

PHYLOGICA LIMITED
ACN 098 391 961

Prospectus

For the offer of 1,000 Shares in the capital of the Company at an issue price of \$0.059 per Share to raise \$59 and 44,067,797 Options.

This Prospectus has been prepared for the purpose of section 708A(11) of the Corporations Act to remove any trading restrictions on the sale of Shares issued by the Company prior to the Closing Date and for the offer of Options under the Placements.

Important Notice

This is an important document that should be read in its entirety. Please read the instructions in this document and on the accompanying Application Form. If you do not understand this document you should consult your professional adviser without delay. The Securities offered by this Prospectus should be considered speculative.

Important information

Prospectus

This Prospectus is dated 30 March 2011 and was lodged with the Australian Securities and Investment Commission (**ASIC**) on 30 March 2011. ASIC and the Australian Securities Exchange (**ASX**) take no responsibility for the contents of this Prospectus or the merits of the investment to which this Prospectus relates.

This Prospectus is a transaction specific prospectus for an offer of continuously quoted securities (as defined in the Corporations Act) and options over continuously quoted securities and has been prepared in accordance with section 713 of the Corporations Act.

This Prospectus may be viewed in electronic form at www.phylogica.com by Australian investors only. The electronic version of this Prospectus is provided for information purposes only. A paper copy of the Prospectus may be obtained free of charge on request by contacting the Company. The information on www.phylogica.com does not form part of this Prospectus.

Risk factors

Before deciding to invest in the Company, potential investors should read the entire Prospectus. In considering the prospects for the Company, potential investors should consider the risk factors that could affect the performance of the Company. Potential investors should carefully consider these factors in light of personal circumstances (including financial and taxation issues) and seek professional advice from a stockbroker, accountant or other independent financial adviser before deciding to invest.

Overseas Shareholders

No offer is being made to Shareholders with a registered address outside Australia or New Zealand. The distribution of this Prospectus and the Application Forms (including electronic copies) outside Australia or New Zealand may be restricted by law. If you come into possession of these documents, you should observe such restrictions and should seek your own advice about such restrictions. Please refer to Section 1.18 for further detail.

Publicly available information

Information about the Company is publicly available and can be obtained from ASIC and ASX (including ASX's website www.asx.com.au). The contents of any website or ASIC or ASX filing by the Company are not incorporated into this Prospectus and do not constitute part of the Offers. This Prospectus is intended to be read in conjunction with the publicly available information in relation to the Company which has been notified to ASX. Investors should therefore have regard to the other publicly available information in relation to the Company before making a decision whether or not to invest in the Company.

Disclaimer

No person is authorised to give any information or make any representation in connection with the Offers which is not contained in this Prospectus. Any such extraneous information or representation may not be relied upon.

Forward-looking statements

This Prospectus may contain forward-looking statements that have been based on current expectations about future acts, events and circumstances. Any forward-looking statements are subject to risks, uncertainties and assumptions that could cause those acts, events and circumstances to differ materially from the expectations described in such forward-looking statements.

Participation in the Offers

The Offers are made only to those investors nominated by the Company. These investors have been sent an Application Form by the Company together with this Prospectus.

Defined terms

Certain capitalised terms and other terms used in this Prospectus are defined in the Glossary of defined terms in Section 8.

Currency

All references in this Prospectus to "\$", "AUD" or "dollar" are references to Australian currency unless otherwise indicated.

References to time

All references in this document to time relate to the time in Perth, Western Australia.

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Timetable for the Offers

An indicative timetable of key dates for the Offers is set out below. These dates are indicative only and are subject to possible change. Subject to the compliance with the Listing Rules, the Directors reserve the right to withdraw the Offers or extend the Relevant Closing Date without notice.

Event	Date
Lodgement of Prospectus with ASIC	30 March 2011
Share Offer Opening Date	30 March 2011
Tranche 1 Option Offer Opening Date	30 March 2011
Tranche 1 Option Offer Closing Date	5 April 2011
Tranche 1 Offer Options expected to be allotted	10 April 2011
Tranche 2 Option Offer Opening Date	10 May 2011
Share Offer Closing Date	11 May 2011
Shares expected to be allotted	16 May 2011
Tranche 2 Option Offer Closing Date	16 May 2011
Tranche 2 Offer Options expected to be allotted	20 May 2011

Corporate directory

Directors

Dr Douglas Wilson
Executive Chairman

Dr Paul Watt
CEO and Executive Director

Nicholas Woolf
CFO and Executive Director

Bruce McHarrie
Non-Executive Director

Company Secretary

Greg MacMillan

Registered and Principal Office

Level 22, 77 St Georges Terrace
Perth, Western Australia 6008

Telephone: +61 9325 8888

Facsimile: +61 9325 8088

Web Address

www.phylogica.com

ASX Code: PYC

Share Registry

Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross

Perth, Western Australia 6153

Telephone: +61 9315 2333

Facsimile: +61 9315 2233

Web address: www.securitytransfer.com.au

Auditors

HLB Mann Judd

Level 4, 130 Stirling Street

Perth, Western Australia 6000

Solicitors for the Offers

McKenzie Moncrieff Lawyers

Level 5, 37 St Georges Terrace

Perth WA 6000

1. Details of the Offers

1.1 Purpose of Prospectus

On 25 March 2011, the Company announced a \$5.2 million capital raising (**Capital Raising**).

The Capital Raising comprises:

- (a) a placement of 28,000,000 Shares to institutional and sophisticated investors in Australia and the United States at an issue price of \$0.059 per Share, together with 14,000,000 free attaching Options on the basis of one Option granted for every two Shares issued, to raise \$1,652,000 (**Tranche 1 Placement**); and
- (b) subject to Shareholder approval, a placement of a further 60,135,594 Shares to institutional and sophisticated investors in Australia and the United States at an issue price of \$0.059 per Share, together with 30,067,797 free attaching Options on the basis of one Option granted for every two Shares issued, to raise \$3,548,000.05 (**Tranche 2 Placement**).

The new funds raised through the Placements will be used to enhance the Company's drug discovery platform, including the purchase of new capital equipment, and to support operational activities.

1.2 Shares offered for subscription

This Prospectus invites investors nominated by the Directors to apply for a total of 1,000 Shares at an issue price of \$0.059 per Share payable in full on application to raise \$59.

All of the Shares offered under this Prospectus will rank equally with Shares on issue at the date of this Prospectus.

1.3 Options offered for subscription

This Prospectus also invites participants in:

- (a) the Tranche 1 Placement to apply for a total of 14,000,000 Options (**Tranche 1 Offer Options**); and
 - (b) the Tranche 2 Placement to apply for a total of 30,067,797 Options (**Tranche 2 Offer Options**),
- (together, the **Offer Options**).

The Offer Options are exercisable at \$0.09 each on or before 30 June 2016 on the terms set out in Section 6.2.

1.4 Purpose of the Share Offer

The primary purpose of the Share Offer is to remove any secondary sale restrictions that may attach to Shares issued by the Company prior to the Share Offer Closing Date. Relevantly, section 708A(11) of the Corporations Act provides that an offer of shares for sale does not need disclosure to investors if:

- (a) the relevant securities are in a class of securities that are quoted securities of the body; and
- (b) either:

- (i) a prospectus is lodged with ASIC on or after the day on which the relevant securities were issued but before the day on which the sale offer is made; or
 - (ii) a prospectus is lodged with ASIC before the day on which the relevant securities are issued and offers of securities that have been made under the prospectus are still open for acceptance on the day on which the relevant securities were issued; and
- (c) the prospectus is for an offer of securities issued by the body that are in the same class of securities as the relevant securities.

