Phylogica Limited

ACN 098 391 961

Appendix 4D

Half-year Report

Period ending 31 December 2008

Results for announcement to the market

Operating Performance	% Increase/ (Decrease)	31 Dec 2008 $,000	31 Dec 2007 $,000
Revenue for Ordinary Activities	Up 12 %	630	561
(Loss) from ordinary activities after tax attributable to members	Up 24 %	(2,858)	(2,297)
Net (Loss) for the half year attributable to members	Up 24 %	(2,858)	(2,297)

Dividends

There are no dividend or distribution reinvestment plans in operation and there have been no dividend or distribution payments during the financial half year ended 31 December 2008.

Comments

During the 6 months, Phylogica Limited continued to pursue the discovery and development of its novel technology platform and unique peptide libraries.

On 26th February 2009, the Company announced that convertible note agreements had been signed to the value of $1.040 million, subject to shareholder approval at a meeting to be held on 27th March. Approval will also be sought at that meeting for the placement of up to $1.2 million in shares and an additional $2.0 million in convertible notes.

Net tangible assets per ordinary security	31 December 2008	31 December 2007
Net tangible assets	$849,813	$4,880,809
Number of shares on issue at reporting date	163,751,764	143,501,764
Net tangible assets per ordinary security	0.5 cents	3.4 cents

Control Gained or Lost over Entities

The Company gained control of Dynamic Microbials Ltd, by purchasing the 62.2% of issued capital which it did not own previously, with effect from 30th November 2008. The contribution of Dynamic Microbials Ltd to the Group loss for the half year was $12,500 for the month of December 2008, following acquisition.

Associates and joint ventures

Not applicable

Foreign Entities Accounting Framework

Not applicable

Audit/Review Status

This Appendix 4D and the attached interim financial report are based on accounts which have been subjected to review. The accounts are not subject to audit dispute or qualification.

The attached interim financial report for the half-year ended 31 December 2008 forms part of this Appendix 4D. This half-year report is to be read in conjunction with the Phylogica Limited 2008 annual financial report and the notes contained therein.

Directors

Mr Joachim von Roy
Executive Chairman

Mr Harry Karelis
Non-executive Deputy Chairman

Mr Bruce McHarrie
Non-executive Director

Dr Douglas Wilson
Executive Director

Dr Paul Watt
Executive Director

Contents | **Page**

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Incorporated in Western Australia, October 2001
Listed on the Australian Stock Exchange (ASX)
Home Exchange: Perth
Code: PYC ordinary shares

Phylogica Limited
Directors' Report

The directors present their report on Phylogica Limited and its controlled entity (referred to in these financial statements as "the Group" or "Phylogica") together with the financial report for the half-year ended 31 December 2008 and the review report thereon.

Directors

The Directors of the Company at any time during or since the end of the half-year are:

Non-executive
Mr Harry Karelis
Mr Bruce McHarrie
Dr Mark Pierce — Resigned 4 December 2008

Executive
Dr Doug Wilson — Appointed CEO December 2008
Mr Joachim von Roy
Dr Paul Watt

Unless otherwise indicated, all Directors held their position as a Director throughout the entire half year and up to the date of this report.

Review of operations

The principal activity of Phylogica during the period was the discovery and development of novel therapeutics directed at proteins and their interactions.

Activities continue to progress rapidly for Phylogica with the past 6 months seeing important and significant technology and research results.

The Company recorded a loss of $2,858,366 for the six months to 31 December 2008 (31 December 2007: $2,297,203). Expenditure continues to be in line with budget.

Highlights of the period include:

- Phylogica's Rheumatoid Arthritis program (funded by $2.7 million Commercial Ready Grant) continues to meet all milestones, and is progressing towards its successful conclusion in mid-2009.

- Development of the company's proprietary Phylomer® technology has continued to advance; it has now been demonstrated that Phylogica's lead peptides are able to have their potency improved significantly (by a process called affinity maturation), and to have their circulation times increased (via a process called PEGylation), thereby improving their drug-like behaviours to the levels required for a successful drug. Data to validate these molecules as drug leads is being generated in a number of different models

- Phylogica's first spin-off company, Dynamic Microbials Ltd., has made significant progress in discovering and characterising potent new anti-microbial peptides; these have been tested against strains of drug-resistant organisms such as *Staphylococcus aureus* and *Acinetobacter baumannii*, and demonstrate potent activity levels with low toxicity. Based on this success, Phylogica has issued shares to reacquire all rights to anti-microbial drug applications, and is actively seeking collaborators to advance these programs.

