
PHYLOGICA LIMITED

ACN 098 391 961

NOTICE OF ANNUAL GENERAL MEETING

TIME: 11.00 am WST

DATE: Thursday, 22 November 2012

PLACE: Seminar Room
Telethon Institute for Child Health Research
100 Roberts Road, Subiaco WA

This Notice of Meeting should be read in its entirety. If Shareholders are in doubt as to how they should vote, they should seek advice from their professional advisers prior to voting.

Should you wish to discuss the matters in this Notice of Meeting please do not hesitate to contact the Company Secretary, Graeme Boden, on (08) 9286 1219.

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IMPORTANT INFORMATION

TIME AND PLACE OF MEETING

Notice is given that the Annual General Meeting of the Shareholders to which this Notice of Meeting relates will be held at 11.00 am WST on Thursday 22 November 2012 at:

Seminar Room
Telethon Institute for Child Health Research
100 Roberts road, Subiaco WA

YOUR VOTE IS IMPORTANT

The business of the Annual General Meeting affects your shareholding and your vote is important.

VOTING ELIGIBILITY

The Directors have determined pursuant to Regulation 7.11.37 of the *Corporations Regulations 2001* (Cth) that the persons eligible to vote at the Annual General Meeting are those who are registered Shareholders at 4.00 pm(WST) on 20 November 2012.

VOTING IN PERSON

To vote in person, attend the Annual General Meeting at the time, date and place set out above.

VOTING BY PROXY

To vote by proxy, please complete and sign the enclosed Proxy Form and return it by the time specified in, and in accordance with the instructions set out on, the Proxy Form.

In accordance with section 249L of the Corporations Act, members are advised that:

- each member has a right to appoint a proxy;
- the proxy need not be a member of the Company; and

- a member who is entitled to cast 2 or more votes may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If the member appoints 2 proxies and the appointment does not specify the proportion or number of the member's votes, then in accordance with section 249X(3) of the Corporations Act, each proxy may exercise one-half of the votes.

Sections 250BB and 250BC of the Corporations Act came into effect on 1 August 2011 and apply to voting by proxy on or after that date. Shareholders and their proxies should be aware of these changes to the Corporations Act, as they will apply to this Annual General Meeting. Broadly, the changes mean that:

- if proxy holders vote, they must cast all directed proxies as directed; and
- any directed proxies which are not voted will automatically default to the Chair, who must vote the proxies as directed.

Further details on these changes is set out below.

Proxy vote if appointment specifies way to vote

Section 250BB(1) of the Corporations Act provides that an appointment of a proxy may specify the way the proxy is to vote on a particular resolution and, **if it does**:

- the proxy need not vote on a show of hands, but if the proxy does so, the proxy must vote that way (i.e. as directed); and
- if the proxy has 2 or more appointments that specify different ways to vote on the resolution – the proxy must not vote on a show of hands; and
- if the proxy is the chair of the meeting at which the resolution is voted on – the proxy must vote on a poll, and must vote that way (i.e. as directed); and
- if the proxy is not the chair – the proxy need not vote on the poll, but if the proxy does so, the proxy must vote that way (i.e. as directed).

Transfer of non-chair proxy to chair in certain circumstances

Section 250BC of the Corporations Act provides that, if:

- an appointment of a proxy specifies the way the proxy is to vote on a particular resolution at a meeting of the Company's members; and
- the appointed proxy is not the chair of the meeting; and
- at the meeting, a poll is duly demanded on the resolution; and
- either of the following applies:
 - o the proxy is not recorded as attending the meeting;
 - o the proxy does not vote on the resolution,

the chair of the meeting is taken, before voting on the resolution closes, to have been appointed as the proxy for the purposes of voting on the resolution at the meeting.

BUSINESS OF THE MEETING

AGENDA

ORDINARY BUSINESS

Financial Statements and Reports

To receive and consider the annual financial report of the Company for the financial year ended 30 June 2012 together with the declaration of the directors, the directors' report, the remuneration report and the auditor's report.

1. RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT

To consider and, if thought fit, to pass, with or without amendment, the following resolution as a **non-binding resolution**:

"That, for the purpose of Section 250R(2) of the Corporations Act and for all other purposes, approval is given for the adoption of the Remuneration Report, as contained in the Company's annual financial report for the financial year ended 30 June 2012."

Note: the vote on this Resolution is advisory only and does not bind the Directors or the Company.

Voting Prohibition Statement: A vote on this Resolution must not be cast (in any capacity) by or on behalf of any of the following persons:

- (a) a member of the Key Management Personnel, details of whose remuneration are included in the Remuneration Report; or
- (b) a Closely Related Party of such a member.

However, a person (the **Voter**) described above may cast a vote on this Resolution as a proxy if the vote is not cast on behalf of a person described above and either:

- (c) the Voter is appointed as a proxy by writing that specifies the way the proxy is to vote on the Resolution; or
- (d) the Voter is the Chair and the appointment of the Chair as proxy expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with the remuneration of a member of the Key Management Personnel for the Company, or if the Company is part of a consolidated entity, for the entity.

2. RESOLUTION 2 – APPROVAL OF 10% PLACEMENT CAPACITY

To consider and, if thought fit, to pass, with or without amendment, the following resolution as a **special resolution**:

"That, for the purpose of Listing Rule 7.1A and for all other purposes, approval is given for the issue of Equity Securities totaling up to 10% of the Shares on issue, calculated in accordance with the formula prescribed in Listing Rule 7.1A.2 and on the terms and conditions set out in the Explanatory Statement"

Voting Exclusion: The Company will disregard any votes cast on this Resolution by any person who may participate in the issue of Equity Securities under this Resolution and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of

ordinary securities, if the Resolution is passed and any associates of those persons. However, the Company need not disregard a vote if it is cast by a person as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

3. RESOLUTION 3 – RE-ELECTION OF DIRECTOR – JEREMY CURNOCK COOK

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, for the purpose of clause 13.4 of the Constitution and for all other purposes, Mr Jeremy Curnock Cook, a Director, retires having been appointed by the board, and being eligible, is re-elected as a Director.”

4. RESOLUTION 4 – RE-ELECTION OF DIRECTOR – PAUL WATT

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, for the purpose of clause 13.2 of the Constitution and for all other purposes, Dr Paul Watt, a Director, retires by rotation, and being eligible, is re-elected as a Director.”

5. RESOLUTION 5 – RE-ELECTION OF DIRECTOR – NICK WOOLF

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, for the purpose of clause 13.2 of the Constitution and for all other purposes, Mr Nick Woolf, a Director, retires by rotation, and being eligible, is re-elected as a Director.”

6. RESOLUTION 6 – APPROVAL OF ISSUE OF CONVERTING NOTES

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That for the purposes of ASX Listing Rule 7.1 and all other purposes, the Company approves the issue by the Directors of 15,750 Converting Notes on the terms and conditions set out in the Explanatory Statement which forms part of this notice of meeting.”

Voting Exclusion: The Company will disregard any votes cast on this Resolution by any person who may participate in the proposed issue of Converting Notes or any of their associates and a person who might obtain a benefit, except a benefit solely in the capacity of a holder of ordinary securities, if the resolution is passed unless it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form, or, the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the proxy form to vote as the proxy decides.

7. RESOLUTION 7 – APPROVAL OF ISSUE OF CONVERTING NOTES TO DIRECTOR – D WILSON

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That for the purposes of Section 208 of the Corporations Act, ASX Listing

Rule 10.11 and all other purposes, and subject to the passing of Resolution 6, the Company approves the issue by the Directors of 100 Converting Notes to Director Dr Doug Wilson (or his nominee), on the terms and conditions set out in the Explanatory Statement which forms part of this notice of meeting."

ASX Voting Exclusion: The Company will disregard any votes cast on this Resolution by Dr Doug Wilson (or his nominee) and any of their associates. However, the Company need not disregard a vote if it is cast by a **person** as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Voting Prohibition Statement: A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
 - (i) a member of the Key Management Personnel; or
 - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (c) the proxy is the Chair of the Meeting; and
- (d) the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

8. RESOLUTION 8 – APPROVAL OF ISSUE OF CONVERTING NOTES TO DIRECTOR – P WATT

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

"That for the purposes of Section 208 of the Corporations Act, ASX Listing Rule 10.11 and all other purposes, and subject to the passing of Resolution 6, the Company approves the issue by the Directors of 50 Converting Notes to Director Dr Paul Watt (or his nominee), on the terms and conditions set out in the Explanatory Statement which forms part of this notice of meeting."

ASX Voting Exclusion: The Company will disregard any votes cast on this Resolution by Dr Paul Watt (or his nominee) and any of their associates. However, the Company need not disregard a vote if it is cast by a **person** as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Voting Prohibition Statement: A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
 - (i) a member of the Key Management Personnel; or
 - (ii) a Closely Related Party of such a member; and

- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (c) the proxy is the Chair of the Meeting; and
- (d) the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

9. RESOLUTION 9 – APPROVAL OF ISSUE OF CONVERTING NOTES TO DIRECTOR – N WOOLF

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That for the purposes of Section 208 of the Corporations Act, ASX Listing Rule 10.11 and all other purposes, and subject to the passing of Resolution 6, the Company approves the issue by the Directors of 50 Converting Notes to Director Mr Nick Woolf (or his nominee), on the terms and conditions set out in the Explanatory Statement which forms part of this notice of meeting.”

ASX Voting Exclusion: The Company will disregard any votes cast on this Resolution by Mr Nick Woolf (or his nominee) and any of their associates. However, the Company need not disregard a vote if it is cast by a **person** as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Voting Prohibition Statement: A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
 - (i) a member of the Key Management Personnel; or
 - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (c) the proxy is the Chair of the Meeting; and
- (d) the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

10. RESOLUTION 10 – APPROVAL OF ISSUE OF CONVERTING NOTES TO CHIEF OPERATING OFFICER – R HOPKINS

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That for the purposes of ASX Listing Rule 7.1 and all other purposes, and subject to the passing of Resolution 6, the Company approves the issue by the Directors of 50 Converting Notes to Chief Operating Officer Dr Richard

Hopkins (or his nominee), on the terms and conditions set out in the Explanatory Statement which forms part of this notice of meeting.”