1.5 Purpose of the Option Offers

As the Offer Options do not fall within an existing class of Options on issue in the Company and as the Company's Shares were suspended from trading on ASX for more than 5 Business Days within the previous 12 months, the offer of the Offer Options requires disclosure under Chapter 6D of the Corporations Act. This is the case notwithstanding the Offer Options are only offered to persons who are professional investors, sophisticated investors or other persons to whom a disclosure document is not ordinarily required to be given.

1.6 Shareholder approval for Tranche 2 Placement

The offer of the Tranche 2 Offer Options is conditional on the Company receiving Shareholder approval for the Tranche 2 Placement. The Company expects to obtain Shareholder approval before the Tranche 2 Option Offer Closing Date.

1.7 Timetable for the Offers

The Share Offer will open for receipt of Applications on 30 March 2011 (**Share Offer Opening Date**) and will close at 5.00pm (WST) on 11 May 2011 (**Share Offer Closing Date**).

The Tranche 1 Option Offer will open for receipt of Applications on 30 March 2011 (**Tranche 1 Option Offer Opening Date**) and will close at 5.00pm (WST) on 5 April 2011 (**Tranche 1 Option Offer Closing Date**).

The Tranche 2 Option Offer will open for receipt of Applications on 10 May 2011 (**Tranche 2 Option Offer Opening Date**) and will close at 5.00pm (WST) on 16 May 2011 (**Tranche 2 Option Offer Closing Date**).

The full timetable for the Offers is set out on page 2 of this Prospectus.

The timetable for the Offers is indicative only and may be subject to change. The Directors reserve the right to vary the timetable dates, including the Relevant Closing Dates, without prior notice but subject to any applicable requirements of the Corporations Act or the Listing Rules. This may include extending the Offers or accepting late acceptances, either generally or in particular cases.

1.8 Rights and liabilities attaching to Shares

All of the Shares offered under this Prospectus will rank equally with Shares on issue at the date of this Prospectus.

1.9 How to apply for Securities

Applications for Shares offered under this Prospectus should only be made by investors nominated by the Company and must be made using the Share Offer Application Form attached to or accompanying this Prospectus sent to those specific investors.

Applications for Tranche 1 Offer Options offered under this Prospectus should only be made by investors nominated by the Company and must be made using the Tranche 1 Option Offer Application Form attached to or accompanying this Prospectus sent to those specific investors.

Applications for Tranche 2 Offer Options offered under this Prospectus should only be made by investors nominated by the Company and must be made using the Tranche 2 Option Offer Application Form attached to or accompanying this Prospectus sent to those specific investors.

A completed and lodged Application Form cannot be withdrawn and constitutes a binding application for, and acceptance of, the number of Shares or Options specified in the Application Form on the terms set out in this Prospectus.

The Application Forms must be completed in accordance with the instructions set out on the back of the Application Forms. Completed Application Forms should be returned to **RBS Morgans Limited** by post to GPO Box 8008 Cloisters Square Perth WA 6001 or by facsimile to +61 8 6462 1911.

Completed Application Forms must reach RBS Morgans Limited by no later than the Relevant Closing Date.

1.10 Underwriting

The Offers are not underwritten.

1.11 Minimum subscription

There is no minimum subscription for the Offers.

1.12 Allotment of Securities

Allotment of Securities will take place as soon as practicable after the Relevant Closing Date, following which statements of shareholdings and optionholdings will be dispatched. It is the responsibility of Applicants to determine their allocation prior to trading Securities. Applicants who sell Securities before they receive their Holding Statements will do so at their own risk.

Pending the issue of the Securities, or return of the Application Monies, the Application Monies will be held in trust for the Applicants. Any interest earned on Application Monies will be for the benefit of, and remains the sole property of, the Company and will be retained by the Company whether or not the Offers proceed.

The Directors have the right to allocate the Securities offered under this Prospectus. The Company may reject any Application or allocate any Applicant fewer Securities than applied for under the Offers. No Applicant under the Offers has any assurance of being allocated all or any Securities applied for.

If an Application is not accepted, or is accepted in part only, the relevant part of the Application Monies will be returned without any interest.

1.13 ASX quotation of Securities

Application for official quotation on ASX of the Securities issued pursuant to this Prospectus will be made within seven (7) days after the date of this Prospectus.

If the Securities offered pursuant to the Offers are not admitted to Official Quotation within three (3) months after the date of this Prospectus, the Company will not allot or issue any of these Securities and all Application Monies received pursuant to the Offers will be repaid as soon as practicable, without interest.

The fact that ASX may agree to grant Official Quotation of the Securities is not to be taken in any way as an indication of the merits of the Company or the Securities.

1.14 Withdrawal

The Directors may at any time before allotment of Securities to the Applicants decide to withdraw this Prospectus and the Offers, in which case the Company will return all Application Monies, without interest, within 28 days of giving notice of withdrawal.

1.15 CHESS

The Company participates in the Clearing House Electronic Sub-register System (**CHESS**). ASX Settlement, a wholly owned subsidiary of ASX, operates CHESS in accordance with ASX Listing Rules and ASX Settlement Rules.

Under CHESS, applicants will not receive a certificate but will receive a statement of their Security holding (**CHESS Statement** or **Holding Statement**).

If you are broker sponsored, ASX Settlement will send you a CHESS Statement.

The CHESS Statement will set out the number of Securities issued under this Prospectus, provide details of your holder identification number and give the participation identification number of the sponsor.

If you are registered on the issuer sponsored sub-register, your statement will be dispatched by the Company's share register and will contain the number of Securities issued to you under this Prospectus and your security holder reference number.

A CHESS Statement or issuer sponsored statement will routinely be sent to Securityholders at the end of any calendar month during which the balance of their Security holding changes. Securityholders may request a statement at any other time; however, a charge may be made for additional statements.

1.16 Privacy

The Company collects information in relation to each Applicant as provided in the Application Forms (**Information**) for the purposes of processing the Application Forms and, should the Application be successful, to administer the Applicant's Security holding in the Company (**Purposes**).

By submitting an Application Form, each Applicant agrees that the Company may use the Information for the Purposes and the Company may disclose the Information for the Purposes to the Share Registry, the Company's related bodies corporate (as that term is defined in the Corporations Act), agents, contractors and third party service providers, and to ASX, ASIC and other regulatory authorities.

The Information may also be used and disclosed to persons inspecting the Company's Share register, including bidders for your Securities in the context of takeovers, licensed securities dealers, mail houses, and regulatory bodies including the Australian Taxation Office.

1.17 Taxation implications

The Directors do not consider that it is appropriate to give potential investors advice regarding the taxation consequences of applying for Securities under this Prospectus, as it is not possible to provide a comprehensive summary of the possible taxation positions of potential investors.

The Company, its advisers and officers, do not accept any responsibility or liability for any taxation consequences to potential Applicants in the Offers. Potential

Applicants should, therefore, consult their own tax adviser in connection with the taxation implications of the Offers.

1.18 Applicants outside Australia

This Prospectus does not constitute an offer of Securities in any jurisdiction where, or to any person to whom, it would not be lawful to issue the Prospectus or make the Offers. It is the responsibility of any Applicant who is resident outside Australia to ensure compliance with all laws of any country relevant to their Application, and any such Applicant should consult their professional advisers as to whether any government or other consents are required, or whether any formalities need to be observed to enable them to apply for and be allotted Securities.

No action has been taken to register or qualify the Securities offered under this Prospectus or the Offers or otherwise to permit a public offering of the Securities, in any jurisdiction outside Australia.

1.19 Enquiries

This Prospectus provides information for potential investors in the Company and should be read in its entirety.

If after reading this Prospectus you have any questions about any aspect of an investment in the Company, please contact your stockbroker, accountant or financial advisor.

2. Company overview

2.1 Background to the Company

Phylogica was incorporated on 9 October 2001 and is an Australian based drug discovery company.

