and were more potent than the naturally occurring hormone. After synthesising hundreds of molecules, the compound which is now known as EPT1647 was selected for further development.
Preliminary clinical trials to demonstrate enhanced eumelanin production in human skin were carried out by Dr Norman Levine, a dermatologist, under a physician's IND program in Arizona, USA. Initial results showed that EPT1647 stimulated eumelanin production in the volunteers in the same way as UV naturally increases eumelanin and persisted for a similar time. The results were published in the Journal of the American Medical Association in 1991 (vol. 266, 2730-6) and this was the first demonstration of a stable drug candidate that could increase eumelanin production in human beings.
In 1999, Epitan in-licensed the worldwide exclusive rights to develop and commercialise EPT1647. The development of EPT1647 has progressed to the point where the planning for Phase III trials is underway and first in market sales are planned for 2008.

Clinical Trial Summary
EP004 – Phase II dose-escalation study (completed December 2004)

This Phase I/II dose escalation trial was conducted at Q-Pharm, based at the Clive Berghofer Cancer Research Centre in Brisbane, Queensland. The key objective of this trial was to confirm the optimal dose for the sustained release implant, as well as its safety and efficacy. The study, which started in November 2003, compared blood levels, safety and efficacy of different levels of EPT1647 administered subcutaneously. The initial sustained release dose, which was expected to be the no-effect dose, proved to be highly efficacious. As a result of this discovery Epitan announced on 14 February 2005 that it had filed a full international patent application covering these discoveries. The patent was filed to protect the use of EPT1647 in all anticipated sustained release delivery formulations, including implant, topically, orally or others. Epitan's intellectual property counsel confirmed that if this patent application is granted, Epitan is likely to have 20 years of commercial exclusivity for EPT1647 in sustained release delivery methods. The dosing study resumed in July 2004 with a new significantly smaller solid injectable implant. The solid injectable formulation is made from the same material as used in self-dissolving stitches, is biodegradable and does not have to be removed at the end of the treatment. Thirty volunteers in total received an implant in this trial. Two cohorts of three subjects received the larger original "high dose" implant and four cohorts of six subjects received the newly developed smaller "low dose" implant. During the trial, a significant increase in skin pigmentation was observed at the two highest dose levels. The trial was completed in January 2005 and safety and tolerability were found to be markedly improved compared to the original daily bolus liquid injection used in earlier studies (2001–2003). There were no serious adverse events. In summary, these results were very encouraging as the maximum increase in eumelanin achieved in this EP004 trial was approximately double that observed in EP002 (completed in 2003).
Data collected in this trial contributed to a predictive model developed by Professor Allan Evans and colleagues at the University of South Australia's Centre for Pharmaceutical Research. This model assisted in the development of a clinically effective formulation of EPT1647. Epitan has commenced development of a final implant to be used in Phase III trials which are expected to commence in 2006.



EP005 – Phase II proof of concept study (completed June 2005)

During the European spring of 2005, a PMLE trial was conducted in Germany, Finland and Denmark. The study was designed to evaluate the effectiveness of a sustained release implant of EPT1647 on preventing the recurrence of an artificially provoked PMLE syndrome and involved 18 subjects (13 active / 5 placebos). This pilot trial was scheduled for the European spring when people's natural eumelanin levels are at their lowest. Significantly for Epitan, this was the first European trial of EPT1647.

The trial was conducted at the Skin Clinic in Düsseldorf, Germany (Professor Norbert Neumann), Turku University Central Hospital, Finland (Professor Christer Jansén) and the Department of Dermatology, Bispebjerg Hospital, Copenhagen, Denmark (Professor Hans Christian Wulf). All three investigators have significant dermatological experience in PMLE and have published peer-reviewed articles on the subject.

In July, the company reported that the Principal Investigators observed that some patients studied had experienced a therapeutic benefit from the drug. At one hospital it was noted that two patients who would normally have had severe PMLE reactions on exposure to UV on their faces did not experience any such reactions following EPT1647 treatment.

Some of the observations were not recorded as part of the trial protocol but were reported separately during follow-up visits to the Principal Investigators. The release of the final report of the pilot PMLE study has been extended by two months to incorporate these supplementary observations and the final report from the study is expected in October 2005.

EP006 – Phase I/II supporting study (scheduled)

This is a Phase I/II study to confirm the pharmacokinetics of the commercial formulation of a sustained release solid dose implant of EPT1647 prior to its use in a Phase III trial. This will be the first clinical use of the formulation derived from the results of the dose escalation clinical study EP004.

The Principal Investigator will be Associate Professor Robert Milne, University of South Australia, School of Pharmacy and Medical Sciences, Adelaide, South Australia.

Volunteers are expected to be recruited in December 2005 / January 2006 and the study is scheduled to take four months with a final report expected in mid 2006.

Review of Operations

EP007 – Phase I/II formulation study (scheduled)

A Phase I/II clinical trial for a newly developed topical spray-on formulation for EPT1647 is scheduled to begin in London later in 2005. Approval was obtained from the UK's regulatory agency – The Medicines and Healthcare products Regulatory Agency (MHRA). MHRA is the UK equivalent of Australia's Therapeutic Goods Administration (TGA) and the USA's Food and Drug Administration (FDA). The trial is being conducted at the William Harvey Research Institute based at St Bartholomew's & The Royal London School of Medicine and Dentistry in London. Up to 30 healthy volunteers will receive increasing doses of EPT1647 in this spray-on formulation. This will be the first human trial for a topical formulation of EPT1647. If successful, the spray-on formulation may be a second generation product for EPT1647 following the sustained release implant.

The study is scheduled to take six months to complete and the final report is expected to be available in mid 2006.

EP008 – Phase II study (commenced May 2005)

This Phase II trial is designed to measure the photoprotective effects of EPT1647 on skin from UV radiation using a single subcutaneous injection of a solid dose implant. The Principal Investigator is Professor Ross Barnetson, Head of Dermatology at the Royal Prince Alfred Hospital, Sydney. Forty-eight (includes 24 placebo) healthy male and female fair-skinned Caucasian volunteers aged between 18 and 65 are expected to be recruited.

The study will measure the increase in eumelanin in the skin over a 12 week period across six anatomic sites as determined by melanin density. It will also determine the change in erythema (reddening of the skin) index at monthly intervals over the 12 week period. Erythema is one of the main exaggerated symptoms of PMLE sufferers. This endpoint defines the increased protection of the skin to UV radiation attributed to increased levels of eumelanin – similar to the successful Phase II study (EP002). Another important aspect of the study is to continue to determine the relationship between the types of MC1-receptor of each subject versus their response to EPT1647. It is known that people with certain receptor variations are potentially more susceptible to UV-induced skin damage.

The first volunteers were recruited in June 2005 and the study is scheduled to take ten months to complete. The final report is expected to be available in June 2006.

EP009 – Phase II/III efficacy study (planned)

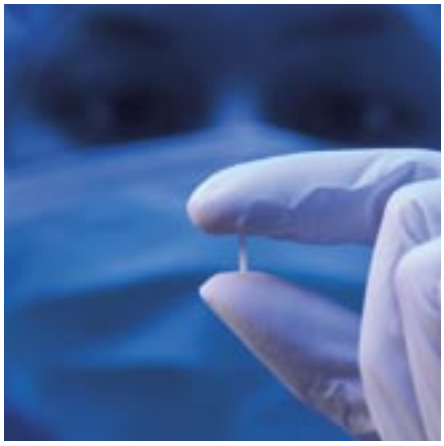
This will be a double-blind, randomised, placebo controlled Phase II/III study to evaluate the safety and efficacy of subcutaneous implants of EPT1647 in patients suffering from recurrent PMLE. The primary objective is to determine whether EPT1647 implants given prophylactically can prevent or reduce the occurrence of symptoms of PMLE during the European spring/summer periods of 2006 and 2007.

EP012 – Phase II efficacy study (scheduled)

This study will be performed at the St Vincent's Hospital, Melbourne and is scheduled to start in late September 2005. This will be a double-blind, randomised, placebo-controlled Phase II study to evaluate the safety and efficacy of a single subcutaneous implant of EPT1647 in patients suffering from recurrent PMLE. The investigators are Dr Christopher Baker and Dr Peter Foley from the Department of Medicine (Dermatology), St Vincent's Hospital, Melbourne. The primary objective is to determine whether EPT1647 implants given prophylactically can prevent or reduce the occurrence of symptoms like urticaria, vesiculation, papules, eczema, erythema, burning and itching associated with PMLE.

This study will be conducted under natural environmental conditions during a period when PMLE symptoms are generally observed by the patients in the study.

The study is scheduled to take eight months to complete and the final report is expected to be available in August 2006.



Pharmaceutical Development

A final sustained release implant which is to be used in future Phase II and III trials is currently in the final stages of development. The results of the dose escalation clinical trial, EP004, were used to determine the final specifications for this implant. A full international patent was filed in February 2005 incorporating discoveries made surrounding the increased efficacy of the drug when delivered in a sustained manner at levels significantly lower than the previously established minimum efficacious dose. The commercial formulation, based on these results, is expected to be completed and ready for manufacture for clinical trials in late 2005.

Research work continues with pSivida Limited's UK-based subsidiary pSiMedica investigating a liquid sustained release formulation which is a modified form of silicon (porosified or nanostructured silicon) known as BioSilicon™. A proof of principle in vivo study was conducted at the Institute of Medical and Veterinary Science in Adelaide, South Australia, which indicated that this liquid sustained release technology successfully released EPT1647 over a sustained period. Further development work is now continuing prior to the commencement of clinical trials.

Development of topical formulations has also continued over the past 12 months. The Phase I/II clinical trial in London heralds the move towards possible second generation products. The spray-on topical formulation dose escalation study scheduled to begin later in 2005 is being conducted at the William Harvey Research Institute based at St Bartholomew's & The Royal London School of Medicine and Dentistry in London. Further preclinical work has also been achieved with the Restoraderm® technology, licensed from CollaGenex.

During the year, the company concentrated all its EPT1647 supporting preclinical development work at the Institute for Medical and Veterinary Sciences (IMVS) in Adelaide, South Australia. All work previously conducted at Monash University, Melbourne, Victoria was transferred to IMVS during the year.

The processes involved in manufacturing the drug substance are being validated at pilot scale in preparation for Phase III and commercial scale manufacturing. These processes are being conducted in compliance with cGMP guidelines.

Review of Operations

EpiPharm Pty Ltd

A crucial element of building a self-sustaining business for our shareholders is for Epitan to market and distribute EPT1647 in Australia and New Zealand when registration is achieved. Epitan has been establishing a business to market and distribute in-licensed dermatology products in preparation for the future launch of EPT1647.

There are now five products in the EpiPharm portfolio. The in-licensing of other dermatology products is under active evaluation with the assistance of an Australian Medical Advisory Panel of eminent dermatologists. These dermatologists provide expert and practical medical advice for the identification and screening of potential in-licensing drug candidates particularly from international pharmaceutical companies which do not have operations in the region.

EpiPharm's portfolio includes products for the treatment of psoriasis (Exorex®, ZORAC®), acne (ZORAC®, Zindaclin®), eczema (Linotar®) and mouth ulcers (OraDisc™ A).

EpiPharm's Product Portfolio

Exorex®

Exorex is a novel formulation of 1% prepared coal tar used for the treatment of psoriasis. Coal tar is recommended by dermatologists as a first-line treatment for psoriasis. Exorex's patented emzaloid delivery system is a highly effective transdermal carrier of coal tar. Clinical trials have demonstrated that Exorex has improved clinical efficacy compared with conventional coal tar products.
Exorex is available by prescription from GPs and dermatologists. It has received a positive recommendation from the Pharmaceutical Advisory Committee and is expected be listed on the Pharmaceutical Benefits Scheme from December 2005. Under this scheme, the cost of Exorex will be subsidised by the Commonwealth Government.

ZORAC®

EpiPharm has licensed the Australian sales and marketing rights of ZORAC (tazarotene) Cream and Gel 0.1% and 0.05% from Allergan, Inc. ZORAC Cream and Gel are used for the topical treatment of acne and psoriasis. The products are available in the USA under the names of TAZORAC® (tazarotene) Cream and TAZORAC Gel, and have been approved by the Therapeutic Goods Administration (TGA) in Australia. ZORAC Cream and Gel come from a product class called topical retinoids. ZORAC is the latest product in this drug class to be made available in Australia. Australian psoriasis and acne patients will now have access to ZORAC which has been used successfully in international markets for many years.