ASX Voting Exclusion: The Company will disregard any votes cast on this Resolution by Dr Richard Hopkins (or his nominee) and any of their associates. However, the Company need not disregard a vote if it is cast by a **person** as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Voting Prohibition Statement: A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
 - (i) a member of the Key Management Personnel; or
 - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (c) the proxy is the Chair of the Meeting; and
- (d) the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

11. RESOLUTION 11 – APPROVAL OF ISSUE OF INCENTIVE OPTIONS

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That for the purposes of ASX Listing Rule 7.1 and all other purposes, and subject to the passing of Resolution 6, the Company approves the issue by the Directors of a total of 2,250,000 Incentive Options to Dr Richard Hopkins and Ms Katrin Hoffmann (or their nominees), scientific researchers engaged by the Company, on the terms and conditions set out in the Explanatory Statement which forms part of this notice of meeting.”

ASX Voting Exclusion: The Company will disregard any votes cast on this Resolution by Dr Richard Hopkins or Ms Katrin Hoffmann (or any of their nominees) and any of their associates. However, the Company need not disregard a vote if it is cast by a **person** as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Voting Prohibition Statement: A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
 - (i) a member of the Key Management Personnel; or
 - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (c) the proxy is the Chair of the Meeting; and
- (d) the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

12. RESOLUTION 12 – APPROVAL OF ISSUE OF INCENTIVE OPTIONS TO DIRECTOR – P WATT

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, in accordance with Section 208 of the Corporations Act, ASX Listing Rule 10.11 and for all other purposes, and subject to the passing of Resolution 6, approval is given for the Directors to issue 2,250,000 Incentive Options to Director Dr Paul Watt (or his nominee) on the terms and conditions set out in the Explanatory Statement which forms part of this notice of meeting.”

ASX Voting Exclusion: The Company will disregard any votes cast on this Resolution by Dr Paul Watt (or his nominee) and any of his associates. However, the Company need not disregard a vote if it is cast by a **person** as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Voting Prohibition Statement: A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
 - (i) a member of the Key Management Personnel; or
 - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (c) the proxy is the Chair of the Meeting; and
- (d) the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

13. RESOLUTION 13 – APPROVAL OF ISSUE OF INCENTIVE TO DIRECTOR – N WOOLF

To consider and, if thought fit, to pass, with or without amendment, the following resolution as an **ordinary resolution**:

“That, in accordance with Section 208 of the Corporations Act, ASX Listing Rule 10.11 and for all other purposes, and subject to the passing of Resolution 6, approval is given for the Directors to issue 1,500,000 Incentive Options to Director Mr Nick Woolf (or his nominee) on the terms and conditions set out in the Explanatory Statement which forms part of this notice of meeting.”

ASX Voting Exclusion: The Company will disregard any votes cast on this Resolution by Mr Nick Woolf (or his nominee) and any of his associates. However, the Company need not disregard a vote if it is cast by a **person** as a proxy for a person who is entitled to vote, in accordance with the directions on the Proxy Form, or, it is cast by the person chairing the meeting as proxy for a person who is entitled to vote, in accordance with a direction on the Proxy Form to vote as the proxy decides.

Voting Prohibition Statement: A person appointed as a proxy must not vote, on the basis of that appointment, on this Resolution if:

- (a) the proxy is either:
 - (i) a member of the Key Management Personnel; or
 - (ii) a Closely Related Party of such a member; and
- (b) the appointment does not specify the way the proxy is to vote on this Resolution.

However, the above prohibition does not apply if:

- (c) the proxy is the Chair of the Meeting; and
- (d) the appointment expressly authorises the Chair to exercise the proxy even if the Resolution is connected directly or indirectly with remuneration of a member of the Key Management Personnel.

DATED: 16 OCTOBER 2012

BY ORDER OF THE BOARD



**GRAEME R BODEN
COMPANY SECRETARY**

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions which are the subject of the business of the Meeting.

1. FINANCIAL STATEMENTS AND REPORTS

In accordance with the Constitution, the business of the Meeting will include the receipt and consideration of the annual financial report of the Company for the financial year ended 30 June 2012, together with the declaration of the directors, the directors' report, the Remuneration Report and the auditor's report.

The Company will not provide a hard copy of the Company's annual financial report to Shareholders unless specifically requested to do so. The Company's annual financial report is available on its website at www.phylogica.com.

2. RESOLUTION 1 – ADOPTION OF REMUNERATION REPORT

2.1 General

The Corporations Act requires that at a listed company's annual general meeting, a resolution that the remuneration report be adopted must be put to the shareholders. However, such a resolution is advisory only and does not bind the Directors or the Company.

The remuneration report sets out the Company's remuneration arrangements for the Directors and senior management of the Company. The Remuneration Report is part of the Directors' report contained in the annual financial report of the Company for the financial year ending 30 June 2012.

A reasonable opportunity will be provided for discussion of the remuneration report at the Annual General Meeting.

2.2 Voting consequences

Under changes to the Corporations Act that came into effect on 1 July 2011, if at least 25% of the votes cast on a remuneration report resolution are voted against adoption of the remuneration report in two consecutive annual general meetings, the Company will be required to put to Shareholders a resolution proposing the calling of a general meeting to consider the appointment of directors of the Company (**Spill Resolution**) at the second annual general meeting.

If more than 50% of shareholders vote in favour of the Spill Resolution, the company must convene the general meeting (**Spill Meeting**) within 90 days of the second annual general meeting.

All of the directors of the company who were in office when the directors' report (as included in the company's annual financial report for the financial year ended immediately before the second annual general meeting) was approved, other than the managing director of the company, will cease to hold office immediately before the end of the Spill Meeting but may stand for re-election at the Spill Meeting. Following the Spill Meeting those persons whose election or re-election as Directors is approved will be the Directors of the Company.

At the Company's previous annual general meeting, the votes cast against the remuneration report at that general meeting were less than 25%. Accordingly, the Spill Resolution is not relevant for this Annual General Meeting.

2.3 Proxy Restrictions

Shareholders appointing a proxy for Resolution 1 should note the following:

If you appoint a member of the Key Management Personnel as your proxy

If you elect to appoint a member of Key Management Personnel whose remuneration details are included in the Remuneration Report, or a Closely Related Party of that member, ***you must direct the proxy how they are to vote***. Undirected proxies granted to these persons will not be included in any vote on Resolution 1.

If you appoint the Chair as your proxy

If you elect to appoint the Chair as your proxy, you ***do not*** need to direct the Chair how you wish them to exercise your vote on Resolution 1, however if you do not direct the Chair how to vote, by signing and returning the proxy form you expressly authorise the Chair to exercise your proxy in relation to Resolution 1 even though Resolution 1 is connected directly or indirectly with the remuneration of a member of key management personnel.

If you appoint any other person as your proxy

You ***do not*** need to direct your proxy how to vote.

3. RESOLUTION 2 – APPROVAL OF 10% PLACEMENT CAPACITY

3.1 General

ASX Listing Rule 7.1A provides that an Eligible Entity may seek Shareholder approval to allow it to issue Equity Securities up to 10% of its issued capital over a period up to 12 months after the annual general meeting (**10% Placement Capacity**).

The Company is an Eligible Entity.

If Shareholders approve Resolution 2, the number of Equity Securities the Eligible Entity may issue under the 10% Placement Capacity will be determined in accordance with the formula prescribed in ASX Listing Rule 7.1A.2 (as set out in Section 3.2 below).

The effect of Resolution 2 will be to allow the Directors to issue Equity Securities up to 10% of the Company's fully paid ordinary securities on issue under the 10% Placement Capacity during the period up to 12 months after the Meeting, without subsequent Shareholder approval and without using the Company's 15% annual placement capacity granted under Listing Rule 7.1.

Resolution 2 is a special resolution. Accordingly, at least 75% of votes cast by Shareholders present and eligible to vote at the Meeting must be in favour of Resolution 2 for it to be passed.

3.2 ASX Listing Rule 7.1A

ASX Listing Rule 7.1A came into effect on 1 August 2012 and enables an Eligible Entity to seek shareholder approval at its annual general meeting to issue Equity Securities in addition to those under the Eligible Entity's 15% annual placement capacity.

An Eligible Entity is one that, as at the date of the relevant annual general meeting:

- (a) is not included in the A&P/ASX 300 Index; and
- (b) has a maximum market capitalisation (excluding restricted securities and securities quoted on a deferred settlement basis) of \$300,000,000.

The Company is an Eligible Entity as it is not included in the A&P/ASX 300 Index and has a current market capitalisation (at 2.6 cents per Share) of \$12,139,159.

The Equity Securities must be in the same class as an existing class of quoted Equity Securities. The Company currently has only one class of Equity Securities on issue, being the Shares.

The exact number of Equity Securities that the Company may issue under an approval under Listing Rule 7.1A will be calculated according to the following formula:

$(A \times B) - C$

Where:

- A** is the number of Shares on issue 12 months before the date of issue or agreement:
 - (a) plus the number of Shares issued in the previous 12 months under an exception in ASX Listing Rule 7.2;
 - (b) plus the number of partly paid shares that became fully paid in the previous 12 months;
 - (c) plus the number of Shares issued in the previous 12 months with approval of holders of Shares under this rule; and
 - (d) less the number of Shares cancelled in the previous 12 months.
- B** is 10%; and
- C** is the number of Equity Securities issued or agreed to be issued under ASX Listing Rule 7.1A.2 in the 12 months before the date of issue or agreement to issue that are not issued with the approval of holders of Ordinary Securities under ASX Listing Rule 7.1 or 7.4.

3.3 Technical information required by ASX Listing Rule 7.1A

Pursuant to and in accordance with ASX Listing Rule 7.3A, the information below is provided in relation to this Resolution 2:

(a) Minimum Price

The minimum price at which the Equity Securities may be issued is 75% of the volume weighted average price of Equity Securities in that class, calculated over the 15 ASX trading days on which trades in that class were recorded immediately before:

- (i) the date on which the price at which the Equity Securities are to be issued is agreed; or
- (ii) if the Equity Securities are not issued within 5 ASX trading days of the date in paragraph 3.3(a)(i), the date on which the Equity Securities are issued.

