
PHYLOGICA LIMITED

ACN 098 391 961

NOTICE OF ANNUAL GENERAL MEETING

TIME: 9:30am (WST)

DATE: Thursday 24 November 2011

PLACE: Seminar Room, Telethon Institute for Child Health Research
100 Roberts Road
Subiaco WA 6008

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 on (+61 8) 9384 3284.

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TIME AND PLACE OF MEETING AND HOW TO VOTE

VENUE

The annual general meeting of the Shareholders to which this Notice of Meeting relates will be held at 9:30am (WST) on 24 November 2011 at:

Seminar Room, Telethon Institute for Child Health Research
100 Roberts Road
Subiaco WA 6008

YOUR VOTE IS IMPORTANT

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

VOTING IN PERSON

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

VOTING BY PROXY

To vote by proxy, please complete and sign the enclosed Proxy Form and return by:

- (a) post to Phylogica Limited, PO Box Z5152, Perth, WA 6831; or
- (b) facsimile to the Company on facsimile number (+61 8) 9284 3801; or
- (c) email to the Company at natashaforde@bigpond.com,

so that it is received not later than 9:30am (WST) on 22 November 2011.

Proxy Forms received later than this time will be invalid.

New 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.

NOTICE OF ANNUAL GENERAL MEETING

Notice is given that the annual general meeting of Shareholders will be held at 9:30am (WST) on Thursday 24 November 2011 at Seminar Room, Telethon Institute for Child Health Research, 100 Roberts Road, Subiaco WA 6008.

The Explanatory Statement provides additional information on matters to be considered at the Annual General Meeting. The Explanatory Statement and the Proxy Form are part of this Notice of Meeting.

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 9:30am (WST) on Tuesday 22 November 2011.

Terms and abbreviations used in this Notice of Meeting are defined in the Glossary.

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 2011 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 2011.”

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 described above may vote on this Resolution if:

- (c) the person does so as a proxy appointed by writing that specifies how the proxy is to vote on the Resolution; and
- (d) the vote is not cast on behalf of a person described in sub-paragraphs (a) or (b) above.

2. **RESOLUTION 2 – RE-ELECTION OF DIRECTOR – MR BRUCE McHARRIE**

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 11.3 of the Constitution and for all other purposes, Mr Bruce McHarrie, a Director, retires by rotation, and being eligible, is re-elected as a Director.”

3. **RESOLUTION 3 – RE-ELECTION OF DIRECTOR – DR DOUG WILSON**

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 11.3 of the Constitution and for all other purposes, Dr Doug Wilson, a Director, retires by rotation, and being eligible, is re-elected as a Director.”

4. **RESOLUTION 4 – ADOPTION OF PHYLOGICA LONG TERM INCENTIVE SHARE PLAN**

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

“That, for the purposes of Listing Rule 7.2 (Exception 9), Section 260C(4) of the Corporations Act and for all other purposes, approval is given for the Company to establish, and issue shares under, a long term incentive share plan, known as the “Phylogica Long Term Incentive Share Plan” (Plan), in substitution for the Company’s existing Employee Option Plan on the terms summarised in the Explanatory Statement.”

Voting Exclusion: The Company will disregard any votes cast on this Resolution by a person who may participate in the Plan or any Director of the Company (except one who is ineligible to participate in the Plan or any employee share plan in relation to the Company) 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.

5. **RESOLUTION 5 – APPROVE ISSUE OF LONG TERM INCENTIVE SHARES AND PROVISION OF A LOAN TO A DIRECTOR – P WATT**

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

“That, pursuant to the rules of the Phylogica Long Term Incentive Share Plan and in accordance with Section 208 of the Corporations Act, ASX Listing Rule 10.14 and for all other purposes, approval is given for the Directors to issue 9,000,000 Long Term Incentive Shares, and provide a limited recourse loan in relation to the Long Term Incentive Shares, to Dr Paul Watt (or his nominee), which vest over a period of 2.5 to 5 years from the date of this Notice of Meeting and otherwise on the terms and conditions set out in the Explanatory Statement.”

