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PHYLOGICA

BEYOND ANTIBODIES

PROSPECTUS

This Prospectus is a replacement prospectus dated 8 September 2010 and was lodged with ASIC on that date. It replaces the Prospectus lodged with ASIC on 30 August 2010.

For an Offer of one (1) New Share and one (1) New Option for every five (5) Shares held at a price of 5 cents per New Share by way of a Renounceable Rights Issue to raise approximately $2.4 million before costs.

UNDERWRITER AND LEAD MANAGER

PATERSONS SECURITIES LIMITED ACN 008 896 311

PHYLOGICA LIMITED

ABN 48 098 391 961

Important Notice

This document is important and should be read in its entirety. If after reading this Prospectus you have any questions about Shares being offered under this Prospectus or any other matter, then you should consult your stockbroker, accountant or other professional adviser.

The Shares offered by this Prospectus should be considered as speculative.

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IMPORTANT NOTICE

This Prospectus is a replacement prospectus dated 8 September 2010. A copy of this Prospectus has been lodged with ASIC on that date. It replaces the Prospectus lodged with ASIC on 30 August 2010 (**Original Prospectus**). References to the Prospectus are to this replacement prospectus. ASIC takes no responsibility for the contents of this Prospectus.

No Shares will be issued or allotted on the basis of this Prospectus later than 13 months after the date of lodgement of the Original Prospectus, being 30 August 2010.

Phylogica (ASX Code: PYC) has applied to ASX for quotation of the New Shares and New Options. ASX takes no responsibility for the contents of this Prospectus. The fact that ASX may quote the New Shares and New Options is not to be taken in any way as an indication of the merits of Phylogica.

Before deciding to invest in Phylogica, you should read and understand the entire Prospectus and, in particular, in considering Phylogica's prospects, you should consider the risk factors that could affect Phylogica's performance. You should carefully consider these factors in light of your personal circumstances (including financial and taxation issues) and seek advice from your professional adviser before deciding to invest. Investing in Phylogica involves risks. See 'Risk Factors' in Section 5 for a discussion of certain risk factors that you should consider before deciding to invest in Phylogica.

No person is authorised to give any information or to make any representation in connection with the Offer that is not contained in this Prospectus or has not been released to ASX with the authorisation of Phylogica.

The Application Form accompanying this Prospectus is important. Please refer to the instructions in Section 4 of this Prospectus regarding the acceptance of your Entitlement. Applications can only be submitted on a valid Application Form that is only available with this Prospectus.

Restrictions on distribution

This Prospectus does not constitute an offer or invitation in any place in which, or to any person to whom, it would not be lawful to make such an offer or invitation. No action has been taken to lodge this Prospectus in any jurisdiction outside of Australia or to otherwise permit a public offering of Rights or New Shares or New Options in any jurisdiction outside Australia. This Prospectus is not to be distributed in, and no offer of Shares is to be made in, countries other than Australia and New Zealand.

Neither the Rights, New Shares nor the New Options have been or will be registered under the US Securities Act of 1933 and may only be offered, sold or resold in, or to persons in, the United States in accordance with an available exemption from registration.

It is the responsibility of any Applicant to ensure compliance with any laws of a country relevant to their Application. Return of a duly completed Application Form or application by BPay® will be taken by Phylogica as a representation that there has been no breach of such laws, that the Applicant is an Eligible Shareholder and that the Applicant is physically present in Australia or New Zealand.

Shareholders outside Australia and New Zealand should refer to Section 1.10 of this Prospectus for details of how your Entitlement will be dealt with.

Rights trading

Your Rights may have value. If you decide not to exercise all or part of your Rights you should consider whether to sell your Rights. It is important that you either accept or sell your Entitlement in accordance with the instructions in Section 4 of this Prospectus and on the back of the Application Form.

Individual Applicants are responsible for determining their allocations of Rights and New Shares and New Options before trading in them. Eligible Shareholders trade in Rights or New Shares or New Options before receiving confirmation of their allocation at their own risk.

Shareholders who take no action in respect of their Rights will receive no benefits. An Application Form is enclosed with this Prospectus.

Prospectus availability

This Prospectus is available in electronic form at www.phylogica.com and www.asx.com.au only for persons within Australia. Persons who access the electronic form of this Prospectus must ensure that they download and read the entire Prospectus.

A printed copy of this Prospectus is available free of charge by calling Phylogica on (08) 9382 8888.

Definitions and glossary, financial amounts and time

Definitions of certain terms used in this Prospectus are contained in Section 7. All references to currency are to Australian dollars and all references to time are to Perth time, unless otherwise indicated.

Enquiries

For further information in relation to the Offer, please call Phylogica (08) 9382 8888.

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CORPORATE DIRECTORY

DIRECTORS	Dr Doug Wilson Dr Paul Watt Mr Nick Woolf Mr Harry Karelis Mr Bruce McHarrie
SECRETARY	Mr Greg Macmillan
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REGISTERED OFFICE	C/o Australian Heritage Group Level 22, 77 St Georges Terrace PERTH WA 6000 Telephone: (08) 9382 8888 Facsimile: (08) 9382 1766 www.phylogica.com
SOLICITORS	WRIGHT & COONEY 1/103 Colin Street West Perth WA 6005
UNDERWRITER	PATERSONS SECURITIES LIMITED Level 23, Exchange Plaza 2 The Esplanade Street PERTH WA 6000
SHARE REGISTRY	SECURITY TRANSFER REGISTRARS PTY LTD 770 Canning Highway APPLECROSS WA 6153 Telephone: (08) 9315 2333 Facsimile: (08) 9315 2233

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IMPORTANT DATES

Notice of Issue sent to Eligible Shareholders	1 September 2010
Shares trade "ex-rights" and Rights trading commences on ASX	2 September 2010
Record Date to determine Entitlements under the Rights Issue	8 September 2010
Prospectus and Application Form despatched	10 September 2010
Last day of Rights trading	17 September 2010
Closing Date 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

This timetable is indicative only and subject to change. The Directors generally reserve the right to vary these dates, including the Closing Date without prior notice. The Directors also reserve the right not to proceed with the whole or part of the Offer any time prior to allotment. In that event, the relevant Application Money will be returned without interest.

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INVESTMENT HIGHLIGHTS

- **Phylogica Limited is a drug discovery company with a platform technology that exploits the immense biodiversity found in nature to source unique therapeutic candidates.**

- **Proprietary intellectual property protecting the right to exploit a large and exceptionally structurally diverse library of natural peptides derived from the genomes of biodiverse species of bacteria.**

- **Commercial strategy aims to build a sustainable business within the next 2-3 years and to realise the full potential of the technology through alliances and a diversified portfolio of partnered drug candidates. There are two core elements to the strategy:**

  - **Drive near-term revenue growth through contract drug discovery by focusing on high-value, revenue-generating partnerships. This minimises funding risk for in-house programmes.**

  - **Create long-term value by retaining downstream rights to drugs developed and marketed by partners. This diversifies development risk across a broader portfolio of product candidates.**

- **Ongoing discussions with other large pharmaceutical and biotechnology groups regarding new drug discovery partnerships.**

- **Progressing four internal drug discovery programmes candidates to add value prior to partnering. They are addressing targets associated with diseases that have unmet medical needs:**

  - **Intracellular targets to get products inside cells to treat a variety of different diseases,**

  - **Anti-inflammatory target to treat diseases such as rheumatoid arthritis, lupus erythematosis and inflammatory bowel disease,**

  - **Antimicrobial targets to identify a novel class of antibiotics, and**

  - **Anti-cancer targets in collaboration with the Hutchison/MRC Research Centre in Cambridge, UK.**

- **Validation of commercial interest in the technology from two of the world's largest pharmaceutical companies, Roche and AstraZeneca (via its biologics unit, MedImmune) via discovery partnerships comprising up-front payments as well as milestone and royalty components.**

  - **Collaboration with Roche to identify novel transporters of biologic drugs into cells. Phylogica has presented results of the first phase of this project and is finalising the written report.**

  - **Collaboration with MedImmune to identify new antibiotics against some of the most dangerous hospital-acquired infections. A non-refundable upfront fee of US$750,000 is due to be paid by MedImmune on or before 11 September 2010, and it is anticipated that further payments totalling US$750,000 will be made by 31 January 2011 (of which the first tranche**

of US$375,000 is due now and the second tranche of US$375,000 is due by 31 January 2011).

