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INSTITUTIONAL RESEARCH

Healthcare & Biotechnology

INITIATION REPORT

Viragen (VRA) Speculative Buy

2007 Expected to be Pivotal Year for Viragen- Multiferon Approvals and Launches in Europe - MAb Partners in 2007

December 12, 2006

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Current Price \$0.18 Target Price \$0.65

Investment Highlights:

- 1) **Marketing Submission Expected in Sweden for Multiferon:** Multiferon was approved earlier this year in Sweden for 1st-line treatment of malignant melanoma. Viragen will be submitting the marketing request for the pre-filled syringes of Multiferon in Sweden soon. **We expect full approval in Sweden by Q2 2007.**
- 2) **European Partnership Expected in Q1 2007:** We believe that Viragen will name a European-wide distributor to service Sweden and to manage the approval and reimbursement processes in Germany, France, Italy, etc. **We believe that Multiferon could be sold in up to four of the largest European markets by the end of 2007.**
- 3) **Monoclonal Antibody Partnerships Expected in 2007:** We also believe that Viragen will name development partners for their other drug candidates, VG101 humanized anti-GD3 monoclonal antibody and VG102 humanized anti-CD55 monoclonal antibody. Investors should note that there have been many partnerships and acquisitions in the monoclonal antibody space as their clinical utility has been proven in several diseases.
- 4) **Progress Expected on Interferon-Beta Avian Transgenic Biomanufacturing Development:** In January 2006, Viragen successfully achieved expression Interferon β-1a by transgenic hens. Interferon-β is the active ingredient in several leading multiple sclerosis therapies and Avian Transgenics could produce large amounts of Interferon-β relatively inexpensively. In addition, the glycosylation pattern is more similar to that found in humans which could counter the neutralizing antibodies caused by resistance to recombinant versions of Interferon-β.
- 5) **Multiferon for Bioterrorism:** On November 28th, Viragen announced successful results of Multiferon providing 100% protection from lethal doses of rabbitpox virus (RPV), suggesting potent anti-viral properties ideal as a preventative drug candidate for lethal human smallpox as a result of bioterrorism.

Stock Data	Post 11/3 Funding	
52-Week Range	\$0.15 - \$0.80	
Shares Outstanding (Mill)	120.3	
Market Capitalization (\$Mill)	\$22.9	
Average Daily Volume	686,863	
Book Value/Share	\$0.05	
Price/Book	3.8X	
Cash / Securities (\$Mill)	\$6.0	
Cash/Share	\$0.05	
Enterprise Value (\$Mill)	\$40.0	
Current Ratio	2.9	
Debt (\$Mill)	\$10.3	
Dividend/Yield	\$0.00/0%	
Short Interest (Mill) / %	0.9 / 0.8%	

Results-FYE June	2004	2005	2006	2007E	2008E
Revenues (\$Mill)	\$0.3	\$0.3	\$0.4	\$0.3	\$10.3
EPS (Loss)	(\$.55)	(\$0.71)	(\$0.46)	(\$0.10)	(\$0.02)

Management	
CEO	Charles A. Rice
CFO	Dennis W. Healey



Price target and ratings changes over the past 3 years:
 Initiated December 12, 2006 – Spec. Buy – Target \$0.65

See last page for important disclosures and analyst certification.

- 6) **Warrants Could Provide Additional Cash:** The conversion of Viragen warrants with an exercise price of \$0.31 could provide additional operating cash during 2007. However, should the conversions not occur in sufficient quantity by Q1 2007 additional funding may be required.

Conclusion / Stock Valuation:

With the approval in Sweden for Multiferon in 1st-line malignant melanoma providing a regulatory pathway for European launch, we believe Viragen shares should appreciate as the company matures from a development-stage company to a commercialization-stage company. The anticipated European partnership announcement and regulatory approval of Multiferon pre-filled syringes in Sweden should provide near-term catalysts for Viragen. We further believe both VG101 and VG102 monoclonal antibody drug candidates are attractive for potential development partners. Viragen’s Avian Transgenics Biomanufacturing capability, while still early, could provide an industry-changing protein manufacturing platform.

TIMELINE	EVENT
Q4'06/Q1'07	Submit pre-filled syringe in Sweden
Q1 2007	Possible European Partnership
Q1/Q2	Possible additional funding
Q2 2007	Sweden Approval for pre-filled syringe
Q2/Q3 2007	Launch in Sweden
Q2 2007	AACR Presentation (April 14-18)
Q3 2007	Approvals in Germany / France / Italy
Q3/Q4 2007	Launch in Germany / France / Italy
2007	Partnership for VG101 (GD-3 MAb)
2007	Partnership for VG102 (CD-55 MAb)

Source: Dawson James Securities

Therefore, we are initiating Viragen with a Speculative Buy Recommendation with a 12-18 month Target Price of \$0.65 based both on our financial model using a 35x multiple on 2012 EPS with a 45% discount for risk as well as comparable company valuations (*see Financial Model and Comparable Company Valuations*). We believe that our target price would be subject to upward revision as details emerge regarding partnerships and Multiferon country approvals and launches.

COMPANY DESCRIPTION

Plantation, Florida-based Viragen (AMEX:VRA) is a biopharmaceutical company engaged in the research, development, manufacture and commercialization of therapeutic proteins for the treatment of cancers and viral diseases with operations in the U.S., Scotland and Sweden. Drug candidates includes Multiferon® (multi-subtype, human alpha interferon) uniquely positioned in valuable niche indications, such as high-risk malignant melanoma, other niche cancer indications and selected infectious diseases; VG101 (anti-GD3 antibody), a humanized monoclonal antibody that binds selectively to an antigen over-expressed on Stage IV malignant melanoma tumors and VG102 (anti-CD55 antibody), a highly novel humanized monoclonal antibody that binds selectively to an antigen that is over-expressed on nearly all solid tumors. Viragen also pioneered the development of the OVA™ System (Avian Transgenics), with the renowned Roslin Institute, the creators of “Dolly the Sheep”, as a revolutionary manufacturing platform for the large-scale, efficient and economical production of human therapeutic proteins and antibodies, by expressing these products in the egg whites of transgenic hens.