Zindaclin®

Zindaclin, a product licensed from ProStrakan Group plc (formerly Strakan International Limited), is a once-a-day clindamycin-based gel for the treatment of acne. It has a unique patented intra-dermal delivery system called ResiDerm®, which is designed to enhance the penetration and retention of topically applied drugs in the skin.
The Zindaclin gel formulation provides an elegant, stable, ready to use product which is cosmetically pleasing for the patient. In addition, there is no need for special storage or mixing with Zindaclin unlike other clindamycin-based products available for the treatment of acne.
Zindaclin is currently being evaluated for registration by the TGA.

EpiPharm's Product Portfolio

Linotar®

Linotar is a coal tar preparation that has been developed specifically to help manage and relieve the symptoms of eczema. It is prepared using a unique method that makes it very different from other tar preparations. Linotar has less odour and is less likely to stain skin, clothes or bedding than other coal tars. Linotar can also reduce the skin inflammation and itch that occur in eczema.
Linotar is available from pharmacies.

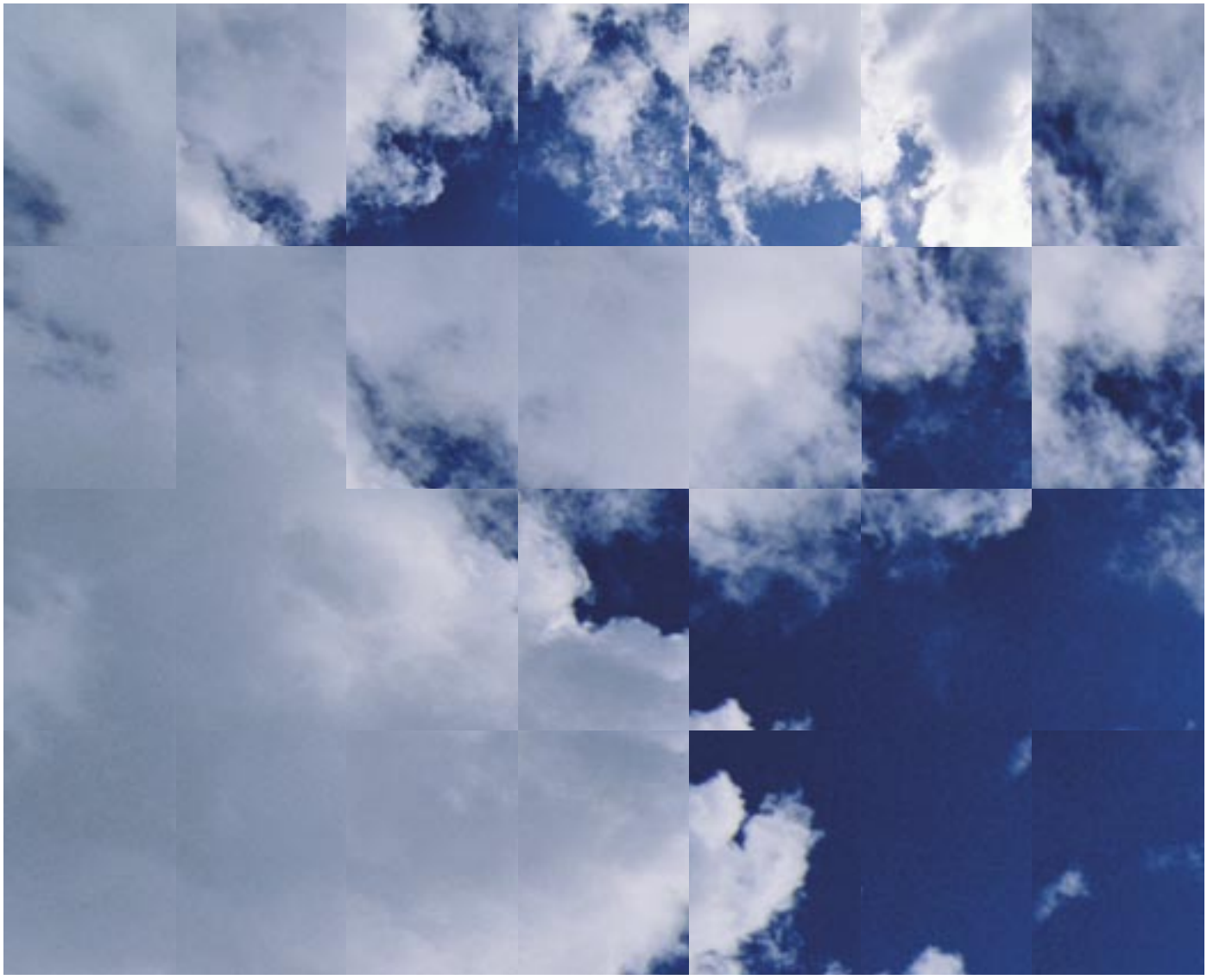
OraDisc™ A

OraDisc A (in-licensed from Access Pharmaceuticals, Inc) is a clinically proven product that accelerates the healing of mouth ulcers. It is a microadhesive patch which gradually erodes and releases amlexanox when applied to the ulcer. This offers a significant efficacy advantage over the currently available gel formulations where little of the active ingredient remains on the ulcer.

Financial Report for year ended 30 June 2005

Index

22. Corporate Governance Statement
27. Directors' Report
34. Statement of Financial Performance
35. Statement of Financial Position
36. Statement of Cash Flows
37. Notes to the Financial Statements
57. Directors' Declaration
58. Independent Auditors Report
61. ASX Disclosures



CORPORATE GOVERNANCE STATEMENT

Corporate Governance

EPITAN LIMITED'S CORPORATE GOVERNANCE IS THE SYSTEM BY WHICH THE COMPANY IS DIRECTED AND MANAGED. IT IS THE FRAMEWORK WITHIN WHICH:

- the Epitan Ltd board of directors is accountable to shareholders for the performance of the company;
- the company's strategic direction is set;
- the risks of business are identified and managed;
- Epitan Ltd's values and behaviour underpin the way it does business.

This statement outlines the main corporate governance principles and practices of Epitan Ltd and is organised under headings based on the Australian Stock Exchange Corporate Governance Council's (ASXCGC) 10 Essential Principles of Good Corporate Governance and Best Practice Recommendations, dated 31 March 2003. The company's charters and policies were comprehensively reviewed and updated in April 2005.

Charters and policies referred to are available on Epitan Ltd's internet site (www.epitan.com).

THE BOARD IS ACCOUNTABLE TO SHAREHOLDERS FOR THE PERFORMANCE OF EPITAN LTD

Epitan Ltd's shareholders appoint the company's directors and hold them accountable for the performance of the company.

Epitan Ltd has a board of effective composition, size and commitment to discharge its responsibilities and duties (ASXCGC principle 2).

The Epitan Ltd Board Charter prescribes the structure of the board and its committees, the framework for independence and some obligations of directors.

SIZE AND COMPOSITION OF THE BOARD

The board comprises five non-executive directors and one executive director – the Managing Director. Information about directors is on page 27 and 28.

The board keeps under review the balance of skills and experience of its members, their independence and access to advice and information.

DIRECTORS' INDEPENDENCE AND DEALING WITH CONFLICT OF INTEREST

Two of the five non-executive directors, Dr Aston and Mr McLeish, are independent of Epitan Ltd and its management, having no business or other relationships that could compromise their autonomy as a director. Dr Millen, the Chairman, is not deemed to be independent as he is both a substantial shareholder and a former Managing Director. Drs Agersborg and Winters are directors of Melanotan Corporation Inc which was until June 2005 a substantial shareholder. Furthermore Melanotan Corporation is the licensor of the Melanotan Technology to Epitan Ltd. The board's framework for determining director independence is included in the Board Charter. The impact of any past or present relationship with the company on a director's ability to exercise independent judgement is carefully assessed.

If a potential conflict of interest arises, the director concerned does not receive the relevant board papers and leaves the board meeting while the matter is considered. Directors must advise the board immediately of any interests that could potentially conflict with those of Epitan Ltd.

Directors may obtain independent professional advice at Epitan Ltd's expense on matters arising in the course of their board and committee duties, after obtaining the Chairman's approval. The Board Charter requires all directors to be provided with a copy of such advice and to be notified if the chairman's approval is withheld.

CONTRACTS WITH DIRECTORS

Since the previous year, no director has received or become entitled to receive a benefit because of a contract between any company in the Epitan Ltd consolidated entity and the director, or a firm of which the director is a member, or an entity in which the director has a substantial financial interest, other than:

- in the case of non-executive directors, remuneration as disclosed on page 31 (note to the financial statements); and
- in the case of the Managing Director, a contract of employment and the shareholder approved options grant.

Last year, Epitan Ltd paid $129,609 in license fees to Melanotan Corporation Inc, a company in which Dr Winters and Dr Agersborg are non-executive directors.

INDEMNITIES

A deed has been executed with each Epitan Ltd director which indemnifies to the extent permitted by law, against:

- certain liabilities arising out of conduct undertaken in good faith in their capacity as an Epitan Ltd officer; and
- the costs and expenses of defending legal proceedings arising out of conduct undertaken in their capacity as a current or former Epitan Ltd officer, unless the defence is unsuccessful.

The company has a similar policy covering all employees.

The company has purchased insurance for directors and officers against certain liabilities they may incur in carrying out their duties for the company.

BOARD COMMITTEES

To increase its effectiveness, the board has two committees, each with a charter approved by the board. The Audit and Risk Committee comprises at least three non-executive directors and is chaired by Dr Winters. The Remuneration and Nomination Committee consists of all the non-executive directors and is chaired by Mr McLiesh. The Managing Director attends meetings of board committees by invitation. He is not present if this could compromise the objectivity of proceedings. The membership of these committees, the number of meetings held and each director's attendance record last year is shown on page 29.

ELECTION OF DIRECTORS

The Remuneration and Nomination Committee makes recommendations to the board on the appointment of new directors and criteria for new appointees, focusing on the particular skills and experience most appropriate to the company's business and objectives.

The company aims to have on its board individuals with sound commercial judgement and inquiring minds, able to work cohesively with other directors. Epitan Ltd seeks a combination of executives experienced in finance, the law and, ideally, the pharmaceutical industry in which Epitan Ltd participates.

The reputation and ethical standards of appointees must be beyond question. Prospective directors confirm that they will have sufficient time to meet their obligations and that they will keep the company informed of their other commitments.

Non-executive directors are subject to re-election by rotation at least every three years, under the company's constitution. Newly appointed directors must seek re-election at the first general meeting of shareholders following their appointment.

THE WORK OF DIRECTORS

In addition to attending board and committee meetings, non-executive directors allocate time for strategy and budget sessions and preparation for meetings.

The Chairman commits additional time and meets regularly with the Managing Director to review business and strategic issues and to agree board meeting agendas.

Epitan Ltd actively encourages enhanced board and management effectiveness (ASXCGC principle 8).

The board strives to ensure that directors and key executives have the knowledge and information to operate effectively. The performance of the board is regularly reviewed.

ACCESS TO INFORMATION

Directors receive a comprehensive monthly performance report from the Managing Director – whether or not a board meeting is scheduled – and have unrestricted access to company records and information.

All directors have direct access to the Company Secretary who is accountable to the Managing Director and, through the Chairman, the board on all corporate governance matters.

PERFORMANCE REVIEW

The Remuneration and Nomination Committee regularly reviews the composition and performance of the board and its committees.

Epitan Ltd promotes timely and balanced disclosure of all material matters concerning the company (ASXCGC principle 5).

CONTINUOUS DISCLOSURE

Epitan Ltd has a practice of providing relevant and timely information to shareholders, supported by its share market disclosure policy which details comprehensive procedures to ensure compliance with all legal obligations. The policy limits external briefings in the periods between the end of a financial year or half year and the release to the Australian Stock Exchange (ASX) of the relevant results. The Managing Director is responsible for communications with ASX.

COMMENTARY ON FINANCIAL RESULTS

Epitan Ltd provides a review of operations and a financial review in this annual report. All announcements to the ASX are made available on the company's internet site.

Epitan Ltd respects the rights of shareholders and facilitates the effective exercise of those rights (ASXCGC principle 6).

Epitan Ltd strives to communicate effectively with shareholders about the company's performance, presenting the annual report and other corporate information in clear language, supported where appropriate by descriptive graphs, tables and medical glossaries.

Where practicable, the company uses the latest widely available electronic technology to communicate openly and continually with shareholders – and the stock market in general. Announcements to ASX, significant briefings, notices of meetings and speeches at Annual General Meetings are promptly posted on the company's internet site. Shareholders and other interested parties can receive e-mail advices of links to the newly posted annual report and can lodge proxies electronically for the annual general meeting.

AUDITOR ATTENDS THE ANNUAL GENERAL MEETING

The external audit firm partner in charge of the Epitan Ltd audit is available to answer shareholder questions at the company's Annual General Meeting.

EPITAN LTD'S GOVERNANCE STRUCTURE IS DESIGNED TO PROMOTE PROFIT AND GROWTH

A key part of Epitan Ltd directors' responsibility is to ensure the enduring operation of an effective corporate governance structure.

