



31 August 2010

Dear Share 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**).

On 30 August 2010 the Company lodged a prospectus (**Prospectus**) with ASX Limited (**ASX**) and the Australian Securities & Investments Commission (**ASIC**) for the Rights Issue.

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 or the Company's website 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.

Holders of existing options and existing convertible notes already on issue will be entitled to exercise their options or convertible notes prior to the Record Date in order to participate in the Rights Issue.

Under the Offer, between 47,150,353 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:

Event	Date
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