Viragen owns approximately 77% of Viragen International, Inc. (OTCBB:VGNI) and Viragen International owns 100% of ViraNative AB, a Swedish subsidiary, and 100% of Viragen (Scotland) Ltd., a Scottish research center. As of September 22, 2006, Viragen had 54 employees, 38 were research and development, manufacturing and quality assurance/quality control personnel and 16 were management, sales and/or administrative personnel.

MULTIFERON® (HuIFN-αLe - multi-subtype human leukocyte-derived alpha interferon)

INTRODUCTION

Viragen produces a human alpha interferon product called Multiferon (HuIFN-αLe) from human white blood cells which are also known as leukocytes. Multiferon is comprised of multiple subtype alpha interferons and is unique to any other interferon alpha product in the world.

✓ **Multiferon was approved in February 2006 in Sweden for the 1st-line treatment of high-risk malignant melanoma following dacarbazine (DTIC) after surgical removal of tumors.** This malignant melanoma indication is Viragen's primary focus in seeking broader approvals throughout the European Union.

✓ Multiferon is also approved for sale in Bulgaria, Chile, Mexico, the Philippines and Sweden as a 2nd-line therapy for the treatment of any and all diseases in which patients show an initial response to recombinant alpha interferon followed by treatment failure.

✓ Multiferon is also approved for sale in Egypt, Hong Kong, Indonesia and South Africa as a 2nd-line therapy for the treatment of Hairy Cell Leukemia (HCL) and Chronic Myelogenous Leukemia (CML).

WHAT IS INTERFERON?

Interferons are proteins produced by the immune system in response to viruses, bacteria, parasites and tumor cells. Interferons are in the cytokine class of glycoproteins. Interferons detect and attack foreign substances by slowing, blocking, or changing its growth or function. There are three classes of interferons: Alpha, Beta and Gamma which are denoted using the greek symbols α , β and γ , respectively.

Interferon- α (alpha) is secreted by leukocytes (B-cells and T-cells) and they stimulate macrophages and NK (natural killer) cells which have antiviral and anti-tumor effects. Interferon- α drugs have been approved for use in Hepatitis C, Viral Hepatitis as well as Chronic Myelogenous Leukemia and Solid Tumor Cancers (colon, melanoma, etc.) ✓ **Viragen's Multiferon is multi-subtype Interferon- α .**

Interferon- β (beta) is secreted by fibroblasts and also stimulates macrophages and NK cells and regulates the immune and inflammatory responses. Interferon- β drugs have been approved for use in Multiple Sclerosis.

Interferon- γ (gamma) is secreted by T-cells and NK lymphocytes and also regulates the immune and inflammatory responses. Interferon- γ has been approved for use in Chronic Granulomatous Disease and Osteopetrosis.

INTERFERON- α

Interferon was discovered in 1957 at the National Institute for Medical Research in London by Alick Isaacs and Jean Lindemann in the paper titled "Virus Interference. I. The interferon" in the *Journal and Proceedings of the Royal Society of London* based on their heat-inactivated influenza virus inhibiting the growth of live influenza virus in fragments of chick chorioallantoic membrane (CAM).

RECOMBINANT INTERFERON-A DRUGS

Interferon was very difficult and too expensive to manufacture in large quantities until the 1980's when a recombinant form of Interferon- α was created by placing an Interferon gene into E. coli bacteria which allowed for inexpensive mass-production. A longer-acting version was subsequently created by linking Interferon- α with polyethylene glycol in a process called pegylation, which increased the half-life of the drug.

The following are all approved for use in Hepatitis C, Viral Hepatitis, Chronic Myelogenous Leukemia (CML) and Solid Tumor Cancers:

- Roferon[®] (Interferon- α 2a) by Roche
- Intron A[®] (Interferon- α 2b) by Schering-Plough
- Pegasys[®] (Pegylated Interferon- α 2a) by Roche
- Peg-Intron[®] (Pegylated Interferon- α 2b) by Schering-Plough

In addition, other methods of increasing the half-life of Interferon are being explored such as Human Genome Sciences' Albuferon-Alpha which is Interferon- α 2b linked with albumin, a common human protein.

MULTI-SUBTYPE HUMAN LEUKOCYTE DERIVED INTERFERON- α

Interferon- α Subtypes

A shortcoming of the recombination process is that only a single subtype of Interferon can be manufactured. However, actual human Interferon- α has thirteen isoforms or subtypes (1,2,4,5,6,7,8,10,13,14,16,17,21) and may have several variants. Since Interferon- α 2 acts on MHC (major histocompatibility complex) Class I molecules (found on almost every nucleated cell) which present antigens to killer T-Cells, it was logical that medical research focused on Interferon- α 2 for anti-viral and anti-tumor drugs.

However, it is speculated that the combination of Interferon subtypes that are naturally found in the body may provide a broader spectrum of defense for the immune system. While the activities of specific subtypes Interferon- α 2a and - α 2b are generally well understood, research into the other subtypes found in the human body is ongoing.

✓ It should be noted that studies have shown approximately 20% of recombinant Interferon- α 2a and 10% of recombinant Interferon- α 2b patients generated neutralizing anti-Interferon- α antibodies (immunogenicity) which theoretically work against the drug by causing drug resistance. This occurs both with and without pegylation. **On the other hand, multi-subtype natural Interferon does not appear to cause immunogenicity.**

Below is a summary of the differences between multi-subtype and single-subtype recombinant forms of Interferon:

Drugs by Interferon Subtype		VIRAGEN	Hemispherix	Human Genome Sciences	Roche	Schering-Plough
Subtype	Strongest Activity	Multiferon (multisubtype)	Alferon (multisubtype)	Albuferon (recombinant)	Roferon/ Pegasys (recombinant)	Intron A/ Peg-Intron (recombinant)
α 1	Anti-Viral / Stimulates MHC Class II molecules	✓	Negligible*			
α 2	Anti-Viral / Stimulates MHC Class I molecules	✓	?	✓	✓	✓
α 4	ND		?			
α 5	Anti-Proliferative		?			
α 6	ND		?			
α 7	ND		?			
α 8	Anti-Viral	✓	?			
α 10	Anti-Proliferative	✓	?			
α 13	ND		?			
α 14	ND	✓	Negligible*			
α 16	ND		?			
α 17	Anti-Proliferative		?			
α 21	Anti-Proliferative	✓	?			
ND = Not Determined		? = Not Disclosed or Unknown		* = Competitive Testing Results		

Source: Dawson James Securities and Viragen Inc.