2.2 Phylomer® libraries

Phylogica has discovered and patented a unique proprietary class of targeted peptide therapeutics (Phylomer® peptides). These peptides exhibit competitive therapeutic, manufacturing, and commercial advantages over other more traditional targeted biologics such as proteins, monoclonal antibodies and most current therapeutic peptides. Libraries of billions of Phylomers have been constructed, which constitute the most structurally diverse set of peptides available, resulting in a higher quality and quantity of hits. For example, the hit to target ratios from Phylomer libraries are high and the proportion of hits, which are functional, is also very high, when compared with traditional libraries of random peptides.

The value of Phylomer libraries as a rich source of drug-like peptides is demonstrated by Phylogica's growing list of drug discovery partnerships with large pharmaceutical companies, including Roche, Medimmune/AstraZeneca and Pfizer.

Phylogica has created, and validated potential therapeutic Phylomer drug leads against intracellular and extracellular targets, with high affinities. These peptides can be readily enhanced by focused lead optimisation strategies based on the structural information obtained from the parent proteins from which Phylomers are derived. Phylomers have also been obtained which are capable of transporting large biologics into cells.

Phylogica has also demonstrated in-vivo efficacy for Phylomer peptides in animal models of diseases such as stroke/traumatic brain injury, burns, wound healing and acute respiratory distress syndrome. As these peptides are synthetic, chemical manipulation can enhance their stability, improve their solubility, prolong their in-vivo half-lives and minimise their risks of being immunogenic.

Phylomer peptides are suitable for a wide range of diseases, targeting proteins and their interactions. Phylogica has signed a Memorandum of Understanding with Cambridge Enterprises, Cambridge University's commercialisation group, outlining plans to form a spin-off company, Phenomica, to pursue commercial opportunities created by proven use of Phylomer libraries for target discovery and validation.

Phylogica has a strong intellectual property portfolio around its proprietary Phylomer peptide technology with sixteen patent families comprising multiple granted / allowed patents covering international markets, including Europe, the United States, and Australia. Phylogica's patent families cover methods of making the Phylomer peptide libraries, methods of screening them and composition-of-matter claims for the Phylomer libraries themselves and for individual Phylomer peptides discovered for therapeutic and diagnostic applications.

2.3 Commercial strategy

Phylogica refocused its strategy in 2009 to achieve revenue growth through discovery alliances by focusing on high-value, revenue-generating fee-for-service partnerships. Based on its existing partnerships and anticipated new revenue streams, the Company is targeting cash sustainability in FY2012. Through its alliance strategy, the Company is also creating long-term value by retaining downstream rights to Phylomer product candidates. In all of its deals, Phylogica is entitled to payments on the achievement by its partners of preclinical and clinical milestones, and also to royalties on sales of Phylomer-derived drugs. Through this

strategy, the Company aims to create a diversified portfolio of drug candidates and to minimise its exposure to development setbacks of any individual product.

Secondly, Phylogica is advancing a small number of in-house projects, which require limited investment to add value prior to partnering. Phylogica's in-house drug discovery activities are addressing three disease areas: inflammation, bacterial infections and cancer. In all of these programmes, the Company believes advancement of Phylomer product candidates to the stage of preclinical proof-of-concept could enable value to be generated in out-licensing agreements.

2.4 Board of Directors

The Company's Board of Directors is responsible for the corporate governance of the Company. The Board develops strategies for the Company, reviews strategic objectives and monitors performance against those objectives. At the date of this Prospectus, the Directors of the Company are:

Dr Douglas Wilson Executive Chairman

Dr Wilson is a New Zealand medical graduate with post graduate experience in London at St Thomas Hospital Medical School, and at Walter and Eliza Hall Institute Melbourne. Dr Wilson joined the international pharmaceutical industry and became Senior Vice President for Boehringer Ingelheim for Medicine and regulatory affairs in the USA responsible for all dealings with the US Food and Drug Administration (FDA).

Dr Wilson moved to Ingelheim and had the same responsibilities world wide. He headed the company's International Labelling Committee, deputy head of the International Medical Committee which oversaw all drugs in clinical development globally. During his tenure he saw ten drugs approved in the USA.

Dr Wilson is now a consultant and is on the board of Neuren Pharmaceuticals and other companies and consults widely on biotech and pharmaceutical issues.

Dr Paul Watt CEO and Executive Director

Dr Watt is a leading graduate from The University of Western Australia. Dr Watt completed his doctorate in Molecular Biology at Oxford University before taking up postdoctoral appointments in yeast genetics at Harvard and Oxford Universities. Working in genomic instability and cancer research, Dr Watt discovered three novel genes, including the yeast homologue of the human Bloom's and Werner's syndrome genes.

As an Honorary Research fellow at the Telethon Institute for Child Health Research, Dr Watt was appointed Adjunct Professor at the School of Paediatrics and Child Health of the University for Western Australia. Dr Watt has published 44 peer reviewed scientific papers (including several which have been cited hundreds of times).

As inventor on approximately 20 patents, Dr Watt has experience commercialising intellectual property. Dr Watt founded InfaMed Ltd., now owned by Avita Medical Ltd, which is commercialising a drug delivery device, which he developed for asthmatic children. This device has received US regulatory clearance from the FDA, is CE marked and is currently marketed in Australia and overseas.

Nicholas Woolf

CFO, VP Corporate Development and Executive Director

Mr Woolf is an accomplished biotechnology professional with 18 years experience in industry, equity research and investment banking. Until recently he was Chief Business Officer and Executive Director of Oxford BioMedica, a London-listed biotechnology company. Previously, he was Head of European Biotechnology Research at ABN Amro and he has held similar roles at Robertson Stephens, Nomura and SBC Warburg.

Mr Woolf is a qualified accountant and has an MA in Chemistry from the University of Oxford.

Bruce McHarrie

Non-Executive Director

Mr McHarrie has been in the biotechnology industry for over 15 years. Currently he is the Director of Finance and Business Development at the Telethon Institute for Child Health Research (the Institute), responsible for the executive management of the Institute with a particular focus on commercialisation activities.

Mr McHarrie joined the Institute in 1999 after returning to Perth from the United Kingdom where he was Assistant Director in the Bioscience Unit at Rothschild Asset Management. The Bioscience Unit focused on investing in biotechnology and healthcare companies from the early start-up stage through to the publicly listed stage. In this capacity Mr McHarrie was invited to join the board of a number of United Kingdom based biotechnology companies.

Prior to joining Rothschild Asset Management, Mr McHarrie was with Coopers and Lybrand in London servicing a client base primarily in the financial services industry. He holds a Bachelor of Commerce Degree from the University of Western Australia and qualified as a Chartered Accountant with Deloitte.

2.5 Corporate governance

The Directors monitor business affairs of the Company on behalf of the Shareholders. The Board has formally adopted corporate governance policies which are designed to encourage Directors and management to focus their attention on accountability, risk management and ethical conduct.

The Board has established the following committees, policies and charters:

- (a) Statement of Board and Management Functions;
- (b) Nomination Committee Charter;
- (c) Policy and Procedure for Selection and Appointment of New Directors;
- (d) Code of Conduct for Company Executives;
- (e) Policy for Trading Company Securities;
- (f) Audit Committee Charter;
- (g) Procedure for the Selection, Appointment and Rotation of External Auditor;
- (h) Compliance Procedures for ASX Listing Rule Disclosure Requirements;
- (i) Shareholder Communication Strategy;
- (j) Risk Management Policy and Internal Compliance and Control System;

- (k) Statement of process for performance evaluation of the Board, Board committees, individual directors and key executives;
- (l) Remuneration Committee Charter; and
- (m) Corporate Code of Conduct.

Discussion about the Company's corporate governance is contained in the Company's 2010 Annual Report available on the Company's website at www.phylogica.com.

Copies of the Company's Board committee charters and corporate governance policies are also available on the Company's website.

