

Shareholder Update July 2005

It is now three months since Phylogica's successful listing on the Australian Stock Exchange and I'm pleased to report that it has been an extremely busy and productive time for the company. Although, like many small companies in the life sciences sector, we face the usual challenges of constraints on our resources and the tyranny of time and distance from our key markets, we have managed to achieve a lot in a short space of time and all of our key product development programs and business development initiatives are progressing well.

Key Developments

In May, Phylogica had its second US patent allowed strengthening the company's IP position. This patent secures the second "pillar" of Phylogica's IP suite in the key US market. Phylogica's IP covers the "Phylomer" libraries as well as the concept of using protein parts from sequenced genomes, other than those of a target protein, to block the interaction of that target protein. Phylogica already has patents covering the method of screening for Phylomers in Australia and the US. The patent to be granted is one of eight patent families being maintained by Phylogica and will be its fifth fully granted patent.



CEO Stewart Washer

Partnering Deals

Phylogica is actively pursuing its leads for the commercialisation of its technology platform in the field of anti-inflammatory drugs. Early this year Phylogica signed a research agreement with Dual Systems AG (Switzerland) to leverage its technology to screen against membrane associated targets such as receptors. The screens are to be conducted against well validated targets such as TNF and CD40. Drugs directed against TNF alone in 2004 had annual sales exceeding US\$5 Billion (Drug Discovery Today 2005, 10 (11) 741).

We are working on two opportunities which we hope will lead to deals in the short term. One relates to the screening of Phylomers against targets owned by another company and the other would provide access to key technology held by an overseas institution. If successful, these deals would provide early examples of how a platform technology like the Phylomer technology can be leveraged beyond our internal product pipeline.

A number of other discussions with prospective partners are ongoing, some of which we hope will lead to outcomes over the coming quarter. In addition, as a result of successful meetings at Bio a number of other new discussions are commencing which we hope will lead to deals over the longer term.

Stroke project

The promising preclinical stroke data that was announced in June has already yielded a very positive response from our discussions with pharmaceutical and biotechnology companies as it further validates our Phylomer technology as a replacement for antibodies as therapeutics. Antibodies are already a proven drug class with over US\$10 billion in sales in 2004 growing at over 40% last year. Refer to page 3 for further details.

Bio2005

During the last two weeks, we met with over 20 key potential partners in the USA at BIO2005, the largest biotechnology convention in the world. Most of these companies showed a good interest in our technology and we have arranged follow up meetings to progress deal discussions.

Thomson/Investigational Drugs Database, the world's leading pharmaceutical competitor intelligence service, selected Phylogica as one of the two companies to watch from the emerging biotech sector. (www.thomson.com)

Phylogica's partnering presentation from BIO 2005 and the Thomson Scientific report will be available for download from the Company's website www.phylogica.com as well as being released to the Australian stock exchange.

"If Phylogica, with its combination of high-level innovation and sound business strategy, is a typical example of an Australian biotech company, then it is little wonder that the country is seen as an emerging biotech nation that deserves to be watched closely." Attending scientific editor of Thomson Scientific Ltd, Tamara Zarkowska

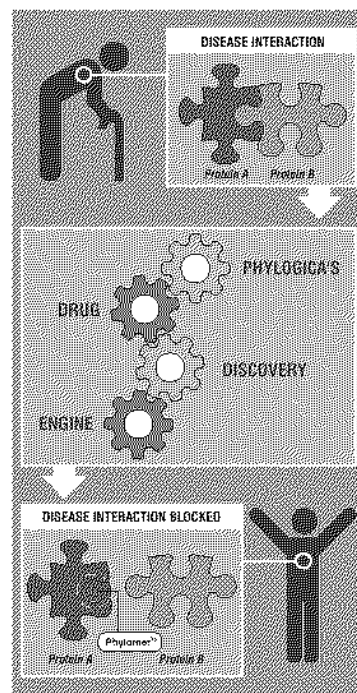
Beyond Antibodies

Antibodies are the latest technology that can block a range of disease targets. The monoclonal antibody market is one of the fastest growing and most lucrative sectors of the pharmaceutical industry, with exceptional 48.1% growth between 2003 and 2004. It has the potential to triple in value over the next six years and reach \$30.3 billion in 2010. (Source: Datamonitor 2005)

Phylogica's Phylomer® technology can compete with antibody therapeutics due to several key advantages. These advantages include:

- Lack of antibody royalty stack (providing more profit for users)
- Alternative drug delivery potential due to small size (proving patient friendly treatments)
- Can be synthesised in place of cell culture-based production due to small size (giving greater speed to market and cost effectiveness)

We are applying the Phylomer® technology to create novel therapies for inflammatory diseases including stroke, asthma and type II diabetes. We are also talking to pharmaceutical companies and biotechnology companies about applying Phylomer® to their own drug development programs. These advantages are already being recognised and form the basis of continuing discussions with large pharmaceutical and biotechnology companies.



