

ORAL CANCER TRIAL UNDERWAY

Dosing in the second Phase I clinical trial for Cytopia's oral cancer drug CYT997 commenced in December 2006.

This trial will assess the safety and tolerability of CYT997 as a capsule dose and augments the promising data arising from the company's intravenous study. The trial is being conducted at the Royal Brisbane and Women's Hospital and with Q-Pharm Pty Ltd, a clinical contract research organisation.

Trial participants are cancer patients with solid tumours (such as melanoma or

cancer of the kidneys or liver) who have not responded to other therapies.

In addition to standard measures of drug efficacy, the company will use specialist imaging techniques to study blood flow changes within tumours in response to CYT997.

Cytopia obtained approval under the Australian government's Clinical Trials Notification (CTN) scheme and also filed a supplementary application to its approved Investigational New Drug (IND) file with the US FDA.

NOVARTIS PARTNERSHIP CONTINUES STRONGLY

In June 2006, Cytopia announced a global licence and research and development collaboration with Novartis to develop drugs for the prevention of transplant rejection. The agents, which inhibit the JAK3 enzyme, may also prove useful for autoimmune diseases such as rheumatoid arthritis.

The partnership has proven truly collaborative with both Cytopia and Novartis contributing expertise and intellectual property relating to JAK3 drug discovery and development. The clear aim of the two teams is to advance compounds through clinical trials and into the market place.

Novartis is a Swiss-based global pharmaceutical company. With over 90,000 people worldwide and annual sales over USD35 billion, the company is the fourth largest pharmaceutical company in the world. Novartis was created in 1996 with the merger of two Swiss pharmaceutical giants, Ciba-Geigy and Sandoz. The main sites for drug discovery research are in Basel, Switzerland



NOVARTIS

and Cambridge Massachusetts, USA. The company has four main business units: pharmaceuticals, vaccines and diagnostics, generic pharmaceuticals and consumer health products.

Novartis developed the blockbuster kinase drug, Glivec®, as a treatment of various cancers. The company's other well known pharmaceutical products are Diovan® and Lotrel® for treating hypertension, Zometa® for treating bone metastasis associated with various cancers and the antifungal Lamisil®.

For competitive reasons, the progress of the Novartis collaboration is subject to strict confidentiality. Although this limits Cytopia from providing details to the marketplace including the stage of development of its drug candidates partnered with Novartis, we reassure shareholders that the partnership continues to be a significant benefit to the company and provides an excellent template for future Cytopia partnering deals.

CYTOPIA KEY PARTNER IN NEW GRANT

Cytopia is participating as the industry sponsor in a successful National Health and Medical Research Council Development Grant.

The grant, led by Associate Professor Peter Little of the Baker Heart Research Institute in Melbourne, is designed to investigate novel mechanisms for controlling the formation of atherosclerotic plaques. These plaques act as sites for blood clot formation and contribute to heart attacks and strokes.

Cytopia's novel inhibitor compounds will be used as key tools in understanding disease processes in preliminary studies. The data collected may assist Cytopia and the Baker Institute team in developing novel drug therapies that prevent plaque formation and reduce cardiovascular disease.

Grant funding in excess of \$350,000 will be available over a two-year period.



CHAIRMAN AND CEO'S MESSAGE

Dear shareholders

As Cytopia moves forward into 2007, we anticipate achieving key milestones in our research and development programs. These milestones will add significant value to our overall portfolio and build on the achievements of last year.

A key strategic focus is successfully moving our drug candidates into clinical trials. We already have one cancer drug, CYT997, in the clinic and we expect during 2007 and 2008 to announce new candidates



Bob Watson

in at least two other clinical programs. Our goal is to file at least one new Investigational New Drug (IND) application with the United States Food and Drug Administration (FDA) each year.

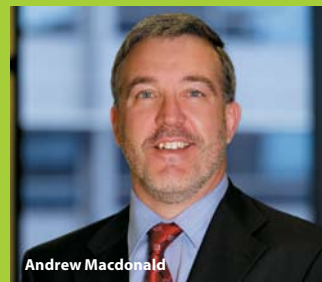
CYT997 is progressing in two separate clinical trials. The first dose escalation trial, where our drug is being administered to

patients via an intravenous infusion to determine safety and tolerability, is expected to conclude in the first half of 2007. Planning is underway to commence Phase II efficacy trials in the second half of 2007.

The second trial for CYT997, funded under a Commercial Ready grant, is a dose escalation trial with oral administration. This study commenced in late 2006 and we will keep shareholders apprised of trial progress over the coming months.

Particularly encouraging for Cytopia has been the global interest shown in potential new treatments for various blood disorders known

as myeloproliferative diseases. The JAK2 enzyme is implicated in some of these diseases and our JAK2 program, which has broad applicability across a range of cancers, as well as cardiovascular disease, is developing specific compounds to treat such disorders by inhibiting the enzyme.