Voting Exclusion: The Company will disregard any votes cast on this Resolution by Dr Paul Watt, his nominee or any Director of the Company (except one who is ineligible to participate in the Plan or any employee share plan in relation to the Company) 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.

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.

6. RESOLUTION 6 – APPROVE ISSUE OF LONG TERM INCENTIVE SHARES AND PROVISION OF A LOAN TO A DIRECTOR – N WOOLF

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

“That, pursuant to the rules of the Phylogica Long Term Incentive Share Plan and in accordance with Section 208 of the Corporations Act, ASX Listing Rule 10.14 and for all other purposes, approval is given for the Directors to issue 6,000,000 Long Term Incentive Shares, and provide a limited recourse loan in relation to the Long Term Incentive Shares, to Mr Nick Wolf (or his nominee), which vest over a period between 2.5 to 5 years from the date of this Notice of Meeting and otherwise on the terms and conditions set out in the Explanatory Statement.”

Voting Exclusion: The Company will disregard any votes cast on this Resolution by Mr Nick Woolf, his nominee or any Director of the Company (except one who is ineligible to participate in the Plan or any employee share plan in relation to the Company) 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.

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: 14 OCTOBER 2011

BY ORDER OF THE BOARD

A handwritten signature in black ink, appearing to read 'G Boden', written in a cursive style.

**GRAEME BODEN
COMPANY SECRETARY**

EXPLANATORY STATEMENT

This Explanatory Statement has been prepared for the information of the Shareholders in connection with the business to be conducted at the Annual General Meeting to be held at 9:30am (WST) on Thursday 24 November 2011 at Seminar Room, Telethon Institute for Child Health Research, 100 Roberts Road, Subiaco WA 6008.

This purpose of this Explanatory Statement is to provide information which the Directors believe to be material to Shareholders in deciding whether or not to pass the Resolutions in the Notice of Meeting.

1. FINANCIAL STATEMENTS AND REPORTS

In accordance with the Constitution, the business of the Annual General Meeting will include receipt and consideration of the annual financial report of the Company for the financial year ended 30 June 2011 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 may be viewed on its website at www.phylogica.com.au

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.

Under recent changes to the Corporations Act which came into effect on 1 July 2011, if at least 25% of the votes cast on Resolution 1 are voted against adoption of the Remuneration Report at the Annual General Meeting, and then again at the Company's 2012 annual general meeting, the Company will be required to put to Shareholders a resolution proposing the calling of an [extraordinary] general meeting to consider the appointment of directors of the Company (**Spill Resolution**).

If more than 50% of Shareholders vote in favour of the Spill Resolution, the Company must convene the [extraordinary] general meeting (**Spill Meeting**) within 90 days of the Company's 2012 annual general meeting. All of the Directors who were in office when the Company's 2012 Directors' report 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.

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 2011.

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

2.2 Proxy Restrictions

Pursuant to the Corporations Act, if you elect to appoint the Chair, or another member of Key Management Personnel whose remuneration details are included in the Remuneration Report or any Closely Related Party of that member as your proxy to vote on this Resolution 1, *you must direct the proxy how they are to vote*. Where you do not direct the Chair, or another member of Key Management Personnel whose remuneration details are included in the Remuneration Report or Closely Related Party of that member on how to vote on this Resolution 1, the proxy is prevented by the Corporations Act from exercising your vote and your vote will not be counted in relation to this Resolution 1.

3. RESOLUTIONS 2 AND 3 – RE-ELECTION OF A DIRECTORS

Clause 11.3 of the Constitution requires that if the Company has three or more Directors, one third (or the number nearest one-third) of those Directors must retire at each annual general meeting, 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 Company currently has four Directors and at least two must retire.

A Director who retires by rotation under clause 11.3 of the Constitution is eligible for re-election.

Mr Bruce McHarrie and Dr Doug Wilson are the Directors longest in office since their last election. Accordingly, Mr Bruce McHarrie and Dr Doug Wilson retire by rotation and seek re-election.