The board prescribes the respective roles and responsibilities of the board and management (ASXCGC principle 1).

The board strives to create shareholder value and ensure that shareholders' funds are prudently safeguarded. Its functions are summarised in the Board Charter.

The board delegates to the Managing Director the authority to manage the company and its businesses within levels of authority specified by the board from time to time.

LETTERS OF APPOINTMENT

The Managing Director's responsibilities and terms of employment, including termination entitlements, are set out in a formal letter of appointment.

Letters of employment are also prepared for non-executive directors, covering duties, time commitments, induction and the corporate governance framework described on the company's internet site.

Epitan Ltd ensures that the level and composition of remuneration is sufficient and reasonable and that its relationship to corporate and individual performance is defined (ASXCGC principle 9).

Epitan Ltd's policy is to reward executives with a combination of fixed remuneration and short and long-term incentives structured to drive improvements in shareholder value. Details are contained in the Directors' Report.
[Non-executive directors receive no incentive payments].
Employees cannot approve their own remuneration, nor that of their direct subordinates.

REMUNERATION AND NOMINATION COMMITTEE

The Remuneration and Nomination Committee, comprising all non-executive directors, is chaired by Mr McLiesh. Together with an overview of people issues, particularly succession and development planning, the committee advises the board on remuneration policies and practices, evaluates the performance of the Managing Director against pre-agreed goals and makes recommendations to the board on remuneration for the Managing Director and managers reporting to him. The committee considers independent advice on policies and practices to attract, motivate, reward and retain strong performers.

The committee also considers the board's size and composition, criteria for membership, candidates to fill vacancies and the terms and conditions of their appointment.

EQUITY BASED EXECUTIVE REMUNERATION

Options were issued during the year under the Executive Share Option Plan for which amendments were last approved by shareholders in 2000.

Options issued under the Option Plan, are disclosed on page 54.

THE CORPORATE GOVERNANCE STRUCTURE SETS THE WAY RISKS ARE IDENTIFIED AND MANAGED

Epitan Ltd's governance structure is designed to ensure that risks of conducting business are properly managed.

Epitan Ltd has a structure to independently verify and safeguard the integrity of the company's financial reporting (ASXCGC principle 4).

AUDIT AND RISK COMMITTEE

The Audit and Risk Committee is chaired by Dr Winters, a non-executive director. The other committee members are also all non-executive directors. The external audit firm partner in charge of the Epitan Ltd audit attends committee meetings by invitation.

The committee advises the board on all aspects of audit, the adequacy of accounting and risk management procedures, systems, controls and financial reporting.

Specific responsibilities include advising the board on the appointment of external auditors (following the procedure in the committee's charter), the yearly audit plan, and the yearly and half yearly financial reports.

The committee seeks to ensure the independence of the external auditor. Non-audit services are performed by other firms. The committee's charter requires that individuals playing a significant role in the Epitan Ltd audit be rotated every five years. The auditor annually confirms its independence within the meaning of applicable legislation and professional standards.

FINANCIAL REPORT ACCOUNTABILITY

Epitan Ltd's process for approval of financial statements has a long standing requirement that authorisations be given by various levels of management. Epitan Ltd's Managing Director and Group Accountant are required to state to the board, in writing, that the company's financial reports present a true and fair view, in all material respects, of the company's financial condition and operational results and are in accordance with relevant accounting standards.

Epitan Ltd has a sound system of risk oversight and management and internal control (ASXCGC principle 7).

Epitan Ltd identifies the risks facing its business, assesses the balance of risks and rewards to deliver shareholder value. The directors seek to minimize the impact of risk factors commensurate with the industry sector in which it operates. The risk framework comprises:

(A) Business risks

The board regularly reviews Epitan Ltd's businesses to identify and quantify business risks. Risk management is a key element of Epitan Ltd's strategic planning, decision making and execution of strategies. The Group's business exposes it to potential risks which are inherent in the R&D, pre-clinical studies, clinical trials, manufacturing, marketing and use of human therapeutic products.

(B) Financial risks

The board has approved principles and policies to manage financial risks of exposures to foreign currencies, and interest rates. Epitan Ltd's policies prohibit speculative transactions. The policies specify who may authorise transactions and segregates duties of those carrying them out.

The company requires access to additional funding periodically to fund development programs. If the company fails to obtain such funding, it may need to delay or scale back the development and commercialization of its products or R&D programs. The funds that the company may need will be determined by numerous factors, some of which are beyond the company's control. Additionally, funds may be necessary due to a number of factors including the following:

- progress of research activities;
- the number and scope of research programs;
- the progress of pre-clinical and clinical development activities;
- the company's ability to establish and maintain current and new R&D and licensing arrangements;
- the company's ability to achieve (or delays in achieving the sales giving rise to) royalty and milestone payments under licensing arrangements;
- the costs involved in enforcing patent claims and other intellectual property rights; and
- the cost requirements and timing of regulatory approvals.

If the company is unable to obtain additional funds on satisfactory terms, it may be required to cease or reduce its operating activities. If the company raises additional funds by selling additional shares, the ownership interests of existing shareholders may be materially diluted. There is no assurance that additional funding will be available to Epitan Ltd in the future or be secured on acceptable terms.

- **Financial integrity risks** Management has put into practice policies, procedures and controls to ensure the integrity of its accounting and financial reporting to stakeholders.

The board oversees and reviews the effectiveness of the risk management systems implemented by management. The board has assigned responsibility to:

- **Audit and Risk Committee** – reviews and reports to the board in relation to the company's financial reporting, internal control structure, risk management systems, and the external audit functions.
- **Management** – manages and reports to the board on business and financial risks and compliance with other legal obligations.

An independent external audit is performed on the annual financial report of Epitan Ltd.

RISK MANAGEMENT ACCOUNTABILITY

As part of the process of approving the financial statements, the Managing Director provide statements in writing to the board on the quality and effectiveness of the company's risk management and internal compliance and control systems.

Epitan Ltd actively promotes ethical and responsible decision making (ASXCGC principle 3).

Ethical behaviour is required of directors, executives and all other employees.

CODE OF BUSINESS CONDUCT AND ETHICS

The board has endorsed a Code of Business Conduct and Ethics (available on the company's internet site) that formalises the long standing obligation of all Epitan Ltd people including directors to behave ethically, act within the law, avoid conflicts of interest and act honestly in all business activities.

TRADING IN SHARES

Directors' shareholdings at 30 June 2005 are shown on page 32.

The company has a strict share trading policy in place, details of which are included in the Corporate Governance Policy available on the company's internet site. Directors and employees may only buy or sell Epitan Ltd shares during specified periods. Also, they are prohibited from buying or selling Epitan Ltd shares at any time if they are aware of any price sensitive information that has not been made public. All Epitan Ltd share dealings by directors are promptly notified to ASX.

Epitan Ltd recognises its legal and other obligations to all legitimate stakeholders (ASXCGC principle 10).

Epitan Ltd's Code of Business Conduct and Ethics reinforces the company's commitment to giving proper regard to the interests of people and organisations dealing with the company. Each Epitan Ltd person is required to respect and abide by the company's obligations to fellow employees, shareholders, customers, suppliers and communities in which we operate.

CORPORATE GOVERNANCE AND DISCLOSURE

Epitan Ltd considers that the above corporate governance practices comply with the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations, taking into account the size and nature of the company.

DIRECTORS' REPORT

The directors of the Board present their report on the company and its controlled entity for the financial year ended 30 June 2005 and the independent Audit Report thereon.

DIRECTORS

The names of directors in office at any time during or since the end of the year are set out below. Each director was in office for the whole of the financial year unless stated otherwise:
Dr W.A. Millen (Chairman)
Dr H.P.K. Agersborg (Deputy Chairman)
Dr T.E. Winters
Mr S.R. McLiesh
Dr R. Aston – appointed 1 April 2005
Mr I.M. Kirkwood (Managing Director)
– appointed 1 February 2005

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

INFORMATION ON DIRECTORS

Dr Wayne A. Millen
Chairman
Age: 64
Qualifications: BSc(Hons) PhD FRACI C CHEM AFAIM

Experience: Dr Millen is the founding Managing Director of Epitan Limited.

He has a PhD in chemistry and biochemistry from the University of Western Australia and is a Chartered Chemist with extensive experience over 35 years operating his own commercial enterprises.

Dr Millen has extensive experience in venture and development capital investment with an emphasis on companies involved in technological innovation and has been the lead investor and strategist in several private and public companies. He has considerable experience in establishing and managing start-up enterprises and brings to the company operational skills embracing corporate, technological and marketing disciplines.

Interest in shares and options: 11,126,375 ordinary shares and 1,500,000 options.

Dr Helmer P.K. Agersborg
Non-Executive Deputy Chairman
Age: 76
Qualifications: BSc PhD

Experience: Dr Agersborg is Chairman and President of Melanotan Corp, President of Afferon Corp and director of Virxsys Corporation, all pharmaceutical companies. He has been President of Wyeth-Ayerst Research.

During his distinguished forty years in the pharmaceutical industry, more than 50 new drug applications were approved in the United States, countless marketing applications were approved outside the United States and innumerable IND's were accepted around the world by companies under his direction.

Dr Agersborg contributes broad international pharmaceutical development experience at the highest level to the company.

Interest in shares and options: 1,008,105 ordinary shares and 250,000 options to acquire ordinary shares.

Dr Terry E. Winters
Non-Executive Director, Chairman of the Audit and Risk Committee.
Age: 63
Qualifications: BSc PhD

Experience: Dr Winters is a director of four private US-based companies and a Special Limited Partner of Valley Ventures, a $60 million venture capital fund based in Scottsdale, Arizona.

In 1983, he co-founded, and is a General Partner of, Columbine Venture Fund which has invested over $125 million in life science and technology companies in the western USA.

From the Columbine investments, successful companies have been Orthologic Corp, CollaGenex Pharmaceuticals, Nanophase Technologies, Curis, Neogen (all NASDAQ quoted) and Microgenics.

Interest in shares and options: 5,024,533 ordinary shares and 250,000 options to acquire ordinary shares.

Mr Stanley Roy McLiesh

Non-Executive Director, Chairman of the Remuneration and Nomination Committee.
Age: 68
Qualifications: BEd

Mr McLiesh has extensive experience in commercialising pharmaceutical products internationally. Formerly General Manager, Pharmaceuticals at CSL Limited, he was closely involved in the transition of CSL from government ownership to corporatisation to a highly successful listed company.

While at CSL, Mr McLiesh brokered numerous in-licensing arrangements with international companies which enabled CSL to expand into new markets profitably. Mr McLiesh has considerable experience in the international pharmaceutical industry.

Interest in shares and options: 1,000,000 options to acquire ordinary shares.

Dr Roger Aston

Non-Executive Director
Age: 49
Qualifications: BSc PhD

Dr Aston has more than 20 years experience in the pharmaceutical and biotechnology industries. His previous positions include director of Cambridge Antibody Technology Limited (UK), Chairman of Cambridge Drug Discovery Limited (UK) (now BioFocus plc), founder and CEO of Biokine Technology Ltd (UK) prior to its acquisition by the Peptech Group as well as CEO of Peptech Limited.

Dr Aston is also a founder and CEO of UK-based pSiMedica Limited, and CEO of pSiOncology, the group's joint venture in Singapore. He is a director of pSivida Limited (ASX:PSD) and an executive director of Avantogen Limited (ASX:ACU).

Interest in shares and options: Nil options to acquire ordinary shares. Nil ordinary shares.

Mr Iain Kirkwood

Managing Director and Chief Executive Officer
Age: 53
Qualifications: MA(Hons)(Oxon), FCPA, FFTP, CA, MAICD

Mr Kirkwood has over the last 25 years held a range of senior financial positions with major public companies in Australia, the UK and the US, including F.H. Faulding & Co. Limited, Santos Limited and Pilkington plc. Mr Kirkwood is currently also a non-executive director of Medical Developments International Limited (ASX: MVP) and Vision Group Holdings Limited (ASX: VGH).

He is a Chartered Accountant, CPA, former President of the Finance and Treasury Association of Australia and a member of the Institute of Company Directors.

He brings to Epitan Ltd extensive financial, commercial and strategic experience.

Interest in shares and options: 645,382 ordinary shares and 1,875,000 options to acquire ordinary shares.

MEETING OF DIRECTORS

The following table summarises the number of and attendance at all meetings of directors during the financial year.

Director	Board		Audit and Risk Committee		Remuneration and Nomination Committee	
	A	B	A	B	A	B
Dr W.A. Millen	11	11	2	2	2	2
Dr H.P.K. Agersborg	11	11	2	2	2	2
Dr T.E. Winters	11	11	2	2	2	2
Mr S.R. McLiesh	11	11	2	2	2	2
Dr R. Aston	5	4	-	-	-	-
Mr I.M. Kirkwood	6	6	-	-	-	-

Column A – indicates the number of meetings held during the period the Director was a member of the Board and/or Board Committee.