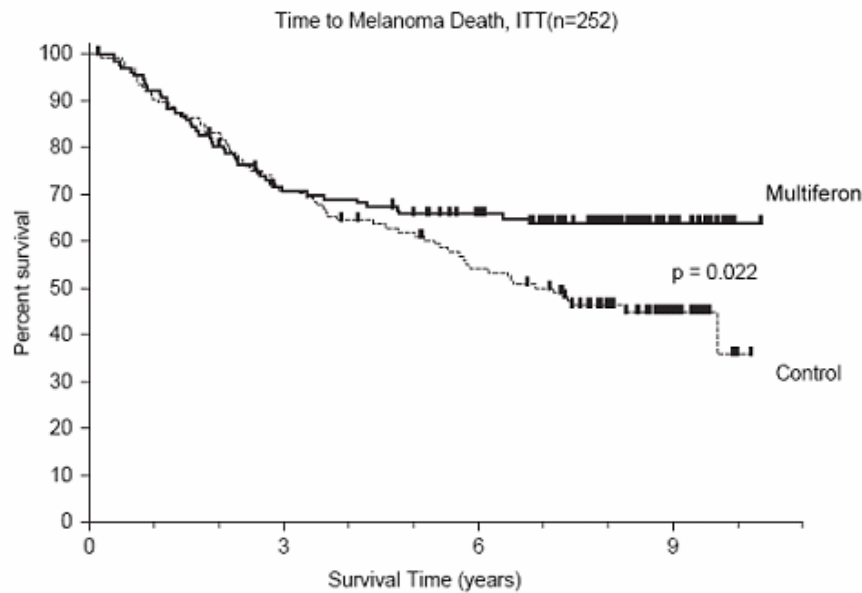
Hemispherx Alferon-N:

Alferon Interferon α -n3 (binds to same receptors as Interferon- α 2b) is approved for intralesional treatment of refractory or recurring external condylomata acuminata - human papillomavirus (HPV) in the U.S., Mexico, Germany, Singapore, and Hong Kong. Alferon is purified using immunoaffinity chromatography with a murine (mouse) monoclonal antibody. The purification of Alferon with a monoclonal antibody with a more narrow specificity most likely results in Alferon having a different subtype profile compared to Viragen's Multiferon.

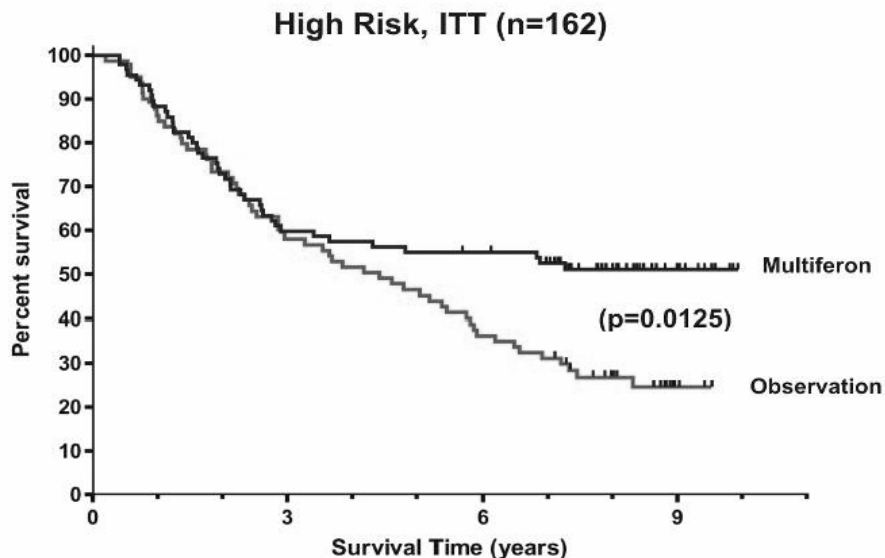
✓ Viragen uses a polyclonal purification technique which should provide a broader range of specificity for Multiferon.

MULTIFERON - LATEST RESEARCH

The June 2006 issue of *Acta Oncologica* published the research results titled “Long-term survival benefit after adjuvant treatment of cutaneous melanoma with dacarbazine and low dose natural interferon- α : A controlled, randomised multicentre trial” which demonstrated a statistically significant survival benefit ($p=0.022$) of Multiferon for long-term survival of melanoma patients ($n=252$) as shown:



✓ Even more importantly, in high-risk melanoma patients (Stage IIb, IIc, IIIa, IIIb, IIIc), Multiferon demonstrated statistically significant improvements in the Overall Survival rates:



High-Risk Melanoma (Stage IIb, IIc, IIIa, IIIb, IIIc) Patient Survival			
	Multiferon	Observation	Increase in Survival Rate
7 Year Overall Survival Rate	51.3%	30.3%	69%
9 Year Overall Survival Rate	50.9%	23.5%	117%

Trial Design and Results

It was a prospective, controlled, randomized, multimember study with 252 patients having totally resected cutaneous melanoma (248 in stage II-III and 4 in stage IV) and treated with either two doses of dacarbazine (DTIC) followed by a 6-month treatment with 3MU thrice weekly of Multiferon (n=128; Multiferon & DTIC Arm) or received no adjuvant treatment (n=124; Control Arm). Treatment was well tolerated. After a median follow-up of 8.5 years ITT analysis showed that the difference in survival was statistically significant with respect to melanoma-related deaths (HR=0.65, CI=0.46-0.97, p=0.022) and close to significance with respect to overall survival (HR 0.71, CI 0.49-1.00, p=0.052). The risk reduction of melanoma associated death, calculated by Cox proportional hazards modeling, after adjusting for identified predictive variables, was almost 50% (p=0.002). The overall efficacy of the treatment appeared to be mainly attributable to effects observed in patients with deep and/or metastasizing tumors (HR 0.60, CI 0.40-0.90, p=0.013).

The paper concluded “The results of the trial strongly suggest that adjuvant treatment of cutaneous melanoma with dacarbazine (DTIC) followed by low-dose natural Interferon-α gives a sustained long-term benefit regarding reduction of melanoma-associated mortality. In summary, the adjuvant treatment regimen used in the present study was found to be well tolerated and to give beneficial effects on survival that were particularly significant in patients with deep and/or metastasizing stages of melanoma but still free from distant metastases.”