3. Purpose and effect of the Offers

3.1 Use of proceeds

The proceeds of the Offers will be applied towards meeting the expenses of the Offers of approximately \$7,200. The balance of the expenses of the Offers will be funded from existing cash reserves of the Company.

3.2 Effect of the Offers on capital structure

The capital structure of the Company following completion of the Offers is set out below:

Ordinary Shares	Number
Current Shares on issue	283,561,752
Shares offered pursuant to this Prospectus	1,000
Shares offered pursuant to the Tranche 1 Placement ⁵	28,000,000
Shares offered pursuant to the Tranche 2 Placement ⁵	60,135,594 ⁶
Issued Shares on completion of the Share Offer and the Tranche 1 and Tranche 2 Placements	371,698,346

Options	Number
Current Options on issue ¹	70,984,017 ²
Options offered pursuant to this Prospectus ³	44,067,797 ⁴
Issued Options on completion of the Option Offers	115,051,814

Convertible Notes	Number
Current Convertible Notes on issue	1,340,000
Issued Convertible Notes on completion of the Offers	Nil ⁷

Notes:

- ¹ Refer to Section 3.3 below for further details regarding the terms of the Options currently on issue.
- ² 47,150,353 of these Options are listed on ASX.
- ³ Exercisable at \$0.09 each on or before 30 June 2016. Refer to Section 6.2 for further details.
- ⁴ Includes both the Tranche 1 Offer Options and the Tranche 2 Offer Options.
- ⁵ Shares issued pursuant to the Placements will be issued prior to the Share Offer Closing Date.
- ⁶ The issue of Securities under the Tranche 2 Placement is subject to the approval of Shareholders.
- ⁷ The Convertible Notes mature on 30 April 2011, which is prior to the Share Offer Closing Date. The Convertible Notes are redeemable by the Company at 125% of the face value of the notes, are convertible by note holders before the maturity date at \$0.05 per Share or convert at maturity at \$0.04 per Share.

3.3 Key terms of Options currently on issue

The number and terms of the Options currently on issue in the Company before completion of the Option Offers is summarised in the table below.

Unlisted / Listed	Number	Terms
Listed	47,150,353	Exercisable at \$0.15 on or before 31 August 2011
Unlisted	400,000	Exercisable at \$0.25 on or before 31 July 2011
Unlisted	9,856,164	Exercisable at \$0.075 on or before 31 March 2012
Unlisted	7,237,500	Exercisable at \$0.075 on or before 31 March 2013
Unlisted	2,500,000	Exercisable at \$0.075 on or before 31 March 2012
Unlisted	2,500,000	Exercisable at \$0.10 on or before 31 March 2012

3.4 Market prices of Shares on ASX

The Company is a disclosing entity for the purposes of the Corporations Act and its Shares are enhanced disclosure securities quoted on ASX.

The highest and lowest market sale prices of the Company's Shares on ASX during the three months immediately preceding the date of lodgement of this Prospectus with the ASIC and the respective dates of those sales were:

- (a) Highest: 8.8 cents on 17 February 2011; and
- (b) Lowest: 6.0 cents on 31 December 2010.

The latest available closing sale price of the Company's Shares on ASX prior to the lodgement of this Prospectus with the ASIC was 6.7 cents on 29 March 2011.

3.5 Pro-forma statement of financial position

The Offers will have an effect on the Company's financial position.

Set out below is the unaudited balance sheet of the Company as at 31 January 2011 and the un-audited pro-forma balance sheet of the Company as at 31 January 2011, incorporating the effects of the Offers, being the share capital issue of \$59 and the costs of lodging this Prospectus of \$7,200, and the Placements.

The balance sheets have been prepared to provide Shareholders with information on the assets and liabilities of the Company and pro-forma assets and liabilities of the Company as noted below. The historical and pro-forma financial information is presented in an abbreviated form, insofar as it does not include all of the disclosures required by Australian Accounting Standards applicable to annual financial statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Unaudited pro forma as at 31 January 2011

	UNAUDITED CONSOLIDATED 2011 JANUARY	ISSUE ¹	CONTEMP- ORANEOUS EVENTS ²	PROFORMA 2011 JANUARY
ASSETS				
CURRENT ASSETS				
CASH AND CASH EQUIVALENTS	1,915,947	(7,141)	4,875,000	6,783,806
TRADE AND OTHER RECEIVABLES	166,141	-	-	166,141
TOTAL CURRENT ASSETS	2,082,088	(7,141)	4,875,000	6,949,947
NON-CURRENT ASSETS				
PROPERTY, PLANT & EQUIPMENT AT COST	488,958	-	-	488,958
ACCUMULATED DEPECIATION	(270,906)	-	-	(270,906)
INTELLECTUAL PROPERTY AT COST	-	-	-	-
ACCUMULATED AMORTISATION	-	-	-	-
INVESTMENT IN SUBSIDIARY	-	-	-	-
PROVISION FOR WRITE DOWN	-	-	-	-
LOAN TO SUBSIDIARY	-	-	-	-
PROVISION FOR NON RECOVERY	-	-	-	-
TOTAL NON-CURRENT ASSETS	218,052	-	-	218,052
TOTAL ASSETS	2,300,140	(7,141)	4,875,000	7,167,999
LIABILITIES				
CURRENT LIABILITIES				
TRADE PAYABLES	325,937	-	-	325,937
ACCRUED EXPENSES	10,000	-	-	10,000
OTHER PAYABLES	46,283	-	-	46,283
EMPLOYEE BENEFITS	165,621	-	-	165,621
INTEREST BEARING LIABILITIES	1,298,097	-	(1,298,097)	-
TOTAL CURRENT LIABILITIES	1,845,938	-	(1,298,097)	547,841
NON-CURRENT LIABILITIES				
EMPLOYEE BENEFITS (LSL)	42,446	-	-	42,446
TOTAL NON-CURRENT LIABILITIES	42,446	-	-	42,446
TOTAL LIABILITIES	1,888,384	-	(1,298,097)	590,287
NET ASSETS	411,756	(7,141)	6,173,097	6,577,712
EQUITY				
ISSUED CAPITAL	24,170,924	(7,141)	6,215,000	30,378,783
RESERVES	977,165	-	(41,903)	935,262
RETAINED EARNINGS	(23,425,525)	-	-	(23,425,525)
CURRENT YEAR EARNINGS	(1,310,808)	-	-	(1,310,808)
TOTAL EQUITY	411,756	(7,141)	6,173,097	6,577,712

¹ Proceeds of the Offers less estimated expenses of the Offers.

² Proceeds of the Tranche 1 Placement and Tranche 2 Placement less estimated expenses of the Placements. The Convertible Notes mature on 30 April 2011, which is prior to the Share Offer Closing Date. The Convertible Notes are redeemable by the Company at 125% of the face value of the notes, are convertible by note holders before the maturity date at \$0.05 per Share or convert at maturity at \$0.04 per Share. The pro forma balance sheet assumes the Convertible Notes will be converted into Shares and is reflected in issued capital accordingly.

4. Risk factors

4.1 Introduction

Investors wishing to subscribe for Securities offered by this Prospectus should read this Prospectus in its entirety in order to make an informed assessment of the effect of the issue of Securities on the Company and the rights attaching to the Securities offered by this Prospectus.

Investors should carefully consider whether Securities in the Company are an appropriate investment for them and should appreciate that share prices can fall as well as rise.

Securities offered by this Prospectus should be viewed as speculative and whilst the Directors recommend the Offers, investors should be aware of, and take into account, the risk factors involved.

This Section is not intended to be an exhaustive list of the considerations to be taken into account by investors in deciding whether to subscribe for Securities, nor all of the risk factors to which the Company is exposed. Some of these risks can be mitigated by the use of safeguards and appropriate systems and actions, but many are outside the control of the Company and cannot be mitigated.