The members of the board unanimously recommend the re-election of Mr Bruce McHarrie and Dr Doug Wilson as a director aside from Mr Bruce McHarrie and Dr Doug Wilson respectively.

4. RESOLUTION 4 – ADOPTION OF PHYLOGICA LONG TERM INCENTIVE SHARE PLAN

4.1 Background

Resolution 4 seeks Shareholder approval for the establishment of the Phylogica Long Term Incentive Share Plan (**Plan**), which may include the grant in future of Long Term Incentive Shares to employees, Directors or contractors under the Plan.

The first allocation of Long Term Incentive Shares will be to two executive directors, subject to approval under separate resolutions at the Annual General Meeting.

The Directors and employees of the Company have been, and will continue to be, instrumental in the growth of the Company. The Directors consider that the Plan is an appropriate method to:

- (a) reward Directors and employees for their past performance;
- (b) provide long term incentives for participation in the Company's future growth;
- (c) motivate Directors and generate loyalty from senior employees; and
- (d) assist to retain the services of valuable Directors and employees.

The Plan provides for the issuance of Long Term Incentive Shares which are issued to the Plan participants, but are subject to a trading lock until any vesting conditions have been met. Proceeds from sale of the Long Term Incentive Shares must first be applied to repayment of the loan which funded the issue of the shares at the market price on the day of board approval of the allocation.

4.2 ASX LISTING RULE 7.1

ASX Listing Rule 7.1 provides that a company must not, subject to specified exceptions, issue or agree to issue more equity securities during any 12 month period than that amount which represents 15% of the number of fully paid ordinary securities on issue at the commencement of that 12 month period.

One of the exceptions to ASX Listing Rule 7.1 is Listing Rule 7.2 – Exception 9, which provides that ASX Listing Rule 7.1 does not apply to an issue under an employee incentive scheme if, within the 3 years before the date of Issue, shareholders have approved the issue as an exception to ASX Listing Rule 7.1.

The effect of Resolution 4 will be to allow the Directors to issue Long Term Incentive Shares to employees and executives of the Company pursuant to the Plan during the period of 3 years after the Meeting (or a longer period, if allowed by ASX), and to issue Shares to those executives and employees if they achieve the performance and vesting conditions of the Performance Rights, without using the Company's 15% annual placement capacity.

In the case of a Director, no Shares may be issued to the Director without separate Shareholder approval pursuant to ASX Listing Rule 10.14.

4.3 INFORMATION REQUIRED BY THE ASX LISTING RULES – TERMS OF THE PLAN

A summary of the terms and conditions of the Plan is set out in Schedule 1 and a full copy of the Plan is available for inspection at the Company's registered office until the date of the Annual General Meeting.

No Long Term Incentive Shares have been issued under the Plan as at the date of the Explanatory Statement.

4.4 REASONS FOR THE PLAN

To achieve its corporate objectives, the Company needs to attract and retain its key staff. The Board believes that implementation of the Plan will:

- (a) enable the Company to recruit and retain employees and contractors of the calibre needed to achieve the Company's business objectives;
- (b) link the reward of key staff with outperformance of a relevant Company peer group;
- (c) align the financial interest of participants of the Plan with those of Shareholders; and
- (d) provide incentive to participants of the Plan to focus on superior performance that creates Shareholder value.

The Plan will be used as part of the remuneration planning for executive Directors and employees. The Corporate Governance Council Guidelines recommend that executive remuneration packages involve a balance between fixed and incentive pay reflecting short and long-term performance objectives appropriate to the

company' circumstances and goals. The Plan will also be used as part of the remuneration planning for non-executive Directors. Although this is not in accordance with the recommendations contained in the Corporate Governance Council Guidelines, the Company considers that it is appropriate for non-executive Directors to participate in the Plan given the size of the Company.