MALIGNANT MELANOMA AND INTERFERON

Cases of malignant melanoma are rising faster than any other type of cancer globally. In Europe, where Multiferon will be launched for specifically for malignant melanoma, there were 55,000 new patients diagnosed in 2005.

✓ **Multiferon was approved in February 2006 in Sweden for the 1st-line treatment of high-risk malignant melanoma following dacarbazine (DTIC) after surgical removal of tumors.** This malignant melanoma indication is Viragen’s primary focus in seeking broader approvals throughout the European Union through the Mutual Recognition Procedure (MRP)

✓ **Dr. John Kirkwood, Professor and Vice Chairman for Clinical Research at the University of Pittsburgh School of Medicine Melanoma Center, summarized the importance of interferon in treating malignant melanoma during the 2006 American Society of Clinical Oncology (ASCO) meeting as follows:**

“The main theme of this year’s melanoma sessions at the 2006 annual meeting of the American Society of Clinical Oncology (ASCO) was the confluence of evidence that now suggests immune dysregulation and, conversely, immune reconstitution, are integral to the development and the treatment of malignant melanoma. This was presaged in a paper presented at ASCO last year and subsequently published in the New England Journal of Medicine earlier this year, in which the investigators concluded that the appearance of autoantibodies or clinical manifestations of autoimmunity during treatment with interferon alfa-2b (IFN-α) predicted for improved relapse-free survival and overall survival in patients with melanoma.^[1] Those patients who developed autoantibodies on IFN-α were the ones who seemed to benefit most from this therapy. In fact, the presence or absence of autoantibody manifestations distinguished nonrelapsers from those with relapse to a high confidence level and those who survived their melanoma from those who did not. That information represents a new therapeutic, paradigm for IFN- α, and one that unites treatment with interleukin-2 (IL-2), IFN-α and anti-cytotoxic T lymphocyte-associated antigen-4 (CTLA-4) antibody.”

[1] Gogas H, Ioannovich J, Dafni U, et al. “Prognostic significance of autoimmunity during treatment of melanoma with interferon” *New England Journal of Medicine* 2006;354:709-718.

MULTIFERON – ADDITIONAL TRIALS AND INDICATIONS

Viragen is committed to conducting a new Phase III, post-marketing clinical trial in high-risk melanoma approximately 1,000 patients in up to 20 countries starting in early 2007.

Viragen is also collaborating with the U.S. Army Medical Research Institute of Infectious Diseases (USAMRIID) to commence with a new series of in vivo studies (primate models) to further determine the potential of Multiferon as a potent, broad-acting anti-viral product capable of fighting certain “Category A” pathogens, a class of highly virulent viral threats, which have the potential to be used in bio-terrorism. These studies evaluate Multiferon’s possible utility as a 1st-line of defense against unknown infectious agents or when no therapeutic or vaccine exists. These studies will help determine the potential role of Multiferon as a bio-defense product and as a candidate for development funding under Project Bioshield or other sources of grant funding. Information on the various Class A, B & C pathogens can be found at http://www3.niaid.nih.gov/Biodefense/bandc_priority.htm

✓ On November 28th, Viragen announced successful results of Multiferon and a vaccine-product chosen by AFG BioSolutions demonstrated that both products, alone and in synergistic combination, provided 100% protection from lethal doses of rabbitpox virus (RPV), suggesting potent anti-viral properties ideal as preventative drug candidates for lethal human smallpox as a result of bioterrorism.

Viragen is also in the process of identifying potential new oncology indications for Multiferon. This could result in decisions to initiate new Phase II and Phase III clinical trials in the near future.

✓ In June 2005, Viragen completed the production of validation batches of Multiferon in a new pre-filled syringe dosage form. This new filling and packaging operation, also located in Germany, is pending completion of stability studies and is expected to be filed with the Swedish Medical Products Agency and approved in calendar 2007. This pre-filled syringe package of Multiferon will also be the subject of the European MRP application.

Status	Multiferon Milestones
✓	Submit Application in Sweden for 1 st -Line Melanoma
✓	Receive Approval in Sweden for 1 st -Line Melanoma
✓	Successful Testing as Bioterrorism Vaccine against Rabbitpox
	Submit Pre-Filled Syringe Application in Sweden
	Enter into Licensing Agreement with European Partner
	Receive Approval for Pre-Filled Syringe in Sweden
	Receive European Approval
	European Post-Approval Clinical Trial in Melanoma

Source: Viragen Inc.

VG101 (humanized anti-GD3 monoclonal antibody)

Viragen and Sloan-Kettering began a joint research and development effort in December 1999 for an antibody to the GD33 antigen which is overexpressed on several tumor cells including melanoma. Sloan-Kettering was able to demonstrate that this antibody had beneficial effects in patients with Stage IV melanoma and also found that the antibody had therapeutic utility when used alone and when used with other compounds. However, using mouse-derived antibodies typically triggers an immune system reaction in humans increasing adverse side-effects.

Status	VG101 Milestones
✓	Develop and Produce Humanized VG101
✓	Deliver Humanized VG101 to Sloan Kettering
✓	Confirm Intellectual Property Position and Patent Protection
	Enter into Licensing Agreement with Partner
	Pre-IND Meeting with FDA
	Phase I Trial using Humanized VG101 for Stage IV Melanoma

Source: Viragen Inc.

Viragen’s lead indication for VG101 is stage IV melanoma patients. Short-term Phase I safety testing in humans of a chimeric (mouse) version of the anti-GD3 monoclonal antibody by Kyowa Hakko Kogyo appeared satisfactory in the following published papers:

- The February 2005 issue of *Cancer Immunity* paper titled “Immunological effects of chimeric anti-GD3 monoclonal antibody KM871 in patients with metastatic melanoma.”
- The October 2001 issue of the *Journal of Clinical Oncology* paper titled “Specific targeting, biodistribution, and lack of immunogenicity of chimeric anti-GD3 monoclonal antibody KM871 in patients with metastatic melanoma: results of a phase I trial.”

✓ **Viragen has developed the production process to create a humanized form of the anti-GD3 monoclonal antibody** which should offer significant improvement over the earlier mouse-derived antibodies. Viragen development with Sloan-Kettering is ongoing however the existing development agreement will expire in February 2007 unless renewed in ongoing negotiations.