Phylogica continues to build on its strategy of collaboration with Australian and internationally recognised centres of excellence and scientists in the pursuit of its objectives.

The Directors do not consider that forecasting future performance is anything other than speculative, as it will depend upon the success of the Company's further development and commercialisation of its intellectual property into drug candidates or licensing opportunities.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 5 and forms part of the Directors' report for the half-year ended 31 December 2008.

Signed in accordance with a resolution of the directors:

Bruce McHarrie
Director

Perth
26th February 2009

HLB Mann Judd

Accountants | Business and Financial Advisers

Auditor's Independence Declaration

As lead auditor for the review of the financial report of Phylogica Limited for the half-year ended 31 December 2008, I declare that to the best of my knowledge and belief, there have been no contraventions of:

a) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

b) any applicable code of professional conduct in relation to the review.

This declaration is in respect of Phylogica Limited.

Perth, Western Australia
26 February 2009

N G NEILL
Partner, HLB Mann Judd

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Phylogica Limited
Interim income statement

For the half year ended 31 December 2008	Note	Consolidated 31 Dec 2008 $	31 Dec 2007 $
Commercial and other income		**105**	74,422
Government grant income		**558,469**	325,434
Gross profit		**558,574**	399,856
Contract research costs		**(996,864)**	(1,125,709)
Personnel expenses		**(640,087)**	(939,836)
Depreciation, amortisation and impairment		**(937,592)**	(47,684)
Professional services		**(220,186)**	(195,553)
Travel and accommodation		**(71,373)**	(165,606)
Licenses		**(9,815)**	(8,135)
Intellectual property maintenance		**(203,173)**	(83,648)
Laboratory consumables		**(246,954)**	(124,155)
Occupancy costs		**(36,189)**	(49,045)
Other operating expenses		**(126,586)**	(118,616)
Results from operating activities		**(2,930,245)**	(2,458,131)
Interest income		**71,879**	160,928
Loss before income tax		**(2,858,366)**	(2,297,203)
Income tax benefit	3	**-**	-
Loss for the period attributable to the members of Phylogica Limited		**(2,858,366)**	(2,297,203)
		Cents	Cents
Basic earnings per share	8	**(1.9)**	(1.7)

Diluted earnings per share are not shown because potential ordinary shares on issue at the comparative balance dates are not considered dilutive.

The income statement is to be read in conjunction with the notes to the interim financial statements set out on pages 10 to 13.

Phylogica Limited
Interim balance sheet

For the half year ended 31 December 2008

	Note	Consolidated 31 Dec 2008 $	30 June 2008 $
Current assets			
Cash and cash equivalents		**1,542,765**	3,232,073
Trade and other receivables		**152,236**	60,110
Other		**15,770**	31,282
Total current assets		**1,710,771**	3,323,465
Non-current assets			
Property, plant and equipment	4	**168,650**	195,537
Total non-current assets		**168,650**	195,537
Total assets		**1,879,421**	3,519,002
Current liabilities			
Trade and other payables		**608,847**	428,764
Non Interest-bearing liabilities		**1,269**	7,087
Employee benefits	9	**78,351**	287,734
Deferred government grants		**317,842**	90,319
Total current liabilities		**1,006,309**	813,904
Non-current liabilities			
Employee benefits		**23,299**	10,460
Total non-current liabilities		**23,299**	10,460
Total liabilities		**1,029,608**	824,364
Net assets		**849,813**	2,694,638
Equity			
Issued capital	2	**17,688,073**	16,675,573
Accumulated losses	2	**(16,838,260)**	(13,980,935)
Total equity attributable to members of Phylogica Limited		**849,813**	2,694,638

The balance sheet is to be read in conjunction with the notes to the interim financial statements set out on pages 10 to 13.

