

In this edition...

The weakening Australian dollar is good news for exporters that write contracts in US dollars. Currency gains have boosted the half-year performance of several companies including Cogstate, Atcor Medical and Sirtex. There is now a group of healthcare companies that are shining a light through dark and difficult times as a number of cash dependent biotech companies appear to be on the verge of collapse. Yet even in these times, quality companies can raise money with Impedimed closing a \$2 million placement on Friday and Bionomics successful in having a set of options underwritten.

The Editors

Companies Covered: ACG, BTA, CGS, CST, SRX, Cash Analysis

| | Bioshares Portfolio |
|-------------------------------|---------------------|
| Year 1 (May '01 - May '02) | 21.2% |
| Year 2 (May '02 - May '03) | -9.4% |
| Year 3 (May '03 - May '04) | 70.0% |
| Year 4 (May '04 - May '05) | -16.3% |
| Year 5 (May '05 - May '06) | 77.8% |
| Year 6 (May '06 - May '07) | 17.3% |
| Year 7 (May '07 - May '08) | -36% |
| Year 8 (May '08 - current) | -35% |
| Cumulative Gain | 35% |
| Av Annual Gain (7 yrs) | 17.8% |

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Bioshares

30 January 2009
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Delivering independent investment research to investors on Australian biotech, pharma and healthcare companies.

Healthcare Earners Shine Through While Credit Crisis Starts to Take its Toll on Cash Burning Biotechs

Unfortunately, many thousands of people around the globe will be diagnosed with liver cancer this year. Unfortunately, there is still no effective pharmaceutical available for the treatment of Alzheimer's disease. Unfortunately, heart disease remains one of the biggest killers in our society. And unfortunately the deadly tuberculosis bacterium continues to spread largely unabated and discretely with multi-drug resistant forms becoming an increasingly dangerous threat.

On a less emotional level, these factors underpin the resilient nature of companies selling products into the healthcare industry, with this very salient point being illustrated in the current reporting season for Australian biotechs.

Sirtex Medical Reports Strong Result

Sirtex Medical this week reported a stunning second quarter result. Sirtex manufactures and sells a liver cancer therapy using short half-life radioactive ceramic spheres (Sir-Spheres). Un-audited results show that sales surged by 55% over the previous corresponding period (PCP) to \$29.5 million, aided by a weaker Australian dollar. Excluding the positive currency movements, the number of Sir-Sphere doses increased by 38% over the pc. The company expects profit before tax to be \$16 million for the first half of this financial year, up from \$2.2 million in the pc. This includes foreign currency gains from debtors receipts and revaluation of assets (cash held in US currency) of \$9.8 million.

Sirtex is capitalised at \$112 million with \$14.9 million cash in the bank and up to \$5.5 million in legal costs to be recovered, of which a significant portion the company is confident it will receive. Excluding the unrealized FX gains, the company is trading on a PE of 8.4 based on the first half un-audited results (which is consistent with the cash flow statement for the most recent quarter). The company expects Sir-Sphere dose sales will continue to grow in the second half of this financial year.

SRX: \$2.01

| | |
|--------------------------|----------------|
| Cash position (31/12/08) | \$14.9 million |
| Market capitalization | \$112 million |
| Bioshares recommendation | Strong Buy |

Cogstate Reports Impressive Maiden Profit for First Half

Cogstate has built its business around a cognitive testing program and service used by pharmaceutical and biotech companies in clinical trials. The product is primarily used in measuring changes in cognitive function in central nervous system disorders, with a

Cont'd over

particular expertise in the areas of Alzheimer's disease and Schizophrenia.

Cogstate has posted its most impressive quarter to date. The company generated net operating cash flow of \$905,000. Sales for the first half were \$3.8 million, up 136% over the pcp. The company is forecasting a net profit after tax of between \$1.2 million - \$1.3 million. The 12 months trailing revenue for the company is \$6 million. Based on this half year profit guidance, the company is currently trading on a PE of 7.5 (applying a corporate tax rate of 30% although the company has \$6.9 million in un-recouped income tax losses).

The lower Australian dollar is also having a significant positive effect on Cogstate, with sales contracts written in US dollars. Cogstate's business is now dominated by larger Phase II and Phase III trials. The first half result includes only a few smaller contracts conducted with the company's strategic alliance partner, United Biosource Corporation.