VG102 (humanized anti-CD55 monoclonal antibody)

In April 2005, Viragen licensed an anti-CD55 monoclonal antibody from Cancer Research Technology UK (the technology transfer arm of Cancer Research UK, Europe’s largest independent, not-for-profit, cancer research organization). CD55 is overexpressed on most solid tumors and prevents the body’s natural immune system from attacking and killing the cancer cells. VG102 was found to bind in a unique manner from all other anti-CD55 monoclonal antibodies which should allow the immune system to combat the tumor, either alone or in combination with other oncology drugs.

The mouse form of the anti-CD55 antibody has been administered successfully to humans in immunoscintigraphy studies (imaging). These studies demonstrated the specificity of binding only to tumor antigen, and not normal cells, and demonstrated tolerability in humans, albeit small numbers and dosages, without safety incident. However, using mouse-derived antibodies typically triggers an immune system reaction in humans increasing adverse side-effects.

✓ **Viragen is developing the production process to create a humanized form of the anti-CD55 monoclonal antibody which should offer significant improvement over the earlier mouse-derived antibodies.**

Status	VG102 Milestones
✓	Develop Humanized VG102
	Develop Production Process
	Confirm Binding Affinity to Tumor-Expressed CD55
	Animal Verification Studies
	Enter into Licensing Agreement with Partner
	Pre-IND Meeting with FDA
	Phase I Trial using Humanized VG102 possibly for Colon Cancer

Source: Viragen Inc.

Although a specific cancer target indication has not yet been decided, colorectal cancer may represent a good first indication due to the significant levels of over-expression of the CD55 antigen.

In April 2004, Viragen, was awarded a grant from the Scottish government for approximately \$833,000 for the purpose of supporting the research and development of VG102. This grant is being funded over a three year period, with final funding to occur in calendar 2007.

THE OVA SYSTEM™ - AVIAN TRANSGENIC BIOMANUFACTURING

Transgenics is the science of introducing a foreign gene or genetic material from another species into the genome of the target animal and is expected to play a key role in lowering the soaring costs of drug production.

Viragen has an ongoing avian transgenic research project in collaboration with the Roslin Institute of Scotland (where “Dolly the Sheep” was created). Once fully developed, this technology could be used to create hens to produce eggs with therapeutic proteins in the egg white (egg white is essentially 100% protein). This is a more cost effective method of production for many promising bio-pharmaceutical products. Avian transgenic production, based upon genetically modifying chickens to express human drugs, is expected to offer significant economic and technological advantages over traditional methods of protein production including ease of scale-up, low capital risk, deferred capital investment and competitive costs.

✓ **In January 2006, Viragen successfully achieved expression of significant quantities of the human protein, interferon β-1a, in the whites of eggs laid by transgenic hens using the OVA System. Interferon-beta is a key component of the human immune system and is the active ingredient in several leading multiple sclerosis therapies.** This “Proof-of-Principle” test with an avian-expressed version of beta-interferon is the first step in developing the OVA System to cost-effectively express many types of therapeutic proteins. However, the biomanufacturing process must be further developed in order to validate and confirm its viability and economic benefits before entering into commercial production or initiating necessary clinical trials.

Drug Candidate	Avian Transgenic Biomanufacturing Status
VG101	Expression and recovery of functional humanized antibody
Interferon β-1a	Reviewing results from multi-generational hens
Undisclosed A	Reviewing expression and recovery results
Undisclosed B	Reviewing expression and recovery results

Source: Viragen Inc.

The cost effectiveness of protein production represents significant incentive for the use of transgenic hens as they have one of the lowest founder animal development costs of any transgenic system. The founder hen is bred or cloned to produce a transgenic flock with each hen laying 250 eggs per year with each egg containing significant quantities of the target drug per egg. ✓ **This productivity, on a per egg basis, means that large amounts of proteins can be produced relatively inexpensively.**

Glycosylation

Another advantage of Viragen’s Avian Transgenic Biomanufacturing platform is the ease of scale-up and normal protein modifications such as glycosylation (the sugar structure of a protein which is critical to its function). ✓ **It is believed that chickens yield a glycosylation pattern more similar to that found in humans* than other transgenic systems such as with mammals or plants which offers clinical benefits for patients who develop neutralizing and binding antibodies to foreign sugar antigens on transgenic proteins which, in turn, may negate some or all of the beneficial effect of the protein drug in the patient.**

* Raju et al., 2000 *Glycobiology* 10(5)

Market Potential

✓ **In addition to producing Viragen’s own proprietary drugs, the OVA™ System also offers contract manufacturing capabilities for other pharmaceutical companies and their drug products.** The OVA™ System may also offer novel IP protection for those monoclonal antibody drugs that are losing patent protection or require unique patentable characteristics.

MULTIFERON[®] REGULATORY APPROVALS

Country	Date	Approved Indication
Sweden	Feb.2006	1st-line adjuvant treatment of high-risk (Stages IIb-III) malignant melanoma following dacarbazine (DTIC) after surgical removal of tumors.
Chile	June 2005	2nd-line treatment of any and all diseases in which recombinant interferon therapy failed.
Philippines	April 2005	
Bulgaria	Nov. 2004	
Mexico	May 2003	
South Africa	Mar. 2003	2 nd -line treatment of hairy cell leukemia (HCL) and chronic myelogenous leukemia (CML) who did not respond to recombinant interferon therapy.
Mexico	Jan. 2002	
Sweden	Jan. 2002	
Hong Kong	Oct. 1999	
Egypt	Jan. 1997	
Indonesia	Mar. 1996	

Source: Viragen Inc.

MULTIFERON[®] DISTRIBUTION AGREEMENTS

Viragen has several distribution agreements for Multiferon in various countries as show below but they have not yet recognized any significant revenue from these. It should be noted that these agreements may be terminated if the distributors fail to obtain or maintain the product license or in the event of breach of the terms and conditions of the agreements.

Country	Distributor	Date	Notes
South Korea	Kuhnil Pharm	Nov 2005	Kuhnil is responsible to get regulatory approval.
Chile	Pentafarma SA	Nov 2003	Chile Approved June 2005 – Initial product launch is pending.
Bulgaria Greece Cyprus Slovenia	Arriani Pharmaceuticals	May 2003	Bulgaria Approved November 2004 – Reimbursement discussions ongoing. Arriani responsible for other all other approvals once MRP received for EU
South Africa	Key Oncologics	March 2003	South Africa Approved March 2003
Mexico	Laboratorios Pisa	Jan 2003	Mexico Approved February 2004

Source: Viragen Inc.