(b) Date of Issue

The Equity Securities may be issued under the 10% Placement Capacity commencing on the date of the Meeting and expiring on the first to occur of the following:

- (i) 12 months after the date of this Meeting; and
- (ii) the date of approval by Shareholders of any transaction under ASX Listing Rules 11.1.2 (a significant change to the nature or scale of the Company's activities) or 11.2 (disposal of the Company's main undertaking).

or such longer period if allowed by ASX (**10% Placement Capacity Period**).

(c) Risk of voting dilution

Any issue of Equity Securities under the 10% Placement Capacity will dilute the interests of Shareholders who do not receive any Shares under the issue.

If Resolution 2 is approved by Shareholders and the Company issues the maximum number of Equity Securities available under the 10% Placement Capacity, the economic and voting dilution of existing Shares would be as shown in the table below.

The table below shows the dilution of existing Shareholders calculated in accordance with the formula outlined in ASX Listing Rule 7.1A(2), on the basis of the current market price of Shares and the current number of Equity Securities on issue as at the date of this Notice.

The table also shows the voting dilution impact where the number of Shares on issue (variable A in the formula) changes and the economic dilution where there are changes in the issue price of Shares issued under the 10% Placement Capacity.

Number of Shares on Issue	Dilution			
	Issue Price (per Share)	\$0.013 (50% decrease in current issue price)	\$0.026 (Current issue price)	\$0.039 (50% increase in current issue price)
466,890,744 (Current)	Shares issued	46,689,074 Shares	46,689,074 Shares	46,689,074 Shares
	Funds Raised	\$606,957	\$1,213,916	\$1,820,874
700,336,116 (50% increase)*	Shares issued	70,033,612 Shares	70,033,612 Shares	70,033,612 Shares
	Funds Raised	\$910,437	\$1,820,874	\$2,731,311
933,781,488 (100% increase)*	Shares issued	93,378,149 Shares	93,378,149 Shares	93,378,149 Shares
	Funds Raised	\$1,213,916	\$2,427,832	\$3,641,748

*The number of Shares on issue (variable A in the formula) could increase as a result of the issue of Shares that do not require Shareholder approval (such as under a pro-rata rights issue or scrip issued under a takeover offer) or that are issued with Shareholder approval under Listing Rule 7.1.

The table above uses the following assumptions:

1. The current shares on issue are the Shares on issue as at 8 October 2012.
2. The issue price set out above is the closing price of the Shares on the ASX on 8 October 2012.
3. The Company issues the maximum possible number of Equity Securities under the 10% Placement Capacity.
4. The Company has not issued any Equity Securities in the 12 months prior to the Meeting that were not issued under an exception in ASX Listing Rule 7.2 or with approval under ASX Listing Rule 7.1.
5. The calculations above do not show the dilution that any one particular Shareholder will be subject to. All Shareholders should consider the dilution caused to their own shareholding depending on their specific circumstances.
6. This table does not set out any dilution pursuant to approvals under ASX Listing Rule 7.1.

Shareholders should note that there is a risk that:

- (i) the market price for the Company's Shares may be significantly lower on the issue date than on the date of the Meeting; and
- (ii) the Shares may be issued at a price that is at a discount to the market price for those Shares on the date of issue.

(d) Purpose of Issue under 10% Placement Capacity

The Company may issue Equity Securities under the 10% Placement Capacity to raise capital for general working capital purposes, including for the following purposes:

- (i) to strengthen its peptide drug discovery infrastructure; and
- (ii) to advance the Company's in-house development programs.

(e) **Allocation under the 10% Placement Capacity**

The allottees of the Equity Securities to be issued under the 10% Placement Capacity have not yet been determined. However, the allottees of Equity Securities could consist of current Shareholders or new investors (or both), none of whom will be related parties of the Company.

The Company will determine the allottees at the time of the issue under the 10% Placement Capacity, having regard to the following factors:

- (i) the purpose of the issue;
- (ii) alternative methods for raising funds available to the Company at that time, including, but not limited to, an entitlement issue or other offer where existing Shareholders may participate;
- (iii) the effect of the issue of the Equity Securities on the control of the Company;
- (iv) the circumstances of the Company, including, but not limited to, the financial position and solvency of the Company;
- (v) prevailing market conditions; and
- (vi) advice from corporate, financial and broking advisers (if applicable).

(f) **Previous Approval under ASX Listing Rule 7.1A**

The Company has not previously obtained approval under ASX Listing Rule 7.1A.

3.4 Voting Exclusion

A voting exclusion statement is included in this Notice. As at the date of this Notice, the Company has not invited any existing Shareholder to participate in an issue of Equity Securities under ASX Listing Rule 7.1A. Therefore, no existing Shareholders will be excluded from voting on Resolution 2.

4. RESOLUTION 3 – RE-ELECTION OF DIRECTOR – MR JEREMY CURNOCK COOK

Clause 13.4 of the Constitution provides that the directors may appoint an additional director and that any director so appointed holds office only until the next following annual general meeting and shall not be taken into account in determining the number of directors who must retire by rotation.

A Director who retires in accordance with clause 13.4 of the Constitution is eligible for re-election.

Mr Jeremy Curnock Cook was appointed as a director by the board on 29 February 2012. He retires in accordance with clause 13.4 and, being eligible, seeks re-election.

The remaining directors of the Company recommend that Mr Curnock Cook be re-elected as a director.

5. RESOLUTIONS 4 AND 5 – RE-ELECTION OF DIRECTORS - DR P WATT & MR N WOOLF

Clause 13.2 of the Constitution requires that at the Company's annual general meeting in every year, one-third of the Directors for the time being, or, if their number is not a multiple of 3, then the number nearest one-third (rounded upwards), shall retire from office, provided always that no Director (except a Managing Director) shall hold office for a period in excess of 3 years, or until the third annual general meeting following his or her appointment, whichever is the longer, without submitting himself or herself for re-election.

The Directors to retire at this annual general meeting are those who have been longest in office since their last election, in November 2010. The Company currently has 4 Directors to whom clause 13.2 applies and accordingly Dr Paul Watt and Mr Nick Woolf retire.

A Director who retires by rotation under clause 13.2 of the Constitution is eligible for re-election.

Dr Paul Watt and Mr Nick Woolf retire by rotation and seek re-election under Resolutions 4 and 5 respectively.

The Board, other than Dr Watt, recommends that Shareholders vote in favour of Resolution 4.

The Board, other than Mr Woolf, recommends that Shareholders vote in favour of Resolution 5.

6. RESOLUTION 6 – APPROVAL OF ISSUE OF CONVERTING NOTES

6.1 Background for Resolutions 6 to 10

As announced to the market on 16th October 2012, the Company has agreed, subject to Shareholder approval to issue 16,000 Converting Notes each with an issue price of \$100 (**Converting Note**) to raise \$1,600,000. The Converting Notes will convert into a variable number of Shares and, if applicable, options listed on ASX under the ASX Code PYCOA (**PYCOA Options**). The PYCOA Options are on the same terms as the PYCOA Options already listed on ASX, exercisable at 9 cents and expire on 30 June 2016.

The number of Shares to be issued on conversion of the Converting Notes will depend on the Company's prevailing Share price leading into the date that the Shares are issued on conversion of the Converting Notes (which is expected to be 25th November 2013 although it may be earlier) and also on the Company achieving its objectives of signing new drug discovery alliances and revenue generation.

The maximum number of PYCOA Options to be issued on the conversion of a Converting Note will be two PYCOA Options for every three Shares issued on conversion. The number of PYCOA Options, if any, to be issued on conversion of a Converting Note will depend on the Company's prevailing share price leading into the date of the Meeting. The Company will know on the date of the Meeting whether any PYCOA Options will be issued on conversion of Converting Notes and will inform the Meeting accordingly.

The terms of the Converting Notes, including the basis of calculation of the number of Shares and PYCOA Options to be issued on conversion of the Converting Notes, are set out in Schedule 1.

The Converting Note structure provides the Company with the benefit of receiving new funding shortly after the date of the Meeting while not having to determine the number of Shares and, if applicable, PYCOA Options to be issued for that funding until a date in the future when the Share price has had the opportunity to increase from its current level and the Company has had the opportunity to achieve its stated goals.

The maximum issue price of the Shares issued on the conversion of the Converting Notes will be 5.3 cents, which is a premium of 104% to the closing price of Phylogica shares on 15th October 2012 (the day before the Converting Note issue was announced to ASX), while the minimum issue price per Share will be determined by how many binding new drug discovery alliances the Company has entered into in the period between the date that the Converting Notes are issued and the Conversion Date, together with the market price of Shares leading into the Conversion Date. Given the maximum issue price per Share and the specified discount structure set out in Schedule 1, the Shares issued on the conversion of the Convertible Notes will be issued at a discount to the market price of Shares leading into the Conversion Date, however, that issue price may still be at a premium to the Company's current share price and the Company will have had the benefit of the use of the funding from the issue date of the Converting Notes. However, it is possible that Shares will be issued to the holders of the Converting Notes at a price which is lower than the current Share price.

Resolution 6 seeks Shareholder approval for the Directors to issue up to 15,750 Converting Notes to parties not related to the Company. The directors unanimously recommend that Shareholders vote in favour of Resolution 6.

Resolutions 7 to 9 seek Shareholder approval for the Directors to issue up to 200 Converting Notes to Directors of the Company and Resolution 10 seeks Shareholder approval for the Directors to issue up to 50 Converting Notes to the Chief Operating Officer of the Company. Refer to Section 6 of this Explanatory Statement for further details.

6.2 ASX Listing Rule 7.1

ASX Listing Rule 7.1 provides that a listed company must not, subject to specified exceptions (none of which apply in this case), issue or agree to issue during any 12 month period any equity securities, including securities with rights to conversion to equity securities (such as the Converting Notes), if the number of those securities, or the number of securities to be issued on conversion, exceeds 15% of the number of equity securities on issue at the commencement of that 12 month period.

The effect of Resolution 6 will be to allow the Directors to issue up to 15,750 Converting Notes during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity. If Resolution 6 is approved by Shareholders, the Company proposes to issue the Converting Notes on the second business day after the Meeting.