4.5 PARTICIPATION IN THE PLAN

The Board determines the entitlement of Participants in the Plan, having regard to:

- (i) the seniority of the Participant and the position the Participant occupies with the Company or any subsidiary;
- (ii) the length of service of the Participant with the Company and its subsidiaries;
- (iii) the record of employment of the Participant with the Company and its subsidiaries;
- (iv) the potential contribution of the Participant to the growth and profitability of the Company and its subsidiaries; and
- (v) any other matters which the Board considers relevant.

5. RESOLUTIONS 5 & 6 – APPROVE ISSUE OF LONG TERM INCENTIVE SHARES AND PROVISION OF A LOAN TO DIRECTORS

5.1 General

The Directors have approved, subject to obtaining Shareholder approval of the Phylogica Long Term Incentive Share Plan and the subsequent and separate approval in relation to individual Directors, the issue of 15,000,000 Long Term Incentive Shares to Dr Paul Watt and Mr Nick Woolf (**Related Parties**) on the terms and conditions set out below.

The Long Term Incentive Shares are to be issued pursuant to the Phylogica Long Term Incentive Share Plan to be approved by Shareholders the subject of Resolution 4 of this Notice of Meeting.

The number of Long Term Incentive Shares to be issued to Dr Paul Watt and Mr Nick Woolf for their ongoing commitment and contribution to the Company in their respective roles and the value of the loan provided for those Shares are set out below:

Related Party	Long Term Incentive Shares	Value*
Dr Paul Watt	9,000,000	\$576,000
Mr Nick Woolf	6,000,000	\$384,000

Note

* based on a deemed issue price of 6.4 cents per Share

The Long Term Incentive Shares to be issued to Dr Paul Watt and Mr Nick Woolf will each have an issue price of 6.4 cents and the loan will have a term of 7 years from the date of board approval of the issue, which occurred on 3 June 2011, which term is otherwise on the terms and conditions set out in Schedule 1 and in section 5.2(b)(ii).

In relation to Dr Paul Watt:

- (a) 3,000,000 Long Term Incentive Shares vest upon 3 June 2014;
- (b) 3,000,000 Long Term Incentive Shares vest upon 3 June 2015; and
- (c) the remaining 3,000,000 Long Term Incentive Shares vest upon 3 June 2016.

In relation to Mr Nick Woolf:

- (a) 2,000,000 Long Term Incentive Shares vest upon 3 June 2014;
- (b) 2,000,000 Long Term Incentive Shares vest upon 3 June 2015; and
- (c) the remaining 2,000,000 Long Term Incentive Shares vest upon 3 June 2016.

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 10.14 also requires shareholder approval to be obtained where an entity issues, or agrees to issue, securities under an employee incentive scheme to a director of the entity, an associate of the director, or a person whose relationship with the entity, director or associate of the director is, in ASX's opinion, such that approval should be obtained.

The issue of the Long Term Incentive Shares to the Related Parties requires the Company to obtain Shareholder approval in accordance with Chapter 2E of the Corporations Act and ASX Listing Rule 10.14, because the issue of Long Term Incentive Shares 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 Shares to the Related Parties.

5.2 Shareholder Approval (Chapter 2E of the Corporations Act and Listing Rule 10.15)

Pursuant to and in accordance with the requirements of Sections 217 to 227 of the Corporations Act and ASX Listing Rule 10.15, the following information is provided in relation to the proposed issue of the Long Term Incentive Shares:

- (a) the related parties are Dr Paul Watt and Mr Nick Woolf and they are related parties by virtue of being Directors;
- (b) there are two financial benefits being provided to each Related Party. The nature of the financial benefits are as follows:

- (i) Long Term Incentive Shares - the maximum number of Long Term Incentive Shares (being the nature of the first financial benefit) to be granted to the Related Parties are as follows:
 - (A) 9,000,000 Long Term Incentive Shares to Dr Paul Watt valued at \$576,000 based on a deemed issue price of 6.4 cents per Share; and
 - (B) 6,000,000 Long Term Incentive Shares to Mr Nick Woolf valued at \$384,000 based on a deemed issue price of 6.4 cents per Share;
- (ii) a limited recourse loan (**Loan**) (being the nature of the second financial benefit) to each Related Party in relation to the Long Term Incentive Shares to be issued to them on the following material terms and conditions:
 - (A) no interest is payable on the Loans;
 - (B) the drawdown date for both Loans is the date of the General Meeting;
 - (C) the expiry date for final repayment of each Loan is 3 June 2018 (**Loan Expiry Date**);
 - (D) the deemed issue price of the Long Term Incentive Shares issued to each Related Party is 6.4 cents per Share;
 - (E) each Loan may be repaid in full at any time prior to expiry and prior to this occurring the Related Party may not dispose of any of the Shares;
 - (F) the Loan amounts are as follows:
 - (I) Paul Watt - \$576,000; and
 - (II) Nick Woolf - \$384,000;
 - (G) the Company will apply and each Related Party irrevocably directs the Company to so apply the after-tax amount of any dividends payable in respect of the Related Party's Long Term Incentive Shares towards repayment of the outstanding balance of the Loan;
 - (H) any capital distribution in respect of a Related Party's Long Term Incentive Shares must first be applied in payment of the outstanding balance of the Loan; and
 - (I) in the event a Related Party forfeits his or her interest in Long Term Incentive Shares, the Participant's Long Term Incentive Shares will be Bought-back in accordance with the buy-back provisions of the Plan and will be taken to have repaid the Loan in full and is discharged from any further liability or obligation in respect of the Loan,
- (c) the Long Term Incentive Shares will be issued to the Related Parties no later than one year 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 Long Term Incentive Shares will be issued on one date;

- (d) no funds will be raised from the issue of the Long Term Incentive Shares as the issue price will be loaned by the Company to the Related Parties to be applied to payment of the issue price by the Related Parties to the Company;
- (e) there is a lost opportunity cost to the Company by providing the Loan to each Related Party interest free. The value of this loss is based on the lost opportunity cost to the Company, which if the Company held the value of the Loans in cash, would be the value that the Company would earn from holding the value of the Loans in a term deposit bank account for the term of the Loans. On this basis the value of the lost opportunity cost is the value of each Loan multiplied by the published interest rate for Westpac business cash reserve accounts of 4.75% for values of \$250,000 to \$500,000 as at the date of this Notice of Meeting multiplied by the term of the Loan. Thus, the lost opportunity cost is as follows in relation to each Related party Loan:
 - (i) Dr Paul Watt's Loan - $\$576,000 \times 4.75\% \times 7 = \$191,520$; and
 - (ii) Mr Nick Woolf's Loan - $\$384,000 \times 4.75\% \times 7 = \$127,680$.
- (f) if, at any time the loans are repaid and the Shares are trading on ASX at a price that is higher than the price at which the Loan was made, there may be a perceived lost opportunity cost to the Company;
- (g) any person who is in the full-time or part-time employment of, or is a director of, the Company or any subsidiary is entitled to participate in the Company's Long Term Incentive Share Plan;
- (h) no Shares have previously been issued under the Plan to a Director, an associate of the Director, or a person whose relationship with the Company, Director or associate of the Director is, in ASX's opinion, such that approval should be obtained;
- (i) the relevant interests of the Related Parties in securities of the Company is set out below:

Related Party	Shares	Options
Dr Paul Watt	4,044,123 direct 2,749,607 indirect	4,669,466 indirect ¹
Mr Nick Woolf	1,971,956 direct	1,823,728 direct ²

¹ 3,000,000 Options exercisable at \$0.075 each on or before 31 March 2012, 1,500,000 Options exercisable at \$0.075 each on or before 31 March 2013 and 169,466 Options exercisable at \$0.09 each on or before 30 June 2016.