FINANCIAL MODEL

Multiferon is currently approved in Sweden where it is priced at \$55 per dose which equates to \$4,290 per treatment regimen (\$55 x 3 doses per week x 26 weeks). However, Viragen is attempting to increase the price due to its approval for malignant melanoma to \$75-\$120 per dose.

We believe that the initial launch of significance for Multiferon in Europe will occur in 2008, most likely in Germany and followed by France, Italy and Spain. We expect final pricing to be approximately \$85 per dose for malignant melanoma or \$6,630 per treatment regimen. We anticipate terminal market penetration of approximately 15% for Multiferon in malignant melanoma in Europe.

	2008	2009	2010	2011	2012
Total Melanoma Patients in Europe	58,300	59,500	60,725	61,950	63,200
Multiferon Patients	3,000	6,000	8,000	9,000	10,000
European Revenue from Multiferon	\$19.9M	\$39.8M	\$53.0M	\$59.7M	\$66.3M

We believe that Viragen and their future European distribution partner will share the gross margin 50%/50%.

COMPARABLE COMPANY VALUATIONS

A directly comparable company to Viragen is Hemispherx Biopharma (AMEX:HEB) with Alferon N Injection which is approved for intralesional treatment of refractory or recurring external condylomata acuminata - human papillomavirus (HPV) in the U.S., Mexico, Germany, Singapore, and Hong Kong. Hemispherx' development pipeline consists of an oral version of Alferon and the antivirals Ampligen and Oragens.

Company	Price	Cap	Vol	Cash	Sales	Loss	Approved	Pipeline
Hemispherx	\$2.38	\$152M	723K	\$15M	969K	(\$18.3M)	Alferon-N	Oral Alferon, Ampligen, Oragens
Viragen	\$0.19	\$23M	1.1M	\$3M	380K	(\$18.6M)	Multiferon	VG101, VG102, OVA System

Source: Dawson James Securities

While we feel that Viragen should be valued at a discount to Hemispherx at this time due to Alferon-N being approved in the U.S. and with a stronger cash position, we believe Viragen's current discount to Hemispherx is excessive considering the pipeline and similar burn rate (trailing 12-months shown). **Therefore, we feel a valuation for Viragen, reflecting a 50% discount to Hemispherx, or \$0.65 per share, is a reasonable.**

FINANCING ACTIVITY

On November 3, 2006, Viragen completed a firm commitment underwritten public offering of 72,004,951 Units at a price to the public of \$0.26 per Unit consisting of one share of Viragen common stock and one warrant to purchase one share of Viragen common stock, exercisable at a price of \$0.31 per share. This offering raised net proceeds of approximately \$17.0 million of which \$11.5 million was used to redeem all Series J cumulative convertible preferred stock and all of Viragen International's outstanding Series C and D cumulative preferred stock, including the payment of the related accrued and unpaid dividends, and the retirement of a portion of our convertible debentures.

On November 28, 2006, the Units could be voluntarily separated by their holders. Units continue to trade on the AMEX under the symbol VRA.U and the Common stock and warrants are separately traded under the symbols VRA and VRA.WS, respectively.

Dilution Schedule		
Shares	Description	Exercise Price
47,726,773	Shares outstanding Sept. 30, 2006	
553,380	October interest on June 2004 notes	
72,004,951	Common Stock Nov 3, 2006 offering	
120,285,104	Estimated Fully-Diluted Shares As Of November 3, 2006	
72,004,951	Warrants Nov 3, 2006 offering	\$0.31 per share
10,047,622	June 2004 convertible notes/warrants	\$1.05 per share through August 2008
1,309,527	September 2005 convertible debt	\$1.05 per share through September 2008
15,979,434	Debt and equity offering warrants	Weighted avg. price \$1.13 per share through March 2011
1,136,783	Employee and director options	Weighted avg. price \$1.56 per share through March 2014
5,000	Consultant warrants	Weighted avg. price \$3.05 per share through February 2009
916	Convertible preferred stock, Series A	
4,172,000	Convertible preferred stock, Series J	\$1.25 per share
224,941,337	Estimated Total Maximum Diluted Outstanding Shares Post-November 3, 2006 Funding	

Source: Viragen Inc. and Dawson James Securities

MANAGEMENT

Charles A. Rice, President & CEO: Mr. Rice has 30 years of experience managing, directing and building stockholder value for companies in the life science industry. Most recently, he served as Group President of KV Pharmaceutical Company with responsibility for commercial activities. He previously served as President and CEO of Dey, Inc., a division of Germany's Merck KGaA, where he developed and implemented strategies to create a rapidly growing and profitable business. He was credited for growing Dey's sales 15-fold over a 10 year period and expanding its workforce to over 1,000 people. Under Mr. Rice's leadership, Merck KGaA recognized Dey as one of its most profitable units.

Dennis W. Healey, Chief Financial Officer: Mr. Healey is a Certified Public Accountant and has served as a senior financial executive for over 20 years. Mr. Healey has served as Chief Financial Officer of the Company since its inception in 1980. He also serves as Executive Vice-President, Treasurer and Secretary.

Karen Jervis, Ph.D., Vice President & Managing Director: Dr. Jervis holds a Ph.D. in Protein Biochemistry and BSc (Hons) in Biology from the University of Glasgow and an M.B.A. from the University of Edinburgh, with a thesis in market research for biopharmaceutical manufacturing. Dr. Jervis' role at Viragen is to develop, maintain, and protect the core technologies in the Company and is responsible for the development of the Company's growing Intellectual Property portfolio and is named inventor on several patent applications. Dr. Jervis is responsible for part-directing the research and development of Viragen's oncological and transgenic programs and the research teams within Viragen, including acting as liaison for Viragen's global partners. Dr. Jervis was named one of Scotland's top 50 Businesswomen in 2001.

William H. Stimson, Ph.D. FRSE, Director (Research): Dr. Stimson is an internationally recognized expert in the field of molecular recognition of antibodies, vaccines and diagnostic assays. He holds the Chair of Immunology at the University of Strathclyde, Scotland, and has published over 200 scientific papers, been issued twelve patents and serves on 4 Editorial Boards of major scientific journals. He has been a Director of 7 companies, including Rhone Poulenc Ltd., been intimately involved in 8 biotechnology 'start-ups' and has acted as a permanent consultant for several major pharmaceutical companies over 20 years. Dr. Stimson collaborated on the creation of the first human monoclonal antibody and was instrumental in developing the present generation of diagnostic systems.