6.3 Technical information required by ASX Listing Rule 7.1

In accordance with ASX Listing Rule 7.3, the following information is provided in relation to the issue of the Converting Notes:

- (a) the maximum number of Converting Notes to be issued in accordance with Resolution 6 is 15,750;

- (b) the Converting Notes will be issued no later than 3 months after the date of the Meeting. The Company proposes to issue the Converting Notes on the second business day after the Meeting;
- (c) the issue price of each Converting Notes will be \$100;
- (d) under this Resolution 6, the Converting Notes will be issued to investors who are not required to be issued a disclosure document for the issue of the Converting Notes, including Bernard Hockings, other long-term shareholders and some new investors (as determined by the Board), none of whom will be related parties of the Company. Under Resolutions 7 to 9, up to 200 Converting Notes may be issued to directors Dr Wilson, Dr Watt and Mr Woolf and, under Resolution 10, up to a further 50 Converting Notes may be issued to Chief Operating Officer Dr Richard Hopkins;
- (e) the Converting Notes will be issued on the terms and conditions set out in Schedule 1; and
- (f) the Company intends to use the funds raised from the issue of the Converting Notes for working capital purposes.

6.4 Impact of the issue of Securities on the conversion of the Converting Notes under Resolutions 6 to 10

Given that the Converting Notes will convert on the Conversion Date, the issue of the Converting Notes will ultimately cause a dilution of existing shareholdings of persons who do not hold Converting Notes.

On conversion of a Converting Note, the issue price per Share will be the lesser of:

- (a) \$0.053; and
- (b) the price determined by applying the Specified Discount (defined in Schedule 1) to the average of the daily volume weighted average price of Shares over the 30 trading days preceding and not including the Conversion Date.

In addition to the Shares issued on conversion the holder of a Converting Note may also be issued up to two PYCOA Options for each three Shares issued on conversion.

The following worked examples seek to inform Shareholders of the potential effect on the Company of the issue of Shares and PYCOA Options on the conversion of the Converting Notes. These examples are not exhaustive, and in particular, Shareholders should note that the Conversion Date may be brought forward in the circumstances set out in Schedule 1 and as such the Company may not have sufficient time for its Share price to improve or for the Specified Discount to be lowered. The conversion of the Converting Notes could result in the issue of more Shares and PYCOA Options than set out below.

Worked examples

The following examples assume that:

- Shareholder approval is provided for Resolutions 6 to 10, so that 16,000 Converting Notes will be issued, each at an issue price of \$100; and

- 2 PYCOA Options are issued for each three Shares issued on conversion.

	Example 1	Example 2	Example 3
Issue Price (per Share)	\$0.016 (Current Share price and a 40% discount)	\$0.053 (Maximum issue price of Shares)	\$0.010 (Share price of \$0.0167 and a 40% discount)
Shares issued on conversion	100,000,000	30,188,679	160,000,000
% dilution by issue of Shares on conversion	17.64%	6.07%	25.52%
PYCOA Options issued on conversion	66,666,667	20,125,786	106,666,667
% dilution by issue of PYCOA Options on conversion	10.52%	3.89%	14.54%

Example 1: This example assumes that by the Conversion Date the Company has not entered into any binding research and development collaborations on similar financial terms to the existing agreement with Janssen Biotech, such that the Specified Discount will be 40%.

If the Company's average volume weighted average price of Shares over the 30 trading days preceding the Conversion Date (**30 Day VWAP**) is \$0.026¹ then the number of securities issued on the conversion of all Converting Notes will be 100,000,000 Shares and 66,666,667 PYCOA Options (based on an issue price per Share of 1.8 cents and two PYCOA Options being issued for each three Shares issued on conversion).

The issue of 100,000,000 Shares would dilute existing Shareholders by 17.64% (assuming no other Shares are issued including on the exercise of existing Options).

The issue of 66,666,667 Shares upon the exercise of the 66,666,667 PYCOA Options would dilute existing Shareholders by a further 10.52% (assuming no other Shares (other than the 100,000,000 Shares issued on conversion of Converting Notes) are issued including on the exercise of existing Options). Although Shareholders should note that if the Share price is \$0.026 as it is in this example, it would be unlikely that the holder of a PYCOA Option (which is exercisable at \$0.09) would seek to exercise the PYCOA Option at that time given that the then Share price would be substantially less than \$0.09.

Shareholders should note that if the 30 Day VWAP is less than \$0.03 then more Shares and PYCOA Options would be issued on conversion of Converting Notes than is the case in this example.

Example 2: This example assumes that by the Conversion Date, the Company has entered into 3 or more binding research and development collaborations, which in aggregate provide the Company with a financial outcome equal to or greater than having entered into 3 collaborations with Janssen Biotech, such that the Specified Discount will be 25%.

¹ This is the closing price of Shares on 8 October 2012.

If the Company's 30 Day VWAP is \$0.09 then the number of securities issued on the Conversion Date will be 30,188,679 Shares and 20,125,786 PYCOA Options (based on an issue price per Share of 5.3 cents, which is the maximum issue price of Shares on conversion and two PYCOA Options being issued for each three Shares issued on conversion).

The issue of 30,188,679 Shares would dilute existing shareholders by 6.07% (assuming no other Shares are issued including on the exercise of existing Options).

The issue of 20,125,786 Shares upon exercise of the 20,125,786 PYCOA Options would dilute existing Shareholders by a further 3.89% (assuming no other Shares (other than the 30,188,679 Shares issued on conversion of Converting Notes) are issued including on the exercise of existing Options).

Example 2 is an example of the minimum number of Shares that would be issued on conversion of the Converting Notes combined with the maximum number of PYCOA Options that could be issued.

Example 3: This example assumes that by the Conversion Date, the Company has not entered into any binding research and development collaborations on similar financial terms to the existing agreement with Janssen Biotech, such that the Specified Discount will be 40%.

If the Company's 30 Day VWAP is \$0.0167 then the number of securities issued on the conversion of all Converting Notes will be 160,000,000 Shares and 106,666,667 PYCOA Options (based on an issue price per Share of 1 cent and two PYCOA Options being issued for each three Shares issued on conversion).

The issue of 160,000,000 Shares would dilute existing shareholders by 25.52% (assuming no other Shares are issued including on the exercise of existing options).

The issue of 106,666,667 Shares upon the exercise of the 106,666,667 PYCOA Options would dilute existing shareholders by a further 14.54% (assuming no other Shares (other than the 160,000,000 Shares issued on conversion of Converting Notes) are issued including on the exercise of existing Options). Although Shareholders should note that if the Share price is \$0.0167 as it is in this scenario, it would be unlikely that the holder of a PYCOA Option (which is exercisable at \$0.09) would seek to exercise the PYCOA Option at that time.

Example 3 is an example of the impact of the issue of Converting Notes and PYCOA Options if the 30 Day VWAP is less than the current Share price.

General: Shareholders should be aware that the fewer research and development collaborations entered into by the Company and the lower the 30 Day VWAP (representing the market price of Shares at the Conversion Date), the more Shares and, potentially, PYCOA Options the Company will need to issue on the conversion of the Converting Notes. Shareholders should also note that the number of collaborations entered into by the Company is likely to have an effect on the 30 Day VWAP for example Shareholders should expect that the 30 Day VWAP will be lower the less research and development collaborations are entered into by the Company while at the same time the Specified Discount may be higher.

7. RESOLUTIONS 7 TO 9 – ISSUE OF CONVERTING NOTES TO RELATED PARTIES

7.1 General

The Company has agreed, subject to obtaining Shareholder approval at the Annual General Meeting and the passing of Resolution 6, to issue a total of 200 Converting Notes to Dr Doug Wilson (pursuant to Resolution 7) Dr Paul Watt (pursuant to Resolution 8), and Mr Nick Woolf (pursuant to Resolution 9) (**Related Parties**) on the terms and conditions set out below.

The rationale behind the issue of the Converting Notes is set out in section 6.1 and the impact of the issue of the Converting Notes is set out in Section 6.4.

For a public company, or an entity that the public company controls, to give a financial benefit to a related party of the public company, the public company or entity must:

- (a) obtain the approval of the public company's members in the manner set out in Sections 217 to 227 of the Corporations Act; and
- (b) give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in Sections 210 to 216 of the Corporations Act.

In addition, ASX Listing Rule 10.11 also requires shareholder approval to be obtained where an entity issues, or agrees to issue, securities to a related party, or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained unless an exception in ASX Listing Rule 10.12 applies.

The grant of the Converting Notes to the Related Parties requires the Company to obtain Shareholder approval in accordance with Chapter 2E of the Corporations Act and ASX Listing Rule 10.11, because the issue of Converting Notes constitutes giving a financial benefit and, as Directors, Dr Doug Wilson, Dr Paul Watt and Mr Nick Woolf, are related parties of the Company.

It is the view of the Directors that the exceptions set out in Sections 210 to 216 of the Corporations Act do not apply in the current circumstances. Accordingly, Shareholder approval is sought for the issue of the Converting Notes to the Related Parties.

7.2 Shareholder Approval (Chapter 2E of the Corporations Act and Listing Rule 10.11)

In accordance with the requirements of Sections 217 to 227 of the Corporations Act and ASX Listing Rule 10.13, the following information is provided in relation to the proposed issue of the Converting Notes:

- (a) the related parties are Dr Doug Wilson, Dr Paul Watt and Mr Nick Woolf and they are related parties by virtue of being Directors;
- (b) the maximum number of Converting Notes (being the nature of the financial benefit being provided) to be granted to the Related Parties is:
 - (i) 100 Converting Notes to Doug Wilson;
 - (ii) 50 Converting Notes to Paul Watt; and

(iii) 50 Converting Notes to Nick Woolf;

- (c) the Converting Notes will be granted to the Related Parties no later than 1 month after the date of the Meeting. The Company proposes to issue the Converting Notes on the second business day after the Meeting;
- (d) the issue price will be \$100 per Converting Note and the Company intends to use the funds raised from the issue of the Converting Notes for working capital purposes;
- (e) the terms and conditions of the Converting Notes are outlined in Schedule 1;
- (f) the value of the Converting Notes and the pricing methodology is set out in Schedule 3;
- (g) the relevant interests of the Related Parties in securities of the Company is set out below:

Related Party	Shares	Options	Long Term Incentive Shares (Issued 2011)
Dr Doug Wilson	250,000	Nil	Nil
Dr Paul Watt	4,044,123 direct 3,209,607 indirect	1,500,000 indirect ¹ 169,466 indirect ²	9,000,000 indirect ³
Mr Nick Woolf	2,471,956 direct	1,400,000 direct ¹ 423,728 direct ²	6,000,000 direct ³

¹ unlisted options exercisable at \$0.075 each on or before 31 March 2013.