As Cogstate builds its business, the degree of continuity in its revenue streams improves. The company's larger contracts extend for between two to three years, providing ongoing sales revenue and receipts over that period. The level of repeat business is also steadily increasing with the major pharmaceutical groups. Cogstate's partnership with UBC positions the company to confidently bid for very large contracts without the need to make large additions to staff.

At the end of last year, the company had \$2.8 million in cash and \$1.2 million in debtors, with all trade debts expected to be collected. If the steady progress continues over the next 12 months, the company will be in a position to expand its cognitive testing platform using its excess funds, into areas such as at-home Alzheimer's disease assessment via the Internet.

CGS: 19 cents

| | |
|--------------------------|-------------------------|
| Cash position (31/12/08) | \$2.8 million |
| Market capitalization | \$12 million |
| Bioshares recommendation | Speculative Buy Class A |

Atcor Medical – More Positive News

Perhaps twelve months behind Cogstate in terms of profitability, the demand for Atcor Medical's diagnostic product remains healthy. Atcor is pioneering and promoting the used of central blood pressure as an additional measurement in the accurate diagnosis of heart disease. The use of central blood pressure in combination with the standard cuff measurement for blood pressure provides valuable information on the health of arteries, specifically arterial stiffness.

Atcor's technology is seen as the gold standard, if the level of publications quoting its system is a valid measure, for central blood pressure measurement. First half sales for this financial year increased by 76% to \$5.4 million. This week the company announced two more significant contracts, denominated in US currency, valued at US\$0.86 million, or \$1.3 million in local currency.

Selected Half Year Results - Progressive Update

| Company | Comments | |
|----------------|--|---------|
| Atcor Medical | 76% increase in first half sales (unaudited) to \$5.4 million | ✓ |
| Sirtex Medical | \$16 million first half profit before tax | ✓ |
| Cogstate | Maiden profit \$1.2 - \$1.3 million | ✓ |
| Probiotec | Strong profit growth to continue from all business units, in excess of 20% growth over pcp | Pending |
| Cellestis | Very strong profit growth anticipated with help of positive currency movements | Pending |
| IDT | Contracts generated in AUD. Profit growth to continue but affected by slowdown in biotech sector | Pending |

As with Sirtex and Cogstate, the Atcor Medical business is firmly taking shape with very strong demand for its product and a major positive movement in the local currency over the last five months that is providing an added benefit to margins.

ACG: 18 cents

| | |
|--------------------------|-------------------------|
| Cash position (31/12/08) | \$2.9 million |
| Market capitalization | \$18 million |
| Bioshares recommendation | Speculative Buy Class A |

Cellestis Results to Watch

Cellestis manufactures and sells a blood test for latent tuberculosis. Its test is looks set to become the gold standard for latent TB detection. The company will no longer report quarterly results with mid-year results to be released next month. Those results will be well worth monitoring, with a large benefit from the depreciating Australian dollar expected to take effect in this result.

With interest rates expected to fall further in Australia, which will place more pressure on the Australian dollar, and the resilience of the healthcare earners shining through in face of the global economic slowdown taking place, stocks such as Atcor Medical, Cogstate, Sirtex Medical and Cellestis should start to draw more attention from investors as such stocks convincingly differentiate themselves during these difficult economic times.

CST: \$1.50

| | |
|--------------------------|----------------|
| Cash position (30/9/08) | \$15.9 million |
| Market capitalization | \$144 million |
| Bioshares recommendation | Buy |

Biota Holdings – Surprise Order for Relenza

The demand for the flu drug Relenza continues for stockpiling by governments as a safeguard against a future influenza pandemic. Only two drugs in the world are available to offer protection against all forms of the flu, these being Relenza and Tamiflu.

The UK Department of Health has placed an order with **GlaxoSmithKline** for 10.6 million treatment courses. Most governments have been filling the majority of their orders with Tamiflu for some reason. However there is an increasing acknowledgement that there should be a more balanced stockpiling of the two drugs given the resistance issues and side effects emerging with Tamiflu.

The order translates to a royalty income to Biota estimated at \$18 million by the company with the low Australian dollar also benefiting Biota and its shareholders. Biota had an estimated \$70 million at the end of September last year and we estimate at least a further \$80 million in royalty revenue to come from Relenza.