There are risks associated with investing in any form of business and with investing in the share market generally. All investors should consult their professional advisers if they are in any doubt as to any aspect of this Prospectus, the Offers or any matter relating to an investment in the Company.

4.2 Company specific risks

The following risks have been identified as being key risks specific to an investment in the Company. These risks have the potential to have a significant adverse impact on the Company and may affect the Company's financial position, prospects and price of its listed Securities.

Technology risks

For the Company to be competitive in the peptide drug discovery market, the Directors expect it will need to continue to develop or acquire new technologies and platforms, develop niche markets and to take early advantage of technological advancements.

While the Directors regard the Company's Phylomer Libraries as being at the forefront of peptide drug discovery, competition and new technologies have the potential to negatively impact market share, product prices, profit margins, and the financial value of products. Further, it may render the Company's research projects and the high costs associated with such research and development obsolete. Outcomes of research and development work will affect the future performance of the Company and its Shares.

Discovery alliance risk

The Company aims to build a sustainable business through drug discovery alliances. This requires a flow of new contracts and/or extensions of existing agreements to grow revenue. While great care will be taken in the alliances that Phylogica commits to, there is a risk that partner selections and performance may not be adequate, resulting in lost time, money and opportunity. Similarly, the Company may not be able to secure new contracts at the rate required or with sufficient near-term contract revenue to meet its revenue goals.

Phylomer therapeutic risks

Drug development is a long and highly regulated process with many identified potential risks. Therapeutics derived from Phylomers are subject to some of these potential risks as described below. While Phylogica is not currently directly engaged in drug development, these risks can indirectly influence the possibility of Phylogica to obtain downstream milestone payments and royalties from peptides it discovers being taken through clinical development and subsequent marketing.

Difficulty could be encountered with absorption, delivery, metabolism, toxicity, stability, delivery or efficacy in animal or human trials. This could result in early termination of a specific drug candidate program. Formulation difficulties such as poor solubility may also be encountered.

Drugs developed from Phylomers may not be suitable for all individuals such as different genetic backgrounds or patients suffering from particular conditions.

Unforeseen interactions with other pharmaceuticals or substances may be encountered.

Phylomers that appear specific at early stages of drug discovery may nonetheless exhibit unforeseen side effects in animal or human trials resulting in early termination of the specific drug candidate program.

Government regulatory bodies are the final arbiters of approval of drugs for market. Applications for approval may not be granted in all instances in all markets.

Research and Development Agreement

Currently all of Phylogica's research and development work is carried out at the Telethon Institute for Child Health Research and is covered by a Research and Development Agreement. In the event that the Research and Development Agreement is terminated, Phylogica's operations could be adversely affected as a consequence of disruption of work and re-locating to new premises.

Research and development

Phylogica can make no representations that any of its research and development will be successful, that the Company's development milestones will be achieved or that the Company will develop products that are commercially exploitable. Prior to commercialisation, projects may be delayed or terminated for a range of unexpected scientific, preclinical, clinical, regulatory or commercial reasons.

Being at the forefront of peptide drug discovery, the Company is entering uncharted territory which may present unforeseen biological complexities. Phylogica may need to develop new technologies to resolve these complexities and to advance its programs.

Intellectual property

Phylogica regards its patents, copyrights, trademarks, trade secrets and similar intellectual property as critical to its success. Phylogica relies on patent, trademark and copyright law, trade secret protection and duties of confidence and licence agreements with third parties to protect its intellectual property rights. Applications for patents and trademarks may not be granted in particular jurisdictions. Moreover the grant of a patent does not guarantee that the rights of others are not infringed or that competitors will not develop competing intellectual property, nor does it eliminate the risk that such patent rights may be challenged. While the Company will use all reasonable endeavours to protect these rights, the steps that the Company takes to protect its intellectual property rights may be inadequate. The unauthorised use or disclosure of its proprietary technology and systems may have adverse

effects on the operation and financial performance of Phylogica. The Company may incur substantial costs in obtaining or asserting any patents or intellectual property rights and in defending legal action against itself relating to such rights. It is possible that some patent rights could be revoked following such legal action.

No formal valuation has been completed on the intellectual property of the Company. Phylogica makes no representation as to the value of its intellectual property. It is recommended that impending investors and their advisors should make their own assessment as to the value of the Company's intellectual property.

Customers

A significant proportion of Phylogica's potential customers are from, and are subject to risks faced by, the pharmaceutical, biotechnology and life sciences industries. Therefore, Phylogica's success depends largely on the success of companies in these industries and their demand for its products.

Competition

The Company will be operating in a competitive and dynamic market, where technological advancements are expected. Although the Board believes that the Company's technology is unique and will be effective in identifying and developing drug candidates, there are competing technologies which will continue to be used and other competitors unknown to the Company may emerge from time to time. The introduction of new competitors or a more successful outcome from existing participants may affect the operating performance of the Company.

Funding

Unless or until the Company is able to expand its fee-for-service activities and thus grow revenue, it will not reach its goal of cash sustainability in FY2012. Phylogica's long-term value requires its partner's and its in-house drug candidates to be successful in development and to reach the market. Otherwise, it may be dependent upon the funds raised by this Offer, existing collaboration agreements, and its ability to obtain future equity or debt funding to support commercialisation of its technology and in-house research and development. The Company's ability to raise further equity or debt or to divest part of its interest in its technology, and the terms of such transactions, will vary according to a number of factors, including the success of research and development results and the future development of the Company's technology and stock market conditions.

Key personnel

The responsibility of overseeing the day-to-day operations and the strategic management of the Company depends substantially on its senior management and its key personnel. There can be no assurance given that there will be no detrimental impact on the Company if one or more of these employees cease their employment. The Company's future ability to recruit and retain highly qualified management personnel will also be critical to its success.

Product liability and uninsured risks

Through its intended business, the Company is exposed to potential product liability risks which are inherent in the research and development, manufacturing, marketing and use of its products or products developed with future co-development alliance partners. It will be necessary to secure insurance to help manage such risks. The Company may not be able to maintain insurance for product or service liability on reasonable terms in the future and, in addition, the Company's insurance may not be sufficient to cover large claims, or the insurer could disclaim coverage on claims.

Although the Company endeavours to work to rigorous standards there is still the potential for the products to contain defects which may result in system failures. These defects or problems could result in the loss of or delay in generating revenue, loss of market share, failure to achieve market acceptance, diversion of development resources and injury to the Company's reputation or increased insurance costs.

If the Company falls to meet its clients' expectations, the Company's reputation could suffer and it could be liable for damages.

Further the Company is exposed to the risk of catastrophic loss to necessary laboratory equipment, computer equipment or other facilities which would have a serious impact on Phylogica. The Company gives no assurance that all such risks will be adequately managed through its insurance policies to ensure that catastrophic loss does not have an adverse effect on its performance.

General investment risks

The business activities of the Company are subject to various general economic and investment risks that may impact on the future performance of the Company. Some of these risks can be mitigated by the use of safeguards and appropriate systems and controls, but some are outside the control of the Company and cannot be mitigated. There are a number of general economic and investment risk factors that apply to companies generally and may include economic, financial, market or regulatory conditions. These risk factors include, but are not limited to:

General economic climate

Factors such as inflation, currency fluctuations, interest rates, legislative changes, political decisions and industrial disruption have an impact on operating costs.

The Company's future income, asset values and share price can be affected by these factors and, in particular, by the market price for any services that the Company may sell.

Stock market conditions

The market price of Shares and Options when quoted on the ASX will be influenced by international and domestic factors affecting conditions in equity and financial markets. These factors may affect the prices for the securities companies quoted on the ASX, including Phylogica.

The stock market has in the past and may in the future be affected by a number of matters including:

- market confidence;
- supply and demand for money; and
- currency exchange rates.