² unlisted options exercisable at \$0.09 each on or before 30 June 2016.

³ loan funded shares at \$0.064 per share for term ending 30 June 2018.

- (h) the remuneration and emoluments from the Company to the Related Parties for both the current financial year and previous financial year are set out below:

Related Party	Current Financial Year	Previous Financial Year
Dr Doug Wilson	\$120,000	\$120,000
Dr Paul Watt	\$416,526	\$408,229
Mr Nick Woolf	\$287,884	\$276,789

- (i) if the Converting Notes granted to the Related Parties are converted and Shares are issued at a deemed issue price of 1.6 cents per Share consistent with 'Example 1' in Section 6.4 (with two free PYCOA Options attaching to every three Shares issued), a total of 1,250,000 Shares and 833,333 PYCOA Options would be allotted and issued. Assuming the

PYCOA Options are exercised² this will increase the number of Shares on issue from 468,140,744 to 468,974,077 (assuming that no other Options are exercised and no other Shares are issued) with the effect that the shareholding of existing Shareholders would be diluted as follows:

Related Party	Issued Shares as at the date of this Notice of Meeting	Shares to be issued	Issued Shares upon exercise of all PYCOA Options	Dilutionary effect of issue of Shares and exercise of all PYCOA Options
Dr Doug Wilson	466,890,744	625,000	416,667	0.223%
Dr Paul Watt	466,890,744	312,500	208,333	0.112%
Mr Nick Woolf	466,890,744	312,500	208,333	0.112%
TOTAL		1,250,000	833,333	0.447%

- (j) the formula set out in Schedule 1 will determine the number of Shares issued on the conversion of the Converting Notes on the Conversion Date. The Converting Notes will convert when the Shares are trading on ASX at a price that is higher than the issue price of the Shares issued on conversion and accordingly there will be a perceived cost to the Company;
- (k) the trading history of the Shares on ASX in the 12 months before the date of this Notice of General Meeting is set out below:

	Price (cents)	Date
Highest	6.2 cents	1 November 2011
Lowest	2.2 cents	15,16,20 & 21 August 2012
Last	2.6 cents	8 October 2012

- (l) the primary purpose of the issue of the Converting Notes to the Related Parties is to allow the Related Parties to subscribe for Converting Notes on the same terms as the offer of Converting Notes under the capital raising the subject of Resolution 6 to unrelated parties. The Board does not consider that there are any significant opportunity costs to the Company or benefits foregone by the Company in issuing the Converting Notes to the Related Parties upon the terms proposed;
- (m) Dr Doug Wilson declines to make a recommendation to Shareholders in relation to Resolution 7 due to his material personal interest in the outcome of the Resolution. Dr Wilson, who does not have a material interest in the outcome of Resolutions 8 and 9, recommends that

² Shareholders should note that if the Share price is 2.6 cents as it is in this example, it would be unlikely that the holder of a PYCOA option (which is exercisable at 9 cents) would seek to exercise the PYCOA option at that time given that the then Share price would be substantially less than \$0.09.

Shareholders vote in favour of Resolutions 8 and 9 for the following reasons:

- (i) the issue of the Converting Notes to the Related Parties will raise capital for the Company on the same terms and conditions as the Converting Notes to be issued to unrelated parties under Resolution 6; and
- (ii) the issue of the Converting Notes to the Related Parties will further align the interests of the Related Parties with the Shareholders.

Dr Wilson is not aware of any other information other than as set out in this Notice of Meeting that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolutions 8 and 9;

- (n) Dr Paul Watt declines to make a recommendation to Shareholders in relation to Resolution 8 due to his material personal interest in the outcome of the Resolution. Dr Watt, who does not have a material interest in the outcome of Resolutions 7 and 9, recommends that Shareholders vote in favour of Resolutions 7 and 9 for the reasons set out in (m)(i) and (ii) above. Dr Watt is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolutions 7 and 9;
- (o) Mr Nick Woolf declines to make a recommendation to Shareholders in relation to Resolution 9 due to his material personal interest in the outcome of the Resolution. Mr Woolf, who does not have a material interest in the outcome of Resolutions 7 and 8, recommend that Shareholders vote in favour of Resolutions 7 and 8 for the reasons set out in (m)(i) and (ii) above. Mr Woolf is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolutions 7 and 8;
- (p) Mr Bruce McHarrie, who does not have a material interest in the outcome of Resolutions 7 to 9, recommends that Shareholders vote in favour of Resolutions 7 to 9 for the reasons set out in (m)(i) and (ii) above. Mr McHarrie is not aware of any other information other than as set out in this Notice of Meeting that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolutions 7 to 9; and
- (q) Mr Jeremy Curnock Cook, who does not have a material interest in the outcome of Resolutions 7 to 9, recommends that Shareholders vote in favour of Resolutions 7 to 9 for the reasons set out in (m)(i) and (ii) above. Mr Cook is not aware of any other information other than as set out in this Notice of Meeting that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolutions 7 to 9.

Approval pursuant to ASX Listing Rule 7.1 is not required in order to issue the Converting Notes to the Related Parties. Accordingly, the issue of the Converting Notes to the Related Parties will not be included in the 15% calculation of the Company's annual placement capacity pursuant to ASX Listing Rule 7.1, or the

10% placement capacity pursuant to ASX Listing Rule 7.1A, if approved under Resolution 2 at this Annual General Meeting.

8. RESOLUTION 10 – ISSUE OF CONVERTING NOTES TO R HOPKINS

8.1 Background

The Company has agreed, subject to Shareholder approval and the passing of Resolution 6 at the Annual General Meeting, to issue 50 Converting Notes to Chief Operating Officer Dr Richard Hopkins. Accordingly, Resolution 10 seeks Shareholder approval pursuant to ASX Listing Rule 7.1 for the issue of 50 Converting Notes to Dr Hopkins who is not a related party of the Company.

The rationale behind the issue of the Converting Notes is set out in Section 6.1 and the impact of the issue of Converting Notes is set out in Section 6.4. If Resolution 10 is approved by Shareholders, the Company proposes to issue the Converting Notes on the second business day after the Meeting.

8.2 ASX Listing Rule 7.1

A summary of ASX Listing Rule 7.1 is set out in Section 6.2 above.

The effect of Resolution 10 will be to allow the Directors to issue 50 Converting Notes to Dr Hopkins during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity.

8.3 ASX Listing Rule 7.3

In accordance with ASX Listing Rule 7.3, the following information is provided in relation to the Converting Notes:

- (a) the maximum number of Converting Notes to be issued in accordance with Resolution 10 is 50;
- (b) the Converting Notes will be issued no later than 3 months after the date of the Meeting. The Company proposes to issue the Converting Notes on the second business day after the Meeting;
- (c) the issue price of each Converting Notes will be \$100;
- (d) the Converting Notes will be issued on the terms and conditions set out in Schedule 1;
- (e) the Company intends to use the funds raised from the issue of the Converting Notes for working capital purposes; and
- (f) the primary purpose of the issue of the Converting Notes to Dr Hopkins is to allow Dr Hopkins to subscribe for Converting Notes on the same terms as the offer of Converting Notes under the capital raising the subject of Resolution 6 to unrelated parties. The Board does not consider that there are any significant opportunity costs to the Company or benefits foregone by the Company in issuing the Converting Notes to Dr Hopkins upon the terms proposed.

9. RESOLUTION 11 – APPROVAL OF INCENTIVE OPTION ISSUE

9.1 Background

The Company has agreed, subject to Shareholder approval and the passing of Resolution 6 at the Annual General Meeting, to issue Incentive Options to Dr Richard Hopkins (1,500,000 Incentive Options) and Ms Katrin Hoffmann (750,000 Incentive Options) (**Research Scientists**). Accordingly, Resolution 11 seeks Shareholder approval pursuant to ASX Listing Rule 7.1 for the issue of 2,250,000 Incentive Options to the Research Scientists, both of whom are not related parties of the Company.

9.2 ASX Listing Rule 7.1

A summary of ASX Listing Rule 7.1 is set out in Section 6.2 above.

The effect of Resolution 11 will be to allow the Directors to issue the Incentive Options to the Research Scientists during the period of 3 months after the Meeting (or a longer period, if allowed by ASX), without using the Company's 15% annual placement capacity.

9.3 ASX Listing Rule 7.3

Pursuant to and in accordance with ASX Listing Rule 7.3, the following information is provided in relation to the issue of the Incentive Options:

- (a) the maximum number of Incentive Options to be issued to the Research Scientists is 2,250,000 Incentive Options as follows:
 - (i) Richard Hopkins Incentive Options to 1,500,000; and
 - (ii) Katrin Hoffmann Incentive Options to 750,000;
- (b) the Incentive Options will be issued no later than 3 months after the date of the Meeting (or such later date to the extent permitted by any ASX waiver or modification of the ASX Listing Rules) and it is intended that allotment will occur on the same date. If Resolution 11 is approved by Shareholders, the Company proposes to issue the Incentive Options on the second business day after the Meeting.;
- (c) the Incentive Options will be issued for nil consideration;
- (d) the Incentive Options will be issued to R Hopkins and K Hoffmann, research scientists on the Company's projects;
- (e) the Incentive Options will be issued on the terms and conditions set out in Schedule 2; and
- (f) there will be no funds raised from the issue of the Incentive Options as they will be issued as a short term incentive to the Research Scientists.

10. RESOLUTIONS 12 AND 13 – ISSUE OF INCENTIVE OPTIONS TO DIRECTORS

10.1 General

The Company has agreed, subject to obtaining Shareholder approval at the Annual General Meeting and the passing of Resolution 6, to issue a total of 3,750,000 incentive Options (**Incentive Options**) to Dr Paul Watt (pursuant to Resolution 12) and Mr Nick Woolf (pursuant to Resolution 13) (**Related Parties**) on the terms and conditions set out below.

For a public company, or an entity that the public company controls, to give a financial benefit to a related party of the public company, the public company or entity must:

- (a) obtain the approval of the public company's members in the manner set out in Sections 217 to 227 of the Corporations Act; and
- (b) give the benefit within 15 months following such approval,

unless the giving of the financial benefit falls within an exception set out in Sections 210 to 216 of the Corporations Act.