Phylogica Limited
Interim statement of cash flows

For the half year ended 31 December 2008	Note	Consolidated 31 Dec 2008 $	31 Dec 2007 $
Cash flows from operating activities			
Income received		**786,269**	470,863
Cash paid to suppliers and employees		**(2,617,126)**	(3,517,590)
Cash used in operations		**(1,830,857)**	(3,046,727)
Interest received		**66,061**	159,442
Net cash from operating activities		**(1,764,796)**	(2,887,285)
Cash flows from investing activities			
Acquisition of property, plant and equipment	4	**(4,619)**	(83,305)
Net cash from investing activities		**(4,619)**	(83,305)
Cash flows from financing activities			
Proceeds from the issue of share capital	2	**-**	5,172,691
Payment of transaction costs	2	**-**	(207,008)
Cash acquired on acquisition of subsidiary		**80,107**	-
Net cash from financing activities		**80,107**	4,965,683
Net decrease in cash and cash equivalents		**(1,689,308)**	1,995,093
Cash and cash equivalents at 1 July		**3,232,073**	3,369,322
Cash and cash equivalents at 31 December		**1,542,765**	5,364,415

This statement of cash flows is to be read in conjunction with the notes to the interim financial statements set out on pages 10 to 13.

Phylogica Limited
Interim Statement of changes in equity

For the half year ended 31 December 2008

	Note	Consolidated 31 Dec 2008 $	31 Dec 2007 $
Total equity at the beginning of the period		**2,694,638**	2,196,662
Loss for the period		**(2,858,366)**	(2,297,203)
Issue of capital	*2*	**1,012,500**	5,172,691
Share capital transaction costs	*2*	**-**	(207,008)
Share based payments expense for the period		**1,041**	15,666
Total equity at the end of the half year		**849,813**	4,880,809

This statement of changes in equity is to be read in conjunction with the notes to the interim financial statements set out on pages 10 to 13

1. Significant accounting policies

Phylogica Limited is a company domiciled in Australia. The condensed consolidated interim financial report of the Company as at and for the six months ended 31 December 2008 comprises the Company and its subsidiary (together referred to as the "Group").

The annual financial report of the Company as at and for the year ended 30 June 2008 is available upon request from the Company's registered office at the address or at the Web site shown earlier in this report.

(a) Statement of compliance

The interim financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards AASB 134: Interim financial reporting and the Corporations Act 2001.

The interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the annual financial report of the Company as at and for the year ended 30 June 2008.

The interim financial report of the Group for the six months ended 31 December 2008 was authorised for issue by the directors on 26th February 2009.

(b) Significant accounting policies

The accounting policies applied by the Group in this interim financial report are the same as those applied by the Group in its financial report as at and for the year ended 30 June 2008.

(c) Estimates

The preparation of an interim financial report in conformity with AASB 134 *Interim Financial Reporting* requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

In preparing this interim financial report, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial report as at and for the year ended 30 June 2008.

(d) Financial Risk Management

The Group's financial risk management objectives and policies are consistent with that disclosed in the financial report as at and for the year ended 30 June 2008.

(e) Going Concern

The half-year financial report has been prepared on a going concern basis which assumes the settlement of liabilities and the realisation of assets in the normal course of business.

For the year ended 31 December 2008 the Group has incurred a loss of $2,858,366 (Dec 2007: loss of $2,297,203) and at 31 December 2008 the Company had working capital of $704,462 (June 2008: $2,509,561) including a cash and cash equivalents balance of $1,542,765 (June 2008: $3,323,073). Cash used in operating activities in the December 2008 half-year was $1,764,796 (2007: $2,887,285).

The Directors believe that it is appropriate to prepare the financial report on a going concern basis because:

- Since balance date the Group has entered into agreements for a capital raising of $1,040,000 by way of convertible notes to be issued to directors or their associates, subject to shareholder approval at a general meeting to be held on 27 March 2009.

Notes to the interim financial statements (continued)

1. Significant accounting policies (continued)

- Cash flow forecasts for the next twelve months demonstrate the ability of the Company to continue as a going concern on the basis that expected revenue is received and further capital is raised.
- To the extent that further equity is required the Directors are confident that a sufficient capital raising can be completed. In the event that further capital is not available within the required time frame, there is also the ability of the Group to suspend R&D activity until further capital is raised.

Should adequate equity raising or other actions mentioned above not be completed, there is significant uncertainty as to whether the company will be able to realise its assets and extinguish its liabilities in the normal course of business.