In addition, under the terms of the collaboration, there are further significant payments which may be received by the Company subject to certain pre-clinical, clinical, regulatory and sales milestones being achieved. However, there is no certainty that these milestones will be achieved by the Company, or that the existing collaboration with MedImmune will not be terminated prior to those milestones being achieved, in which case the Company will not be entitled to receive the further significant milestone payments.

MAJOR INVESTMENT RISKS

The Directors have considered and identified in Section 5 of the Prospectus the critical areas of risk associated with investing in the Offer. The major investment risks to be considered by potential investors include, among others:

- **Technology risks:**

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

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

- **Discovery alliance risk:**

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

- **Competition risk:**

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

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- **Key personnel risk:**

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

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MESSAGE FROM THE EXECUTIVE CHAIRMAN

Dear Shareholder,

On behalf of the Directors of Phylogica Limited ("Phylogica" or the "Company"), I am pleased to present Eligible Shareholders with an opportunity to participate fully in a potentially transformational period for Phylogica as we implement our strategy to achieve cash sustainability by focusing on revenue-generating drug discovery alliances.

Since adopting this revised model in 2009, we have secured two commercial contracts with major international drug companies, Roche and AstraZeneca's biologics unit MedImmune.

We signed our agreement with Roche in December 2009 and have already delivered results to Roche in the form an oral presentation, for the initial phase of the agreement. This deal is not only a further endorsement of the Company's proprietary library of protein fragments (Phylomers), but also provides validation of our business model.

Our second recent agreement with a pharmaceutical company was signed earlier in August 2010 with MedImmune, the biologics unit of AstraZeneca. MedImmune sought access to our Phylomer library to identify new generations of antibiotics against some of the most drug-resistant infections, particularly those acquired in hospital.

Our commercial strategy is to achieve revenue growth by focusing on building near-term fee-for-service revenue through these partnerships. The objective is to build a sustainable business within the next 2-3 years.

Furthermore, our strategy seeks to create long-term value for the Company by retaining an interest in any Phylomer-based product that advances into development and is successfully commercialised. This model allows us to benefit from a broad and diversified pipeline while minimising our exposure to development setbacks of any individual partnered product.

We are progressing discussions with several major pharmaceutical and biotechnology companies. We aim to finalise additional contracts and to achieve our goal of revenue growth.

The Company is undertaking a renounceable Rights Issue, and intends to issue one (1) New Share for every five (5) Shares held at $0.05 per Share to raise approximately $2.4 million. One free attaching New Option (exercisable at 15 cents and expiring on 31 August 2011) will be issued with every one New Share issued.

The purpose of the Rights Issue is to ensure adequate funds are available to scale-up our drug discovery and screening capabilities in order to meet the needs of our expanding fee-for-service activities, given the growth of interest in access to Phylomer libraries. In addition, we intend to strengthen our business development efforts to extend our international profile further with the global pharmaceutical industry to realise the full potential of our technology platform.

The Rights Issue, which is underwritten by Lead Manager Patersons Securities Limited, will close on 24 September 2010.

If you are an Eligible Shareholder, you may either:

- take up all of your Rights;
- apply for Additional New Shares and New Options (above your Entitlement);

- sell all of your Rights on ASX;
- take up some of your Rights and sell some of your Rights on ASX;
- transfer all or some of your Rights other than on ASX; or
- do nothing, in which case your Rights will lapse and you will not receive any benefits.

I encourage you to read this Prospectus in full and welcome you to participate in the Rights Issue which will enable you to share fully in your Company's exciting drug discovery potential.

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Section 1 DETAILS OF RIGHTS ISSUE

1.1 The Issue

This Prospectus offers via a renounceable pro rata entitlements issue to Shareholders on the basis of one (1) New Share and one (1) New Option for every five (5) Shares held as at the Record Date at an issue price of 5 cents per New Share. The New Options will have an exercise price of 15 cents and will expire on 31 August 2011.

The Company currently has 235,751,764 Shares on issue (**Existing Shares**) and has granted 15,256,164 Options, of which 12,756,164 Options are currently eligible for conversion (**Eligible Options**) and 2,500,000 Options are subject to share price hurdles which have not yet been achieved. The company has $1,340,000 Convertible Notes on issue which are eligible for conversion.

To be entitled to participate in the Rights Issue, the Eligible Option holders and Convertible Note holders must first exercise their Options or convert their Convertible Notes in accordance with the terms of those Options and Convertible Notes and must do so prior to the Record Date. In the event that all Eligible Option holders exercise their Options and all Convertible Note holders convert their Convertible Notes, the Company will have on issue 275,307,928 Shares. If the Rights Issue is then fully subscribed, this will result in the issue of 55,061,586 New Shares and 55,061,586 New Options (in each case disregarding any rounding up of fractional entitlements) and the amount raised will be $2,753,079.

In the event that no Eligible Option holders exercise their Options or no Convertible Note holders convert their Convertible Notes prior to the Record Date, Shareholders holding the Existing Shares will be entitled to participate in the Rights Issue pursuant to this Prospectus, which if fully subscribed will result in the issue of 47,150,353 New Shares and 47,150,353 New Options (in each case disregarding any rounding up of fractional entitlements) and the amount raised will be $2,357,518.

1.2 Underwriting

The Issue is fully underwritten by Patersons Securities Limited. A summary of the Underwriting Agreement is set out in Section 6.9 of the Prospectus.

1.3 Entitlement to Rights Issue

Shareholders who are on Phylogica's Share Register at the close of business on the Record Date, being 5.00 pm on 8 September 2010 will receive Rights to acquire one (1) New Share and one (1) New Option for every five (5) Shares held, at an issue price of 5 cents per New Share.

Fractional entitlements will be rounded up to the nearest whole number of New Shares and New Options. For this purpose, holdings in the same name are aggregated for calculation of Entitlements. If Phylogica considers that holdings have been split to take advantage of rounding, Phylogica reserves the right to aggregate holdings held by associated Shareholders for the purpose of calculating Entitlements.

An Application Form setting out your Entitlement to New Shares and New Options accompanies this Prospectus.

1.4 Applying for Additional New Shares and New Options

Eligible Shareholders may, in addition to their Entitlement, apply for Additional New Shares and New Options regardless of the size of their present holding.

If more Additional New Shares and New Options are applied for than are available from the number of Shares not taken up under the Rights Issue, those applications will be scaled back in a manner determined by the Company and the Underwriter in their absolute discretion. Excess Application Money will be refunded without interest.