In addition, ASX Listing Rule 10.11 also requires shareholder approval to be obtained where an entity issues, or agrees to issue, securities to a related party, or a person whose relationship with the entity or a related party is, in ASX's opinion, such that approval should be obtained unless an exception in ASX Listing Rule 10.12 applies.

The grant of the Incentive Options to the Related Parties requires the Company to obtain Shareholder approval in accordance with Chapter 2E of the Corporations Act and ASX Listing Rule 10.11, because the grant of Incentive Options constitutes giving a financial benefit and, as Directors, Dr Paul Watt and Mr Nick Woolf, are related parties of the Company.

It is the view of the Directors that the exceptions set out in Sections 210 to 216 of the Corporations Act do not apply in the current circumstances. Accordingly, Shareholder approval is sought for the issue of the Incentive Options to the Related Parties.

10.2 Shareholder Approval (Chapter 2E of the Corporations Act and Listing Rule 10.11)

Pursuant to and in accordance with the requirements of Sections 217 to 227 of the Corporations Act and ASX Listing Rule 10.13, the following information is provided in relation to the proposed issue of the Incentive Options:

- (a) the related parties are Dr Paul Watt and Mr Nick Woolf and they are related parties by virtue of being Directors;
- (b) the maximum number of Incentive Options (being the nature of the financial benefit being provided) to be granted to the Related Parties is:
 - (i) 2,250,000 Incentive Options to Dr Paul Watt; and
 - (ii) 1,500,000 Incentive Options to Mr Nick Woolf;
- (c) the Incentive Options will be granted to the Related Parties no later than 1 month after the date of the General Meeting (or such later date as permitted by any ASX waiver or modification of the ASX Listing Rules)

and it is anticipated the Incentive Options will be issued on one date. If Resolutions 12 and 13 are approved by Shareholders, the Company proposes to issue the Incentive Options on the second business day after the Meeting;

- (d) the Incentive Options will be issued for nil cash consideration, accordingly no funds will be raised;
- (e) the terms and conditions of the Incentive Options are outlined in Schedule 2;
- (f) the value of the Incentive Options and the pricing methodology is set out in Schedule 4;
- (g) the relevant interests of the Related Parties in securities of the Company is set out below:

Related Party	Shares	Options	Long Term Incentive Shares (Issued 2011)
Paul Watt	4,044,123 direct	1,500,000 indirect ¹	9,000,000 indirect ³
	3,209,607 indirect	169,466 indirect ²	
Nick Woolf	2,471,956 direct	1,400,000 direct ¹	6,000,000 direct ³
		423,728 direct ²	

¹ unlisted options exercisable at \$0.075 each on or before 31 March 2013.

² unlisted options exercisable at \$0.09 each on or before 30 June 2016.

³ loan funded shares at \$0.064 per share for term ending 30 June 2018.

- (h) the remuneration and emoluments from the Company to the Related Parties for both the current financial year and previous financial year are set out below:

Related Party	Current Financial Year	Previous Financial Year
Paul Watt	\$416,526	\$408,229
Nick Woolf	\$287,884	\$276,789

- (i) if the Incentive Options granted to the Related Parties are exercised, a total of 3,750,000 Shares would be allotted and issued. This will increase the number of Shares on issue from 282,902,117 to 286,302,117 (assuming that no other Options are exercised and no other Shares issued) with the effect that the shareholding of existing Shareholders would be diluted as follows:

Related Party	Issued Shares as at the date of this Notice of Meeting	Incentive Options to be issued	Issued Shares upon exercise of all Incentive Options	Dilutionary Effect upon exercise of Incentive Options
Paul Watt	466,890,744	2,250,000	469,170,744	0.5%
Nick Woolf	466,890,744	1,500,000	468,390,744	0.3%
TOTAL	466,890,744	3,750,000	470,640,744	0.8%

- (j) the market price for Shares during the term of the Incentive Options is one of the minimum conditions for the Incentive Options to vest. The Share price must have a volume weighted average price of 10 cents or more for five trading days as a necessary condition of the Incentive Options being able to be exercised. Because the Incentive Options have a zero exercise price there may be a perceived cost to the Company;
- (k) the trading history of the Shares on ASX in the 12 months before the date of this Notice of General Meeting is set out below:

	Price (cents)	Date
Highest	6.2 cents	1 November 2011
Lowest	2.2 cents	15,16,20 & 21 August 2012
Last	2.6 cents	8 October 2012

- (l) the primary purpose of the issue of the Incentive Options to the Related Parties is to:
- (i) will align the interests of the Related Parties with those of Shareholders; and
 - (ii) the grant of the Related Party Incentive Options is a reasonable and appropriate method to provide cost effective incentive as the non-cash form of this benefit will allow the Company to spend a greater proportion of its cash reserves on its operations than it would if alternative cash forms of incentives were given to the Related Parties.

The Board does not consider that there are any significant opportunity costs to the Company or benefits foregone by the Company in issuing the Incentive Options upon the terms proposed;

- (m) Dr Paul Watt declines to make a recommendation to Shareholders in relation to Resolution 12 due to his material personal interest in the outcome of the Resolution. Dr Watt, who does not have a material interest in the outcome of Resolution 13, recommends that Shareholders vote in favour of Resolution 13 for the reasons set out in (l) above. Dr Watt is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolution 13;
- (n) Mr Nick Woolf declines to make a recommendation to Shareholders in relation to Resolution 13 due to his material personal interest in the outcome of the Resolution. Mr Woolf, who does not have a material interest in the outcome of Resolution 12, recommend that Shareholders vote in favour of Resolution 12 for the reasons set out in (l) above. Mr Woolf is not aware of any other information that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolution 12;
- (o) Dr Doug Wilson, who does not have a material interest in the outcome of Resolutions 12 and 13, recommends that Shareholders vote in favour of Resolutions 12 and 13 for the reasons set out in (l) above. Dr Wilson is

not aware of any other information other than as set out in this Notice of Meeting that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolutions 12 and 13;

- (p) Mr Bruce McHarrie, who does not have a material interest in the outcome of Resolutions 12 and 13, recommends that Shareholders vote in favour of Resolutions 12 and 13 for the reasons set out in (l) above. Mr McHarrie is not aware of any other information other than as set out in this Notice of Meeting that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolutions 12 and 13; and
- (q) Mr Jeremy Curnock Cook, who does not have a material interest in the outcome of Resolutions 12 and 13, recommends that Shareholders vote in favour of Resolutions 12 and 13 for the reasons set out in (l) above. Mr Cook is not aware of any other information other than as set out in this Notice of Meeting that would be reasonably required by Shareholders to allow them to make a decision whether it is in the best interests of the Company to pass Resolutions 12 and 13.

Approval pursuant to ASX Listing Rule 7.1 is not required in order to issue the Incentive Options to the Related Parties. Accordingly, the issue of the Incentive Options to the Related Parties will not be included in the 15% calculation of the Company's annual placement capacity pursuant to ASX Listing Rule 7.1, or the 10% placement capacity pursuant to ASX Listing Rule 7.1A, if approved under Resolution 2 at this Annual General Meeting.

GLOSSARY

\$ means Australian dollars.

10% Placement Capacity has the meaning given in section 3.1 of this Notice.

Annual General Meeting or **Meeting** means the meeting convened by this Notice.

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited (ACN 008 624 691) or the Australian Securities Exchange, as the context requires.

ASX Listing Rules means the Listing Rules of ASX.

Board means the current board of directors of the Company.

Business Day means Monday to Friday inclusive, except New Year's Day, Good Friday, Easter Monday, Christmas Day, Boxing Day, and any other day that ASX declares is not a business day.

Closely Related Party of a member of the Key Management Personnel means:

- (a) a spouse or child of the member;
- (b) a child of the member's spouse;
- (c) a dependent of the member or the member's spouse;
- (d) anyone else who is one of the member's family and may be expected to influence the member, or be influenced by the member, in the member's dealing with the entity;
- (e) a company the member controls; or
- (f) a person prescribed by the *Corporations Regulations 2001* (Cth).

Company means Phylogica Limited ACN 098 391 961.

Constitution means the Company's constitution.

Conversion Date has the meaning given to that term in Schedule 1 item (f).

Converting Note means a note which on conversion will result in the issue of Shares and potentially PYCOA Options on the terms and conditions set out in Schedule 1

Corporations Act means the *Corporations Act 2001* (Cth).

Directors means the current directors of the Company.

Eligible Entity means an entity that, at the date of the relevant general meeting:

- (a) is not included in the A&P/ASX 300 Index; and
- (b) has a maximum market capitalisation (excluding restricted securities and securities quoted on a deferred settlement basis) of \$300,000,000.

Equity Securities includes a Share, a right to a Share or Option, an Option, a convertible security and any security that ASX decides to classify as an Equity Security.

Explanatory Statement means the explanatory statement accompanying the Notice.

Incentive Option means an option to acquire a Share on the terms and conditions set out in Schedule 2.

Key Management Personnel has the same meaning as in the accounting standards and broadly includes those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any director (whether executive or otherwise) of the Company.

Notice or **Notice of Meeting** or **Notice of Annual General Meeting** means this notice of Annual general meeting including the Explanatory Statement and the Proxy Form.

Ordinary Securities has the meaning set out in the ASX Listing Rules.

Option means an option to acquire a Share.

Proxy Form means the proxy form accompanying the Notice.

PYCOA Options means the Company's existing Options listed on the ASX under the ASX Code PYCOA which have an exercise price of \$0.09 per Share and an expiry date of 30 June 2016.

Remuneration Report means the remuneration report set out in the Director's report section of the Company's annual financial report for the year ended 30 June 2012.

Resolutions means the resolutions set out in the Notice of Meeting, or any one of them, as the context requires.

Share means a fully paid ordinary share in the capital of the Company.

Shareholder means a holder of a Share.

Specified Discount has the meaning given to that term in Schedule 1 item (d).

Variable A means "A" as set out in the calculation in section 3.2 of this Notice.

Vesting Conditions has the meaning given that term in Schedule 2.

WST means Western Standard Time as observed in Perth, Western Australia.