Profile

Chairman Aki von Roy

Joachim (Aki) von Roy is the CEO of CoDa Therapeutics Ltd and founding CEO of Proacta Therapeutics, both private biotechnology companies based in New Zealand. He also serves on a number of boards of both commercial and not-for-profit organisations based in Australia, New Zealand and the United States.

His previous roles include President of Bristol-Myers Squibb, Europe, an organisation with sales of US\$2.2 billion and more than 7,500 employees.



He was with Schering AG, Berlin, as Assistant to the Board of Management in the United Kingdom, moved to Managing Director in New Zealand, then to Scandinavia and subsequently to the United States to introduce Schering's first product since 1945.

He ultimately co-headed the pharmaceutical division of Schering AG in Germany.

He went on to join Squibb-von Heyden as President, Germany, later taking on responsibility for Austria, Switzerland and Eastern Europe as well. It was shortly after the merger of Bristol-Myers Squibb, that he was appointed President, Europe.

Chief Operating Officer

Dr Greg Pullen started with us as COO to lead the business development team and joined us at BIO. Greg has extensive experience in concluding biotechnology and pharma deals and previously worked for CSL and Peptech, before leading the licensing group at UniServices, the Technology transfer arm of Auckland University (turnover of NZ\$70.2M in 2004).



Project updates

Stroke Damage Minimization Program

Stroke is caused when the blood supply to the brain is interrupted, – usually due to a blood clot, but sometimes due to haemorrhage – depriving the surrounding tissue of oxygen. As a result, brain cells die, causing debilitation and functional impairment. While the rate of stroke is on the increase as the population ages, there is currently no effective therapy for prevention of stroke-related brain damage.

In a stroke model using brain cells isolated from rats, Phylogica found a number of its proprietary 'phylomers' were consistently able to rescue the cells from death. Should this approach work as successfully in animal and human trials, it would enable Phylogica to develop an emergency therapeutic product that could be used to limit or prevent the brain damage that would normally occur after a stroke is suffered by a patient. There is not currently any effective therapy available which can achieve this outcome.

Current treatments are limited and are aimed to assist restoration of blood flow to the brain. However, there is no current therapy for the delayed death or degeneration of nerve cells that continues after restoration of the blood flow, which is the cause of the majority of stroke damage.

Stroke is an important cause of death in major industrialised countries and severe disability¹. Ameliorating the severity of this disorder has enormous benefits, decreasing rates of:

- Bed sores/pressure ulcers
- Visual disturbances
- Future cardiovascular risk
- Intellectual impairment
- Impotence
- Deep vein thrombosis and pulmonary embolism
- Urinary tract infections
- Aspiration pneumonia
- Infections
- Coma
- Death²

The incidence of stroke increases after the age of 55, roughly doubling with each passing decade with 30% of persons aged over 65 years being affected³. The United States market for stroke therapeutics is projected to rise to US\$5.4 billion by 2006⁴.

Phylogica is using its proprietary technology to develop a therapy that stops a key protein interaction implicated in cell death associated with stroke and neurodegeneration.

Phylogica has several strong lead drug candidates that are currently being validated in mammalian systems where they are already having intended effects on their targets.

Allergy Desensitisation Program

Allergy is caused by an over-reaction to certain molecules known as allergens in the environment. For example allergens from the house dust mite are a major cause of allergic Rhinitis and Asthma. We have repeated our initial promising screens to identify Phylomers® which mimic the shape of the house dust-mite allergen Der p1. We have obtained 27 new Phylomer® hits against this target. Several of these hits are in animal trials, in which one particular Phylomer® is consistently highly immunogenic. This means that if these Phylomers® are injected into animals, they illicit the production of a specific antibody against the Phylomers® which also reacts with the original natural allergen.