Column B - indicates the number of meetings attended during the period the Director was a member of the Board and/or Board Committee.

PRINCIPAL ACTIVITY

The principal activities of the consolidated entity during the financial year was the marketing and distribution of pharmaceutical dermatology products and furthering in the development of EPT1647, the consolidated entities leading drug candidate in the field of melanogenesis, the process whereby melanin is produced in the body. There was no significant change in the nature of activities during the financial year.

OPERATING RESULTS

The consolidated loss of the consolidated entity after providing for income tax amounted to $11,029,031 (2004 - loss of $7,589,730).

DIVIDENDS PAID OR RECOMMENDED

No dividends were paid or declared during the financial year.

REVIEW OF OPERATIONS

A detailed review of operations is set out in detail on pages 14 to 20 of this Annual Report.

Highlights for the year

Financial

At the beginning of the year the consolidated entities cash resources totalled $5,480,367.

During the year a total of $9,628,792 was raised from the issue of ordinary shares (net of $531,208 in issue expenses).

Expenditure on the consolidated entities key EPT1647 Project totalled $5,220,668 which included payments for drug supply, development of delivery formulations (principally the sustained release implant) and clinical trials conducted in Australia and Europe.

Investment in plant and equipment, principally technical equipment required for clinical trials was $202,436.

The consolidated entity paid a total of $900,453 in the process of accumulating its dermatology products portfolio.

At the end of the year the consolidated entities cash resources totalled $4,762,620.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The directors are not aware of any matter or circumstance not otherwise dealt with in this report that has significantly or may significantly affect the operations of Epitan Ltd.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

The directors are not aware of any significant events that may have occurred subsequent to balance date, except that:

(i) on 6 July 2005 Mariner Corporate Finance was appointed to advise on strategies for capital raising and options for growth;

(ii) on 7 July 2005 a placement of 11,666,668 ordinary shares and granting of 1 million unlisted options equating to $3.5 million. The financial effect of this transaction has not been recognised at year end;

(iii) on 27 July 2005 the company announced that its clinical trial strategy would focus on Polymorphous Light Eruption (PMLE) as the principle indication for its leading drug candidate, EPT1647;

(iv) on 2 August 2005 the company announced the retirement of its Clinical Manager;

(v) on 4 August 2005 the company issued a notice of meeting for an EGM to be held on 5 September 2005 to seek ratification of previous issues by the company of shares and options; and

(vi) on 18 August 2005 the company announced that Exorex® had been recommended by the PBAC for reimbursement and the acquisition of a fifth dermatology product following the in-licensing of ZORAC® from Allergan, Inc.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

The directors anticipate that the consolidated entity will continue to distribute and market pharmaceutical products and its clinical trial and drug development program.

Information on the expected results of operations and research and development has not been included in this report because the directors believe it would be unreasonable and speculative to do so.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The consolidated entity's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

DIRECTORS' AND OFFICERS' EMOLUMENTS

The emoluments of each director are as follows:

	Salary	Cash Bonus	Superannuation Contributions	Non-monetary benefits	Options	Total
	$	$	$	$	$	$
Dr W.A. Millen	257,597	-	19,434	53,850	241,128	572,009
Dr H.P.K Agersborg	45,000	-	-	-	50,974	95,974
Dr T.E. Winters	45,000	-	-	-	50,974	95,974
Mr S.R. McLiesh	40,459	-	4,541	-	50,974	95,974
Dr R. Aston	11,467	-	1,033	-	-	12,500
I.M. Kirkwood	168,850	-	15,196	-	205,431	389,478
Total	**568,374**	**-**	**40,204**	**53,850**	**599,481**	**1,261,908**

The following table discloses the remuneration of the only other officer of the company and the consolidated entity:

	Salary	Bonus	Non-monetary benefits	Post Employment Super	Post Employment Other	Equity Options	Total
D. Iles							
Company Secretary	70,226	2,000	-	6,500	-	10,833	89,559

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

During or since the end of the financial year the company has given an indemnity or entered an agreement to indemnify, or paid or agreed to pay insurance premiums as follows.

The company has paid premiums to insure each of the directors against liabilities for costs and expenses incurred by them in defending any legal proceedings arising of their conduct while acting in the capacity of director of the company, other than conduct involving wilful breach of duty in relation to the company. The amount of the premium was $123,013.

EMPLOYEES

The consolidated entity employed 18 employees as at 30 June 2005 (2004: Eight employees).

DIRECTORS' BENEFITS AND INTEREST IN CONTRACTS

Since the end of the previous financial year other than a contract for consultancy work between the company, Dr Millen and Bellou Management Pty Ltd, no director has received or become entitled to receive a benefit (other than a benefit included in the total amount of emoluments received or due and receivable by directors shown in the financial statements), because of a contract that the director or a firm of which the director is a member, or an entity in which the director has a substantial interest has made with Epitan Ltd or a controlled entity.

SHARE OPTIONS

Share options granted to directors and officers.

During the year the following options were granted to and held by the following directors and officers of the company.

At the date of this report, unissued ordinary shares of the company under option are:

Directors & Officers	Number of options granted	Expiry Date	Exercise Price	Number of Options
W.A. Millen	1,500,000	30 June 2008	$0.74 / share	1,500,000
H.A. Agersborg	-	31 December 2007	$0.74 / share	250,000
T.E. Winters	-	31 December 2007	$0.74 / share	250,000
S.R. McLiesh	-	31 March 2006	$0.30 / share	750,000
	-	31 December 2007	$0.74 / share	250,000
I.M. Kirkwood	-	02 February 2008	$0.16 / share	750,000
	-	01 January 2008	$0.66 / share	125,000
	1,000,000	31 January 2010	$0.90 / share	1,000,000
D Iles	75,000	31 December 2007	$0.90 /share	75,000

During the year ended 30 June 2005, 1,000,000 shares were issued as a result of the exercise of unlisted options.

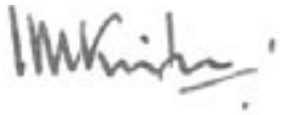
DIRECTORS' SHAREHOLDINGS

The following table sets out each director's relevant interest in shares and options in shares in the company as at the date of this report.

	Ordinary Shares Fully Paid		Options over Ordinary Shares	
	2005 Number	2004 Number	2005 Number	2004 Number
W. A. Millen	11,126,375	17,726,375	1,500,000	-
H.P.K. Agersborg	1,008,105	750,000	250,000	250,000
T. E. Winters	5,024,533	16,065,415	250,000	250,000
S.R. McLiesh	-	-	1,000,000	1,000,000
R. Aston	-	-	-	-
I.M. Kirkwood	645,382	522,382	1,875,000	875,000

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 party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings. The company was not party to any such proceedings during the year.
Signed in accordance with a resolution of the Board of Directors:



I. M. KIRKWOOD
DIRECTOR

Dated this 30th day of August, 2005

Statement of Financial Performance
For the year ended 30 June 2005

	Note	Consolidated 2005 $	Consolidated 2004 $	Epitan Limited 2005 $	Epitan Limited 2004 $
Revenues from ordinary activities	2	601,559	355,235	476,937	355,235
Total expenses from ordinary activities	2	11,630,590	(7,944,965)	11,505,968	(7,944,965)
Profit(loss) from ordinary activities before related income tax expense		(11,029,031)	(7,589,730)	(11,029,031)	(7,589,730)
Income tax expense (benefit) relating to ordinary activities	3	-	-	-	-
Profit(loss) from ordinary activities after related income tax expense		(11,029,031)	(7,589,730)	(11,029,031)	(7,589,730)
Net profit(loss)		(11,029,031)	(7,589,730)	(11,029,031)	(7,589,730)
Net profit(loss) attributable to members of Epitan Limited		(11,029,031)	(7,589,730)	(11,029,031)	(7,589,730)
Total changes in equity other than those resulting from transactions with owners as owners		(11,029,031)	(7,589,730)	(11,029,031)	(7,589,730)
Basic earnings per share - cents per share	15	(8.8)	(6.9)		

The accompanying notes form part of these financial statements.

Statement of Financial Position
as at 30 June 2005

	Note	Consolidated 2005 $	Consolidated 2004 $	Epitan Limited 2005 $	Epitan Limited 2004 $
CURRENT ASSETS					
Cash assets	16(a)	4,762,620	5,480,367	4,579,971	5,480,367
Inventory		31,873	-	-	-
Receivables	4	136,610	78,349	62,314	78,349
Other	5	314,403	123,604	218,357	123,604
TOTAL CURRENT ASSETS		5,245,506	5,682,320	4,860,642	5,682,320
NON CURRENT ASSETS					
Receivables	4	-	-	4,677,210	4,362,805
Property, plant and equipment	6	248,863	119,805	248,863	119,805
Intangible assets	7	4,561,274	4,444,818	72,814	82,014
Other financial assets	8	-	-	172	170
TOTAL NON CURRENT ASSETS		4,810,137	4,564,623	4,999,059	4,564,794
TOTAL ASSETS		10,555,643	10,246,943	9,859,701	10,247,114
CURRENT LIABILITIES					
Payables	10	2,484,505	1,282,558	2,307,593	1,282,558
Provisions	11	92,917	87,781	76,288	87,781
TOTAL CURRENT LIABILITIES		2,577,422	1,370,339	2,383,881	1,370,339
NON CURRENT LIABILITIES					
Provisions	11	23,959	22,103	21,387	22,103
TOTAL NON CURRENT LIABILITIES		23,959	22,103	21,387	22,103
TOTAL LIABILITIES		2,601,381	1,392,442	2,405,268	1,392,442
NET ASSETS		7,454,262	8,854,501	7,454,433	8,854,672
EQUITY					
Contributed equity	12	35,122,749	25,493,957	35,122,749	25,493,957
Accumulated losses	13	(27,668,487)	(16,639,456)	(27,668,316)	(16,639,285)
TOTAL EQUITY		7,454,262	8,854,501	7,454,433	8,854,672

The accompanying notes form part of these financial statements.

Statement of Cash Flows
For the year ended 30 June 2005

	Note	Consolidated 2005 $	Consolidated 2004 $	Epitan Limited 2005 $	Epitan Limited 2004 $
CASH FLOWS FROM OPERATING ACTIVITIES					
Refund from ATO		468,369	285,351	335,996	285,351
Receipt from Customers		64,131	-	-	-
Interest received		470,184	344,180	470,184	344,180
Payments to suppliers and employees		(10,249,040)	(6,632,032)	(8,778,052)	(6,501,164)
Net cash provided by (used in) operating activities	16(b)	(9,246,356)	(6,002,501)	(7,971,872)	(5,871,633)
CASH FLOWS FROM INVESTING ACTIVITIES					
Payments for property, plant and equipment		(199,730)	(15,254)	(199,730)	(15,254)
Loans to related parties		-	-	(2,357,585)	(130,874)
Payments for trademarks		-	(20,714)	-	(20,714)
Payments for patents		-	(6,533)	-	(6,533)
Payments for product distribution rights		(900,453)	-	-	-
Net cash provided by (used in) investing activities		(1,100,183)	(42,501)	(2,557,315)	(173,375)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from issue of ordinary shares		10,160,000	9,793,772	10,160,000	9,793,772
Payment of share issue costs		(531,208)	(880,256)	(531,208)	(880,256)
Net cash provided by (used in) financing activities		9,628,792	8,913,516	9,628,792	8,913,516
Net increase/(decrease) in cash held		(717,747)	2,868,514	(900,395)	2,868,508
Cash at beginning of the year		5,480,367	2,611,853	5,480,367	2,611,859
Cash at end of the year	16(a)	4,762,620	5,480,367	4,579,972	5,480,367

The accompanying notes form part of these financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Consensus Views, other authoritative pronouncements of the Australian Accountancy Standards Board and the Corporations Act 2001. The financial report has been prepared on an accruals basis and is based on historical costs and does not take into account changing money values or, except where stated, current valuations of non current assets. Cost is based on the fair values of the consideration given in exchange for assets. The accounting policies have been consistently applied, unless otherwise stated.

The following is a summary of the significant accounting policies adopted by the consolidated entity in the preparation of the financial report.

(a) Basis of Accounting

The financial report has been prepared in accordance with the historical cost convention.

The financial statements of the consolidated entity have been prepared on a going concern basis. The consolidated entity operations are subject to major risks due primarily to the nature of research development and the commercialisation to be undertaken. The risk factors set out may materially impact the financial performance and position of the consolidated entity.