SCHEDULE 1 – TERMS AND CONDITIONS OF CONVERTING NOTES

The terms of the Converting Notes are as follows:

- (a) Each Converting Note entitles the holder (**Holder**) to be issued:
- (i) the number of Shares determined in accordance with (b) below; and
 - (ii) the number of new PYCOA Options determined in accordance with (e) below,
- on the Conversion Date.

- (b) The number of Shares to be issued on the conversion of the Converting Notes is determined by the following formula and is calculated on the Conversion Date:

$$A = \frac{B}{C}$$

Where:

A is the number of Shares to be issued;

B is the aggregate value of Converting Notes held by the Holder; and

C is the Issue Price (defined below) per Share.

- (c) The issue price per Share will be the lesser of:

- (i) \$0.053; and
- (ii) the price determined by applying the Specified Discount (defined below) to the average of the daily volume weighted average price of Shares over the 30 trading days preceding and not including the Conversion Date,

(Issue Price).

- (d) The specified discount (**Specified Discount**) will be:

- (i) 40%, if the Company has not entered into any binding research and development collaborations on similar financial terms to the Company's existing agreement with Janssen Biotech;
- (ii) 35%, if the Company has entered into 1 binding research and development collaboration on similar financial terms to the Company's existing agreement with Janssen Biotech or any number of binding research and development collaborations which in aggregate provide the Company an equivalent financial outcome;
- (iii) 30%, if the Company has either:
 - (A) entered into 2 binding research and development collaborations on similar financial terms to the Company's existing agreement with Janssen Biotech; or
 - (B) entered into 2 or more binding research and development collaborations which in aggregate provide the Company a financial outcome equal to or greater than having entered into 2 binding research and development collaborations on similar

financial terms to the Company's existing agreement with Janssen Biotech; or

- (iv) 25%, if the Company has either:
 - (C) entered into 3 or more binding research and development collaborations on similar financial terms to the Company's existing agreement with Janssen Biotech or
 - (D) entered into 3 or more binding research and development collaborations which in aggregate provide Phylogica a financial outcome equal to or greater than having entered into 3 binding research and development collaborations on similar financial terms to the Company's existing agreement with Janssen Biotech,

in the period commencing on the date that the Converting Notes are issued and concluding on the Conversion Date.

- (e) If, the average of the daily volume weighted average price of Shares over the 5 Trading Days preceding and not including the date of the Meeting is:
 - (i) below 3.3 cents, the Holder will be issued 2 PYCOA Options for every 3 Shares issued to the Holder on the Conversion Date;
 - (ii) equal to or above 3.3 cents but below 4 cents, the Holder will be issued 1 PYCOA Option for every 2 Shares issued to the Holder on the Conversion Date; or
 - (iii) equal to or above 4 cents, the Holder will not be issued any PYCOA Options.
- (f) The Conversion Date of the Converting Notes is the Business Day that is 12 months after the date of issue of the Converting Notes or any Earlier Conversion Date (defined below) (if applicable) (**Conversion Date**).
- (g) Notwithstanding any other term of the Converting Notes, there will be an early Conversion Date in the following circumstances:
 - (i) 30 trading days after the Holder issues a Change of Control Notice (defined below) to the Company;
 - (iv) where there is a Change of Control Event (defined below);
 - (v) where there is a Winding-Up Event (defined below); or
 - (vi) the Company and the Holder agree to bring forward the Conversion Date,

(each a **Earlier Conversion Date**).

Change of Control Notice: A Holder may issue a change of control notice to the Company (**Change of Control Notice**) following the lodgement with ASIC of a bidders statement for a takeover bid to acquire all or some of the Shares pursuant to Chapter 6 of the Corporations Act (**Takeover Bid**) or a court ordering the holding of a meeting to approve a scheme of arrangement in accordance with Chapter 5.1 of the Corporations Act, which scheme would result in a person

having a relevant interest in more than 50% of the Shares that will be on issue after the scheme is implemented (**Scheme**).

Change of Control Event: A change of control event occurs if there is a:

- (i) a takeover bid for all or some of the securities in the capital of the Company is made and the bid is, or becomes, unconditional and the bidder has a relevant interest in more than 50% of the Shares on issue or the directors of the Company issue a statement recommending acceptance of the takeover bid; or
- (ii) a court orders the holding of a meeting to approve a scheme of arrangement and the members of the Company pass a resolution approving the Scheme,

(**Change of Control Event**), in either circumstance, the Conversion Date will be brought forward to the business day which is 3 business days after the occurrence of the Change of Control Event.

Winding-Up Event: A winding-up event occurs if an order is made by a court or a resolution is passed by the members of the Company for the winding-up of the Company other than for the purposes of a solvent reorganisation of the Company (**Winding-Up Event**). In such circumstance, the Conversion Date will be brought forward to the business day which is 3 business days after the Winding-Up Event has occurred.

- (h) The Company will ensure that an offer of the Shares and PYCOA Options issued on the conversion of the Converting Notes for sale within 12 months after their issue will not require disclosure under section 707(3) of the Corporations Act by either giving the ASX:
 - (i) a notice under section 708A(6) of the Corporations Act on the day following the Conversion Date; or
 - (ii) a prospectus as contemplated by section 708A(11) of the Corporations Act as soon as reasonably practicable.
- (i) Prior to the Conversion Date, the Company will not without the prior written consent of Bernard Hockings (as a representative of the Holders or other nominee of the Holders) (**Representative**) such consent not to be unreasonably delayed, issue any new Shares or make any changes to the capital structure of the Company from the date that the Converting Notes are issued. This prohibition does not restrict the issue of any securities the subject of any of the Resolutions at the Annual General Meeting of the Company for the financial year ended 30 June 2012.
- (j) Notwithstanding any other term of the Converting Notes, if the Company issues new Shares or changes its capital structure without the prior written consent of the Representative, then the applicable Specified Discount for the conversion of the Converting Notes will be 40% irrespective of the number of research and development collaborations entered into by the Company.
- (k) A Converting Note does not confer any rights to dividends, any right to vote or any right to participate in a new issue of Shares by the Company.
- (l) The Converting Notes are not transferable.

- (m) All Shares issued on the conversion of Converting Notes will upon allotment rank pari passu in all respects with other Shares.
- (n) All PYCOA Options issued on the conversion of Converting Notes will be the same terms as the PYCOA Options currently on issue.
- (o) The Company will not apply for quotation of the Converting Notes on ASX.
- (p) If at any time the issued capital of the Company is reconstructed, all rights of a Holder in relation to the Converting Notes are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.
- (q) There are no participation rights or entitlements inherent in the Converting Notes and holders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Converting Notes without converting the Convertible Notes.

SCHEDULE 2 – TERMS AND CONDITIONS OF INCENTIVE OPTIONS

The terms of the Incentive Options (**Options**) are as follows:

- (a) Each Option entitles the holder to subscribe for one Share upon exercise of the Option.
- (b) The Options have a nil exercise price and will expire on the Conversion Date of the Converting Notes (**Expiry Date**). Any Option not exercised before the Expiry Date will automatically lapse on the Expiry Date.
- (c) The Options are exercisable at any time between the date that the Vesting Conditions (defined below) are first met and on or prior to the Expiry Date.
- (d) The Options may be exercised by notice in writing to the Company (**Notice of Exercise**) for the Options being exercised. Any Notice of Exercise of an Option received by the Company will be deemed to be a notice of the exercise of that Option as at the date of receipt.
- (e) Within 15 Business Days after the later of the following:
 - (i) receipt of a Notice of Exercise given in accordance with these terms and conditions; and
 - (ii) when excluded information in respect to the Company (as defined in section 708A(7) of the Corporations Act) (if any) ceases to be excluded information,

but in any case no later than 20 Business Days after receipt of a Notice of Exercise given in accordance with these terms and conditions the Company will:

- (i) allot and issue the Shares pursuant to the exercise of the unlisted options;
- (ii) give ASX a notice that complies with section 708A(5)(e) of the Corporations Act or lodge a prospectus with ASIC that qualifies the Shares for resale under section 708A(11) of the Corporations Act; and
- (iii) apply for official quotation on ASX of Shares issued pursuant to the exercise of the unlisted options.

If a notice delivered under (e)(ii) for any reason is not effective to ensure that an offer for sale of the Shares does not require disclosure to investors, the Company must no later than thirty (30) days after the date of issue of the Shares lodge with ASIC a prospectus prepared in accordance with the Corporations Act and do all such things necessary to satisfy section 708A(11) of the Corporations Act to ensure that an offer for sale of the Shares does not require disclosure to investors.

- (f) The Options will only be able to be exercised upon achievement of both of the following performance milestones:
 - (i) the Company has entered into three or more binding research and development collaborations on similar financial terms to the Company's existing agreements with Janssen Biotech or has entered into three or more binding research collaborations which, in aggregate, provide the Company with an equivalent financial outcome to having entered into three or more such collaborations; and

- (ii) the average of the daily volume weighted average price of Shares on ASX over the 5 trading days preceding and not including the Conversion Date of the Converting Notes is a minimum of 10 cents,

(Vesting Conditions).

- (g) Options, unless otherwise determined by the Board, that have been issued to, but not yet vested with, the Optionholder will automatically lapse on the date upon which the Optionholder ceases employment with the Company, other than if the Optionholder ceases employment through retirement, total and permanent disablement, redundancy or death in which case the Optionholder may exercise the options within one month of the date of retirement, total and permanent disablement, redundancy or death and before the Expiry Date.
- (h) The Options held by each Optionholder must be exercised in their entirety.
- (i) The Options are not transferable.
- (j) All Shares allotted upon the exercise of Options will upon allotment rank pari passu in all respects with other Shares.
- (k) The Company will not apply for quotation of the Options on ASX.
- (l) If at any time the issued capital of the Company is reconstructed, all rights of an Optionholder are to be changed in a manner consistent with the Corporations Act and the ASX Listing Rules at the time of the reconstruction.
- (m) An Option does not confer the right to a change in the exercise price (nil) or a change in the number of underlying securities over which the Option can be exercised.
- (n) There are no participating rights or entitlements inherent in the Options and Optionholders will not be entitled to participate in new issues of capital offered to Shareholders during the currency of the Options.

SCHEDULE 3 – VALUE AND PRICING METHODOLOGY OF CONVERTIBLE NOTES

The Converting Notes to be issued to Dr Doug Wilson, Dr Paul Watt and Mr Nick Woolf pursuant to Resolutions 7 to 9 have been valued by internal management.