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Entitlements not taken up may become available as Additional New Shares and New Options. It is possible, particularly if there is an active Rights trading market, that there will be few or no Additional New Shares and New Options available for issue. It is an express term of the Offer that applicants for Additional New Shares and New Options will be bound to accept a lesser number of Additional New Shares and New Options allocated to them than applied for. If a lesser number is allocated to them, excess Application Money will be refunded without interest.

1.5 Use of proceeds

Phylogica expects to raise approximately $2.4 million under the Rights Issue before Offer costs and will use the proceeds as set out in Section 2.

1.6 Actions Required by Shareholders

An explanation of the actions required by Shareholders is set out in Section 4.

1.7 Allotment and Application Money

All Eligible Shareholders who accept the Offer will receive their Entitlement in full.

New Shares and New Options will be issued only after all Application Money has been received and ASX has granted permission for the New Shares and New Options to be quoted. It is expected that New Shares and New Options will be issued on 1 October 2010 and trading of the New Shares and New Options on the ASX is expected to commence on 5 October 2010.

All Application Money received before New Shares and New Options are issued will be held in a special purpose account. After Application Money is refunded (if required) and New Shares and New Options are issued to Applicants, the balance of funds in the account plus accrued interest will be received by the Company. If the New Shares and New Options are not quoted by ASX within three months after the date of this Prospectus, Phylogica will refund all Application Money in full.

1.8 Closing Date

The Closing Date for acceptance of your Entitlement is 5.00 pm on 24 September 2010. The Company reserves the right to cancel the Rights Issue at any time prior to allotment.

1.9 Rights trading

Trading of Rights commences on ASX on 2 September 2010 with the last day of trading being on 17 September 2010. All or part of an Eligible Shareholder's Rights may be traded on ASX or otherwise sold between these dates should you choose not to accept all or part of your Entitlement.

1.10 Treatment of Overseas Shareholders

The Offer in this Prospectus is not being extended to any Shareholder, as at the Record Date, whose registered address is not situated in Australia or New Zealand because of the small number of such Shareholders, and the cost of complying with applicable regulations in jurisdictions outside Australia and New Zealand. The Prospectus is sent to those Shareholders for information only.

The Offer contained in this Prospectus to Eligible Shareholders with registered addresses in New Zealand is made in reliance on the Securities Act (Overseas Companies) Exemption Notice 2002 (New Zealand). Members of the public in New Zealand who are not existing Shareholders on the Record Date are not entitled to apply for any New Shares or New Options.

Recipients may not send or otherwise distribute this Prospectus or the Application Form to any person outside Australia (other than to Eligible Shareholders).

The Company has appointed the Underwriter as nominee to sell the Non-qualifying Foreign Shareholders' Rights, subject to ASIC's approval. The Underwriter will only sell

the rights if there is a viable market in the rights and a premium over the expenses of sale can be obtained.

Any such sale will be at a price and be conducted in a manner that the nominee will determine in its absolute discretion.

The proceeds of sale (in Australian dollars) will be distributed to the Non-qualifying Foreign Shareholders for whose benefits the Rights have been sold in proportion to their shareholdings as at the Record Date (after deducting the costs of the sale and the distribution of the proceeds), save that individual amounts of less than $10 will be retained by Phylogica. Neither the Company nor the nominee will be liable for any failure to sell the Rights or to sell the Rights at any particular price. If there is no viable market for the Rights of the Non-qualifying Foreign Shareholders, their Entitlement will be allowed to lapse and the relevant New Shares and New Options will revert to the Underwriter.

1.11 Rights attaching to New Shares

From issue, the New Shares issued under this Prospectus will rank equally in all respects with existing Shares. Summaries of the important rights attaching to Shares as set out in the Company's Constitution are contained in Section 6.4 of this Prospectus.

1.12 Rights attaching to New Options

From issue, the New Options issued under this Prospectus will have an exercise price of 15 cents and will expire on 31 August 2011. Summaries of the important terms attaching to the New Options are contained in Section 6.5 of this Prospectus.

1.13 No prospective financial forecasts

The Company is a drug discovery company. Given the uncertain nature of drug discovery, there are significant uncertainties associated with forecasting future revenue. On this basis, the Directors believe that reliable forecasts cannot be prepared and accordingly have not included forecasts in this Prospectus.

1.14 Summary only

The information set out in this Section provides a summary of the information contained in this Prospectus. Applicants should read this Prospectus in its entirety prior to making a decision to accept the Offer. If you have any questions about investing in the Company, please contact your stockbroker, accountant or independent financial adviser.

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Section 2 PURPOSE AND EFFECT OF THE RIGHTS ISSUE

2.1 Purpose of the Rights Issue

The net funds raised from the issue of New Shares and New Options through the Offer after payment of all associated costs, are expected to provide the Company with approximately $2.4 million in additional capital (assuming no Eligible Option holders exercise their Options or Convertible Note holders convert their Convertible Notes prior to the Record Date).

The funds raised in conjunction with existing cash reserves will 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 assist in realising the full potential of its technology platform. In addition, the Company plans to invest in its in-house discovery activities to generate sufficient data for more effective pre-clinical partnering of these programmes. The balance of the funds will boost the Company's underlying working capital and strengthen the balance sheet to ensure that it can negotiate with partners from a position of strength.

Application of Funds

Drug discovery and screening	$1,300,000
Business development (marketing, partnering, technology promotion)	$450,000
Costs of the issue	$202,876
Working capital	$404,642
Total funds raised	$2,357,518

2.2 Effect of the Rights Issue

The principal effects of the Rights Issue will be to:

- increase the Company's cash reserves by approximately $2.2 million after taking into account the costs of the Rights Issue;
- provide the Company with additional capital for the purposes referred to in section 2.1; and
- increase the total number of issued Shares (refer section 2.3).

Pro-forma historical financial information is provided in the following paragraphs summarising the effect of the Rights Issue, on the assumption that no Eligible Option holders exercise their Options and no Convertible Note holders convert their Convertible Notes prior to the Record Date.

2.3 Effect of the Rights Issue on capital structure

The effect of the Rights Issue on the Company's issued share capital will be as follows (on the basis that no Eligible Option holders exercise their Options and no Convertible Note holders convert the Convertible Notes prior to the Record Date):

Ordinary Shares	Number	% Equity
Existing Shares	235,751,764	83.3%
Issue under Offer	47,150,353	16.7%
Totals	282,902,117	100%

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Other securities (unlisted Options):

Exercisable at $0.25 per Option on or before 31 July 2011	400,000
Exercisable at $0.075 per Option on or before 31 March 2012	12,356,164
Exercisable at $0.10 per Option on or before 31 March 2012	2,500,000

2.4 Effect of the Rights Issue on Phylogica's financial position

Set out below is the un-audited Balance Sheet of the Company as at 30 June 2010 and a pro forma Balance Sheet of the Company after the Rights Issue.

The financial information prepared below is prepared in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

The 30 June 2010 financial statements audit is currently being finalised.