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

- (j) 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	2011 Financial Year	2010 Financial Year
Dr Paul Watt	\$510,494	\$439,247
Mr Nick Woolf	\$252,345	\$5,147

- (k) if the all of the Long Term Incentive Shares are issued to the Related Parties and vest, a total of 15,000,000 Shares would be issued and allotted. This will increase the number of Shares on issue from 405,357,411 to 420,357,411 (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	Long Term Incentive Shares to be issued	Issued Shares upon issue of Long Term Incentive Shares	Dilutionary Effect upon issue of Long Term Incentive Shares
Paul Watt	405,357,411	9,000,000	414,357,411	2.22%
Nick Woolf	405,357,411	6,000,000	411,357,411	1.48%
TOTAL	405,357,411	15,000,000	420,357,411	3.70%

- (l) 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:

(m)	Price (cents)	Date
Highest	8.9 cents	20 December 2010
Lowest	4.2 cents	26 November 2010
Last	5.6 cents	12 October 2010

- (n) the primary purpose of the issue of the Long Term Incentive Shares to the Related Parties is to provide cost effective remuneration to the Related Parties for their commitment and contribution to the Company in their respective roles as Directors. The Board does not consider that there are any significant opportunity costs to the Company or benefits foregone by the Company in issuing the Long Term Incentive Shares upon the terms proposed;
- (o) Dr Paul Watt declines to make a recommendation to Shareholders in relation to Resolution 5 due to his material personal interest in the outcome of the Resolution as set out above;

Dr Paul Watt, who does not have a material interest in the outcome of Resolution 6, recommends that Shareholders vote in favour of Resolution 6 for the reasons set out above. Dr Paul Watt 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 Resolution 6;

- (p) Mr Nick Woolf declines to make a recommendation to Shareholders in relation to Resolution 6 due to his material personal interest in the outcome of the Resolution as set out above;

Mr Nick Woolf, who does not have a material interest in the outcome of Resolution 5, recommends that Shareholders vote in favour of Resolution 5 for the reasons set out above. Mr Nick Woolf 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 Resolution 5;

- (q) Dr Doug Wilson, who does not have a material interest in the outcome of Resolutions 5 and 6, recommends that Shareholders vote in favour of Resolutions 5 and 6 for the reasons set out above. Dr Doug 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 5 and 6; and

- (r) Mr Bruce McHarrie, who does not have a material interest in the outcome of Resolutions 5 and 6, recommends that Shareholders vote in favour of Resolutions 5 and 6 for the reasons set out above. Mr Bruce 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 5 and 6.

Approval pursuant to ASX Listing Rule 7.1 is not required in order to issue the Long Term Incentive Shares to the Related Parties. Accordingly, the issue of the Long Term Incentive Shares 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.

6. ENQUIRIES

Shareholders are requested to contact the Company Secretary on (+ 61 8) 9382 8888 if they have any queries in respect of the matters set out in these documents.

GLOSSARY

\$ means Australian dollars.

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

ASIC means the Australian Securities and Investments Commission.

ASX means ASX Limited.

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 any day that ASX declares is not a business day.

Company means Phylogica Limited (ACN 098 391 961).

Constitution means the Company's constitution.

Corporations Act means the Corporations Act 2001 (Cth).

Directors means the current directors of the Company.

Explanatory Statement means the explanatory statement accompanying the Notice.

Long Term Incentive Shares means the loan funded Shares issued pursuant to the Plan.

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.

Option means an option to acquire a Share.

Participant means a participant in the Plan.

Phylogica Long Term Incentive Share Plan means the plan to be approved by Shareholders in this Annual General Meeting pursuant to Resolution 3.

Plan means the Phylogica Long Term Incentive Share Plan.

Proxy Form means the proxy form accompanying the Notice.

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

Scheme means the employee share option scheme to be approved by Shareholders in this Notice if Meeting pursuant to Resolution 6.

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

Shareholder means a holder of a Share.