2 Issued capital and accumulated losses

(i) Issued and paid up capital

	31 Dec 2008 $	30 June 2008 $
163,757,764 ordinary shares fully paid (30 June 2008: 143,501,764)	**17,688,073**	16,675,573

The following movements in ordinary shares were recorded from 1 July 2008:

	Number of shares	$
Balance brought forward as at 1 July 2008	**143,501,764**	16,675,573
Shares issued for acquisition of Dynamic Microbials Ltd	**20,250,000**	1,012,500
Balance carried forward as at 31 December 2008	**163,751,764**	17,688,073

(ii) Accumulated losses

	31 Dec 2008 $	30 June 2008 $
Opening balance as at 1 July	**(13,980,935)**	(9,513,227)
Loss for the period	**(2,858,366)**	(4,483,938)
Share based compensation	**1,041**	16,230
Closing balance as at 31 December 2008 / 30 June 2008	**(16,838,260)**	(13,980,935)

(iii) Options

Options to acquire ordinary shares were issued to directors during the half year ended 31 December 2008, 300,000 to Dr. D. Wilson, one third of which vested during the half year, and 100,000 options (also vested) to Dr. M. Pierce, who has subsequently resigned as director

Total number of options on issue as at 31 December 2008 was 7,834,000:

Description	Options on Issue	Expiry Date	Exercise Price
Unquoted Options	6,650,000	30 June 2010	$0.25 ea
Unquoted Options	784,000	31 July 2010	$0.30 ea
Unquoted Options	400,000	31 July 2011	$0.25 ea

3 Income tax expense/benefit

Deferred tax assets have not been recognised as at 31 December 2008 because, at this stage of the Group's development, it cannot be considered as "probable" that future taxable profit will be available against which the Group can utilise the benefits.

4 Property, plant and equipment

Acquisitions and disposals

During the six months ended 31 December 2008, the Group acquired assets with a cost of $4,619 (six months ended 31 December 2007: $83,305).

5 Segment information

The Group comprises a single business segment comprising discovery and development of novel therapeutics and a single geographical location being Australia. The segment details are therefore fully reflected in the results and balances reported in the interim income and balance sheet statements.

6 Events subsequent to balance date

Subsequent to the interim balance sheet and up to the date of this report, there has not arisen any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Group, to affect significantly the operations of the Group, the results of those operations, or the state of the affairs of the Group in future financial years, other than the following:

On 26th February 2009 the Company announced to ASX a capital raising programme of up to $4.240 million. Convertible note agreements for $1.040 million have been signed with Biotech Capital Pty Ltd (1.0 million) and three directors ($40,000), subject to shareholder approval at a General Meeting to be held on 27th March 2009.

The Company is also seeking to place up to 24 million shares at 5 cents to raise up to $1.2 million and to place up to an additional $2 million of convertible notes. Approval for these issues will also be sought at the General Meeting on 27th March 2009.

7 Contingent liabilities and contingent assets

There are no known significant liabilities or contingent assets as at the date of this report.

8 Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the six months ended 31 December 2008 was based on the loss attributable to ordinary shareholders of $ 2,858,366 (six months ended 31 December 2007: $2,297,203) and a weighted average number of ordinary shares outstanding during the six months ended 31 December 2008 of 163,751,764 (six months ended 31 December 2007: 136,382,237), calculated as follows:

	31 Dec 2008	31 Dec 2007
(i) Profit attributable to ordinary shareholders	**$**	$
Loss for the period:		
Basic earnings	**(2,858,366)**	(2,297,203)
(ii) Weighted average number of ordinary shares		
Number of ordinary shares	**143,501,764**	122,810,999
Effect of shares issued	**4,072,011**	13,571,238
Weighted average number of ordinary shares at 31 December	**163,751,764**	136,382,237

9 Employee benefits

(i) Details of total employee benefits as at balance sheet date	**31 Dec 2008**	30 June 2008
	$	$
Current		
Liability for annual leave	**78,351**	92,711
Incentive provision	**-**	195,023
Non Current		
Liability for long service leave	**23,299**	10,460
Total employee benefits	**101,650**	298,194

(ii) Share-based payments

In 2005 the Company established an employee share option programme (ESOP) that entitles key management personnel and senior employees to purchase shares in the Company. The terms and conditions of the share option programme are disclosed in the ESOP rules approved by the General Meeting of shareholders held in November 2006. During the December 2008 half year a further 38,000 options (previously granted under the ESOP) vested. At 31 December 2008 a further 38,000 options remain to vest.