	Note	Auditor Reviewed Half-Year 31 December 2009 $	Unaudited Annual 30 June 2010 $	Proforma adjustments $	Proforma 30 June 2010 $
Current Assets					
Cash and cash equivalents	3	3,073,478	1,281,044	2,154,642	3,435,686
Trade and other receivables	2	507,338	124,417	836,460	960,877
Total Current Assets		**3,580,816**	**1,405,461**		**4,396,563**
Non-Current Assets					
Plant and equipment		66,418	164,579		164,579
Total Non-Current Assets		**66,418**	**164,579**		**164,579**
Total Assets		**3,647,234**	**1,570,040**		**4,561,142**
Current Liabilities					
Trade and other Payables		312,708	603,991		603,991
Employee benefits		68,206	95,303		95,303
Deferred government grants		465,347	44,727		44,727
Total Current Liabilities		**846,261**	**744,021**		**744,021**
Non-Current Liabilities					
Other liabilities	1	1,180,463	1,237,691		1,237,691
Employee benefits		20,530	25,408		25,408
Total Non-Current Liabilities		**1,200,993**	**1,263,099**		**1,263,099**
Total Liabilities		**2,047,254**	**2,007,120**		2,007,120
Net Assets		**1,599,980**	**(437,080)**		**2,554,022**
Equity					
Issued capital		21,973,323	21,973,323	2,154,642	24,127,965
Reserves		862,927	1,037,540		1,037,540
Accumulated losses		(21,236,270)	(23,447,943)	836,460	(22,611,483)
Total Equity		**1,599,980**	**(437,080)**		**2,554,022**

Note 1. – Convertible notes are redeemable in cash only at the election of the Company.

Note 2. – Estimated AUD equivalent of US$750,000 MedImmune licence fee receivable.

Note 3. – Reconciliation of Cash at Bank

Cash at Bank 30 June 2010	1,281,044
Funds to be raised from the Rights Issue	2,357,518
Estimated cost of the Rights Issue	202,876
Proforma Cash on Hand	3,435,686

2.5 Market price of Shares

The highest and lowest market prices of the Shares on ASX during the 3 months immediately preceding the date of lodgement of this Prospectus with ASIC and the respective dates of those sales were:

Highest:	$0.095	18 August 2010
Lowest:	$0.054	1 September 2010

The volume weighted average sale price on ASX of the Company's Shares during the 3 months immediately preceding the date of lodgement of this Prospectus with ASIC was $0.0723.

The latest available market sale price of the Company's Shares on ASX prior to the date of lodgement of this Prospectus with ASIC was $0.057.

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Section 3 COMPANY INFORMATION

3.1 Background

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

3.2 Phylomer libraries

Phylogica has developed unique libraries of peptide compounds, called Phylomers, which are being accessed by international pharmaceutical companies for the purpose of developing novel pharmaceuticals. The diverse natures of these Phylomers, which have been sourced from ancient bacterial genomes, have the potential to provide pharmaceutical drug candidates, by allowing for high affinity target interactions.

Phylomer drug prototypes are a special kind of peptide and peptides are like parts of proteins. Peptide drugs belong to the very fast growing class of drugs called Biologics which is the fastest growing class of drugs overall and these drugs, have been estimated to constitute half of all newly approved drugs by 2015. Phylogica has a strong intellectual property portfolio around its proprietary Phylomer peptide technology with sixteen patent families comprising multiple granted / allowed patents covering international markets, including Europe, the United States, and Australia. Phylomer peptides, being fragments of naturally occurring proteins sourced from ancient bacteria, have a different origin than antibodies and hence are not bound by traditional antibody patents.

Phylogica's patent families cover methods of making the Phylomer peptide libraries, methods of screening them and composition-of-matter claims for the Phylomer libraries themselves and for individual Phylomer peptides discovered for therapeutic and diagnostic applications.

3.3 Commercial strategy

Phylogica refocused its strategy in 2009 to achieve revenue growth through discovery alliances by focusing on high-value, revenue-generating fee-for-service partnerships, to build a sustainable business within the next 2-3 years. Through these alliances, the Company aims to create long-term value by retaining downstream rights to Phylomer product candidates through deal terms that include entitlement to development milestones and royalties on sales of Phylomer-derived drugs. This is expected to create a more diversified portfolio of drug candidates and minimise exposure to development setbacks of any individual product.

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

3.4 Information on Directors

Dr Doug Wilson
Executive Chairman (appointed 10 December 2007).

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

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

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

Dr Paul Watt
Executive Director, Chief Executive Officer (appointed 9 August 2002).

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

As an Honorary Research fellow at the Telethon Institute for Child Health Research, Dr Watt was appointed Adjunct Professor at the School of Paediatrics and Child Health of the University for Western Australia. Dr Watt has published more than 40 peer reviewed scientific papers (including several which have been cited hundreds of times).

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

Mr Harry Karelis
Non executive Director (appointed on 25 January 2005).

Mr Karelis is the founder and Managing Director of Titan BioVentures Management Pty Ltd. Titan is the investment manager of BioTech Capital Ltd. Harry has led investments in drug discovery, regenerative medicine, medical devices and several other technology platform areas.

Mr Karelis graduated from The University of Western Australia with Bachelors and Honours in Science majoring in Biochemistry and Microbiology as well as a Masters in Business Administration. He is a Fellow of the Financial Services Institute of Australia, a Fellow of the Australian Institute of Company Directors and has qualified as a Chartered Financial Analyst (CFA) from the CFA Institute in the United States.

Prior to establishing BioTech Capital, Mr Karelis worked in the financial services industry with roles in financial analysis and funds management both in Australia and overseas.

Mr Karelis has been a director of Biotech Capital Ltd since 18 May 2000 and of Neurodiscovery Ltd since 09 June 2009. He was previously a Director of Stem Cell Sciences plc for the period since 23 July 2003 to 22 October 2009 and of Clinical Cell Culture Ltd for the period 13 August 2003 to 22 October 2004.

Mr Bruce McHarrie
Non executive Director (appointed on 9 August 2002).

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

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

Prior to joining Rothschild Asset Management, Mr McHarrie was with Coopers and Lybrand in London servicing a client base primarily in the financial services industry. He

holds a Bachelor of Commerce Degree from the University of Western Australia and qualified as a Chartered Accountant with Deloitte.

Mr Nick Woolf
Non executive Director (appointed on 22 April 2010).

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

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

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Section 4 ACTION REQUIRED BY SHAREHOLDERS

4.1 What Eligible Shareholders may do

The number of New Shares and New Options to which Eligible Shareholders are entitled (your Entitlement) is shown on the accompanying Application Form.

If you do not take up your Entitlement, then your percentage holding in the Company will be diluted.

As an Eligible Shareholder, you may:

- take up all of your Entitlement;
- apply for Additional New Shares and New Options (refer Sections 4.3 and 1.4);
- sell all of your Entitlement on ASX (refer Section 4.4);
- take up part of your Entitlement and sell the balance on the ASX (refer Section 4.5);
- take up part of your Entitlement and allow the balance to lapse (refer Section 4.6);
- deal with part or all of your Entitlement other than on the ASX (refer Section 4.7); or
- allow all or part of your Entitlement to lapse (refer section 4.8).

Non-qualifying Foreign Shareholders may not take any of the steps set out in Sections 4.2 to 4.7.

4.2 Taking up all of your Entitlement

If you wish to take up all of your Entitlement, complete the accompanying Application Form for New Shares and New Options in accordance with the instructions set out in that form and arrange for payment of the Application Money in accordance with Section 4.9. If you elect to pay by BPay®, you do not need to return the Application Form but you are taken to make the statements on that form.