Government policy changes

Any material adverse changes in government policies or legislation of any countries in which the Company may operate may affect the viability and profitability of the Company.

Foreign currency and exchange rate fluctuations

Revenue and expenditure of the Company may be domiciled in currencies other than Australian dollars and as such expose the Company to foreign exchange

movements, which may have a positive or negative influence on the Australian dollar equivalent of such revenue and expenditure.

The Company will appropriately monitor and assess such risks and may from time to time implement measures, such as foreign exchange currency hedging, to assist managing these risks. However, the implementation of such measures may not eliminate all such risks and the measures themselves may expose the Company to related risks.

International business risks

The majority of Phylogica's customers/potential collaborators are based internationally, mainly in the United Kingdom, Continental Europe, the United States and Japan. There are inherent risks associated with doing business on an international level. Some of those risks can adversely impact Phylogica's business and financial performance and include unexpected changes in regulatory requirements, taxation, tariffs, duties and other trade barriers; foreign exchange controls which restrict or prohibit the repatriation of funds; technology export or import restrictions or prohibitions and longer payment cycles and problems in collecting accounts receivable.

Speculative nature of investment

The above list of risk factors ought not to be taken as exhaustive of the risks faced by the Company or by investors in the Company. The above factors, and others not specifically referred to above, may in the future materially affect the financial performance of the Company and the value of the Shares and Options offered under this Prospectus.

Therefore, the Shares and Options to be issued pursuant to this Prospectus carry no guarantee with respect to the payment of dividends, returns of capital or the market value of those Shares and Options.

Potential investors should consider that the investment in the Company is speculative and should consult their professional advisers before deciding whether to apply for Shares and Options in the Company.

5. Continuous disclosure documents

5.1 Continuous disclosure obligations

This is a Prospectus for the offer of continuously quoted securities (as defined in the Corporations Act) of the Company and is issued pursuant to section 713 of the Corporations Act as a transaction specific prospectus. Accordingly, this Prospectus does not contain the same level of disclosure as an initial public offering Prospectus.

The Company is a “disclosing entity” for the purposes of the Corporations Act and, as such, is subject to regular reporting and disclosure obligations. As a listed company, the Company is subject to the ASX Listing Rules which require it to immediately notify ASX of any information concerning the Company of which it is or becomes aware and which a reasonable person would expect to have a material effect on the price or value of Shares, subject to certain exceptions.

Information that has already been disclosed to ASX pursuant to the Company’s continuous disclosure obligations is not included in this Prospectus other than that which is considered necessary to make this Prospectus complete.

5.2 Documents available for inspection

The Company has lodged the following announcements with ASX since the lodgement of the Company’s 2009 annual financial report on 28 September 2010.

Date	Description of ASX Announcement
25/03/2011	Appendix 3B first tranche placement
25/03/2011	Phylogica Limited Share Placement raises \$5.2 million
23/03/2011	Trading Halt
15/03/2011	Shareholder Update March 2011
09/03/2011	Phylogica Discovery Spin-Off with University of Cambridge
03/03/2011	Appendix 3B
24/02/2011	Half Yearly Report and Accounts
23/02/2011	Phylogica – Isogenica Technology Collaboration
22/02/2011	Clarification of change in substantial holding in PYC
22/02/2011	Change in substantial holding from BTC
21/02/2011	Phylogica – New Potential For Treating Brain Injury
17/02/2011	Phylogica Announces Successful Collaboration with Roche
17/02/2011	FNN interview N Woolf Pfizer Deal, Goals for 2011
07/02/2011	Shareholder Update February 2011
03/02/2011	Change of Substantial Holding – Correction
03/02/2011	Change in substantial holding
28/01/2011	Appendix 4C – quarterly
25/01/2011	Phylogica Named as One of Bioshares ‘Top 10 Picks’ for 2011
24/01/2011	Phylogica Receives Prestigious Frost and Sullivan Award
13/01/2011	Phylogica Accesses Novel Half-Life Extension Technology
23/12/2010	Share Trading Policy
20/12/2010	Phylogica Signs Collaboration and Licensing Deal with Pfizer

Date	Description of ASX Announcement
17/12/2010	Appendix 3B AGM issues
17/12/2010	Change of Director's Interest Notice
16/12/2010	Interview Nick Woolf CFO and VP Corp Development
07/12/2010	Chairman's Update 2010
06/12/2010	Final Director's Interest Notice
30/11/2010	AGM presentation
30/11/2010	Results of Meeting
02/11/2010	MedImmune drug discovery activities commence
29/10/2010	Appendix 4C – quarterly
28/10/2010	Annual Report to shareholders
28/10/2010	Notice of Annual General Meeting/Proxy Form
21/10/2010	Roche Ausbiotech 2010 congress – Phylogica Partnership
21/10/2010	Phylogica And Roche Complete First Stage Of Partnership
15/10/2010	Change in substantial holding
14/10/2010	Executive role appointment – N Woolf
13/10/2010	Change in substantial holding
08/10/2010	Appendix 3B rights issue Underwriting
07/10/2010	Australian Life Science Report
05/10/2010	Change of Director's Interest Notice x 3
04/10/2010	Appendix 3B rights issue Shareholders
29/09/2010	Solid Uptake in Rights Issue

Copies of documents lodged with the ASIC in relation to the Company may be obtained from, or inspected at, an office of the ASIC.

Copies of documents lodged with ASX, in relation to the Company, may be obtained from the Company's website at www.phylogica.com or at ASX's website at www.asx.com.au.

The Company will provide a copy of each of the following documents, free of charge, to any person on request from the date of this Prospectus until the Relevant Closing Date:

- (a) the annual financial report of the Company for the financial year 30 June 2010, being the annual financial report of the Company most recently lodged with the ASIC before the issue of this Prospectus;
- (b) the half-year financial report of the Company for the half-year ended 31 December 2010, being the half-year financial report of the Company lodged with the ASIC after lodgement of the annual financial report referred to in paragraph (a) above and before the issue of this Prospectus; and
- (c) any documents used to notify ASX of information relating to the Company in the period from lodgement of the annual financial report referred to in paragraph (a) above until the issue of the Prospectus in accordance with the Listing Rules as referred to in section 674(1) of the Corporations Act.

Copies of all documents lodged with the ASIC in relation to the Company can be inspected at the registered office of the Company during normal office hours.

6. Additional information

6.1 Rights and liabilities attaching to Shares

Shares issued under this Prospectus will be fully paid ordinary shares in the capital of the Company and will rank equally with Shares already on issue at the date of this Prospectus.

The following is a broad summary (though not necessarily an exhaustive or definitive statement) of the rights and liabilities attaching to the Shares. Full details of the rights and liabilities attaching to the Shares are contained in the Constitution of the Company and in certain circumstances, are regulated by the Corporations Act, the ASX Listing Rules, the ASX Settlement Rules and the common law. The Company's Constitution is available for inspection free of charge at the Company's registered office.

Meetings and notices

Each Shareholder is entitled to receive notice of, and to attend, general meetings of the Company and to receive all notices, financial reports and other documents required to be sent to Shareholders under the Constitution, the Corporations Act or the Listing Rules.

Voting

At meetings of Shareholders, every Shareholder present in person or by proxy, attorney or representative has one vote on a vote taken by a show of hands, and, on a poll has one vote for every fully paid Share held by him or her, and a proportionate vote for every partly paid Share.

A poll may be demanded by the chairperson of the meeting, by any five Shareholders present having the right to vote in person or by proxy, attorney or representative, or by any one or more Shareholders present who are together entitled to not less than 5% of the total voting rights of all Shareholders having the right to vote.

In the case of an equality of votes, the chairman of the meeting has a casting vote.