The going concern basis assumes that future capital raisings will be available to enable the consolidated entity to undertake the research, development and commercialisation of its projects and that the subsequent commercialisation of commercialisation of the developed products will be successful. The financial statements take no account of the consequences, if any, of the inability of the consolidated entity to obtain adequate funding nor of the effects of unsuccessful research, development and commercialisation of the consolidated entity's projects.

The consolidated entity has successfully raised additional working capital in past years and as such the Directors do not envisage any difficulty in raising additional capital in the future.

(b) Principles of Consolidation

The consolidated accounts comprise the accounts of Epitan Limited and its controlled entities. A controlled entity is any entity controlled by Epitan Limited. Control exists where Epitan Limited has the capacity to dominate the decision-making in relation to the financial and operating activities of another entity so that the other entity operates with Epitan Limited to achieve the objectives of Epitan Limited. A list of controlled entities is contained in Note 9 to the financial statements.

All inter-company balances and transactions between entities in the consolidated entity, including any unrealised profits or losses, have been eliminated on consolidation.

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

(c) Income Tax

The consolidated entity adopts the liability method of tax effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

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 tax legislation and the anticipation that the company will derive sufficient future assessable income and comply with the conditions of deductibility imposed by the law.

(d) Inventories

Inventories are valued at the lower of cost or net realisable value.

(e) Cash

For the purpose of the statement of cash flows, cash includes cash on hand, at call deposits with banks or financial institutions, bank bills and negotiable financial instruments.

(f) Property, Plant and Equipment

Property, plant and equipment are brought to account at cost or at independent or directors' valuation, less, where applicable, any accumulated depreciation or amortisation. The carrying amount of property, 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 which will be received from the assets' employment and subsequent disposal. The expected net cash flows have not been discounted to their present values in determining recoverable amounts.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The depreciable amount of all fixed assets is depreciated over the assets' 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
Office equipment	20 – 40%
Furniture and fittings	20%

(g) Investments

Non-current investments are brought to account at cost or at directors' valuation. The carrying amount of investments is reviewed annually by directors to ensure it is not in excess of the recoverable amount of these investments. The recoverable amount is assessed from the underlying net assets in the particular entities. The expected net cash flows from investments have not been discounted to their present value in determining the recoverable amounts.

(h) Research and Development Expenditure

Research and development costs are charged to profit from ordinary activities before income tax as incurred or deferred where it is expected beyond any reasonable doubt that sufficient future benefits will be derived so as to recover those deferred costs. No research and development costs have been deferred during this financial year.

Deferred research and development expenditure is amortised on a straight line basis over the period during which the related benefits are expected to be realised, once commercial production has commenced.

(i) Intangible Assets

(i) Sub-licence

The sub-licence to develop and commercialise Melanotan has been recorded at cost. Cost is based on the fair value of the consideration given in exchange for the assets.

The consideration given for the acquisition of the sub-licence was the issue of 11,167,000 ordinary shares and attaching options in the company. Hence the cost of the sub-licence has been determined by assessing the fair value of net assets of the consolidated entity immediately after the sub-licence was acquired. For the purpose of valuing the assets of the company, an independent valuation of the sub-licence was performed. The valuation was based on discounted future cash flows expected to flow from the right to the sub-licence. The valuation was adjusted for the probability of success.

The directors have determined that it is appropriate to record the sub-licence at cost rather than revalued to market value at this time.

(ii) Amortisation of Sub-licence

The sub-licence to develop and commercialise Melanotan is amortised on a straight-line basis over 10 years. The directors have assessed this to be the period over which the future consolidated benefits of the sub-licence are expected to be realised. The period approximates the remaining life and likely extensions of the patents subject to the sub-licence.

(iii) Amortisation of Trademarks

Trademarks are amortised on a straight line basis over their expected useful lives.

(iv) Product Distribution Rights

Product distribution rights are amortised on a straight line basis over a ten year period.

(j) Payables

Liabilities are recognised for amounts to be paid in the future for goods and services received, whether or not billed to the consolidated entity.

(k) Employee Benefits

Provision is made for the consolidated entity's liability for employee benefits arising from services rendered by employees to balance date. Liabilities arising in respect of salaries and wages, annual leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amount based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value future cash outflow to be made.

Employee benefits expenses and revenues arising in respect of the following categories; wages and salaries, non-monetary benefits, annual leave, long service leave, sick leave and other leave benefits are charged against profits on a net basis in their respective categories.

The value of the employee option scheme described in note 22 is not being charged as an employee benefit expense.

Contributions are made by the consolidated entity to employee superannuation funds and are charged as expenses when incurred.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(l) Directors' Remuneration

Directors' remuneration includes all remuneration in connection with the management of the company and means any money, consideration or benefit. Remuneration includes the value of share options granted. Options over shares have been valued at grant date using an option pricing model in accordance with current ASIC guidance, Australian Exposure Draft ED 108 and International Exposure Draft ED 2. The value of options issued to directors has been included in the determination of directors' remuneration during the period from grant date to vesting date. In accordance with Australian Accounting Standards, share options have not been expensed.

(m) Revenue

Interest revenue is recognised on a proportional basis.

(n) Share Capital

Ordinary share capital is recognised at the fair value of the consideration received by the company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the shares proceeds received.

(o) Earnings Per Share

(i) Basic earnings per share

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

(p) Goods and Services Tax (GST)

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 statement of financial position are shown inclusive of GST.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payale to, the taxation authority is classified as operating cash flows.

(q) Leases

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

(r) Comparatives

Where necessary, comparatives have been reclassified and repositioned for consistency with current year disclosure.

(s) Contributed Equity

Issued and paid up capital is recognised at the fair value of consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

	Note	Consolidated 2005 $	Consolidated 2004 $	Epitan Limited 2005 $	Epitan Limited 2004 $
2. PROFIT/(LOSS) FROM ORDINARY ACTIVITIES					
(a) Revenues from ordinary activities					
Interest revenue – other persons		476,937	355,235	476,937	355,235
Sales revenue		124,622	-	-	-
Total revenues		601,559	355,235	476,937	355,235
(b) Expenses from ordinary activities					
Clinical development		3,025,805	1,676,765	3,025,805	1,676,765
Drug delivery		2,194,863	2,991,634	2,194,863	2,991,634
Sales and marketing costs		883,840	251,989	-	251,989
Business development & funding		1,349,720	296,352	1,349,720	296,352
Shareholder administration & statutory		1,196,251	776,801	1,196,251	776,801
Licenses, patents & trademarks		1,014,206	763,917	137,299	16,619
Payroll & staff expenses		1,194,842	542,027	785,982	443,583
Administration expenses		771,063	645,480	772,870	613,056
Provision for non-recovery		-	-	2,043,178	878,166
Total expenses from ordinary activities		11,630,590	7,944,965	11,505,968	7,944,965
(c) Profit/(loss) from ordinary activities before income tax has been determined after:					
Depreciation		39,850	37,200	39,850	37,200
Amortisation of sub-licence		747,297	747,298	-	-
Amortisation of trademarks		9,200	5,793	9,200	5,793
Amortisation of product distribution rights		27,500	-	-	-
Research & development costs		5,220,668	4,668,399	5,220,668	4,668,399
Provision for non-recovery		-	-	2,043,178	878,166
Loss on sale of property, plant and equipment		30,823	4,862	30,823	4,862
Operating lease expense – minimum lease payments		266,321	131,327	261,584	131,327

	Note	Consolidated 2005 $	Consolidated 2004 $	Epitan Limited 2005 $	Epitan Limited 2004 $

3. INCOME TAX EXPENSE

(a) The prima facie tax on profit(loss) from ordinary activities before income tax is reconciled to the income tax expense (benefit) as follows:

Prima facie tax payable on profit(loss) from ordinary activities before income tax at 30%	(3,308,710)	(2,276,919)	(3,308,710)	(2,276,919)
Add:				
Tax effect of permanent differences				
– non deductible amortisation	11,010	1,738	2,760	1,738
– non deductible shareholder admin	39,583	-	39,583	-
– capital raising costs	(148,211)	-	(148,211)	-
– non deductible legal fees	36,611	13,560	6,023	13,560
– research and development deduction	(279,652)	(359,351)	(279,652)	(359,351)
Write off FITB due to lack of virtual certainty	3,649,369	2,620,972	3,688,207	2,620,972
	-	-	-	-

(b) Future income tax benefits arising from unconfirmed tax losses and net timing differences not brought to account at balance date as realisation of the benefit is not regarded as virtually certain. The benefits will only be obtained if the conditions set out in note 1(b) occur:

Tax losses	7,672,663	4,292,966	6,141,680	3,685,978
Net timing differences	988,581	718,910	1,772,514	889,890
	8,661,244	5,011,876	7,914,194	4,575,868

	Note	Consolidated 2005 $	Consolidated 2004 $	Epitan Limited 2005 $	Epitan Limited 2004 $
4. RECEIVABLES					
Current					
Trade debtors		68,896	-	2,479	-
Sundry debtors		49,906	67,294	42,027	67,294
Accrued income		17,808	11,055	17,808	11,055
		136,610	78,349	62,314	78,349
Non-Current					
Receivable from wholly owned entity					
– Melanotan (Australia) Pty Ltd		-	-	7,870,285	7,740,678
– Provision for non-recovery		-	-	(4,254,780)	(3,377,873)
				3,615,505	4,362,805
– EpiPharm Pty Ltd		-	-	2,227,976	-
– Provision for non-recovery		-	-	(1,166,271)	-
				1,061,705	4,362,805
		-	-	4,677,210	4,362,805
5. OTHER ASSETS					
Current					
Prepayments		267,895	123,604	217,586	123,604
Bonds & deposits		46,508	-	771	-
		314,403	123,604	218,357	123,604
6. PROPERTY, PLANT AND EQUIPMENT					
Plant & equipment					
At cost		375,861	183,828	375,861	183,828
Less: Accumulated depreciation		(142,446)	(113,976)	(142,446)	(113,976)
		233,415	69,852	233,415	69,852
Furniture and fittings					
At cost		37,345	87,838	37,345	87,838
Less: Accumulated depreciation		(21,897)	(37,885)	(21,897)	(37,885)
		15,448	49,953	15,448	49,953
Total property, plant and equipment		248,863	119,805	248,863	119,805

6. PROPERTY, PLANT AND EQUIPMENT (cont'd)

Movements in Carrying Amounts

Movements in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the financial year

Consolidated & Epitan Limited - 2005	Plant & Equipment $	Furniture and Fittings $	Total $
Carrying amount at the beginning of year	69,852	49,953	119,805
Additions	202,436	-	202,436
Disposals	(10,408)	(50,496)	(60,904)
Depreciation written back on disposal	6,775	20,601	27,376
Depreciation expense	(35,240)	(4,610)	(39,850)
Carrying amount at the end of year	233,415	15,448	248,863

	Note	Consolidated 2005 $	Consolidated 2004 $	Epitan Limited 2005 $	Epitan Limited 2004 $

7. INTANGIBLE ASSETS

Sub-licence to develop and commercialise Melanotan – at cost	7,472,983	7,472,983	-	-
Less: Accumulated amortisation	(3,857,476)	(3,110,179)	-	-
	3,615,507	4,362,804	-	-
Trademarks at cost	68,281	68,281	68,281	68,281
Less: Accumulated amortisation	(19,185)	(9,985)	(19,185)	(9,985)
	49,096	58,296	49,096	58,296
Patents at cost	23,718	23,718	23,718	23,718
Product distribution rights at cost	900,453	-	-	-
Less: Accumulated amortisation	(27,500)	-	-	-
	872,953	-	-	-
	4,561,274	4,444,818	72,814	82,014

8. OTHER FINANCIAL ASSETS

Non-Current

Investments at cost comprise:				
Shares in unlisted controlled entities	-	-	172	170

9. INTERESTS IN SUBSIDIARIES

Name of Entity	Country of incorporation	Ownership interest 2005	Ownership interest 2004
Parent entity			
Epitan Limited	Australia	-	-
Controlled entities			
Melanotan (Australia) Pty Ltd	Australia	100%	100%
EpiPharm Pty Ltd*	Australia	100%	100%
EpiPharm (NZ) Ltd	New Zealand	100%	–
Epitan (UK) Ltd	United Kingdom	100%	–

* During the year Epitan Pharmaceuticals Pty Ltd changed its name to EpiPharm Pty Ltd.

	Note	Consolidated 2005 $	Consolidated 2004 $	Epitan Limited 2005 $	Epitan Limited 2004 $

10. PAYABLES

Current				
Trade creditors	2,345,935	1,179,726	2,183,857	1,179,726
Sundry creditors and accrued expenses	138,570	102,832	123,736	102,832
	2,484,505	1,282,558	2,307,593	1,282,558
(a) Aggregate amounts payable to:				
– directors and director-related entities	62,500	46,610	62,500	46,610
(b) Australian dollar equivalents of amounts payable in foreign currencies not effectively hedged:				
– US dollars	586,445	596,048	582,419	596,048
– Euro	517,575	83,846	517,575	83,846
– British Pounds	193,098	77,120	193,098	77,120
	1,297,118	757,014	1,292,822	757,014

(c) Terms and conditions:
Trade and sundry creditors are non - interest bearing and normally settled on 30 day terms.