Each Converting Note consists of the right to convert to Shares and, possibly, PYCOA Options.

The value of the financial benefit obtained from the Shares, over and above the face value of the Shares issued, for which consideration is paid at the time of issue of the Converting Note, is the discount to the market price implicit in the issue price of the Shares. The minimum discount at which Shares will be issued is 25% and the maximum discount is 40%.

The value of the PYCOA Options is calculated using the theoretical Black & Scholes option model and based on the assumptions set out below, the Converting Notes have a theoretical value comprised of the values of the discount on the Shares and the value of the PYCOA options to be issued. The ratio of PYCOA options attaching to each Share issued upon conversion of the Convertible Notes will be determined at the date of the General Meeting at which the Converting Notes are approved and will be within a minimum of no attaching options and a maximum of two PYCOA Options for every three Shares issued upon conversion of the Converting Notes.

The minimum financial benefit to the Related Parties (for the range of prices assumed below) will be a 25% discount on the Shares issued, with no attaching PYCOA Options.

The maximum financial benefit to the Related Parties (for the range of prices assumed below) will be a 40% discount and the value of two attaching PYCOA Options for each Share issued.

Valuation date	8 October 2012		
Issue price of Converting Notes	\$100		
Exercise price of Converting Notes	Free		
Conversion date of Converting Notes/ Issue Date of PYCOA	12 months from the date of issue of Converting Notes		
Exercise price of PYCOA Options	9 cents		
Expiry date of PYCOA Options	30 June 2016		
Risk free interest rate	2.44%		
Volatility	100%		
Market Price of Shares for Conversion	1.3 cents	2.6 cents	8.9 cents

Minimum Financial Benefit *			
Conversion price per Share	0.975 cents	1.95 cents	5.3 cents
Shares issued per Converting Note	10,256	5,128	1,887
Minimum discount on Share issue	25%	25%	25%
Discount per Share	0.325 cents	0.65 cents	3.6 cents
Total discount per Converting Note	\$33.33	\$33.33	\$67.93
Financial Benefit to Related Parties			
Doug Wilson (Resolution 7)	\$3,333	\$3,333	\$6,793
Paul Watt (Resolution 8)	\$1,667	\$1,667	\$3,397
Nick Woolf (Resolution 9)	\$1,667	\$1,667	\$3,397

* for the market prices assumed

Maximum Financial Benefit *			
Conversion price per Share	0.78 cents	1.56 cents	5.3 cents
Shares issued per Converting Note	12,821	6,410	1,887
Maximum discount on Share issue	40%	40%	40%
Discount per Share	0.52 cents	1.04 cents	3.6 cents
Total Share discount per Converting Note	\$66.67	\$66.67	\$67.93
Number of PYOCA per Converting Note (2 PYCOA for 3 Shares)	8,547	4,273	1,258
Indicative value per PYCOA Option	1.21 cents	1.21 cents	1.21 cents
Value of options per Converting Note	\$103.42	\$51.70	\$15.22
Total value per Converting Note	\$170.09	\$118.37	\$83.15
Financial Benefit to Related Parties			
Doug Wilson (Resolution 7)	\$17,009	\$11,837	\$8,315
Paul Watt (Resolution 8)	\$8,505	\$5,919	\$4,158
Nick Woolf (Resolution 9)	\$8,505	\$5,919	\$4,158

* for the market prices assumed

SCHEDULE 4 – VALUE AND PRICING METHODOLOGY OF INCENTIVE OPTIONS

The Incentive Options to be issued to research scientists, Dr Paul Watt and Mr Nick Woolf pursuant to Resolutions 10 to 12 have been valued by internal management. The valuation date is the date that the company agreed to issue the Incentive Options.

Using the theoretical Black & Scholes option model and based on the assumptions set out below, the Incentive Options have a theoretical value equal to the present market price. A range of Incentive Option Values is calculated for a range of probabilities that the Vesting Conditions will be met.

For the purposes of the valuation to be used in this Notice, the directors have used the value of a 50% probability, that is, it is equally likely that the conditions will be met as that they will not be met.

Assumptions	No early exercise of Options No dividends to be paid prior to maturity date Volatility of 100%		
Valuation date	8 October 2012		
Market price of Shares	2.6 cents		
Exercise price	Free		
Expiry date	25 November 2013		
Risk free interest rate	2.44%		
Volatility	100%		
Indicative value per Incentive Option	2.6 cents (present market price)		
Probability that Vesting Conditions Met	0%	50%	100%
Indicative value per Incentive Option	0 cents	1.3 cents	2.6 cents
Total Value of Incentive Options			
Research Scientists (Resolution 11)	0	\$29,250	\$58,500
Paul Watt (Resolution 12)	0	\$29,250	\$58,500
Nick Woolf (Resolution 13)	0	\$19,500	\$39,000

**PROXY FORM
APPOINTMENT OF PROXY
PHYLOGICA LIMITED
ACN 098 391 961
ANNUAL GENERAL MEETING**

I/We

of

being a member of [insert] entitled to attend and vote at the Annual General Meeting, hereby

Appoint

Name of proxy

OR

☐

the Chair of the Annual General Meeting as your proxy

or failing the person so named or, if no person is named, the Chair of the Annual General Meeting, or the Chair's nominee, to vote in accordance with the following directions, or, if no directions have been given, and subject to the relevant laws as the proxy sees fit, at the Annual General Meeting to be held at 100 Roberts Road, Subiaco, Western Australia at 11:00 am on Thursday 22 November 2012, and at any adjournment thereof.

Chairman authorised to exercise proxies on remuneration related resolutions (Resolutions 1, 10, 11 and 12): Where I/we have appointed the Chairman of the meeting as my/our proxy (or the Chairman of the meeting becomes my/our proxy by default), by signing and returning this form I/we expressly authorise the Chairman of the meeting to exercise my/our proxy in respect of Resolutions 1, 10, 11 and 12 (except where I/we have indicated a different voting intention below) even though the relevant item is connected directly or indirectly with the remuneration of a member of key management personnel.

The Chair intends to vote all available proxies in favour of all Resolutions.

Voting on Business of the Annual General Meeting

	FOR	AGAINST	ABSTAIN
Resolution 1 – Adoption of Remuneration Report	☐	☐	☐
Resolution 2 – Approval of 10% Placement Capacity	☐	☐	☐
Resolution 3 – Re-election of Director – J Cook	☐	☐	☐
Resolution 4 – Re-election of Director – P Watt	☐	☐	☐
Resolution 5 – Re-election of Director – N Woolf	☐	☐	☐
Resolution 6 – Approval of Converting Notes issue to non-related parties	☐	☐	☐
Resolution 7 – Approval of Converting Notes issue to Director Dr Doug Wilson	☐	☐	☐
Resolution 8 – Approval of Converting Notes issue to Director Dr Paul Watt	☐	☐	☐
Resolution 9 – Approval of Converting Notes issue to Director Mr Nick Woolf	☐	☐	☐
Resolution 10 – Approval of Converting Notes issue to Dr Richard Hopkins	☐	☐	☐
Resolution 11 – Approval of Incentive Option issue to Research Scientists	☐	☐	☐
Resolution 12 – Approval of Incentive Option issue to Director P Watt	☐	☐	☐
Resolution 13 – Approval of Incentive Option issue to Director N Woolf	☐	☐	☐

Please note: If you mark the abstain box for a particular Resolution, you are directing your proxy not to vote on that Resolution on a show of hands or on a poll and your votes will not to be counted in computing the required majority on a poll.

If two proxies are being appointed, the proportion of voting rights this proxy represents is _____%

Signature of Member(s):

Date: _____

Individual or Member 1

Member 2

Member 3

Sole Director and Sole Secretary

Director

Director/Company Secretary

Contact Name: _____ **Contact Ph (daytime):** _____

PHYLOGICA LIMITED
ACN 098 391 961

Instructions for Completing 'Appointment of Proxy' Form

1. **(Appointing a Proxy):** A member entitled to attend and cast a vote at an Annual General Meeting is entitled to appoint a proxy to attend and vote on their behalf at the meeting. If the member is entitled to cast 2 or more votes at the meeting, the member may appoint a second proxy to attend and vote on their behalf at the meeting. However, where both proxies attend the meeting, voting may only be exercised on a poll. The appointment of a second proxy must be done on a separate copy of the Proxy Form. A member who appoints 2 proxies may specify the proportion or number of votes each proxy is appointed to exercise. If a member appoints 2 proxies and the appointments do not specify the proportion or number of the member's votes each proxy is appointed to exercise, each proxy may exercise one-half of the votes. Any fractions of votes resulting from the application of these principles will be disregarded. A duly appointed proxy need not be a member of the Company.
2. **(Direction to Vote):** A member may direct a proxy how to vote by marking one of the boxes opposite each item of business. Where a box is not marked the proxy may vote as they choose. Where more than one box is marked on an item the vote will be invalid on that item.
3. **(Signing Instructions):**
 - **(Individual):** Where the holding is in one name, the member must sign.
 - **(Joint Holding):** Where the holding is in more than one name, all of the members should sign.
 - **(Power of Attorney):** If you have not already provided the Power of Attorney with the registry, please attach a certified photocopy of the Power of Attorney to this form when you return it.
 - **(Companies):** Where the company has a sole director who is also the sole company secretary, that person must sign. Where the company (pursuant to Section 204A of the Corporations Act) does not have a company secretary, a sole director can also sign alone. Otherwise, a director jointly with either another director or a company secretary must sign. Please sign in the appropriate place to indicate the office held.
4. **(Attending the Meeting):** Completion of a Proxy Form will not prevent individual members from attending the Annual General Meeting in person if they wish. Where a member completes and lodges a valid Proxy Form and attends the Annual General Meeting in person, then the proxy's authority to speak and vote for that member is suspended while the member is present at the Annual General Meeting.
5. **(Return of Proxy Form):** To vote by proxy, please complete and sign the enclosed Proxy Form and return by:
 - (a) post to 15 Lovegrove Close, Mount Claremont; or
 - (b) facsimile to the Company on facsimile number (08) 9284 3801; or
 - (c) email to the Company at natashaforde@bigpond.com,so that it is received not less than 48 hours prior to commencement of the Meeting.

Proxy forms received later than this time will be invalid.