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

SCHEDULE 1 – SUMMARY OF TERMS & CONDITIONS OF THE PHYLOGICA LONG TERM INCENTIVE SHARE PLAN

- (a) **Eligibility:** Participants in the Plan may be Directors, full-time and part-time employees of, the Company or any of its subsidiaries (**Participants**).
- (b) **Administration of Plan:** The Board, or a duly appointed committee of the Board, is responsible for the operation of the Plan.
- (c) **Offers:** The Board may issue an invitation to the Participant to participate in the Plan. The invitation will include the following:
- (i) invite applications for the number of Plan Shares specified in the invitation;
 - (ii) specify the issue price for, and total value of, the Plan Shares;
 - (iii) invite applications for a loan up to the amount payable in respect of the Plan Shares accepted by the Participant in accordance with the invitation;
 - (iv) specify an acceptance period; and
 - (v) specify any other terms and conditions attaching to the Plan Shares.

The number of Plan Shares will be determined at the absolute discretion of the Board.

- (d) **Issue price:** the issue price of each Plan Share will be determined by the board and will be set out in the offer.
- (e) **Loan:** A Participant who is invited to subscribe for Plan Shares may also be invited to apply for a loan up to the amount payable in respect of the Plan Shares accepted by the Participant (**Loan**), on the following terms:
- (i) the Board may determine the value of the Loan that will be provided to the eligible person to facilitate the acquisition of the Long Term Incentive Shares and shall state the value of the Loan in the offer;
 - (ii) a Participant who accepts a Loan irrevocably authorises the Company to apply the Loan funds on behalf of the Participant in payment of the total cost of the Long Term Incentive Shares to be acquired under the offer;
 - (iii) the Board may determine that the terms of the Loan will be varied for one or more Participants;
 - (iv) unless otherwise determined by the Board, Loans will be interest-free;
 - (v) unless otherwise determined by the Board, the Loan period is the period commencing when the Loan is drawn down and ending on the date on which the first of the following events occurs:
 - (A) Long Term Incentive Shares are forfeited by the Participant in accordance with the Plan;

- (B) Long Term Incentive Shares that are subject to a Loan are disposed of or Bought-back in accordance with the Plan;
 - (C) the Board determines that a Change of Control Event will occur, or is likely to occur;
 - (D) the Loan expires after seven years; or
 - (E) the parties to the Loan Agreement otherwise agree in writing;
 - (vi) unless otherwise determined by the Board, a Participant may repay all or part of a Loan at any time before the expiration of the Loan period;
 - (vii) unless otherwise determined by the Board, the Company will apply and each Participant irrevocably directs the Company to so apply the after-tax amount of any dividends payable in respect of the Participant's Long Term Incentive Shares towards repayment of the outstanding balance of the Loan;
 - (viii) in the event of a capital distribution, unless otherwise determined by the Board, any capital distribution in respect of a Participant's Long Term Incentive Shares must first be applied in payment of the outstanding balance of the Loan;
 - (ix) unless otherwise determined by the Board, at the end of the Loan period (determined in accordance with the above provisions), the Loan amount to be repaid will be the lesser of the following amounts:
 - (A) the Loan less any amounts already paid or applied, in the case of dividends and capital distributions, in reduction of the Loan; and
 - (B) the market value of the Long Term Incentive Shares to which the Loan relates as at the end of the Loan period;
 - (x) in the event a Participant forfeits his or her interest in Long Term Incentive Shares, the Participant's Long Term Incentive Shares will be Bought-back in accordance with the buy-back provisions of the Plan and will be taken to have repaid the Loan in full and is discharged from any further liability or obligation in respect of the Loan.
- (f) **Plan limit:** An offer of Long Term Incentive Shares must not be made if the total of the following would exceed 10 % of the number of Shares on issue at the time of the offer:
- (i) the number of Shares which are the subject of the proposed offer of Long Term Incentive Shares;
 - (ii) the total number of Shares which are the subject of any outstanding offers of Long Term Incentive Shares;
 - (iii) the total number of new Shares issued or allotted after the commencement of this Plan (adjusted if necessary in each case for capital reconstruction), but excluding existing Shares transferred to a Participant under the Plan that were acquired on-market or off-market for that purpose;

- (iv) the total number of Shares and options issued under any Phylogica share-based employee incentive plan within the previous five years of the offer; and
- (v) excluding the total number of Shares granted pursuant to this Plan that have subsequently been forfeited.