11. PROVISIONS

Current				
Employee benefits	92,917	87,781	76,288	87,781
Non Current				
Employee Benefits	23,959	22,103	21,387	22,103

	Note	Consolidated 2005 $	Consolidated 2004 $	Epitan Limited 2005 $	Epitan Limited 2004 $
12. CONTRIBUTED EQUITY					
(a) Issued and paid up capital fully paid ordinary shares 128,549,085 fully paid ordinary shares (2004: 114,449,085)		35,122,749	25,493,957	35,122,749	25,493,957

	2005 - Epitan Ltd Number	2005 - Epitan Ltd $	2004 - Epitan Ltd Number	2004 - Epitan Ltd $
(b) Movements in shares on issue				
At the beginning of the financial year	114,449,085	25,493,957	91,439,832	16,580,441
Issued during the year				
– options exercised	1,000,000	100,000	8,509,253	2,398,772
– placement	13,100,000	10,060,000	14,500,000	7,395,000
Less: transaction costs	-	(531,208)	-	(880,256)
	128,549,085	35,122,749	114,449,085	25,493,957

(c) Share Options

As at 30 June 2005 the following share options existed which if exercised, would result in the issue of fully paid ordinary shares.

Expiry Date	Exercise Price	Number of Options
30 September 2005	$0.30 / share	141,556
31 March 2006	$0.30 / share	750,000
22 October 2006	$0.10 / share	1,050,000
13 August 2007	$1.03 / share	6,667,362
17 December 2007	$1.08 / share	2,600,000
31 December 2007	$0.74 / share	750,000
31 December 2007	$0.90 / share	175,000
1 January 2008	$0.66 / share	375,000
2 February 2008	$0.16 / share	750,000
13 June 2008	$0.29 / share	500,000
30 June 2008	$0.74 / share	1,500,000
18 April 2009	$0.87 / share	300,000
31 January 2010	$0.90 / share	1,000,000
28 February 2010	$0.75 / share	500,000
Total		**17,058,918**

12. CONTRIBUTED EQUITY (cont'd)

During the year the following share options were issued which if exercised, would result in the issue of fully paid ordinary shares.

Expiry Date	Exercise Price	Number of Options
13 August 2007	$1.03 / share	6,667,362
17 December 2007	$1.08 / share	2,600,000
31 December 2007	$0.90 / share	175,000
30 June 2008	$0.74 / share	1,500,000
31 January 2010	$0.90 / share	1,000,000
20 February 2010	$0.75 / share	500,000
	Total	**12,442,362**

(d) Terms and conditions of contributed equity

Ordinary Shares

Ordinary shares have the right to receive dividends as declared and, in the event of winding up the company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

	Note	Consolidated 2005 $	Consolidated 2004 $	Epitan Limited 2005 $	Epitan Limited 2004 $
13. ACCUMULATED LOSSES					
Accumulated losses at the beginning of the year		(16,639,456)	(9,049,726)	(16,639,285)	(9,049,555)
Net loss attributable to the members of Epitan Limited		(11,029,031)	(7,589,730)	(11,029,031)	(7,589,730)
Accumulated losses at the end of the financial year		(27,668,487)	(16,639,456)	(27,668,316)	(16,639,285)

	Note	Consolidated 2005 $	Consolidated 2004 $	Epitan Limited 2005 $	Epitan Limited 2004 $

14. LEASE COMMITMENTS

Operating lease commitments

Non-cancellable operating leases

Contracted for but not capitalised in the accounts:

Payable				
– not later than 1 year	622,574	117,578	416,097	117,578
– later than 1 year but not later than 5 years	860,816	67,297	450,154	67,297
	1,483,390	184,875	866,251	184,875

Epitan Limited has sub-leased its interest in Level 10, 52 Collins Street, Melbourne.
The amount due in respect of the sub-lease is $65,256 of which all is receivable within the next 12 months.

15. EARNINGS PER SHARE (EPS)

	Consolidated 2005 $	Consolidated 2004 $
(a) Basic earnings per share – cents per share	(8.8)	(6.9)
(b) The Weighted Average Number of Ordinary Shares (WANOS) used in the calculation of Basic Earnings Per Share	125,730,455	109,469,542
(c) The numerator used in the calculation of Basic Earnings Per Share.	(11,029,031)	(7,589,730)

(d) Potential Ordinary Shares not considered Dilutive

As at 30 June 2005 the company had on issue 17,058,918 unlisted options over unissued capital. The details of which are included in Notes 12(c) and 22(b). These options are not considered dilutive as they do not increase the net loss per share.

	Note	Consolidated 2005 $	Consolidated 2004 $	Epitan Limited 2005 $	Epitan Limited 2004 $
16. CASH FLOW INFORMATION					
(a) Reconciliation of Cash					
For the purposes of the Statement of Cash Flows, cash includes cash on hand and with banks and in investments in money market instruments					
Cash at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the balance sheet as follows:					
Cash at bank		667,146	168,028	484,498	168,028
Cash on hand		3,403	3,018	3,402	3,018
Bank bills & income security notes		1,447,996	3,994,000	1,447,996	3,994,000
Deposits on call		1,994,000	1,315,321	1,994,000	1,315,321
Term deposits (security bonds)	23	650,075	-	650,075	-
		4,762,620	5,480,367	4,579,971	5,480,367
(b) Reconciliation of cash flows from operating activities with operating profit (loss)					
Operating profit (loss) after income tax		(11,029,031)	(7,589,730)	(11,029,031)	(7,589,730)
Non cash flows in operating (loss):					
Depreciation expense		39,850	37,200	39,850	37,200
Accrued income		(6,753)	-	(6,753)	-
Amortisation expense		783,997	753,091	9,200	5,793
Doubtful debt expense		-	-	2,043,178	878,166
Loss of sales on non-current assets		30,823	4,862	30,823	4,862
Changes in assets and liabilities:					
(Increase)/decrease in receivables		(51,508)	(47,517)	22,788	(47,517)
(Increase)/decrease in bonds & deposits		(46,508)	-	(771)	-
(Increase)/decrease in inventories		(31,875)	-	-	-
(Increase)/decrease in prepayments		(144,291)	(17,961)	(93,980)	(17,961)
Increase/(decrease) in payables		1,201,948	817,295	1,025,083	817,295
Increase/(decrease) in provisions		6,992	40,259	(12,259)	40,259
Net cash used in operating activities		(9,246,356)	(6,002,501)	(7,971,872)	(5,871,633)

17. DIRECTORS' AND EXECUTIVES' DISCLOSURES

Remuneration of specified directors and specified executives.

Remuneration levels are competitively set to attract and retain the most qualified and experienced directors and executives. The Remuneration and Nomination Committee obtains independent data to assess the appropriateness of remuneration packages, given trends in comparative companies. The Committee reviews the remuneration of directors and management annually.

Under the Company's Constitution, the maximum aggregate remuneration available for division among the non-executive directors is to be determined by the shareholders in a general meeting. The maximum aggregate is currently fixed at $400,000. This amount (or some part of it) is to be divided among the non-executive directors as determined by the Board.

Directors' base fees are presently $50,000 per annum. The Chairman receives $75,000 per annum. Directors' fees cover all main Board activities and membership of the Remuneration and Nomination and Audit and Risk Committees.

Executive remuneration is reviewed annually by the Remuneration and Nomination Committee and approved by the Board. Remuneration packages include a balance between a fixed base component and an incentive component, with incentive payments being based, a meeting pre-specified performance targets.

The incentive component of executive remuneration is divided into the following two elements:

- Short-term performance based remunerations, generally cash payment sup to a fixed percentage of base salary
- Long-term performance based remuneration, generally based upon the issue of options to acquire shares in the Company. Options are issued under the company's Share Option Plan.

The following table provides details of all directors of the company ("specified directors") and the nature and amount of the elements of their remuneration and other compensation for the year ended 30 June 2005.

The Committee has determined that an employment agreement be entered into with the Chief Executive Officer and with no other executives. The current employment agreement with the CEO commenced on the 1st February 2005 and continues for three years. The agreement has a six month notice period and provides for payment of an amount in lieu of notice for that period.

As required by AASB 1046 details of directors and specified executives remuneration is detailed below.

The specified directors of Epitan Limited during the year were:

W.A. Millen (Chairman)
H.P.K. Agersborg (Deputy Chairman)
T.E. Winters
S.R. McLiesh
R. Aston - appointed 1 April 2005
I.M. Kirkwood (Managing Director) - appointed 1 February 2005

The consolidated entity has no specific executives other than the Managing Director and Chief Executive Officer, who have the authority to bind the company or who are directly accountable for strategic direction and operational management.

17. DIRECTORS' AND EXECUTIVES' DISCLOSURES (cont'd)

Remuneration of Specified Directors

	Primary Salaries & Fees	Bonus	Non-monetary benefits	Post Employment Super	Post Employment Other	Equity Options	Total
W.A. Millen	257,597	-	53,850	19,434	-	241,128	572,009
H.P.K. Agersborg	45,000	-	-	-	-	50,974	95,974
T.E. Winters	45,000	-	-	-	-	50,974	95,974
S.R. McLiesh	40,459	-	-	4,541	-	50,974	95,974
R. Aston	11,467	-	-	1,033	-	-	12,500
I.M. Kirkwood	168,850	-	-	15,196	-	205,431	389,477
Total	**568,373**	**-**	**53,850**	**40,204**	**-**	**599,481**	**1,261,908**

Remuneration options: Granted and vested during the year

Specified Directors	Vested Number	Granted Number	Grant Date	Value per option at grant date	Exercise Price per share	First Exercise Date	Last Exercise Date
W.A. Millen	-	1,500,000	1 November 2004	$0.39	$0.74	31 October 2005	30 June 2008
H.P.K. Agersborg	83,333	-	-	-	-	-	-
T.E. Winters	83,333	-	-	-	-	-	-
S.R. McLiesh	333,333	-	-	-	-	-	-
I.M Kirkwood	250,000	1,000,000	21 January 2005	$0.63	$0.90	19 January 2006	31 January 2010

Shares issued on exercise of remuneration options

Specified Directors	Shares issued Number	Paid $ per share
W.A. Millen	-	-
H.P.K. Agersborg	-	-
T.E. Winters	-	-
S.R. McLiesh	-	-
R. Aston	-	-
I.M. Kirkwood	-	-

	Note	Consolidated 2005 $	Consolidated 2004 $	Epitan Limited 2005 $	Epitan Limited 2004 $

18. AUDITORS' REMUNERATION

Amounts received or due and receivable by William Buck for:				
– audit services and review	37,000	24,040	37,000	20,040
– other services	2,650	13,691	2,650	13,691
	39,650	37,731	39,650	33,731

19. RELATED PARTY DISCLOSURES

Directors

The directors of Epitan Limited during the financial year were:
W. A. Millen
H. P. K. Agersborg
T. E. Winters
S.R. McLiesh
R. Aston
I.M. Kirkwood

Wholly-owned group transactions

Loans

The loan receivable by Epitan Ltd from Melanotan (Australia) Pty Ltd is non-interest bearing. Repayment of the loan will commence upon commercialisation of the company's drug candidate. A provision for non-recovery has been raised in the accounts of Epitan Limited to the extent that a deficiency in net assets exists in Melanotan (Australia) Pty Ltd.

The loan receivable by Epitan Ltd from EpiPharm Pty Ltd is non-interest bearing. Repayment of the loan will commence as EpiPharm's cash flow allows. A provision for non-recovery has been raised in the accounts of Epitan Ltd to the extent that a difficiency in net assets exists in EpiPharm Pty Ltd.

Director related transaction and entities

The following transactions and relationships were in existence as at 30 June 2005 between directors of the Company and their related entities.

Sub-lease between the company and Weighton Pty Ltd ("Weighton")
The company has entered into a sub-lease agreement for level 10, 52 Collins Street, Melbourne with Weighton Pty Ltd. Dr Millen is a director of Weighton Pty Ltd. The lease is guaranteed by Dr Millen and is on the same commercial terms as the head lease. Epitan remains the principle guarantor of the lease with a total liability of $65,256 with the liability expiring on 27 February 2006.

Consultancy payments to Bellou Management Pty Ltd
Under the terms of a consultancy agreement entered into between the company and Dr Millen the company is to pay $100,000 to Dr Millen over the 12 months following his resignation as Managing Director in January 2005. The payments are made to Dr Millen's management company Bellou Management Pty Ltd with $41,666 paid during 2005.