The company has three clinical programs with three programs partnered with international pharmaceutical groups. With a capitalization of only \$85 million, the company is another very appealing investment in the sector.

BTA: 48.5 cents

| | |
|--------------------------|-------------------|
| Cash position (30/9/08) | est. \$70 million |
| Market capitalization | \$85 million |
| Bioshares recommendation | Buy |

Bioshares

Bioshares Thredbo Biotech Summit Dates
28 – 29 August, 2009

Registration for this year’s conference will open in March

4.7B Reporting Companies – Cash Balances Dec. 31, 2008 Sorted by Survival Index

| Code | Company | Cash Receipts (HY) | Cash End 31/12/08 (\$M) | Survival Index | Events since Dec 31; other comments |
|--------|--------------------------|--------------------|-------------------------|----------------|---|
| 1 AVS | Avastra | \$25.19 | \$1.0 | A | Not App |
| 2 CGS | Cogstate | \$3.56 | \$2.8 | A | Not App |
| 3 CTE | Cryosite | \$3.53 | \$1.3 | A | Not App |
| 4 IMU | Imugene | \$0.00 | \$3.80 | A | Not App |
| 5 LBT | Labtech Systems | \$0.00 | \$3.69 | A | Not App |
| 6 RHT | Resonance Health | \$1.11 | \$2.7 | A | Not App |
| 7 SRX | Sirtex Medical | \$23.99 | \$14.9 | A | Not App |
| 8 UNI | Unilife | \$23.02 | \$10.9 | A | Not App Received \$3M in January |
| 9 EMS | Eastland Medical Systems | \$7.37 | -\$0.4 | A | Neg.Cash Bal. |
| 10 BRC | Brain Resource Corp | \$1.10 | \$19.3 | A | 14.2 |
| 11 CBB | Cordlife | \$9.35 | \$9.2 | A | 10.7 |
| 14 ACW | Actinogen | \$0.02 | \$2.2 | A | 5.7 |
| 15 BDM | Biodiem | \$1.53 | \$5.1 | A | 5.3 |
| 16 CUV | Clinuvel Pharmaceuticals | \$0.00 | \$43.9 | A | 4.5 |
| 17 BPH | Biopharmica | \$0.06 | \$0.5 | A | 4.3 |
| 12 SIE | Scigen | \$15.80 | \$8.82 | CY | 4.2 |
| 18 PXS | Pharmaxis | \$0.47 | \$94.0 | A | 4.0 |
| 13 UBI | Universal Biosensors | \$8.93 | \$41.02 | CY | 4.0 |
| 19 HXL | Hexima | \$0.15 | \$31.87 | A | 3.5 |
| 20 PAA | Pharmaust | \$0.70 | \$3.52 | A | 3.0 \$0.427M receipt in Jan not included. |
| 21 ACR | Acrux | \$0.59 | \$25.4 | A | 3.0 |
| 23 NAN | Nanosonics | \$0.00 | \$19.16 | A | 2.3 |
| 24 SOM | Somnomed | \$2.58 | \$4.4 | A | 2.3 |
| 25 RBY | Rockeby Biomed | \$1.02 | \$1.3 | A | 2.2 |
| 26 QRX | QRxPharma | \$0.00 | \$29.9 | A | 2.1 |
| 27 GTG | Genetic Technologies | \$5.95 | \$10.73 | A | 2.1 |
| 28 ANP | Antisense Therap. | \$3.48 | \$5.1 | A | 2.0 |
| 29 PAB | Patrys | \$0.45 | \$14.74 | A | 1.9 |
| 30 PCC | Probiomics | \$0.60 | \$0.4 | A | 1.8 |
| 31 AOS | Advanced Ocular Systems | \$0.00 | \$1.8 | A | 1.8 |
| 33 HGN | Halcygen | \$0.00 | \$9.39 | A | 1.6 |
| 34 BPO | BioProspect | \$0.10 | \$2.9 | A | 1.5 |
| 22 BZI | Brainz | \$1.52 | \$2.63 | MY | 1.4 Divested assets. Effectively a cash box. |
| 35 ALT | Analytica | \$0.00 | \$1.6 | A | 1.4 |
| 36 UCM | USCOM | \$0.45 | \$2.2 | A | 1.4 |
| 37 ACL | Alchemia | \$0.00 | \$11.1 | A | 1.3 |
| 38 ACG | Atcor | \$4.73 | \$2.9 | A | 1.3 Signed US\$0.86M in contracts |
| 39 AVH | Avita Medical | \$1.31 | \$6.3 | A | 1.2 |
| 40 BNO | Bionomics | \$3.65 | \$4.3 | A | 1.2 Announced underwriting of \$4M of options |
| 41 SPL | Starpharma | \$4.51 | \$6.1 | A | 1.2 |
| 42 PBT | Prana Biotechnology | \$0.00 | \$7.9 | A | 1.1 |
| 43 LCT | Living Cell Technologies | \$0.23 | \$7.24 | A | 1.1 |
| 44 HCG | Helicon Group | \$0.00 | \$1.23 | A | 1.1 |
| 45 PLI | Peplin | \$0.49 | \$48.83 | A | 1.0 |
| 46 CXD | CathRx | \$0.00 | \$10.7 | A | 1.0 |
| 47 MSB | Mesoblast | \$0.00 | \$9.56 | A | 1.0 |
| 48 FYI | Freedom Eye | \$0.00 | \$0.7 | A | 0.9 |
| 32 FER | Fermiscan | \$2.72 | \$7.3 | CY | 0.9 |
| 49 TDX | Tyrian Diagnostics | \$0.86 | \$6.6 | A | 0.9 40% cut in staff numbers; now 25 |
| 51 GBI | Genera Biosystems | \$0.02 | \$2.5 | A | 0.8 |
| 52 BOD | BioMD | \$0.00 | \$0.9 | A | 0.7 |
| 53 ADO | Anteo Diagnostics | \$0.27 | \$1.7 | A | 0.7 |
| 54 SHC | Sunshine Heart | \$0.00 | \$5.8 | A | 0.7 |
| 55 AYX | Austofix | \$1.05 | \$1.2 | A | 0.6 |
| 56 MGZ | Medigard | \$0.00 | \$0.17 | A | 0.6 |
| 57 CAU | Colltech | \$0.00 | \$0.7 | A | 0.6 |
| 58 VLA | Viralytics | \$0.00 | \$1.7 | A | 0.5 |
| 59 BIT | Biotron | \$0.01 | \$1.0 | A | 0.5 |