4.3 Applications for Additional New Shares and New Options

Eligible Shareholders may, in addition to their Entitlement, apply for Additional New Shares and New Options as described in Section 1.4.

Payment of your Application Money in accordance with Section 4.9 should include your payment in respect of the number of Additional New Shares you wish to apply for, as stated on the Application Form.

4.4 Selling all your Entitlement on the ASX

If you wish to sell all of your Entitlement on the ASX, complete the appropriate section on the back of the accompanying Application Form marked "Instructions to Your Stockbroker" and lodge the Application Form with your stockbroker as soon as possible, or otherwise provide instructions to your stockbroker regarding the number of Rights you wish to sell on the ASX. You can sell your Rights on the ASX from 2 September 2010 until 17 September 2010. The Company accepts no responsibility for any failure by your stockbroker to carry out your instructions.

4.5 Taking up part of your Entitlement and selling the balance on the ASX

If you wish to take up only part of your Entitlement, complete the accompanying Application Form for the number of New Shares and New Options you wish to take up and follow the steps required in accordance with Section 4.2. You may then provide instructions to your stockbroker regarding the number of Rights you wish to sell on the ASX.

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4.6 Taking up part of your Entitlement and allowing the balance to lapse

If you wish to take up part of your Entitlement and allow the balance to lapse, complete the accompanying Application Form for the number of New Shares and New Options you wish to take up and arrange for payment in accordance with Section 4.9. If you take no further action, the balance of your Entitlement will lapse and you will have forfeited any potential benefit to be gained from selling/trading your Rights.

4.7 Dealing with part or all of your Entitlement other than on the ASX

You may transfer all or part of your Rights to another person other than on the ASX provided that the purchaser is not a Non-qualifying Foreign Shareholder or would not be a Non-qualifying Foreign Shareholder if the purchaser was the registered holder of Shares.

If you wish to transfer all of your Entitlement to another person other than on the ASX, forward a completed standard renunciation form (obtainable from the Company's Share Registry) together with your Application Form completed by the transferor and the transferee and the applicable transferee's cheque, money order or bank draft for any Application Money for the New Shares and New Options they wish to subscribe for to the Company's Share Registry by 5:00pm on 24 September 2010.

If you wish to transfer part of your Entitlement to another person other than on the ASX only, but also want to take up some or all of the balance of your Entitlement, you will need to take the steps described above in relation to the Rights you wish to transfer and complete the accompanying Application Form together with your payment in respect of the Rights you wish to take up. You will need to lodge the form in accordance with the procedure in Section 4.9.

If the Share Registry receives both a completed renunciation form and a completed Application Form in respect of the same Rights, the renunciation will be given effect in priority to the Application Form.

4.8 Allow all or part of your Entitlement to lapse

If you are a Shareholder and do not wish to accept all or part of your Entitlement, you are not obliged to do anything. However, your Rights may have value and you should consider renouncing (selling) your Rights rather than allowing them to lapse. Entitlements not accepted will form part of the Shortfall Securities which will be dealt with by the Underwriter in accordance with the Underwriting Agreement, and you will receive no benefit.

It is therefore important that, if you wish to receive a benefit, you take action either to accept or sell your Entitlement in accordance with the instructions above and on the back of the accompanying Application Form.

The number of Existing Shares you hold as at the Record Date and the rights attached to those Existing Shares will not be affected if you choose not to accept any of your Entitlement or choose not to renounce (sell) any of your Rights.

4.9 Payment

The Application Price for New Shares and New Options is payable in full on application by a payment of 5 cents per New Share. You may pay the Application Money by BPay®, cheque, money order or bank draft.

4.9.1 Payment by BPay®:

Those who elect to pay by BPay® must follow the instructions for BPay® described in the Application Form (which includes the biller code and your unique customer reference number). Please note that should you choose to pay by BPay® payment:

(a) you do **not** need to submit the personalised Application Form but you are taken to make the statements on that form; and

(b) if you do not pay for your full Entitlement, you are deemed to have taken up your Entitlement in respect of such whole number of New Shares which is covered in full by your Application Money.

Applicants should be aware that their own financial institution may implement earlier cut off times with respect to electronic payment, and should therefore take this into consideration when making payment. It is the responsibility of the Applicant to ensure that funds submitted through BPay® must be received by no later than 5.00pm on 24 September 2010.

4.9.2 Payment by cheque, money order or bank draft

Those who elect to pay by cheque, money order or bank draft must follow the instructions described in the Application Form. You must ensure that:

(a) your Application Form is complete;

(b) your cheque, money order or bank draft for the applicable amount of Application Money must be made in Australian currency, drawn on an Australian branch of a financial institution, be made payable to "**Phylogica Limited – Subscription Account**" and crossed "**Not Negotiable**";

(c) your completed Application Form and cheque, money order or bank draft are received by the Company's Share Registry by no later than 5.00pm on 24 September 2010 at:

Security Transfer Registrars Pty Ltd
770 Canning Highway
Applecross WA 6153

Applicants must not forward cash. Receipts for payment will not be issued.

You should ensure that sufficient funds are held in relevant account(s) to cover the cheque(s). If the amount of your cheque(s) for Application Money is not sufficient to pay for the number of New Shares and New Options you have applied for, you may be taken to have applied for such lower number of New Shares and New Options as your cleared Application Money will pay for or your Application may be rejected.

4.10 Enquiries

If you have any questions about your Entitlement please contact the Company's Share Registry on (08) 9315 2333.

Alternatively, contact your stockbroker or other professional adviser.

4.11 Brokerage

No brokerage or stamp duty is payable by Shareholders who accept their Entitlement to New Shares and New Options.

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Section 5 RISK FACTORS

The New Shares and New Options offered under this Prospectus are considered speculative because of the inherent risks associated with a drug discovery company. In addition, there are risks inherent in investing in the share market in general.

The Directors have considered and identified in this section of the Prospectus the critical areas of risk associated with investing in the New Shares and New Options. The risks identified by the Directors are not exhaustive and potential investors should read this Prospectus in full and seek professional advice if they require further information on material risks in deciding whether to subscribe for New Shares and New Options.

5.1 Specific risks

5.1.1 Technology risks

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

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

5.1.2 Discovery alliance risk

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

5.1.3 Phylomer therapeutic risks

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

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

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

Unforeseen interactions with other pharmaceuticals or substances may be encountered.

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

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

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5.1.4 Research and Development Agreement

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

5.1.5 Research and Development

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

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

5.1.6 Intellectual Property

Phylogica regards its patents, copyrights, trademarks, trade secrets and similar intellectual property as critical to its success. Phylogica relies on patent, trademark and copyright law, trade secret protection and duties of confidence and licence agreements with third parties to protect its intellectual property rights. Applications for patents and trademarks may not be granted in particular jurisdictions. Moreover the grant of a patent does not guarantee that the rights of others are not infringed or that competitors will not develop competing intellectual property. While the Company will use all reasonable endeavours to protect these rights, the steps that the Company takes to protect its intellectual property rights may be inadequate. The unauthorised use or disclosure of its proprietary technology and systems may have adverse effects on the operation and financial performance of Phylogica. The Company may incur substantial costs in obtaining or asserting any patents or intellectual property rights and in defending legal action against itself relating to such rights. It is possible that some patent rights could be revoked following such legal action.