Örjan Norberg Managing Director, ViraNative AB: Örjan Norberg holds a Bachelor degree in Business Administration, Marketing and Finance. Örjan's most recent position was with Baxter Medical as Product Manager for the Nordic countries, including business and marketing planning and operational marketing. Additionally he served as a member of the European Management Group of Baxter.

RISKS

Some of the operational and financial risks to Viragen are:

- **Shareholder Dilution:** As a result of warrants issued in the funding on November 3rd, 2006, Viragen may receive additional funds from the 72M warrants which have an exercise price of \$0.31 per share. However, should the warrant exercise not occur in sufficient quantity within the next few months, Viragen may require substantial additional funding during Q1/Q2 2007 which would dilute existing shareholders.
- **FDA and European Regulatory risks:** As with all drug development efforts, serious unwanted and unexpected side effects, lack of efficacy or insufficient clinical data may delay or preclude regulatory approval of some or all of their drug candidates and there can be no guarantee of timely or definite FDA or EMEA approvals.

- **Competition:** Even if Viragen's drugs receive approval, market competition and physician adoption rates may be slower than anticipated. We expect Viragen will continue to rely on the marketing effectiveness of partners which Viragen does not control.
- **Sector Rotation:** Viragen is a small biotechnology drug development company often kept in a portfolio with similar companies. In such cases, a significant event for one company may have a material impact on the valuation of all similar companies regardless of their unique qualities.

Viragen Inc.
Consolidated Statement of Operations
(In \$000s, except EPS)

EYE June 30th	2002	2003	2004	1Q05	2Q05	3Q05	4Q05	2005	1Q06	2Q06	3Q06	4Q06	2006	1Q07	2Q07E	3Q07E	4Q07E	2007E	2008E	2009E	2010E	2011E	2012E
	June	June	June	Sept	Dec	March	June		Sept	Dec	March	June		Sept	Dec	March	June		June	June	June	June	June
Misc. Multiferon Sales	1,275	631	266	30	53	80	116	279	85	117	99	90	391	74	85	90	95	344	350	350	350	350	350
European Multiferon Royalties	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	9,950	19,900	26,500	29,830	33,150
VG101 (CD-3 MAb) Royalties	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	4,500	12,000	15,500
VG102 (CD-55 MAb) Royalties	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	8,500	14,500
Avian Transgenic Biomanufacturing	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1,000	3,000
Total Revenues	1,275	631	266	30	53	80	116	279	85	117	99	90	391	74	85	90	95	344	10,300	20,250	32,330	53,700	70,500
Cost of Product Sales	910	1,297	2,047	476	754	605	776	2,611	456	570	681	721	2,428	560	620	650	720	2,530	2,750	2,925	3,150	3,275	3,425
Inventory Adjustments	0	0	0	0	240	0	180	720	91	104	0	0	185	0	0	0	0	0	0	0	0	0	0
Gross Margin	365	(666)	(1,781)	(446)	(1,241)	(525)	(840)	(3,052)	(462)	(557)	(582)	(631)	(2,232)	(486)	(535)	(560)	(625)	(2,206)	7,550	17,325	29,200	50,425	67,075
Research & Development	4,932	3,319	3,592	1,091	910	1,280	1,677	4,958	1,009	1,069	1,171	1,347	4,596	922	950	980	1,125	3,977	4,215	4,535	4,895	5,375	5,595
Selling, General & Admin.	7,041	7,231	7,368	1,814	1,904	2,027	2,895	8,640	1,742	1,639	1,491	1,545	6,417	1,472	1,495	1,520	1,610	6,097	6,570	6,910	7,355	7,680	7,955
Amortization [2]	156	184	138	40	43	43	6,978	7,104	39	38	39	41	157	42	42	42	42	168	168	168	168	168	168
Total Operating Expenses	12,129	10,734	11,118	2,945	2,857	3,330	11,530	20,702	2,790	2,746	2,701	2,933	11,170	2,436	2,487	2,542	2,777	10,242	10,953	11,613	12,418	13,223	13,718
Operating Income	(11,764)	(11,400)	(12,899)	(3,391)	(4,098)	(3,875)	(12,390)	(23,754)	(3,252)	(3,303)	(3,283)	(3,564)	(13,402)	(2,922)	(3,022)	(3,102)	(3,402)	(12,448)	(3,403)	5,712	16,782	37,202	53,357
Interest Expense	1,444	8,007	7,393	1,286	1,348	1,451	1,570	5,655	1,860	1,425	890	535	4,710	730	500	500	500	2,230	2,000	1,000	500	200	100
Other Income [4]	333	535	632	(38)	1,482	82	12	1,538	53	96	307	(802)	(146)	204	200	200	200	804	800	800	800	800	800
Net Income (Of Taxes & Minor. Int.)	(12,875)	(18,872)	(19,660)	(4,715)	(3,964)	(5,244)	(13,948)	(27,871)	(5,059)	(4,632)	(3,666)	(4,901)	(18,258)	(3,448)	(3,322)	(3,402)	(3,702)	(13,874)	(4,603)	5,512	17,082	37,802	54,057
Income Tax Benefit [1]	368	61	44	11	11	11	10	43	0	11	11	22	44	11	11	11	11	44	44	44	44	44	0
Minority Interest in Subsidiary	918	1,462	1,439	383	367	388	482	1,620	0	0	0	0	0	(380)	0	0	0	0	0	0	0	0	0
Net Income	(11,089)	(17,349)	(18,177)	(4,321)	(3,586)	(4,845)	(13,458)	(26,208)	(5,059)	(4,621)	(3,655)	(4,879)	(18,214)	(3,817)	(3,311)	(3,391)	(3,691)	(13,830)	(4,559)	5,556	17,126	37,846	54,057
Preferred Dividends - Series A	2	2	2	0	0	0	2	2	0	0	0	2	2	1	0	0	0	1	0	0	0	0	0
Preferred Dividends - Series J	0	0	0	0	0	0	0	0	0	0	38	312	350	315	620	0	0	935	0	0	0	0	0
Warrant Discount - Series J	0	0	0	0	0	0	0	0	0	0	930	0	930	0	0	0	0	0	0	0	0	0	0
Net Income to Common	(11,091)	(17,351)	(18,179)	(4,321)	(3,586)	(4,845)	(13,458)	(26,210)	(5,059)	(4,621)	(3,653)	(5,193)	(19,496)	(4,133)	(3,931)	(3,391)	(3,691)	(14,766)	(4,559)	5,556	17,126	37,846	54,057
Earnings (Loss) per share	(\$1.10)	(\$1.21)	(\$0.55)	(\$0.12)	(\$0.10)	(\$0.13)	(\$0.36)	(\$0.71)	(\$0.14)	(\$0.11)	(\$0.10)	(\$0.11)	(\$0.46)	(\$0.09)	(\$0.03)	(\$0.02)	(\$0.02)	(\$0.10)	(\$0.02)	\$0.02	\$0.06	\$0.12	\$0.17
Weighted Shares Outstanding [3]	10,042	14,294	33,184	36,568	36,568	36,568	37,082	36,698	37,359	40,817	44,238	45,660	42,019	46,860	120,285	200,285	242,285	152,429	265,000	298,000	305,000	311,000	315,000