During the six months ended 31 December 2008, 400,000 options were granted to directors with approval of share holders.

9 Employee benefits (continued)

The terms and conditions of the grants made during the six months ended 31 December 2008 are as follows:

Grant date	Number of instruments	Vesting conditions	Contractual life of options
Option grant at 26 November 2008	200,000	None	2.68 years
Option grant at 26 November 2008	100,000	1 year of service	2.68 years
Option grant at 26 November 2008	100,000	2 years of service	2.69 years

(iii) Fair value of share options and assumptions for the six months ended 31 December 2008:

Number of Options	Grant Date	Expiry Date	Fair Value Per Option	Exercise Price	Price of Shares on grant date	Risk Free Interest Rate (%)	Estimated Volatility (%)	Number Vested at 31/12/08
400,000	26 Nov 08	31 Jul 11	$0.0194	$0.25	$0.05	3.3	100	200,000

200,000 options vested immediately and of the remaining 200,000 vest equally on the two subsequent anniversaries of grant.

10 Key management personnel expense

Key management personnel receive compensation in the form of short-term employee benefits, post-employment benefits and equity compensation benefits. Key management personnel received total compensation of $412,854 for the six months ended 31 December 2008 (six months ended 31 Dec 2007: $711,059). Total remuneration is included in share based payment expense, administration expenses, research and development expenses and other operating expenses in the income statement.

11 Related parties

Arrangements with related parties continue to be in place. For details of these arrangements, refer to the 30 June 2008 annual financial report.

12 Acquisition of Subsidiary

The net assets acquired in the business combination, and the goodwill arising, are as follows:

	Acquiree's carrying amount before business combination	Fair value adjustments	Fair value
Net assets acquired:			
Cash and cash equivalents	80,107	-	80,107
Trade and other receivables	135,924	-	135,924
Intangible assets	1,674,836	(768,748)	906,088
Property, plant and equipment	-	-	-
Deferred tax liabilities	-	-	-
Trade and other payables	(109,619)	-	(109,619)
Contingent liabilities	-	-	-
	1,781,248	(768,748)	1,012,500
Goodwill on consolidation	-		-
Total consideration			1,012,500

The cash outflow on acquisition is as follows:	
Net cash acquired with subsidiary	80,107
Cash paid	-
Net cash inflow	80,107

The initial accounting for the acquisition of Dynamic Microbials Limited has only been provisionally determined at reporting date. The consideration paid was the issue of 20,250,000 Phylogica shares fully paid at a price of $0.05 per share, a total value of $1,012,500 for the 62.2% of Dynamic Microbials which Phylogica did not previously own. Prior to acquisition, Phylogica owned 13,666,667 shares of the 36,166,667 Dynamic Microbials shares on issue.

Directors' declaration

In the opinion of the directors of Phylogica Limited and its controlled entity (the Group)

1. the financial statements and notes set out on pages 6 to 13 are in accordance with the Corporations Act 2001 including:
   (a) giving a true and fair view of the financial position of the Group as at 31 December 2008 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and

   (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* 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.

Signed in accordance with a resolution of the directors:

Bruce McHarrie
Director

Perth
26th February 2009

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of
Phylogica Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report, which comprises the balance sheet as at 31 December 2008, the income statement, statement of changes in equity, cash flow statement and notes to the financial statements for the half-year ended on that date, and the directors' declaration, of Phylogica Limited and the entities it controlled during the half-year ended 31 December 2008 ("consolidated entity").

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001*, including giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001.* As the auditor of Phylogica Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001* has been provided to the directors of Phylogica Limited on 26 February 2009.

Conclusion

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

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2008 and of its performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

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Continuation as a Going Concern

Without qualification to the conclusion expressed above, we draw attention to Note 1(e) in the financial report which indicates that the company will require additional sources of funding to enable it to carry out its objectives. If the company is unable to generate additional cash flows, there is significant uncertainty whether the company will continue as a going concern and, therefore, whether it will realise its assets and extinguish its liabilities in the normal course of business and at the amounts stated in the financial report.

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

Norman Glad

Perth, Western Australia
26 February 2009

N G NEILL
Partner