Dividends

Subject to the rights or restrictions attached to a class of Shares and the Corporations Act, the Company may pay dividends on Shares as the Directors resolve, but only to the extent that the Company's assets exceed its liabilities by at least the amount of the dividend to be paid, it is fair and reasonable to Shareholders as a whole and the payment of a dividend does not materially prejudice the Company's ability to pay its creditors.

Transfer of Shares

Shares in the Company may be transferred by such means in accordance with the Constitution, the Corporations Act, the Listing Rules and the ASX Settlement Rules.

The Directors may refuse to register a transfer of Shares only in those circumstances permitted by the Constitution, the Listing Rules and the ASX Settlement Rules.

Winding-up

Shares classified as Restricted Securities (as defined in the Listing Rules) at the commencement of winding-up rank in priority after all other Shares.

Subject to the rights of Shareholders (if any) entitled to Shares with special rights in a winding-up, all monies and property that are to be distributed on a winding-up will be distributed in proportion to the Shares held by them respectively, irrespective of the amount paid up or credited as paid up on the Shares.

Variation of rights attaching to Shares

Subject to the Listing Rules, the rights attached to the Shares may be varied by special resolution of the Company and either with the consent in writing of Shareholders holding three-quarters of the Shares or by a special resolution passed at a separate meeting of the holders of the Shares in accordance with the Corporations Act.

The Directors may, subject to the restrictions on allotment of Shares imposed by the Constitution, the Corporations Act and the Listing Rules, from time to time issue and allot further Shares on such terms and conditions as they see fit.

6.2 Terms applicable to Options

The Options offered pursuant to this Prospectus will be granted by the Company on the following terms:

- (a) Each Option entitles the holder to subscribe for one (1) fully paid ordinary Share in the Company at an exercise price of \$0.09 each.
- (b) The Options shall expire on or before 30 June 2016. Any Option not exercised by the expiry date will automatically expire.
- (c) The Company must give the Option Holder a certificate or holding statement stating the:
 - (i) number of Options issued to the Option Holder;
 - (ii) exercise price of the Options; and
 - (iii) date of issue of the Options.
- (d) The Options are transferable. Subject to the Listing Rules and the Corporations Act, the Option Holder may transfer some or all of the Options at any time before they expire by a:
 - (i) proper ASX Settlement transfer or any other method permitted by the Corporations Act; or
 - (ii) prescribed instrument of transfer.
- (e) An instrument of transfer of an Option must be: in writing; in any usual form or in any other form approved by the directors that is otherwise permitted by law; subject to the Corporations Act, executed by or on behalf of the transferor, and if required by the Company, the transferee; and delivered to the Company, at the place where the Company's register of Option Holder is kept, together with the certificate (if any) of the Option to be transferred and any other evidence as the directors require to prove the title of the transferor to that Option, the right of the transferor to transfer that Option and the proper execution of the instrument of transfer.
- (f) The Company will apply to ASX for Official Quotation of the Offer Options.
- (g) The Company will apply to ASX for Official Quotation of the Shares issued on exercise of the Options.

- (h) The Option Holder is not entitled to participate in any new issue to existing Shareholders of Securities in the Company unless they have exercised their Options before the "record date" for determining entitlements to the new issue of Securities and participate as a result of holding Shares. The Company must give the Option Holder notice of the proposed terms of the issue or offer in accordance with the ASX Listing Rules.
- (i) If the Company makes a bonus issue of Shares or other Securities to Shareholders (except an issue in lieu of dividends or by way of dividend reinvestment) and no Share has been issued in respect of the Option before the record date for determining entitlements to the issue, then the number of underlying Shares over which the Option is exercisable is increased by the number of Shares which the Option Holder would have received if the Option Holder had exercised the Option before the "record date" for determining entitlements to the issue.
- (j) If there is a reorganisation (including consolidation, sub-division, reduction or return) of the share capital of the Company, then the rights of the Option Holder (including the number of Options to which the Option Holder is entitled to and the exercise price) is changed to the extent necessary to comply with the ASX Listing Rules applying to a reorganisation of capital at the time of the reorganisation.
- (k) Any calculations or adjustments which are required to be made will be made by the Company's Board of Directors and will, in the absence of manifest error, be final and conclusive and binding on the Company and the Option Holder.
- (l) The Company must, within a reasonable period, give to the Option Holder notice of any change to the exercise price of any Options held by the Option Holder or the number of Shares which the Option Holder is entitled to subscribe for on exercise of an Option.
- (m) To exercise Options, the Option Holder must give the Company or its share registry, at the same time:
 - (i) a written exercise notice (in the form approved by the Board of the Company from time to time) specifying the number of Options being exercised and Shares to be issued;
 - (ii) payment of the exercise price for the Shares, the subject of the exercise notice, by way of bank cheque or by other means of payment approved by the Company; and
 - (iii) any certificate for the Options.
- (n) The Option Holder may only exercise Options in multiples of 5,000 Options unless the Option Holder exercises all Options held by the Option Holder.
- (o) Options will be deemed to have been exercised on the date the exercise notice is lodged with the Directors of the Company.
- (p) If the Option Holder exercises less than the total number of Options registered in the Option Holder's name:
 - (i) the Option Holder must surrender their Option certificate (if any); and
 - (ii) the Company must cancel the Option certificate (if any) and issue the Option Holder a new Option certificate or Holding Statement

stating the remaining number of Options held by the Option Holder.

- (q) Within ten (10) days after receiving an application for exercise of Options and payment by the Option Holder of the exercise price, the Company must issue the Option Holder the number of Shares specified in the application.
- (r) Subject to the Company's Constitution, all Shares issued on the exercise of Options will rank in all respects (including rights relating to dividends) equally with the existing ordinary Shares of the Company at the date of issue.
- (s) These terms and the rights and obligations of the Option Holder are governed by the laws of Western Australia. The Option Holder irrevocably and unconditionally submits to the non-exclusive jurisdiction of the courts of Western Australia.

6.3 Litigation

As at the date of this Prospectus, the Company is not involved in any material legal proceedings and the Directors are not aware of any material legal proceedings pending or threatened against the Company.

6.4 Interests of Directors

Other than as set out below or elsewhere in this Prospectus, no Director nor any entity in which such a Director is a partner or director, has or has had in the two years before the date of this Prospectus, any interest in:

- (a) property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offers; or
- (b) the Offers,

and no amounts have been paid or agreed to be paid (in cash or Shares or otherwise) and no other benefit has been given or agreed to be given to any Director or to any entity in which such a Director is a partner or director, either to induce him to become, or to qualify as, a Director or otherwise for services rendered by him or by the entity in connection with the formation or promotion of the Company or the Offers.

Security holding interests of Directors

At the date of this Prospectus the relevant interest of each of the Directors in the Shares and Options of the Company are as follows:

Director	Shares		Unlisted Options		Listed Options	Convertible Notes
	Direct	Indirect	Direct	Indirect	Indirect	Indirect
Douglas Wilson	-	-	-	1,418,337	-	10,000
Paul Watt	4,044,123	1,910,675	-	3,000,000	987,767	20,000
Nicholas Woolf	1,124,500	-	1,400,000	-	-	-
Bruce McHarrie	1,838,238	466,338	-	368,700	384,097	-

Directors or their associated entities that are registered as Shareholders may participate in the Offers.

Remuneration of Directors

The Constitution of the Company provides that the Directors may be paid for their services as Directors. The remuneration shall, subject to any resolution of a general meeting, be fixed by the Directors.

The Constitution provides that non-executive Directors may collectively be paid as remuneration for their services a fixed sum not exceeding the aggregate maximum set by the Company in general meeting. The aggregate maximum is presently set at \$200,000 per annum.

Details of the remuneration payable to the Chief Executive Officer are set out in the Company's 2010 Annual Report.

A Director may be paid fees or other amounts as the Directors determine, where a Director performs duties or provides services outside the scope of their normal duties. A Director may also be reimbursed for out of pocket expenses incurred as a result of their directorship or any special duties.