Common director of the company and pSiMedica Pty Ltd
Dr R Aston is a director of pSiMedica. During the year Epitan Limited paid $20,000 to pSiMedica for development costs. The relationship between both entities is ongoing.

Common directors of the company and Melanotan Corporation (Inc)
Two of the Non Executive Directors of the company, Dr Helmer Agersborg and Dr Terence Winters, also hold directorships with Melanotan Corporation Inc. Melanotan Corporation Inc granted an exclusive sub licence for the Melanotan technology to Melanotan Australia Pty Ltd. One of the terms of this agreement is the payment of royalties to Melanotan Corporation Inc of 3.5% of the net selling price upon commercialisation of the technology.

19. RELATED PARTY DISCLOSURES (cont'd)

Equity instruments of directors

Interests at balance date

Interests in equity instruments of Epitan Limited held by directors of the reporting entity and their director-related entities:

	Ordinary Shares Fully Paid		Options over Ordinary Shares	
	2005 Number	2004 Number	2005 Number	2004 Number
W. A. Millen	11,126,375	17,726,375	1,500,000	-
H.P.K. Agersborg	1,008,105	750,000	250,000	250,000
T. E. Winters	5,024,533	16,065,415	250,000	250,000
S.R. McLiesh	-	-	1,000,000	1,000,000
R. Aston	-	-	-	-
I.M. Kirkwood	645,382	522,382	1,875,000	875,000

All equity dealings with directors have been entered into with terms and conditions no more favourable than those that the consolidated entity would have adopted if dealing at arm's length.

20. SEGMENT INFORMATION

The consolidated entity operates in the biotechnology and in the pharmaceutical products industries.
The consolidated entity operates predominantly in Australia.

Segment Revenue & Results	Biotechnology		Pharmaceutical Products		Consolidated	
	2005	2004	2005	2004	2005	2004
Interest Revenue (unallocated)	-	-	-	-	476,937	355,235
Sales	-	-	124,622	-	124,622	-
Total Revenue	-	-	124,622	-	601,559	355,235
Results	(9,862,761)	(7,337,741)	(1,166,270)	(251,989)	(11,029,031)	(7,589,730)

Segment Assets & Liabilities	Biotechnology		Pharmaceutical Products		Total	
	2005	2004	2005	2004	2005	2004
Assets						
Current assets	4,860,672	5,682,230	384,836	-	5,245,508	5,682,230
Non-current assets						
– Other	3,937,155	4,564,794	872,982	-	4,810,137	4,564,794
Total assets	8,797,827	10,247,114	1,257,818	-	10,055,645	10,247,114
Liabilities						
Current Liabilities	2,383,879	1,370,339	193,543	-	2,577,422	1,370,339
Non-current liabilities						
– Provisions	21,390	22,103	2,569	-	23,959	22,103
Equity	6,392,558	8,854,672	1,061,706	-	7,454,264	8,854,672
Total Liabilities	8,797,827	10,247,114	1,257,818	-	10,055,645	10,247,114

21. FINANCIAL INSTRUMENTS

(a) Interest rate risk

The consolidated entity's exposure to interest rate risks and the effective interest rates of financial assets and financial liabilities, both recognised and unrecognised at the balance date, are as follows:

	Weighted Average Effective Interest Rate		Non-Interest Bearing		Balances Subject to a Floating Interest Rate		Total	
	2005	2004	2005	2004	2005	2004	2005	2004
	%	%	$	$	$	$	$	$
(i) Financial Assets								
Cash at bank, deposits & income securities	5.75	5.80	187,876	171,046	4,574,744	5,309,322	4,762,620	5,480,367
Receivables	N/A	N/A	136,610	78,349	-	-	136,610	78,349
Total			**324,486**	**249,395**	**4,574,744**	**5,309,322**	**4,899,230**	**5,558,716**
(ii) Financial Liabilities								
Payables	N/A	N/A	2,484,505	1,282,558	-	-	2,484,505	1,282,558
Total			**2,484,505**	**1,282,558**	**-**	**-**	**2,484,505**	**1,282,558**

(b) Net fair values

All financial assets and liabilities have been recognised at the balance date at their net fair values.

(c) Credit risk exposures

The consolidated entity's maximum exposure to credit risk at balance date in relation to each class of recognised financial assets is the carrying amount of those assets as indicated in the statement of financial position.

22. EMPLOYEE BENEFITS

	Consolidated		Epitan Limited	
	2005 $	2004 $	2005 $	2004 $
(a) The aggregate employee benefit liability is comprised of :				
– Provision for annual leave	92,917	87,781	76,288	87,781
– Provision for long service leave	23,959	22,103	21,387	22,103
– Accrued wages, salaries and on costs	28,437	12,526	24,412	12,526
	145,313	122,410	122,087	122,410

(b) Employee Option Plan

An employee option plan has been established where directors, staff and consultants are issued with options over the ordinary shares of Epitan Limited. The options, issued for nil consideration, are issued in accordance with performance guidelines established by the directors of Epitan Limited. The options are issued for a term of 3 and 5 years, however this does vary for the various plan participants. The options cannot be transferred and will not be quoted on the ASX.

Information with respect to the number of options granted under the employee option scheme is as follows:

	2005		2004	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Balance at beginning of year	3,675,000	$0.26	3,000,000	$0.20
– granted	1,675,000	$0.86	1,175,000	$0.22
– forfeited	-	-	-	-
– exercised	(750,000)	$0.10	(500,000)	$0.30
Balance at end of year	4,600,000	$0.50	3,675,000	$0.26
Exercisable at end of year	1,766,666	$0.18	1,666,667	$0.11

The following table summarises information about options outstanding and exercisable at 30 June 2005

		Number of options :	
Exercise price	**Expiry date**	**Outstanding**	**Exercisable**
$0.10	22 October 2006	1,000,000	1,000,000
$0.90	31 December 2007	175,000	-
$0.66	01 January 2008	375,000	-
$0.16	02 February 2008	750,000	500,000
$0.29	13 June 2008	500,000	166,666
$0.87	18 April 2009	300,000	100,000
$0.90	31 January 2010	1,000,000	-
$0.75	28 February 2010	500,000	-
		4,600,000	1,766,666

23. ASSETS PLEDGED AS SECURITY

Term deposits held as security for bank guarantees:

Amount	Ending security date	In favour of	Purpose
130,075	7 June 2008	Overland Properties Pty Ltd	Rental security bond for Level 13, 1 Collins Street Melbourne
520,000	7 June 2008	Key Equipment Finance Pty Ltd	CRM Computer system
650,075			

24. COMMITMENTS OF EXPENDITURE

Australian dollar equivalents of commitments for expenditure.
Foreign currency amounts are unhedged.

	Consolidated 2005	Epitan Ltd 2005
(a) Capital expenditure commitments		
AU Dollars	-	-
US Dollars	-	-
Euro	80,645	-
British Pounds	-	-
Total	80,645	-
(b) Research & development commitments		
AU Dollars	651,779	651,779
US Dollars	1,190,231	1,056,897
Euro	2,482,584	2,482,584
British Pounds	136,310	136,310
Total	4,460,904	4,327,570
(c) Other expenditure commitments		
AU Dollars	83,250	60,000
US Dollars	-	-
Euro	48,387	48,387
British Pounds	119,048	119,048
Total	250,685	227,435
Total	**4,792,234**	**4,555,005**

25. SUBSEQUENT EVENTS

The Directors are not aware of any significant events that may have occurred subsequent to balance date, except that:

(i) On 6 July 2005 Mariner Corporate Finance was appointed to advise on strategies for capital raising and options for growth;

(ii) on 7 July 2005 a placement of 11,666,668 ordinary shares and granting of 1 million unlisted options equating to $3.5 million. The financial effect of this transaction has not been recognised at year end;

(iii) on 27 July 2005 the company announced that its clinical trial strategy would focus on Polymorphous Light Eruption (PMLE) as the principle indication for its leading drug candidate, EPT1647;

(iv) on 2 August 2005 the company announced the retirement of its Clinical Manager;

(v) on 4 August 2005 the company issued a notice of meeting for an EGM to be held on 5 September 2005 to seek ratification of previous issues by the company of shares and options; and

(vi) on 18 August 2005 the company announced that Exorex® had been recommended by the PBAC for reimbursement and the acquisition of a fifth dermatology product following the in-licensing of Zorac® from Allergan, Inc.

26. IMPACT OF ADOPTING AASB EQUIVALENTS TO IASB STANDARDS

Epitan Limited has reviewed its accounting policies and financial reporting in light of the transition from current Australian Standards to Australia Equivalents of International Financial Reporting Standards (IFRS). Set out below are the key areas where accounting policies will change and may have an impact on the consolidated financial report of Epitan Limited.

Impairment of Assets

Under the Australian equivalent of IAS 36 **Impairment of Assets** the recoverable amount of an asset is determined as the higher of the net selling price and its value in use. This will result in a change in the consolidated entity's accounting policy which determines the recoverable amount of an asset will be recognised sooner and that the amount of write downs will be greater. The adjustment for the consolidated entity is expected to be $nil.

Intangible Assets

Under the Australian entities to IAS 38 **Intangible Assets**, costs incurred in the research phase of the development of an internally generated intangible must be expensed. This will result in a change in the consolidated entities current accounting policy which allows for the capitalization of costs incurred in the research phase of an internally generated intangible asset were future benefits are expected beyond reasonable doubt. Under the new policy, all research costs will be written off as incurred. As the consolidated entity has not capitalised any research and development costs to date, the adjustment to the consolidated entity is expected to be $nil.

Share Based Payments

Under AASB 2 **Share Based Payments**, the company will be required to determine the fair value of options issued to employees as remuneration and recognise an expense in the Statement of Financial Performance. This standard is not limited to options and also extends to other forms of equity based remuneration. It applies to all share based payments issued after 7 November 2002 which have not vested as at 1 July 2005. For the financial year ended 30 June 2006 the fair value of options is required to be shown as an expense to the company together with comparative information for 2005. Based upon options outstanding as at 30 June 2005 the expense for each year will be:

2005: 266,987 2006: 252,770

Income Taxes

Under the Australian equivalent to IAS 12 **Income Taxes**, the consolidated entity will be required to use a balance sheet liability method which focuses on the tax effects of transactions and other events that affect amounts recognized in either the Statement of Financial Position or a tax based balance sheet. As the consolidated entity has significant tax losses at 30 June 2005, expected adjustment to the consolidated entity is $nil.

27. ADDITIONAL COMPANY INFORMATION

Epitan Ltd is a listed public company incorporated and operating in Australia.

The registered office is:

Level 13,
1 Collins Street
Melbourne VIC 3000
Ph: (03) 9660 4900

DIRECTORS' DECLARATION

In the opinion of the directors:

1 the financial statements and notes, of the company and of the consolidated entity, are in accordance with the Corporations Act 2001, including:
   (a) giving a true and fair view of the company's and the consolidated entity's financial position as at 30 June 2005 and of their performance for the year ended on that date;
   (b) complying with Accounting Standards and the Corporations Regulations 2001; and
2 there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

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

I. M. KIRKWOOD

DIRECTOR

Dated this 30th day of August, 2005.

William Buck
Business Advisors
Chartered Accountants

Independent audit report to members of Epitan Limited and controlled entities
ABN: 88 089 644 119

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for both Epitan Limited (the Company) and the consolidated entity, for the year ended 30 June 2005. The consolidated entity comprises both the company and the entities it controlled during that year.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the *Corporations Act 2001*. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

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

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

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

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

William Buck
Business Advisors
Chartered Accountants

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

Independence

In conducting our audit, we followed applicable independence requirements of Australian accounting ethical pronouncements and the *Corporations Act 2001*.

Audit opinion

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

(a) the Corporations Act 2001, including:

(i) giving a true and fair view of Epitan Limited and consolidated entity's financial position as at 30 June 2003 and of their performance for the year ended on that date; and

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

(b) other mandatory financial reporting requirements in Australia.

Inherent Uncertainty Regarding Continuation as a Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As detailed in Note 1(a) to the financial report, the ability of the company and consolidated entity to continue as a going concern is dependent upon its ability to raise sufficient further capital to finance the research and development of its drug candidate EPT1647. The directors are confident that the company and consolidated entity will continue as a going concern and will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

William Buck
Chartered Accountants

Ken Glynn
Partner

Dated this 30th day of August 2005.
Melbourne, Australia.

William Buck
Business Advisors
Chartered Accountants

Independence declaration to the directors of Epitan Limited and controlled entities
ABN: 88 089 644 119

Auditors' Independence Declaration

As lead auditor for the audit of Epitan Limited and controlled entities for the year ended 30 June 2005, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

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

This declaration is in respect of Epitan Limited and controlled entities during the year.

