



26 August 2010

Dear Option Holder

**Renounceable Rights Issue**

On 26 August 2010, Phylogica Limited (**Company**) announced a pro-rata renounceable rights issue of one (1) New Share and one (1) New Option exercisable at 15 cents on or before 31 August 2011 for every five (5) shares held by Shareholders registered at on 5.00pm (WST) on Wednesday 8 September 2010 (**Record Date**) at an issue price of 5 cents per New Share to raise approximately \$2.4 million (**Rights Issue**).

The Company proposes to lodge a prospectus (**Prospectus**) with ASX Limited (**ASX**) and the Australian Securities & Investments Commission (**ASIC**) for the Rights Issue on Monday 30 August 2010.

Fractional entitlements will be rounded up to the nearest whole Share. Shareholder approval is not required in relation to the Rights Issue.

A full copy of the Prospectus will be mailed to all shareholders who hold shares on the Record Date (**Shareholder**). However, the Prospectus will not constitute an offer to any Shareholder, as at the Record Date, whose registered address is not situated in Australia or New Zealand. The Prospectus is sent to those Shareholders for information only.

This Prospectus will be available in electronic form on the ASX website at [asx.com.au](http://asx.com.au) or the Company's website [phylogica.com](http://phylogica.com).

It is intended that the proceeds, less the expenses of the issue, will principally be used to scale-up Phylogica's drug discovery and screening capabilities in order to meet the needs of the anticipated fee-for-service activities in parallel with the existing contracts. Phylogica aims to strengthen its business development efforts to extend the Company's international profile further with the global pharmaceutical industry to realise the full potential of their technology platform.

Under the terms of the existing options you currently hold, there is no entitlement to participate in the Rights Issue unless you exercise your options and are entered onto the register as a shareholder on or before the Record Date. Under the terms of the options you are entitled to notice of the Rights Issue. The purpose of this letter is to give you the notice in order to allow you to participate in the Rights Issue should you wish to do so.

If you are not a shareholder and wish to participate in the Rights Issue, it will be necessary for you to exercise all or part of your options, and the shares issued on the exercise of those options must have been allotted to you before the Record Date. If you wish to do so, you should complete a Notice of

Exercise of Options and lodge that notice with the Security Transfer Registrars, together with your payment for the number of shares you wish to take up. Notice of exercise of your options and payment of the exercise price of options should be received by Security Transfer Registrars on or before 8 September 2010 as holders lodging notices of exercise after that date cannot be assured of the allotment of shares by the Record Date.

If you do not wish to participate in the Rights Issue in respect of your options, you do not need to take any action. Before deciding whether to exercise any or all of your options, you should read the Prospectus in its entirety and if any doubt consult your professional advisor. This letter is only intended to inform you of your rights in relation to your options. This letter is not an offer or an invitation to acquire shares in Phylogica or to participate in the Rights Issue.

Under the Offer, between 47,150,352 and 55,061,586 New Shares and New Options (depending upon whether the holders of existing options exercise those options, and holders of convertible notes convert their notes, before the Record Date) will be issued.

The timetable for the Rights Issue is as follows:

<b>Event</b>	<b>Date</b>
Notice of Issue sent to Eligible Shareholder	1 September 2010
Shares trade "ex-rights" and Rights trading commences ASX	2 September 2010
Record Date to determine Entitlements under Rights Issue	8 September 2010
Prospectus and Application Form despatched	10 September 2010
Last day of Rights trading	17 September 2010
Closing Dates for acceptances	24 September 2010
Allotment and issue of New Shares and New Options	1 October 2010
Despatch of shareholding statements for New Shares and New Options	1 October 2010
Trading of New Shares and New Options expected to commence	5 October 2010

**Note:** These dates are determined based upon the current expectations of the Directors and, subject to the Listing Rules, may be changed without notice. The Directors may extend the Closing Date by giving at least 6 Business Days notice to ASX prior to the Closing Date. As such, the date the Shares are expected to commence trading on ASX may vary.

For and on behalf of  
PHYLOGICA LIMITED

Gregory MacMillan  
Company Secretary