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

5.1.7 Customers

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

5.1.8 Competition

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

5.1.9 Funding

Unless or until the Company is able to expand its fee-for-service activities and thus grow revenue, it will not reach its goal of cash sustainability in 2-3 years. Phylogica's long-

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term value requires its partner's and its in-house drug candidates to be successful in development and to reach the market. Otherwise, it may be dependent upon the funds raised by this Offer, existing collaboration agreements, and its ability to obtain future equity or debt funding to support commercialisation of its technology and in-house research and development. The Company's ability to raise further equity or debt or to divest part of its interest in its technology, and the terms of such transactions, will vary according to a number of factors, including the success of research and development results and the future development of the Company's technology and stock market conditions.

5.1.10 Key Personnel

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

5.1.11 Product liability and uninsured risks

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

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

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

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

5.2 General Risks

5.2.1 General Economic Climate

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

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

5.2.2 Stock Market Conditions

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

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

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

5.2.3 Government Policy Changes

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

5.2.4 Foreign Currency and Exchange Rate Fluctuations

Revenue and expenditure of the Company may be domiciled in currencies other than Australian dollars and as such expose the Company to foreign exchange movements, which may have a positive or negative influence on the Australian dollar equivalent of such revenue and expenditure.

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

5.2.5 International Business Risks

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

5.2.6 Speculative Nature of Investment

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

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

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

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Section 6 ADDITIONAL INFORMATION

6.1 Nature of the Prospectus

This Prospectus is a short form prospectus issued under section 713 of the Corporations Act which allows the issue of a short form prospectus in relation to offers of securities where those securities are of a class which have been quoted for twelve months before the date of that prospectus.

6.2 Further documents

As a disclosing entity, the Company is subject to regular reporting and disclosure obligations. Copies of documents lodged with the ASIC in relation to the Company may be obtained from, or inspected at, an ASIC office. In addition, any person considering this offer is entitled to receive a copy of the most recently lodged annual financial report and any continuous disclosure notices given by the Company after the lodgement of that financial report. The Company will give copies of those documents to any person who requests them free of charge.

6.3 ASX listing

The Company participates in CHESS and will despatch holding statements in lieu of share and option certificates that set out the number of New Shares and New Options issued to each successful Applicant under this Prospectus.

It is the responsibility of Applicants to determine their allocation before trading in the New Shares and New Options. Applicants who sell New Shares and New Options before they receive their statement do so at their own risk.

6.4 Rights attaching to New Shares

The rights attaching to ownership of Shares (including New Shares) are:

- described in the Constitution; and
- regulated by the *Corporations Act*, the Listing Rules and the general law.

The following is a summary of the key provisions in the Constitution and the principal rights of shareholders as set out in the Constitution. This summary is not exhaustive, nor does it constitute a definitive statement of the rights and liabilities of shareholders.

6.4.1 Meetings and notices

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

6.4.2 Voting

At meetings of shareholders, every shareholder present in person or by proxy, attorney or representative has one vote on a vote taken by a show of hands, and, on a poll has one vote for every fully paid Share held by him or her, and a proportionate vote for every partly paid Share. A poll may be demanded by the chairperson of the meeting, by any five shareholders present having the right to vote in person or by proxy, attorney or representative, or by any one or more shareholders present who are together entitled to not less than 5% of the total voting rights of all shareholders having the right to vote.

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

6.4.3 Dividends

Dividends are payable out of the Company's profits and are declared or determined to be payable by the Directors.

6.4.4 Transfer

A shareholder may transfer all or any of its Shares by:

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- a transfer of shares pursuant to or connected with a transaction entered into or on ASX (including a proper SCH transfer as defined in the Corporations Act) in accordance with any computerised or electronic system established or recognised by the Listing Rules or the Corporations Act for the purpose of facilitating dealings in shares, including a transfer that may be effected pursuant to the SCH Business Rules or some other computerised or electronic transfer process;
- using any written transfer instrument in any usual or common form or form approved or adopted by ASX or the Directors; and
- the Directors may decline to register any transfer where permitted to do so by the Listing Rules or SCH Business Rules and must decline to register a transfer of Shares where required by the Listing Rules or SCH Business Rules.

6.4.5 Winding up

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

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

6.4.6 Variation of Rights

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

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

6.5 Rights attaching to New Options

The rights attaching to New Options are regulated by the Constitution, the *Corporations Act*, the Listing Rules and the general law.

The following is a summary of the key terms of the New Options:

(a) The Company will, in accordance with Listing Rule 2.8, make application to have the New Options listed for Official Quotation.

(b) Each New Option will have an exercise price of $0.15 (**Exercise Price**).

(c) Each New Option will automatically lapse if not exercised on or before 31 August 2011 (**Expiry Date**).

(d) Each New Option shall entitle the holder to subscribe for and be allotted one ordinary share in the capital of the Company upon exercise of the New Option and payment to the Company of the Exercise Price.

(e) A New Option may be exercised by the option holder at any time prior to the Expiry Date by sending a completed and signed notice of exercise, together with the payment of the Exercise Price and the certificate for the New Options, to the Company. The New Options may be exercised in whole or in part.

(f) A notice of exercise is only effective when the Company has received the full amount of the Exercise Price in cash or cleared funds.

(g) Subject to any restrictions in the Listing Rules, within 3 Business Days of receipt of a properly executed notice of exercise and the required exercise moneys, the number of ordinary shares specified in the notice will be allotted.

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(h) Ordinary shares allotted pursuant to the exercise of the New Options will rank equally with the then issued ordinary shares of the Company.

(i) The Company undertakes to apply for official quotation by the ASX of all ordinary shares allotted pursuant to the exercise of any Options, within 10 Business Days of the date of allotment of those new ordinary shares, provided that the Company is only required to apply for official quotation by the ASX if lots of 100,000 New Options are exercised in aggregate.

(j) There will be no participating entitlements inherent in the New Options to participate in new issues of capital which may be offered to Shareholders during the currency of the New Options. Prior to any new pro rata issue of securities to Shareholders, holders of New Options will be notified by the Company and will be afforded 7 Business Days before the relevant record date (to determine entitlements to the issue), to exercise the New Options.

(k) In the event of any reorganisation (including consolidation, subdivision, reduction, cancellation or return) of the issued capital of the Company before the expiry of any New Options, all rights of the option holder will be changed to the extent necessary to comply with the Listing Rules applying to a reorganisation of capital at the time of the reorganisation.

(l) If from time to time before the expiry of the New Options the Company makes an issue of ordinary shares to shareholders by way of a bonus issue, other than in lieu of a dividend payment, then upon exercise of a New Option the option holder will be entitled to have issued to it (in addition to the ordinary shares which it is otherwise entitled to have issued to it upon such exercise) additional ordinary shares in the Company. The number of additional ordinary shares is the number of ordinary shares which would have been issued to the option holder if the New Options had been exercised before the record date for the bonus issue.

(m) The New Options do not confer the right to a change in Exercise Price, or a change to the number of underlying securities over which it can be exercised, other than under paragraphs (k) and (l) above.

6.6 Alteration of constitution

The Constitution can only be amended by a special resolution (that is, a resolution that has been passed by at least three-quarters of the votes cast by shareholders entitled to vote on the resolution). While the Company is listed, at least 28 days written notice of the special resolution must be given.

