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Biosignal – Shareholder Update

Biosignal's focus is to progress industrial product applications especially treatments to prevent corrosion of oil and gas pipelines. Additional industrial products include water cooling tower and urinal products, covered in Japan by a recently signed option agreement with SARAYA Co Ltd. The board of Biosignal recognises that industrial applications are the company's best opportunities for early market entries.

Industrial Products

Developments continue in the oil and gas projects. Biosignal recently announced a collaboration with ConocoPhillips, one of the world's leading oil and gas producers. ConocoPhillips has already started testing to evaluate our technology for application against microbial corrosion in oil and gas hardware.

Testing at Commercial Microbiology Laboratories (CML) in Scotland also continues with one more trial anticipated. The testing at CML has shown excellent effects of the compounds when applied in combination with glutaraldehyde at reduced levels. This combination reduces bacterial numbers 100,000 fold relative to controls. Use of the compounds in combination with existing treatments will ease market entry as the new treatment can be slotted into existing procedures. A mixture of several concentrations of Biosignal's compounds and existing antibacterials will now be tested in a final trial to optimise the synergistic effects of the compounds and minimise the cost of the combined treatment.

Testing of the compounds also continues with an international chemical company (not disclosed) and in field trials in Australia. Indonesia remains a market priority in Biosignal's oil and gas anti-corrosion product launch, given the projected shorter time for registering the compounds in Indonesia. The CEO and COO visited Jakarta in May this year and Biosignal has established representation in Jakarta to facilitate product roll out in Indonesia.

Water cooling tower and urinal treatment products in Japan are now the subject of an option agreement with SARAYA Co. Ltd. As in Indonesia, the shortened registration time in Japan for the technology should facilitate a quicker entry to market. Biosignal has also initiated discussions with an overseas multinational on the use of the technology in domestic point-of-use water treatment.

Biosignal announced the end of the relationship with Ciba Specialty Chemicals. Ciba had processing issues with furanones in PVC plastic, one of Ciba's key target uses. We do not view this result as affecting the use of the technology as a corrosion inhibitor in the oil and gas industry nor in water treatment applications, in which the compounds are added directly into solutions.

Agriculture, Human and Animal Health and Consumer Products

Biosignal's novel biomimetic technology continues to excite potential partners across a range of applications, and the Board is pursuing development in selected fields. In these fields Biosignal allows its partner companies to test and develop the technology using their resources. Biosignal provides compounds and expert advice but conserves its resources.

Consistent with this model Biosignal recently signed collaboration deals with two leading global agri-businesses, one evaluating our compounds in animal health applications and one in crop protection. Results from both programs will be available by early next calendar year.

Applications of the technology in consumer products are also being evaluated by a leading multinational (identity not disclosed).

In the field of human health, discussions are ongoing with dental material and equipment companies in the US to use Biosignal's compounds in restorative dental materials.

Finally, limited internal work continues on respiratory infections with recent *in vitro* biofilm results showing excellent efficacy against clinical strains of *Pseudomonas* isolated from cystic fibrosis patients. The Board continues to take the view that therapeutic applications, particularly as replacements for or in combination with traditional antibiotics, remain a potential future blockbuster for the company despite the lengthy path for development of new drugs.

Current collaborations include (a number of partner names are confidential):

Product area	Collaborator
Oil and gas	<ul style="list-style-type: none">• ConocoPhillips• International chemical company• Australian oil and gas producer
Water treatment	<ul style="list-style-type: none">• SARAYA Co Ltd
Agriculture/animal health	<ul style="list-style-type: none">• Crop protection multinational• Animal health multinational
Consumer	<ul style="list-style-type: none">• Overseas multinational
Human health	<ul style="list-style-type: none">• Jernberg/Simonsen (dental restoratives; further partnerships under discussion)

Personnel

Biosignal's longstanding COO Mr Rohan McDougall, who has been with the technology since its inception at the University of New South Wales, will leave Biosignal in October. He will take up the role of Director of Technology Commercialisation at Curtin University in WA. The position at Curtin offers Rohan both the opportunity to lead his own office and to return to his home State. Rohan has been invaluable in the development of Biosignal's technology and we wish him all the best with his new position.

Dr Mike Ironside, our Chief Scientific Officer for a year, left the company at the end of June, returning to New York. His responsibilities will be taken up in the near term by Professor Steinberg and Biosignal's senior chemist Dr Naresh Kumar.

The Next 12 Months

Investment markets over the past 6 months have been unkind to Australian biotech companies with large average drops in market capitalisation. Biosignal's own news has not been universally up-beat with some disappointments, including deals in industrial and wound care applications with US entrepreneur Paul Hawken not progressing. The company has significantly reduced its cash burn rate to conserve resources during this difficult period.

However, we have robust ongoing collaborations where partners are assessing and developing the technology. Most of these partners are global companies with the capability to readily adopt the technology and launch into their existing products and markets. We continue to be approached by a sizeable number of potential partners/licensees. The opportunities for our unique technology remain deep and broad.

The main goals for the next 12 months are:

- 1) Progress industrial applications as rapidly as possible
- 2) Progress the current relationships with external partners to more substantial commercial licensing arrangements as the results of evaluation programs come to hand. In industrial applications entry to the markets in Japan or Indonesia in late 2009 remains the goal. Critical to achieving this goal will be to scale-up compound manufacture and to progress registration in these countries. Generating the funds necessary for scale-up and registration are key purposes of a planned share purchase plan (SPP) to be offered to all shareholders.

Biosignal will encourage our partners in other product areas to pursue their development and evaluations of the technology as aggressively as possible. The CEO and COO will soon meet many of these partners in the US and Europe to do this and to discuss additional partnering or licensing opportunities, particularly in the dental and water treatment fields.

Share Purchase Plan (SPP)

Biosignal shareholders should soon receive information regarding an offer from the company to purchase additional shares under a share purchase plan. The purpose of the planned SPP is to provide the Company with additional funds to continue active product development as well as working capital.

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About Biosignal and the anti-biofilm technology

Biosignal is commercialising a distinctive anti-bacterial technology. This technology is proving highly effective across applications ranging from industrial to medical products. Biosignal's anti-biofilm technology is based on a discovery that the eastern Australian seaweed *Delisea pulchra* produces natural furanones that disable bacteria's ability to colonise surfaces. The fundamental problem with existing anti-bacterials, including antibiotics, is bacterial resistance. Bacteria rapidly produce resistant strains when faced with strong selective pressure by biocides. Furanones lull bacteria to inaction and appear to avoid the problem of bacterial resistance.