4.7B Reporting Companies – Cash Balances Dec. 31, 2008 Sorted by Survival Index

| Code | Company | Cash Receipts (HY) | Cash End 31/12/08 (\$M) | Survival Index | Events since Dec 31; other comments |
|--------|------------------------|--------------------|-------------------------|----------------|--|
| 60 AVX | Avexa | \$0.00 | \$20.5 | A | 0.4 |
| 61 PYC | Phylogica | \$0.00 | \$1.5 | A | 0.4 |
| 62 OMI | Occup.& Medical Innov. | \$1.07 | \$0.74 | A | 0.4 Received \$0.45M loan |
| 63 BLT | Benitec | \$0.21 | \$1.0 | A | 0.4 |
| 64 IPD | Impedimed | \$1.25 | \$4.73 | A | 0.4 Completed \$2M placement on 30/1/09 |
| 50 SLT | Select Vaccines | \$0.02 | \$0.5 | CY | 0.4 |
| 65 OBJ | OBJ | \$0.00 | \$0.61 | A | 0.4 |
| 67 GBL | Genesis Biomedical | \$0.00 | \$0.39 | A | 0.3 |
| 68 PRR | Prima Biomed | \$0.00 | \$0.5 | A | 0.3 SPP raised \$198K |
| 70 FLS | Fluorotechnics | \$0.94 | \$1.4 | A | 0.3 |
| 71 XCD | Xceed Capital | \$2.28 | \$0.8 | A | 0.3 |
| 72 BOS | Biosignal | \$0.16 | \$0.5 | A | 0.2 |
| 73 HTX | Healthlinx | \$0.10 | \$0.49 | A | 0.2 |
| 74 BNE | Bone Medical | \$0.00 | \$0.4 | A | 0.2 |
| 75 SLA | Solagran | \$0.07 | \$0.7 | A | 0.2 Raised \$1.129 M |
| 66 STC | Stem Cell Sciences | \$1.05 | \$1.17 | CY | 0.2 |
| 76 KSX | KarmelSonix | \$0.03 | \$0.8 | A | 0.2 |
| 69 NEU | Neuren Pharmaceuticals | \$0.00 | \$1.36 | CY | 0.1 |
| 77 MTY | Medical Therapies | \$0.00 | \$0.18 | A | 0.1 |
| 78 TIS | Tissue Therapies | \$0.00 | \$0.3 | A | 0.1 Announced rights issue to raise \$3.4M |
| 79 ICV | Incitive | \$0.00 | \$0.11 | A | 0.1 |
| 80 IMI | IM Medical | \$0.36 | \$0.14 | A | 0.1 Placement of \$258K |
| 81 ACU | Avantogen | \$0.00 | \$0.1 | A | 0.0 |
| 82 STI | Stirling Products | \$0.06 | \$0.1 | A | 0.0 Suspended pending capital raise. |
| 83 NAL | Norwood Abbey | \$0.06 | \$0.04 | A | 0.0 Has access to \$250K loan; expects tax refund |
| 84 GIA | Giaconda | \$0.000 | \$0.016 | A | 0.0 |
| 85 DIA | Dia-B Tech | \$0.00 | \$0.0 | A | 0.0 |
| 86 ATW | Atos Wellness | | | A | Did not report. |
| 87 MVH | Medic Vision | | | A | Did not report. |
| 88 NDL | NeuroDiscovery | | | A | Did not report. |
| 89 NLS | Narhex Life Sciences | | | A | Suspended. Did not report. |