6.7 Indemnification of Directors

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

6.8 Taxation

The Australian Tax Office (**ATO**) has released a Taxpayer Alert (**TA 2009/11**) (http://law.ato.gov.au/atolaw/view.htm?DocID=TPA/TA200911/NAT/ATO/00001) setting out its views in relation to the tax treatment of "premiums" paid to Shareholders who do not take up their Rights. In TA 2009/11, the ATO indicates that it may seek to tax premiums received in respect of unexercised Rights as either an unfranked dividend or as ordinary income, rather than as a capital gain.

The Directors consider that it is not appropriate to give advice regarding the taxation consequences associated with the acquisition, sale, exercise or non-exercise of Rights, or the subsequent disposal of any New Shares or New Options subscribed for under this

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Prospectus. The Directors recommend that all Eligible Shareholders consult their own independent professional tax advisors.

6.9 Material Contracts

Underwriting Agreement

The Company has executed an underwriting agreement dated 25 August 2010 between the Underwriter and the Company (**Underwriting Agreement**), pursuant to which the Underwriter has agreed to underwrite the Offer.

Upon completion, the Underwriter will receive an underwriting fee of 5% of the amount underwritten. In addition, the Underwriter will receive a lead manager fee of $60,000. The Underwriter will pay all sub-underwriting fees and selling fees to third parties out of its fees. The Underwriter will also receive payment of reasonable costs and expenses incurred by it in connection with the Offer. The Company will pay any GST applicable to any fee payable to the Underwriter under the Underwriting Agreement.

The Underwriter has discretion to terminate the Underwriting Agreement for reasons that are standard in agreements of this nature.

As at the date of this Prospectus, the Underwriter does not beneficially hold any Shares in the Company. The Underwriter is not a related party as defined in section 228 of the Corporations Act. The Underwriter has entered into sub-underwriting agreements with sub-underwriters who are clients of the Underwriter (**Sub-underwriter**) and the Offer is fully sub-underwritten. In the event that Shareholders do not take up some or all of their Entitlements under the Offer, then a shortfall will result and the Sub-underwriters will be entitled to subscribe for the Shortfall Securities.

As the Offer is fully sub-underwritten, the Underwriter will not acquire voting power in the Company as the result of a shortfall. In the unlikely event that there is a 100% shortfall and each Sub-underwriter subscribes for its full entitlement to the Shortfall Securities, no Sub-underwriter will acquire voting power in the Company of more than 20%. No Sub-underwriter is a related party as defined in section 228 of the Corporations Act.

6.10 Privacy

If you apply for New Shares and New Options, you will provide personal information to the Company. Company laws and tax laws require some of the information to be collected and kept. The Company will collect, hold and use the information provided by you to process your application and to administer your investment in the Company.

If you do not provide the information requested in the Application Form, the Company and the Share Registry may not be able to process your application.

The Company may disclose your personal information for purposes related to your investment to the Company's agents and service providers. The types of agents and service providers that may be provided with your personal information and the circumstances in which your personal information may be shared are:

- the Share Registry for ongoing administration of the shareholder register;
- printers and other companies for the purpose of preparation and distribution of statements and for handling mail;
- the Underwriter to confirm applications; and
- legal and accounting firms, auditors, contractors, consultants and other advisers for the purpose of administering, and advising, on the Shares and for associated actions.

The Company complies with its legal obligations under the Privacy Act 1988 (Cth).

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You may request access to your personal information held by (or on behalf of) the Company. You may be required to pay a reasonable charge to the Share Registry in order to access your personal information. You can request access to your personal information by writing to or telephoning the Share Registry as follows:

Security Transfer Registrars Pty Ltd
770 Canning Highway
APPLECROSS WA 6153
Telephone: (08) 9315 2333
Facsimile: (08) 9315 2233

6.11 Information Available to Shareholders

As a disclosing entity, the Company is subject to regular reporting and disclosure obligations. Copies of documents lodged with the ASIC in relation to the Company may be obtained from, or inspected at, an ASIC office. In addition, any person considering this offer is entitled to receive a copy of the following documents, free of charge, to any investor who so requests during the application period under this Prospectus:

(a) the 2009 Annual Report of Phylogica Limited and the financial statements and consolidated financial statements for the year ending 30 June 2009 and half year ending 31 December 2010 respectively; and

(b) the following documents notifying ASX of information relating to Phylogica during the 12 months before the issue of this Prospectus:

	Announcement Header
08/09/2010	Further Statement Licensing Agreement
03/09/2010	Investor Presentation Post MedImmune
31/08/2010	Preliminary Final Report
31/08/2010	Amended Appendix 3B Rights Issue
30/08/2010	Renounceable Rights Issue Shareholder Letter
30/08/2010	Renounceable Rights Issue Optionholder Letter
30/08/2010	Renounceable Rights Issue Prospectus
26/08/2010	Rights Issue Appendix 3B
26/08/2010	Fully Underwritten Renounceable Rights Issue
23/08/2010	Trading Halt
19/08/2010	Bioshares CEO Interview P Watt
19/08/2010	Finance News Network Interview with Director Nick Woolf
18/08/2010	Phylogica Signs Agreement with MedImmune / AstraZeneca
18/08/2010	Reinstatement to Official Quotation
16/08/2010	Agreement update
09/08/2010	Response to ASX Query - Appendix 4C
05/08/2010	Suspension from Official Quotation
03/08/2010	Trading Halt
30/07/2010	Appendix 4C - quarterly
13/07/2010	Final Director`s Interest Notice
13/07/2010	Board Change
19/05/2010	Rodman and Renshaw Global Healthcare Conference Presentation
18/05/2010	Frankfurt Stock Exchange Listing
30/04/2010	Appendix 4C - quarterly
22/04/2010	Initial Director`s Interest Notice

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22/04/2010	Mr Nick Woolf Appointed Non Executive Director
08/04/2010	Finance News Network Interview with CEO and Chairman
22/03/2010	Road Show Investor Presentation
17/03/2010	Change of Director`s Interest Notice
02/03/2010	New Patent Allowance
25/02/2010	Phylogica`s Shareholder Update Pharmaceutical Deal Pipeline
24/02/2010	Half Yearly Report and Accounts
19/02/2010	Change of Director`s Interest Notice
29/01/2010	Appendix 4C - quarterly
22/01/2010	Change in substantial holding
22/01/2010	Change of Director`s Interest Notice
19/01/2010	Change of Director`s Interest Notice
18/01/2010	Agreement with Major UK company to Build New Drugs
15/01/2010	Phylogica`s 2010 Technical and Investor Presentations
22/12/2009	RB Milestone Group - Research Report
21/12/2009	Roche Agreement
18/12/2009	Phylogica Signs Agreement with Roche
18/12/2009	Section 708A(5) notice
18/12/2009	Appendix 3B
17/12/2009	Trading Halt
08/12/2009	Reinstatement to official quotation
08/12/2009	Completion of fund raising and partnership negotiation
03/12/2009	Suspension from Official Quotation
02/12/2009	Trading Halt Request
02/12/2009	Trading Halt
25/11/2009	AGM Presentation
25/11/2009	Results of Annual General Meeting
05/11/2009	Change of Director`s Interest Notice
05/11/2009	Appendix 3B
30/10/2009	Appendix 4C - quarterly
22/10/2009	Notice of Annual General Meeting/Proxy Form
22/10/2009	Annual Report to shareholders
02/10/2009	Phylogica Presents at Roche Peptide Symposium
30/09/2009	Results of Meeting
24/09/2009	Full Year Statutory Accounts
10/09/2009	Response to ASX Price and Volume Query
31/08/2009	Preliminary Final Report

6.12 Interests of Directors

Other than as set out below or elsewhere in this Prospectus, no Director nor any firm in which such a Director is a partner, has or had within 2 years before the lodgement of this Prospectus with the ASIC, any interest in:

(a) the formation or promotion of the Company;

(b) property acquired or proposed to be acquired by the Company in connection with its formation or promotion or the issue of Securities pursuant to this Prospectus; or

(c) the issue of Securities pursuant to this Prospectus,

and no amounts have been paid or agreed to be paid (in cash or Shares or otherwise) to any Director or to any firm in which any such Director is a partner, either to induce him to become, or to qualify him as, a Director or otherwise for services rendered by him or by the firm in connection with the formation or promotion of the Company or issue of Securities pursuant to this Prospectus.

