PHYLOGICA DISCOVERS POTENTIAL ARTHRITIS DRUGS

Perth, Australia 5 October 2006: Phylogica (ASX:PYC) today announced a major milestone in its rheumatoid arthritis program with the discovery of Phylomer® drug candidates that block key pathways that lead to the crippling disease.

Phylogica CEO Dr Stewart Washer said the company had successfully scanned its exclusive library of Phylomer® peptides to isolate drug candidates that block critical interactions at both the onset of rheumatoid arthritis and also as the disease progresses.

Rheumatoid Arthritis (RA) is a common, chronic autoimmune inflammatory disease that affects approximately 1% of the world's population. The RA market is currently dominated by antibody-based therapies, against which Phylogica believes Phylomer® technology can establish a strong competitive position. Moreover, the market for anti-rheumatic drugs is forecast to expand at a compound annual growth rate of 24%.

“We have found a number of Phylomer® binders against a panel of validated targets in rheumatoid arthritis, including the classical target Tumour Necrosis Factor (TNF). When you consider that just one of the current antibody drugs used to target TNF (Remicade - Johnson & Johnson) had sales of approximately $2.5 billion last year, we’re very excited by the potential of pursuing this target and delivering on Phylogica’s vision of more targeted, more affordable drugs,” Dr Washer said.

While Phylomer® peptides have been proven to specifically bind and block disease targets as effectively as antibodies, they have significant competitive advantages including:

- Smaller size -- on average they’re just 2% of the size of monoclonal antibodies
- No antibody royalty stack -- which provides a simpler and cheaper path to market
- Cheaper to manufacture -- Phylomer® peptides can be chemically synthesised or produced recombinantly by *E.coli* expression
- Patient friendly -- Phylomer® peptides are also amenable to delivery through non-injectable routes such as nasal, oral, buccal, transdermal and ocular.

Dr Washer said the discovery marks the achievement of the first milestone of the AusIndustry A$2.27M commercial ready grant that was awarded to Phylogica a year ago. These candidates will be tested in various laboratory models of RA in collaboration with Murdoch University before beginning assessment in animal models in collaboration with the University of Melbourne.

Over recent months Phylogica has also announced laboratory results that show that its Phylomer® burns drugs can significantly accelerate wound healing and that its Phylomer® stroke drugs have passed a major stability test as Phylogica works towards the completion of an initial pre-clinical data pack for the stroke program.

For further information, please contact:

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Phylogica (ASX:PYC) (www.phylogica.com) is a drug discovery company utilizing its proprietary Phylomer® technology to develop revolutionary new drugs for stroke, burns injury, and other anti-inflammatory diseases including rheumatoid arthritis and diabetes. The Company is preparing to commercialise its lead drugs through licensing deals. Phylogica was founded by the Telethon Institute for Child Health Research in Perth (www.ichr.uwa.edu.au) and the Fox Chase Cancer Center in Philadelphia, United States (www.fccc.edu).

About Phylomer® peptides

Phylomer® peptides are stable fragments of naturally-occurring proteins with the ability to bind tightly to target proteins and inactivate them as a result. Phylomers® can be selected for activity against specific disease target proteins. The properties of Phylomers® make them attractive as cost-effective alternatives to antibodies a proven multi-billion drug class. Phylogica's proprietary Phylomer® Libraries are collections of millions of Phylomers® that represent a source of drug leads which can be used for multiple diseases.