An offer of Long Term Incentive Shares must not be made if the total securities in (i) to (v) above would exceed 5% of the number of Shares on issue at the time of the offer and has been or will be made to persons who would require a prospectus pursuant to the Corporations Act.

- (g) **Restriction on transfer:** Participants may not sell or otherwise deal with a Plan Share until the Loan amount in respect of that Plan Share has been repaid and until the expiry of the qualifying period in respect of the Plan Shares, if any, unless permitted under the Plan (in limited circumstances) or otherwise approved by the Board;
- (h) **Quotation on ASX:** The Board may determine that the Long Term Incentive Shares offered under the Plan may be listed for quotation on the ASX.
- (i) **Rights attaching to Plan Shares:** Long Term Incentive Shares will rank equally in all respects (other than with respect to any restrictions on transfer specified above or otherwise imposed by the Board) with other Shares on issue.

**PROXY FORM
 APPOINTMENT OF PROXY
 PHYLOGICA LIMITED
 ACN 098 391 961**

ANNUAL GENERAL MEETING

I/We

of

being a member of Phylogica Limited 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, as the proxy sees fit, at the Annual General Meeting to be held at 9:30am (WST), on 24 November 2011 at Seminar Room, Telethon Institute for Child Health Research, 100 Roberts Road, Subiaco WA 6008, and at any adjournment thereof.

A Appointing Chair with no directions

If no directions are given, the Chair will vote in favour of all the Resolutions.

If the Chair of the Annual General Meeting is appointed as your proxy, or may be appointed by default, and you do **not** wish to direct your proxy how to vote as your proxy in respect of **Resolutions 4 to 6** please place a mark in this box.

By marking this box, you acknowledge that the Chair of the Annual General Meeting may exercise your proxy even if he has an interest in the outcome of Resolutions 4 to 6 and that votes cast by the Chair of the Annual General Meeting for Resolutions 4 to 6 other than as proxy holder will be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chair will not cast your votes on Resolutions 4 to 6 and your votes will not be counted in calculating the required majority if a poll is called on Resolutions 4 to 6.

Important for Resolution 1: If the Chair of the Meeting or any member of the Key Management Personnel of the Company or a Closely Related Party of a member of the Key Management Personal of the Company is your proxy and you have not directed the proxy to vote on Resolution 1, the proxy will be prevented from casting your votes on Resolution 1. If the Chair, another member of the Key Management Personnel of the Company or Closely Related Party of a member of the Key Management Personnel is your proxy, in order for your votes to be counted on Resolution 1, you must direct your proxy how to vote on Resolution 1.

OR

B Directing your Proxy How To Vote

	FOR	AGAINST	ABSTAIN
Resolution 1 – Adoption of remuneration report	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2 – Re-election of Director – Bruce McHarrie	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3 – Re-election of Director – Dr Doug Wilson	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4 – Approval of Phylogica Long Term Incentive Share Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5 – Approval of issue of loan funded Long Term Incentive Shares – Paul Watt	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6 – Approval of issue of loan funded Long Term Incentive Shares – Nick Woolf	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

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/Company 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 vote at the Annual General Meeting is entitled to appoint not more than two proxies to attend and vote on a poll on their behalf. The appointment of a second proxy must be done on a separate copy of the Proxy Form. Where more than one proxy is appointed, such proxy must be allocated a proportion of the member's voting rights. If a member appoints two proxies and the appointment does not specify this proportion, each proxy may exercise half the votes. 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:
 - (j) post to Phylogica Limited, PO Box 8207, Subiaco East, WA 6008; or
 - (k) facsimile to the Company on facsimile number (+61 8) 9284 3801; or
 - (l) email to the Company at natashaforde@bigpond.com,

so that it is received not later than 9:30am (WST) on 22 November 2011.

Proxy forms received later than this time will be invalid.