Interests held by Directors in the Securities of Phylogica and any Related Body Corporate of it, as at the date of this Prospectus, are:

	Ordinary Shares	**Options over Ordinary Shares**	**Convertible Notes**
Doug Wilson	Nil	917,337	10,000
Paul Watt	4,967,031	5,000,000	20,000
Harry Karelis	29,166,667	368,700	1,000,000
Bruce McHarrie	1,920,479	368,700	Nil
Nick Woolf	Nil	Nil	Nil

6.13 Interests and Consents of Experts and Advisers

The following parties have given (and not before the date of this document withdrawn) their consent to be named in this document in the form and context in which they are named:

- Patersons Securities Limited, in the capacity of Underwriter and Lead Manager;
- Wright & Cooney, in the capacity of Solicitor to the Company; and
- Security Transfer Registrars Pty Ltd.

Each of Patersons Securities Limited, Wright & Cooney and Security Transfer Registrars Pty Ltd:

- has not authorised or caused the issue of this Prospectus;
- makes no express or implied representation or warranty in relation to the Company, this Prospectus or the Offer;
- has not made any statement in this Prospectus, or any statement on which a statement in this Prospectus is based, except where expressly stated above;
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Prospectus other than a reference to its name and except where expressly stated above; and
- was not involved in the preparation of the Prospectus or any part of it except where expressly attributed to that person.

Patersons Securities Limited is acting as Underwriter and Lead Manager and for this is being paid a Lead Manager fee of $60,000 (plus GST). In addition, an underwriting fee of 5% of the funds underwritten under the Offer will also be paid. Patersons Securities Limited is also entitled to reimbursement of out of pocket expenses.

Patersons Securities Limited has not received any fees from the Company for previous capital raisings in the 24 months preceding lodgement of this Prospectus.

Wright & Cooney is acting as Solicitor to the Company and for this is being paid fees of approximately $15,000 (plus GST).

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Wright & Cooney has not received any fees from the Company in the 24 months preceding lodgement of this Prospectus for the provision of professional services to the Company.

6.14 Electronic prospectus

Pursuant to class order 00/44 the ASIC has exempted compliance with certain provisions of the Corporations Act to allow distribution of an Electronic Prospectus on the basis of a paper Prospectus lodged with ASIC and the issue of shares and options in response to an electronic application, subject to compliance with certain provisions.

If you have received this Prospectus as an Electronic Prospectus please ensure that you have the entire Prospectus accompanied by the Application Form. If you have not, please e-mail the Company at info@phylogica.com and the Company will send you, for free, either a hard copy or a further electronic copy of the Prospectus or both.

The Company reserves the right not to accept an Application Form from a person if it has reason to believe that when that person was given access to the Application Form, it was not provided with an entire copy of the Prospectus and any relevant supplementary or replacement material or any of those documents were incomplete or altered. In such case, the Application Money received will be dealt with in accordance with section 722 of the Corporations Act.

6.15 Directors' authorisation

This Prospectus is authorised by Phylogica and is lodged with the ASIC pursuant to section 718 of the Corporations Act. Each Director of Phylogica has given, and has not withdrawn, their consent to the lodgement of this Prospectus with ASIC under the terms of the section 720 of the Corporations Act.

Bruce McHarrie
DIRECTOR
DATED 8 September 2010

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Section 7 KEY DEFINITIONS

"Additional New Shares and New Options" means New Shares and New Options in addition to an Eligible Shareholder's Entitlement for which an Applicant makes an Application.

"Applicant" means a person who submits an Application.

"Application" means a valid application made to subscribe for New Shares and New Options in accordance with the Offer.

"Application Form" means the Entitlement and Acceptance Application Form attached to or accompanying this Prospectus that sets out the Entitlement of Shareholders to subscribe for New Shares and New Options pursuant to the Rights Issue.

"Application Money" means monies received from persons applying for New Shares and New Options pursuant to the terms of the Offer.

"Application Price" means 5 cents per New Share.

"ASIC" means Australian Securities & Investments Commission.

"ASX" means ASX Limited ACN 008 624 691 or as applicable, the Australian Securities Exchange.

"Business Day" means a day on which trading takes place on the stock market of ASX.

"CHESS" means ASX Clearing House Electronic Sub-registry System.

"Closing Date" means 24 September 2010 or such other date as may be determined by the Directors and the Underwriters under this Prospectus.

"Company" and **"Phylogica"** means Phylogica Limited ABN 48 098 391 961, and where relevant, its subsidiary companies.

"Constitution" means the Company's Constitution as at the date of this Prospectus.

"Convertible Note" means the convertible notes issued by the Company which may be converted to Shares at the election of the holder.

"Corporations Act" means the Corporations Act 2001 (Commonwealth).

"Directors" means the directors of the Company.

"Dollar" or **$** means Australian dollars.

"Eligible Options" is defined in Section 1.1.

"Eligible Shareholder" means a Shareholder other than a Non-qualifying Foreign Shareholder.

"Entitlement" means a Shareholder's entitlement to subscribe for New Shares and New Options offered by this Prospectus.

"Existing Shares" is defined in Section 1.1.

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"Issue" means the issue of New Shares and New Options under this Prospectus.

"Listing Rules" means the Listing Rules of the ASX.

"New Option" means an option to acquire a Share, exercisable at 15 cents on or before 31 August 2011, to be issued under this Prospectus.

"New Share" means a fully paid ordinary share in the capital of the Company to be issued under this Prospectus.

"Non-qualifying Foreign Shareholder" means a Shareholder, whose registered address is not in Australia or New Zealand.

"Offer" means the offer of one (1) New Share and one (1) New Option for every five (5) existing Shares held at the Record Date at an issue price of 5 cents per New Share.

"Official List" means the official list of the ASX.

"Option" means an option to acquire a Share, granted by the Company.

"Prospectus" means the prospectus constituted by this document.

"Record Date" means 8 September 2010.

"Related Body Corporate" means a related body corporate as defined in section 50 of the Corporations Act.

"Rights" means the right to subscribe for New Shares and New Options under this Prospectus.

"Rights Issue" has the same meaning as the Offer.

"SCH Business Rules" means the business rules of the securities clearing house which operates CHESS.

"Securities" has the same meaning given to that term in the Listing Rules.

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

"Shareholder" means the holder of a Share registered on the Record Date.

"Shortfall Securities" means New Shares and New Options for which successful valid Applications have not been received by the Closing Date.

"Sub-underwriter" is defined in Section 6.9.

"Underwriter" means Patersons Securities Limited ACN 008 896 311.

"Underwriting Agreement" means the underwriting agreement dated 25 August 2010 between the Underwriter and the Company.