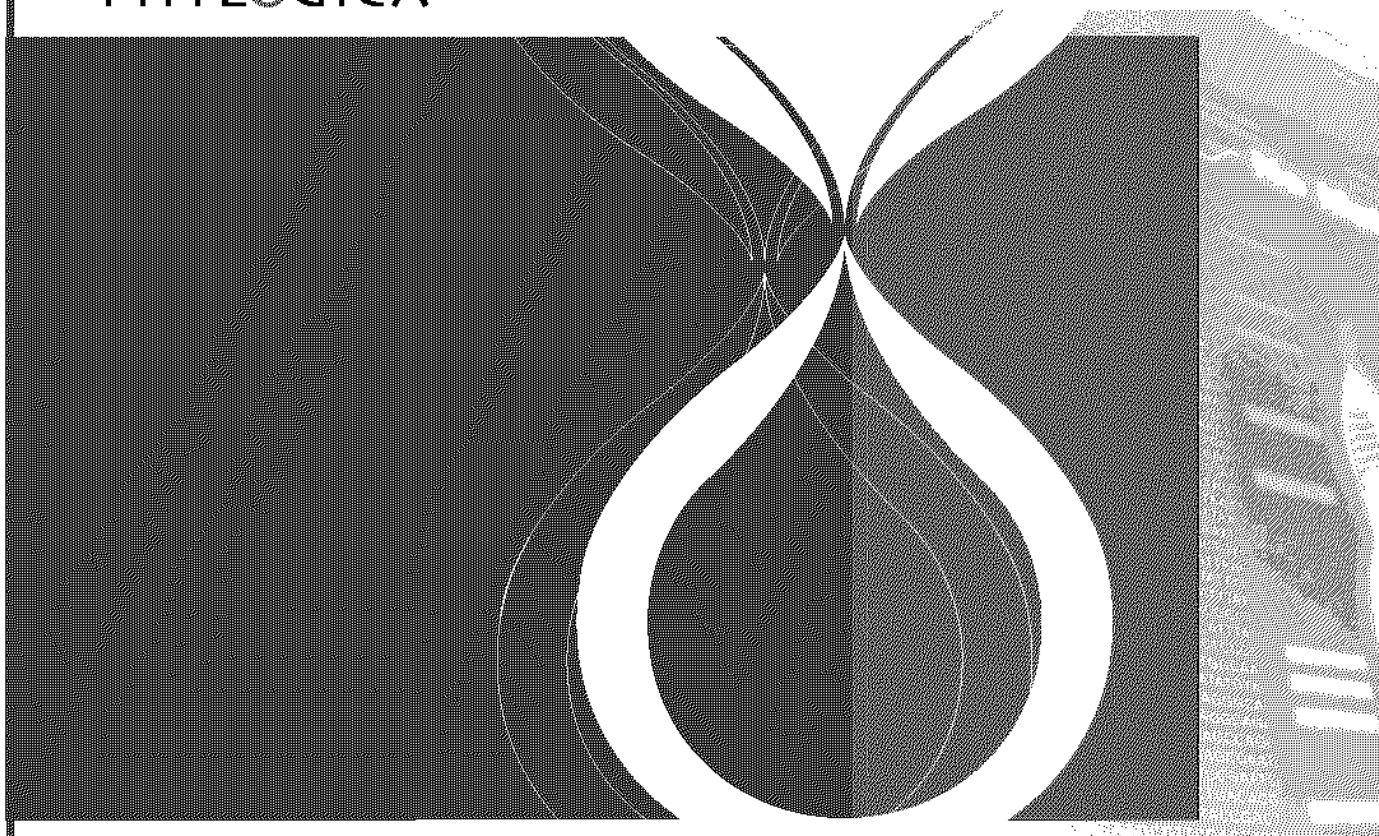
These data are very encouraging as they confirm that Phylogica can routinely obtain hits against a number of distinct targets and that some but not all of these hits are immunogenic. The fact that not all Phylomers® are immunogenic is expected and can be exploited in Phylogica's therapeutic programs for chronic diseases where immunogenicity would be undesirable.

We have also initiated screens for Phylomers® which mimic the cat allergen Fel d1 and have obtained 14 Phylomer® hits against this allergen. This particular cat allergen target has been shown to be immunodominant in human studies where people immunised with the Fel d1 allergen became tolerized and were prevented from developing cat allergy.

Partnering

Phylogica is progressing a number of potential partnering deals. These include:

- Our research collaboration with Dual Systems (Zurich) is progressing well.
- A number of other discussions are ongoing, some of which we hope will lead to outcomes over the coming quarter.
- As a result of successful meetings at BIO 2005 a number of other new discussions are commencing which we hope will lead to deals over the longer term.



FROM PROTEINS TO THERAPIES

This newsletter may contain forward-looking statements. Various factors could cause actual results to differ materially from those projected in forward looking statements, including those predicting the timing and results of clinical trials, interpretation and implications of such results, availability or adequacy of financing, the sales and marketing of commercial products or the efficacy of products.

Although the Company believes that the forward - looking statements contained herein are reasonable, it can give no assurance that the Company's expectations are correct. All forward - looking statements are expressly qualified in their entirety by this cautionary statement.

For more information on Phylogica

Company information

Stewart Washer, CEO
Ph: +61 8 9423 8800
Fax: +61 8 9423 8899
stewartw@phylogica.com

Media Relations

Rebecca Wilson
Ph: +61 2 9237 2800
rwilson@bcg.com.au

PO Box 8207
Subiaco East, WA 6008

www.phylogica.com
info@phylogica.com

Investor Relations

Simon Price
Azure Capital
Ph: 08 6263 0888
scp@azurecapital.com.au

Footnotes from previous page

- 1 - Koennecke (2004) Secondary Prevention of Stroke: a practical guide to drug treatment CNS Drugs 18(4) 221-41
- 2 - Kumar, P & Clark, M. "Clinical Medicine" 5th Ed. WB Saunders Edinburg 2002, Robins "Interventional Neuroradiography, Stoke & Ceratoid Artery Stenting "First Unim Securities Medical Devices. Aug 2000, National Stroke Association & Medtech Insight Report & Scientias Veritas - Evergreen CO. June, 2003. Stroke Management Markets and Strategies
- 3 - National Stroke Association
- 4 - Scientia Veritas - Evergreen, CO. June, 2003. Stroke Management Markets and Strategies.