William Buck
Chartered Accountants

Ken Glynn
Partner

Dated this 31st day of August 2005.
Melbourne, Australia.

ADDITIONAL INFORMATION REQUIRED BY THE AUSTRALIAN STOCK EXCHANGE

Additional information required by the Australian Stock Exchange and not shown elsewhere in this report is as follows. The information is current at 30 August 2005.

1. Shareholding

(a) Distribution of Shareholders Number

Category (size of Holding)	Ordinary Shares
1 – 1,000	343
1,001 – 5,000	1,323
5,001 – 10,000	820
10,001 – 100,000	1,053
100,001 – and over	131
Total	**3,670**

(b) The number of shareholdings held in less than marketable parcels is 374 for ordinary shares.

(c) The names of the substantial shareholders listed in the holding company's register as at 30 August 2005:
Weighton Pty Ltd

(d) Voting Rights
Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the company.

(e) 20 Largest Shareholders – Ordinary Shares

Name	Number of Ordinary Fully Paid Shares Held	% Held of Issued Ordinary Capital
1 ANZ Nominees Limited	21,555, 543	15.37
2 Weighton Pty Ltd	11,116,375	7.93
3 Westpac Custodian Nominees Limited	7,599,913	5.42
4 Mr Damien Wayne Millen	6,000,000	4.28
5 Citicorp Nominees Pty Limited	5,080,391	3.62
6 Columbine Venture Fund II LP	4,124,698	2.94
7 National Nominees Limited	3,967,557	2.83
8 Merrill Lynch (Australia) Nominees Pty Ltd	2,776,935	1.98
9 Competitive Technologies Inc	1,913,032	1.36
10 Chartpoint Financial Services Pty Ltd	1,673,813	1.19
11 Mr John Robinson	1,235,000	0.88
12 Mr Robert Thomas Dorr	1,159,320	0.83
13 Grunwald Design International Pty Ltd	988,888	0.71
14 Mac Eugene Hadley	909,320	0.65
15 Mr Norman Levine	909,320	0.65
16 Lippo Securities Nominees (BVI) Ltd	790,000	0.56
17 Dr Helmer P K Akersborg	750,000	0.53
18 Mr Terence Edwin Winters + Mrs Eileen Young Winters	750,000	0.53
19 JFR Investments Pty Ltd	642,128	0.46
20 Mr Trent Sheldon Redding	563,000	0.40

ADDITIONAL INFORMATION REQUIRED BY THE AUSTRALIAN STOCK EXCHANGE (cont'd)

2. Company Secretary

The name of the Company Secretary is David Iles.

3. Registered Office

The address of the principal registered office in Australia is Level 13, 1 Collins Street, Melbourne, Victoria, 3000.
Telephone (03) 9660 4900.

4. Register of Securities

Computershare Investor Services Pty Ltd
Yarra Falls,
452 Johnston Street
Abbotsford, VIC 3067
GPO Box 2975
Melbourne VIC 3001

5. Stock Exchange Listing

Quotation has been granted for all the ordinary shares of the company on all Member Exchanges of the Australian Stock Exchange Limited (ASX code: EPT).

6. Restricted Securities

Restricted securities on issue at 30 June 2005: Nil

GLOSSARY

alpha-Melanocyte Stimulating Hormone or α-MSH
a peptide hormone which stimulates the production and release of eumelanin (melanogenesis) in the skin

cGMP
current Good Manufacturing Practice. Methodologies and procedures mandated by regulatory authorities for manufacturing and testing of pharmaceutical products to ensure the manufacture of safe clinical and commercial supplies

Erythema
the reddening of the skin following damage e.g. sunburn

Eumelanin
melanin comes in two types: phaeomelanin (red to yellow) and eumelanin (dark brown to black). α-MSH acts specifically to stimulate eumelanin synthesis

FDA
USA Food and Drug Administration

Idiopathic
without a known cause

Melanin
the dark pigment synthesised by melanocytes; responsible for skin pigmentation

Melanocytes
the cells in the skin that produce melanin

Melanogenesis
the process whereby melanin is produced in the body

Melanocortin 1 receptor or MC1-R
the receptor on a melanocyte cell to which EPT1647 binds promoting the production of eumelanin

MHRA
the UK's Medicines and Healthcare products Regulatory Agency

PBS
Australian Pharmaceutical Benefits Scheme

Phase I
the first trials of a new drug candidate in people. Phase I trials are designed to evaluate how a new drug candidate should be administered, to identify the highest tolerable dose and to evaluate the way the body absorbs, metabolises and eliminates the drug

Phase II
a Phase II trial is designed to continue to test the safety of the drug candidate, and begins to evaluate whether and how well the new drug candidate works (efficacy). Phase II trials often involve larger numbers of patients

Phase III
an advanced-stage clinical trial that should conclusively show how well a therapy based on a drug candidate works. Phase III trials can be longer and typically much larger than Phase II trials, and frequently involve multiple test sites. Their goal is the statistical measurement of how well a therapy clinically improves the health of patients undergoing treatment

PD
pharmacodynamics is the study of the time course of a drug's actions in the body

Photodermatoses
diseases in which skin changes, e.g. rashes, are induced by exposure to UV radiation

PK
pharmacokinetics is the study of the time course of absorption, distribution and excretion of a drug in the body

PMLE
polymorphous (or polymorphic) light eruption; a reaction attributed to UV light that occurs in "light sensitive" individuals, also known as "sun poisoning" or "sun allergy". Small red pimples and blisters appear on the skin shortly after exposure to sunlight

Subcutaneous
beneath the skin

Sustained release
process whereby the drug is released from a formulation over a period of time

TGA
Therapeutic Goods Administration, Australia's regulatory agency for medical drugs and devices

Topical
cream, gel or spray applied to the skin

Transdermal
also known as transdermic, percutaneous, transcutaneous, through the unbroken skin; refers to medications applied directly to the skin (creams, ointments or sprays) or in release forms (patches)

UV
ultraviolet - refers to particular colours of light which are so blue that they cannot be seen by the human eye. UV light reacts with human skin to cause suntans and sunburns. Repeated sunburn injury is a known precursor to skin cancer. UV light consists of UV-A, UV-B and UV-C (UV-C does not penetrate the atmosphere)

UV-A
UV, type A - rays of light from the sun that are not visible but can cause damage to the skin. Approximate wavelength: 320 to 400 nanometres. UV-A rays penetrate deeply into the skin. "The sun ageing rays"

UV-B
UV, type B - rays of light from the sun that are not visible but can cause damage to the skin. Approximate wavelength: 285 to 320 nanometres. They cause cellular damage to outer layers of the skin, causing dryness and ageing. "The sun burning rays"

Corporate directory
30 June 2005

Registered Office
Level 13, 1 Collins Street, Melbourne VIC 3000 Australia
Telephone +61 3 9660 4900
Facsimile +61 3 9660 4999
Email mail@epitan.com.au
www.epitan.com

Directors
Non-Executive Chairman
Dr Wayne Millen
Non-Executive Deputy Chairman
Dr Helmer Agersborg
Non-Executive Directors
Dr Roger Aston
Stanley McLiesh
Dr Terry Winters
Managing Director and Chief Executive Officer
Iain Kirkwood

Managers
Project Manager – EPT1647
Michael Kleinig
Manager Regulatory Affairs
Dr Dennis Wright
Manager Pharmaceutical Products
Chris Rossidis
Manager Investor Relations and Marketing
Davina Gunn
Group Accountant and Company Secretary
David Iles

Australian Stock Exchange
The company's shares are quoted on the official list of the Australian Stock Exchange:
ASX Code: EPT
The company's shares are also quoted on other international exchanges as follows:
Germany: Frankfurt and Xetra: UR9
USA: Level 1 American Depositary Receipt Code: EPTNY
ADR Custodian: Bank of New York

Auditor
William Buck
Level 2, 215 Spring Street
Melbourne VIC 3000 Australia

Banker
National Australia Bank
Western Branch
460 Collins Street,
Melbourne VIC 3000

Corporate Finance Advisors
Australia – Mariner Corporate Finance
Level 20, 101 Collins Street
Melbourne VIC 3000

UK – Teathers & Greenwood Limited
Beaufort House
15 St Botolph Street
London EC3A 7QR
UK

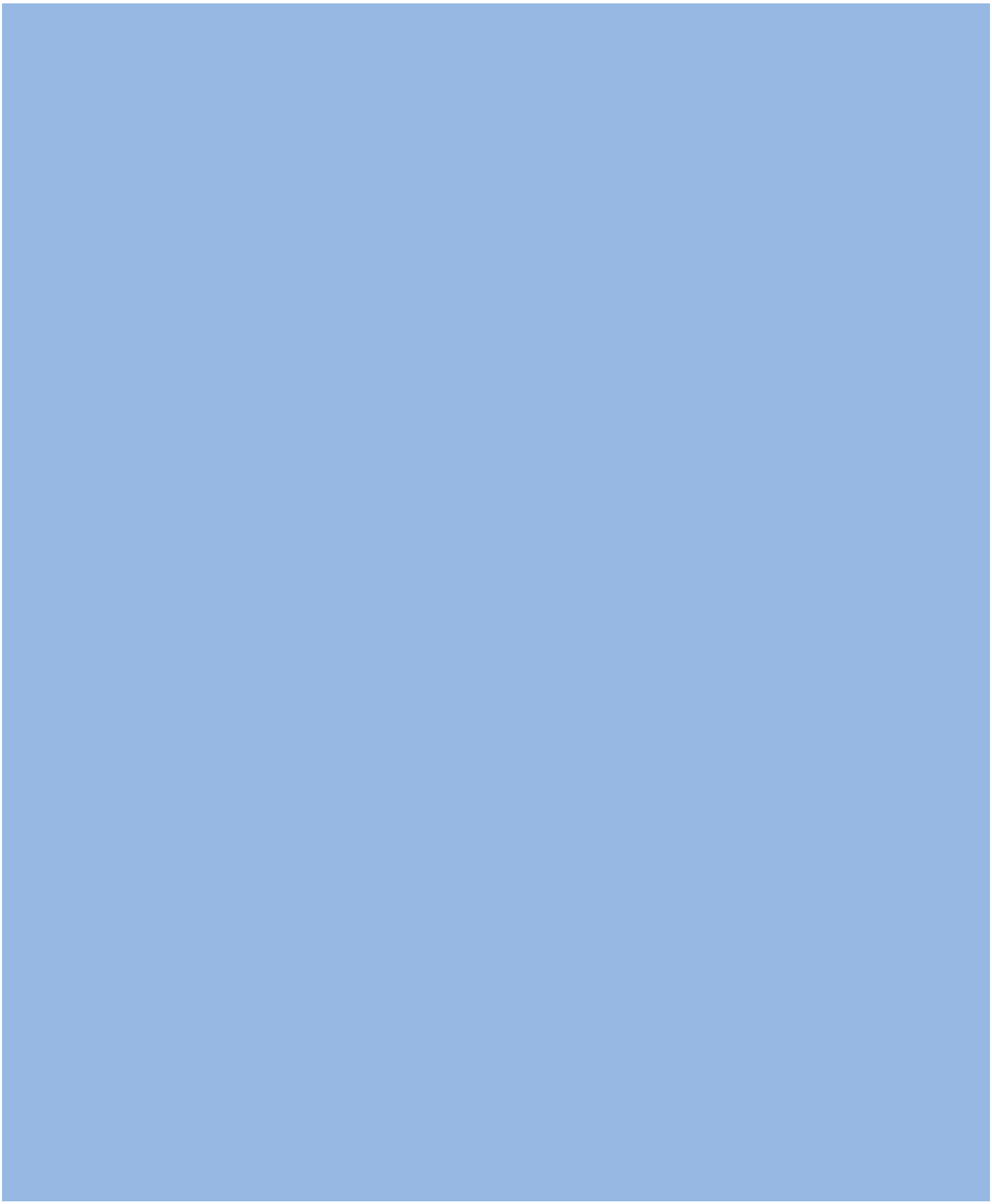
Lawyers
Australia – Minter Ellison
Rialto Towers
Level 16
525 Collins Street
Melbourne VIC 3000

UK - Minter Ellison
10 Dominion Street
London EC2M 2EE
UK

UK – Reed Smith LLC
Minerva House
5 Montague Close
London SE1 9BB
UK

USA - Reed Smith LLC
599 Lexington Avenue
29th Floor
New York, NY 10022

Share Registry
Computershare Investor Services Pty Ltd
Yarra Falls, 452 Johnston Street
Abbotsford, VIC 3067
Tel: +61 3 9415 4000



Registered Office

Level 13, 1 Collins Street, Melbourne
VIC 3000 Australia
Telephone +61 3 9660 4900
Facsimile +61 3 9660 4999
Email mail@epitan.com.au
www.epitan.com