Balance Sheets

	(000)											
	ProForma*											
	6/30/05	9/30/06	9/30/06	Liabilities:	6/30/05	9/30/06	9/30/06	Notes	6/30/05	9/30/06	9/30/06	Notes
Assets:	6/30/05	9/30/06	9/30/06	Liabilities:	6/30/05	9/30/06	9/30/06	Notes	6/30/05	9/30/06	9/30/06	Notes
Cash, Equivalents, ST Investments	\$6,896	\$537	\$5,982	Accounts Payable	\$750	\$1,751	\$1,751	[1] Federal NOL carryforward was \$91.2M as of 6/30/06				
Accounts Receivable	\$39	\$56	\$56	Accrued Expenses	\$1,117	\$1,630	\$881	[2] Includes Impairment of Goodwill of BioNatrix/ViraNative for \$6,936,215 in Q4 2005				
Inventories	\$2,330	\$1,861	\$1,861	Current Portion of Convertible Notes	\$16,105	\$485	\$73	[3] Adjusted for 1:10 reverse stock split on June 15, 2004				
Prepaid Expenses	\$821	\$811	\$667	Line of Credit and ST Borrowings	\$224	\$71	\$71	[4] Includes approximately \$930K write-off of leasehold improvements in Scotland Q4 2006				
Other Current	\$322	\$250	\$161	Current Portion of LT Debt	\$23	\$203	\$203	[5] Series D Cumulative Preferred Stock to Viragen International				
Total Current Assets	\$10,928	\$3,515	\$3,727	Total Current Liabilities	\$18,229	\$4,160	\$2,979					
Land, Buildings & Improvements	\$5,327	\$4,860	\$4,860	Convertible Notes	\$0	\$9,844	\$9,394					
Equipment & Furniture	\$5,671	\$4,097	\$4,097	Long-Term Debt	\$598	\$629	\$629					
Construction in Progress	\$20	\$0	\$0	Deferred Taxes	\$457	\$402	\$402					
Depreciation	(\$5,263)	(\$4,242)	(\$4,242)	Royalties Payable	\$108	\$108	\$108					
Net Plant, Property & Equipment	\$5,755	\$4,715	\$4,715	Other [5]	\$0	\$779	\$0					
Goodwill	\$3,653	\$3,908	\$3,908	Stockholders' Equity	\$2,294	(\$2,138)	\$5,453					
Developed Technology	\$1,609	\$1,514	\$1,514	TOTAL LIAB. & EQ	\$21,686	\$13,784	\$18,265					
Other Assets	\$41	\$132	\$101									
TOTAL ASSETS	\$21,986	\$13,784	\$18,265									

* Pro Forma Balance Sheet as of September 30, 2006 post-November 3, 2006 funding

DISCLOSURES



Price target and ratings changes over the past 3 years:
Initiated December 12, 2006 – Speculative Buy – Target \$0.65

Analyst Certification: The analyst(s) whose name appears on this research report certifies that 1) all of the views expressed in this report accurately reflect his personal views about any and all of the subject securities or issuers discussed; and 2) no part of the research analyst’s compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst in this research report; and 3) All Dawson James employees, including the analyst(s) responsible for preparing this research report, may be eligible to receive non-product or service specific monetary bonus compensation that is based upon various factors, including total revenues of Dawson James and its affiliates as well as a portion of the proceeds from a broad pool of investment vehicles consisting of components of the compensation generated by investment banking activities, including but not limited to shares of stock and/or warrants, which may or may not include the securities referenced in this report.

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Ratings definitions: 1) **Speculative Buy:** the stock is expected to appreciate and produce a total return of at least 30% over the next 12-18 months but **the volatility and investment risk is substantially higher** than our "Strong Buy" recommendation; 2) **Strong Buy:** the stock is expected to appreciate and produce a total return of at least 30% over the next 12-18 months; 3) **Buy:** the stock is expected to appreciate and produce a total return of at least 20% over the next 12-18 months; 4) **Neutral:** the stock is fairly valued for the next 12-18 months; 5) **Sell:** the stock is expected to decline at least 20% over the next 12-18 months and should be sold; 6) **Sell Short:** the stock is expected to decline at least 30% over next 12-18 months and should be sold short, however **the volatility and investment risk is substantially higher** than our "Sell" recommendation; 7) **Under Review:** the previous rating and/or price target is suspended due to a significant event which now requires additional analysis and the previous rating and/or price target cannot be relied upon; and 8) **Restricted:** coverage cannot be initiated or has been temporarily suspended to comply with applicable regulations and/or firm policies in certain circumstances such as investment banking or an advisory capacity involving the company.

Ratings Distribution	Company Coverage		Investment Banking	
	# of Companies	% of Total	# of Companies	% of Totals
Speculative Buy	3	13%	1	33%
Strong Buy	3	13%	1	33%
Buy	13	57%	1	8%
Neutral	2	9%	0	0%
Sell	1	4%	0	0%
Sell Short	0	0%	0	0%
Under Review	0	0%	0	0%
Restricted	1	4%	1	100%
Total	23	100%	4	17%

Information about valuation methods and risks can be found in the “STOCK VALUATION” and “RISKS” sections of this report.

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