Indemnification of Directors

To the extent permitted by law, the Company indemnifies every person who is or has been an officer of the Company and indemnifies every person who is or has been an officer of the Company against any liability incurred by the person in his capacity as an officer of the Company in respect of any act or omission or in defending any proceedings, whether civil or criminal.

6.5 Expenses of the Offers

The estimated expenses payable by the Company in respect of costs associated with this Prospectus and the Offers, including offer management, legal, accounting, corporate advisory, expert's fees, printing, ASIC and ASX fees and other costs will be approximately \$7,200.

6.6 Interests of experts and advisers

Other than as set out below or elsewhere in this Prospectus, all other persons named in this Prospectus as performing a function in a professional, advisory or other capacity in connection with the preparation or distribution of this Prospectus do not have, and have not had in the two (2) years before the date of this Prospectus, any interest in:

- (a) the formation or promotion of the Company;
- (b) property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the Offers; or
- (c) the Offers,

and no amounts have been paid or agreed to be paid (in cash or Shares or otherwise) and no other benefit has been given or agreed to be given to any of those persons for services provided by those persons in connection with the formation or promotion of the Company or the Offers.

McKenzie Moncrieff Lawyers has acted as solicitors to the Company in relation to the Offers and legal due diligence enquiries in respect of the Company and is entitled to be paid up to \$5,000 (plus GST) in respect of these services. In addition, McKenzie Moncrieff Lawyers has not provided any other legal services to the Company in the period two (2) years prior to the date of this Prospectus.

HLB Mann Judd acts as auditor of the Company and has been paid \$58,100 (plus GST) for the provision of professional services in relation to the auditing of the

financial statements of the Company and other professional services in the period two (2) years prior to the date of this Prospectus.

6.7 Consents and liability statements

McKenzie Moncrieff Lawyers has given and has not, before lodgement of this Prospectus with the ASIC, withdrawn its consent to be named in this Prospectus as solicitor to the Company in the form and context in which it is named.

HLB Mann Judd has given and has not, before lodgement of this Prospectus with the ASIC, withdrawn its consent to be named in this Prospectus as auditor to the Company in the form and context in which it is named.

Security Transfer Registrars Pty Ltd has given and has not, before lodgement of this Prospectus with the ASIC, withdrawn its consent to be named in this Prospectus as the Company's share registry in the form and context in which it is named.

Each of McKenzie Moncrieff Lawyers, HLB Mann Judd and Security Transfer Registrars Pty Ltd:

- (a) did not authorise or cause the issue of this Prospectus;
- (b) does not make, or purport to make, any statement in this Prospectus nor is any statement in this Prospectus based on any statement by any of those parties other than as specified in this Section; and
- (c) to the maximum extent permitted by law, expressly disclaims any responsibility or liability for any part of this Prospectus other than a reference to its name and a statement contained in this Prospectus with consent of that party as specified in this Section.

7. Directors' statement

Each Director has consented to the lodgement of this Prospectus with ASIC and has not withdrawn that consent.

This Prospectus is signed for and on behalf of the Company pursuant to a resolution of the Board by:



Mr Bruce McHarrie
Director

Dated: 30 March 2011

8. Glossary

Applicant	A person who applies for Securities in accordance with this Prospectus.
Application	An application for Securities offered under this Prospectus.
Application Forms	Each of the Share Offer Application Form, the Tranche 1 Option Offer Application Form and the Tranche 2 Option Offer Application Form attached to or accompanying this Prospectus.
Application Monies	Money received from an Applicant in respect of an Application.
ASIC	The Australian Securities and Investments Commission.
ASX	The Australian Securities Exchange operated by ASX Limited ABN 98 008 624 691.
ASX Settlement	ASX Settlement Pty Limited ABN 49 008 504 532.
ASX Settlement Rules	The settlement rules of ASX Settlement.
Board	The board of Directors of the Company.
Business Day	A day that is not a Saturday, Sunday or a public holiday or bank holiday in Perth, Western Australia.
CHES	Clearing House Electronic Sub-register System operated by ASX Settlement.
CHES Statement or Holding Statement	A statement of shares registered in a CHES account.
Chief Executive Officer	Dr Paul Watt.
Company or Phylogica	Phylogica Limited ACN 098 391 961.
Consolidated Entity	The Company and its subsidiaries.
Convertible Note	The convertible notes issued by the Company which may be converted to Shares at the election of the holder.
Corporations Act	<i>Corporations Act 2001</i> (Cth).
Director	A director of the Company as at the date of this Prospectus.
FY	Financial year.
HLB Mann Judd	HLB Mann Judd (WA) Partnership ABN 22 193 232 714.
GST	Goods and services tax.
Listing Rules	The listing rules of ASX.
McKenzie Moncrieff Lawyers	McKenzie Moncrieff Pty Ltd as trustee for the McKenzie Moncrieff Unit Trust trading as McKenzie Moncrieff Lawyers ABN 43 315 824 553.
Offers	The offer of Shares and Offer Options under this Prospectus.

Offer Options	The Tranche 1 Offer Options and the Tranche 2 Offer Options offered pursuant to this Prospectus.
Official Quotation	Quotation on ASX.
Option	An option to subscribe for a Share.
Option Holder	The holder of an Option.
Option Offers	The offer of the Tranche 1 Offer Options and Tranche 2 Offer Options pursuant to this Prospectus.
Placements	The Tranche 1 Placement and the Tranche 2 Placement.
RBS Morgans Limited	RBS Morgans Limited ACN 010 669 726.
Relevant Closing Date	The Share Offer Closing Date, the Tranche 1 Option Offer Closing Date and/or the Tranche 2 Option Offer Closing Date, as the case may be.
Section	A section of this Prospectus.
Securities	Shares and/or Options.
Securityholder	A holder of a Security.
Share	A fully paid ordinary share in the capital of the Company.
Shareholder	The holder of a Share.
Share Offer	The offer of Shares pursuant to this Prospectus.
Share Offer Application Form	The application form attached to or accompanying this Prospectus relating to the Share Offer.
Tranche 1 Offer Options	14,000,000 Options offered to participants in the Tranche 1 Placement pursuant to this Prospectus.
Tranche 1 Option Offer Application Form	The application form attached to or accompanying this Prospectus relating to the Tranche 1 Offer Options.
Tranche 1 Option Offer Closing Date	The date on which the offer for the Tranche 1 Offer Options closes, as determined by the Directors.
Tranche 1 Option Offer Opening Date	The date the offer for the Tranche 1 Offer Options opens.
Tranche 1 Placement	The proposed placement of 28,000,000 Shares at an issue price of \$0.059 per Share to sophisticated and institutional investors, together with one free attaching Tranche 1 Offer Option for every two Shares subscribed for.
Tranche 2 Offer Options	30,067,797 Options offered to participants in the Tranche 2 Placement pursuant to this Prospectus.
Tranche 2 Option Offer Application Form	The application form attached to or accompanying this Prospectus relating to the Tranche 2 Offer Options.
Tranche 2 Option Offer Closing Date	The date on which the offer for the Tranche 2 Offer Options closes, as determined by the Directors.
Tranche 2 Option Offer Opening Date	The date the offer for the Tranche 2 Offer Options opens.

Tranche 2 Placement	The proposed placement of 60,135,594 Shares at an issue price of \$0.059 per Share to sophisticated and institutional investors, together with one free attaching Tranche 2 Offer Option for every two Shares subscribed for.
Share Offer Closing Date	The date on which the Share Offer closes, as determined by the Directors.
Share Offer Opening Date	The date on which the Share Offer opens.
Share Registry	Security Transfer Registrars Pty Ltd ACN 008 894 488.
WST	Western Australian Standard Time, being the time in Perth, Western Australia.