Legend:

Not App. : The SI calculation for these companies is not calculated due to the companies reporting positive operational cash flows, or in some cases marginally negative operational cash flows.

CY: The SI calculation for these companies is based on the latest twelve months figures.

MY: The SI calculation for these companies is based on the latest nine months figures annualised.

Small cap life science companies that are not required to comply with the 4.7B Rule include:

Advanced Medical Design and Manufact., Agenix, Imuron, Arana Therapeutics, Biota Holdings, Circadian Technologies, Clovercorp, Compumedics, ChemGenex Pharm., Cyclopharm, Cytopia, Telesso Technologies, Ellex Medical Lasers, Ascent PharmaHealth, IDT Australia, ITL Corp, Life Therapeutics, Metabolic Pharmaceuticals, Medical Developments Int., Novogen, Optiscan Imaging, Progen Pharm., Polartechinics, Phosphagenics, Sirtex Medical, Ventracor and Virax Holdings – (27 companies).*

Re-domiciled companies, Psvida and Heartware International no longer comply with the 4B Rule, although Peplin Inc elects to report.

** This company elects to report.*

Cont'd over

December Quarter Survival Analysis

Each quarter, the majority of ASX listed biotech companies are required to report their cash positions. In turn, a key analytical measure we present each quarter is the ‘Survival Index’ (SI). The index measures how many years those cash reserves will last, based on a company’s recent spending patterns. It is limited because it does not account for companies that may increase spending in the next period of activity.

The index is derived for this quarter by dividing the annualised average of net operational cash flows (NOCF) for the last two quarters into each company’s cash assets as recorded at December 31, 2008. The NOCF is the net of receipts and outgoings incurred in support of operational activities.

As a rule of thumb, companies that present with an SI of less than one are likely to be raising funds to support their activities, or are in the process of doing so. A healthy SI is either two or more. Companies with SIs of less than 0.5 may be in positions of funding stress and investors should investigate such stocks with a greater degree of concern.

Commentary

For the December quarter, 39 (2007 - 35) of 89 reporting companies reported SIs of less than one and 27 (2007 - 18) companies reported SIs of less than 0.5 (less than six months cash.)

Four companies did not report by the due date of the end of the month of January, including **Narhex Life Sciences**, **NeuroDiscovery**, **Atos Wellness** and **Medic Vision**.

Several companies have been removed from the table we present. **Cellestis**, which is generating healthy positive cash flows is no longer required to report according to the 4B rule.

We also have removed **Apollo Life Sciences** and **Portland Orthopaedics** from the table since they are under administration.

Diversa, formerly Ambri, has also been removed as it is transitioning into the business of superannuation services.

Three companies that appear to be on the verge of collapse are **Dia-B Tech**, **Giaconda** and **Norwood Abbey**, based on their precarious cash position.

Bioshares

Bioshares Model Portfolio (30 January 2009)

| Company | Price (current) | Price added to portfolio | Date added |
|--------------------------|-----------------|--------------------------|----------------|
| ASDM | \$0.42 | \$0.30 | December 2008 |
| QRxPharma | \$0.25 | \$0.25 | December 2008 |
| Hexima | \$0.31 | \$0.60 | October 2008 |
| Atcor Medical | \$0.18 | \$0.10 | October 2008 |
| CathRx | \$0.54 | \$0.70 | October 2008 |
| Impedimed | \$0.71 | \$0.70 | August 2008 |
| Mesoblast | \$0.78 | \$1.25 | August 2008 |
| Cellestis | \$1.50 | \$2.27 | April 2008 |
| IDT | \$1.64 | \$1.90 | March 2008 |
| Circadian Technologies | \$0.67 | \$1.03 | February 2008 |
| Patrys | \$0.06 | \$0.50 | December 2007 |
| Bionomics | \$0.19 | \$0.42 | December 2007 |
| Cogstate | \$0.19 | \$0.13 | November 2007 |
| Sirtex Medical | \$2.01 | \$3.90 | October 2007 |
| Clinuvel Pharmaceuticals | \$0.25 | \$0.66 | September 2007 |
| Starpharma Holdings | \$0.17 | \$0.37 | August 2007 |
| Pharmaxis | \$1.35 | \$3.15 | August 2007 |
| Universal Biosensors | \$0.55 | \$1.23 | June 2007 |
| Biota Holdings | \$0.49 | \$1.55 | March 2007 |
| Probiotec | \$1.38 | \$1.12 | February 2007 |
| Peplin Inc | \$0.60 | \$0.83 | January 2007 |
| Arana Therapeutics | \$0.85 | \$1.31 | October 2006 |
| Chemgenex Pharma. | \$0.36 | \$0.38 | June 2006 |
| Cytopia | \$0.11 | \$0.46 | June 2005 |
| AcruX | \$0.51 | \$0.83 | November 2004 |
| Alchemia | \$0.14 | \$0.67 | May 2004 |

Portfolio Changes – 30 Jan 2009

IN:
No changes

OUT:
No changes

How Bioshares Rates Stocks

For the purpose of valuation, *Bioshares* divides biotech stocks into two categories. The first group are stocks with existing positive cash flows or close to producing positive cash flows. The second group are stocks without near term positive cash flows, history of losses, or at early stages of commercialisation. In this second group, which are essentially speculative propositions, *Bioshares* grades them according to relative risk within that group, to better reflect the very large spread of risk within those stocks.

Group A

Stocks with existing positive cash flows or close to producing positive cash flows.

- Buy** CMP is 20% < Fair Value
- Accumulate** CMP is 10% < Fair Value
- Hold** Value = CMP
- Lighten** CMP is 10% > Fair Value
- Sell** CMP is 20% > Fair Value
(CMP–Current Market Price)

Group B

Stocks without near term positive cash flows, history of losses, or at early stages commercialisation.

Speculative Buy – Class A

These stocks will have more than one technology, product or investment in development, with perhaps those same technologies offering multiple opportunities. These features, coupled to the presence of alliances, partnerships and scientific advisory boards, indicate the stock is relative less risky than other biotech stocks.

Speculative Buy – Class B

These stocks may have more than one product or opportunity, and may even be close to market. However, they are likely to be lacking in several key areas. For example, their cash position is weak, or management or board may need strengthening.

Speculative Buy – Class C

These stocks generally have one product in development and lack many external validation features.

Speculative Hold – Class A or B or C

Sell

Corporate Subscribers: Phylogica, Pharmaxis, Cytopia, Arana Therapeutics, Starpharma Holdings, Cogstate, Xceed Biotechnology, Optiscan Imaging, Bionomics, ChemGenex Pharmaceuticals, Circadian Technologies, Biota Holdings, Stem Cell Sciences, Halcygen Pharmaceuticals, Peplin, BioMD, Impedimed, QRxPharma, Patrys, Labtech Systems, Hexima, Tyrian Diagnostics, Mesoblast, Atcor Medical

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