Andrew Macdonald

Cytopia intends to nominate a clinical candidate for treatment of these blood disorders in 2007. We have a well-advanced drug discovery candidate and our expertise positions us to deliver on this key milestone.

Cytopia's relationship with Novartis on the JAK3 program has strengthened our standing in the global pharmaceutical industry and has specifically helped in recent discussions with potential pharmaceutical partners about bringing a JAK2 drug to the market. A successful deal would increase program funding and boost development expertise.

We were very pleased with the sound financial outcome in the recently released half-year report. With a cash balance at December 2006 of \$18.3m, the company continues in its strong financial position and as one of Australia's premier drug development organisations.

We trust that you will find this update informative and interesting.

Andrew Macdonald CEO
Bob Watson Chairman

CYTOPIA STAFF WIN AWARDS

DR CHRIS BURNS

Dr Chris Burns, Research Director of Cytopia, was awarded the Alchemia Industry Research Award for his presentation "Progress in the Discovery of Specific JAK inhibitors" at the biennial Drug Discovery conference hosted by the Biomolecular Division of the Royal Australian Chemical Institute held in the Hunter Valley, NSW, in December.



The presentation was made as part of the 'Research in Industry' session and broadly covered Cytopia's approach in the design and testing of potential drug molecules selective for individual members of the JAK family of kinases.

The award was judged by an international panel of experts at the conference and recognises the outstanding quality of the work that Chris and his team have put into the Cytopia programs.

DR ANDREW WILKS

Cytopia's Chief Scientific Officer, Dr Andrew Wilks, is one of two leading life scientists chosen from a highly competitive field of candidates to receive the inaugural Advancing BioBusiness Award.

This is a new initiative by Merck Sharp & Dohme and Advance. Advance is a community of overseas Australian professionals headquartered in New York City which provides online and live services and events in major industry sectors enabling Australians abroad to be informed ambassadors-at-large.



Dr Wilks will attend the world's largest biotechnology meeting, the Biotechnology International Organisation international convention in Boston in May with about 22,000 participants from around the globe. He will also participate in a tailored program of meetings with leading

CARDIOVASCULAR WORK IN THE US

The main focus of research at US based Cytopia Inc. is on the development of kinase inhibitors for the treatment of cardiovascular diseases. Cytopia Inc., a fully owned subsidiary of Cytopia Research Pty Ltd, is located in Rensselaer, New York. In particular, the team at Cytopia Inc. is testing the efficacy of selective JAK2 inhibitors in models of heart failure and pulmonary hypertension. Cytopia has recently filed a worldwide patent to protect aspects of this work.

The laboratory is headed by Dr Lawrence Zisman MD and has state-of-the-art facilities testing Cytopia's proprietary compounds in models of cardiovascular diseases. There are



three additional experienced cardiovascular biology research scientists working in the laboratories.

The Rensselaer facility is headed by Dr Shreefal Mehta, VP of Business Development.

CYTOPIA ANNOUNCES NEW CANCER DRUG PROGRAM

In November, Cytopia announced a preclinical candidate, CYT645, from our FMS program. Our scientists and Cytopia's collaborators in the Protein Crystallography Unit at Monash University recently published a scientific paper in the prestigious *Journal of Molecular Biology* describing in atomic detail the structure of this protein target.

The paper is the result of nearly two years collaborative research conducted in the laboratory of Prof Jamie Rossjohn, as part of an Australian Research Council funded Linkage grant, awarded in 2004.

American organisations and individuals including venture capital firms, research institutes, biotechnology entrepreneurs and biopharmaceutical companies to further his knowledge and build valuable international networks and collaborations to benefit Cytopia and the Australian biotechnology industry.

"I am extremely delighted to have received this award. It is a tremendous opportunity to take a broad view of the latest in biotechnology from around the world to fuel new ideas," said Dr Wilks.

Professor Graham Macdonald, External Licensing Co-ordinator at Merck Sharp & Dohme and chair of the Advancing BioBusiness Award judging panel, said Dr

The precise three-dimensional structure of the FMS protein was determined using a technique called X-ray crystallography. Being able to see the three dimensional structure of the protein has assisted Cytopia scientists to design compounds which inhibit the protein. An example is CYT645 which fits inside the protein much like a hand in a glove. This interaction can block the protein's activity in certain disease processes. Abnormal activity of the FMS protein has been shown to be involved in cancer spread and Cytopia is actively advancing CYT645 to studies in cancer patients.

Wilks was an outstanding candidate for the award because his company was at a critical position in its drug development program having recently secured the largest international licensing agreement by an Australian company. Also of note was that the company has a number of new compounds in early development or clinical trials.

"By immersing Dr Wilks in successful commercial businesses in the United States and providing him with opportunities to share his new knowledge back home, we aim to build a stronger Australian capability to win big drug development deals," said Professor Macdonald.

REGISTER FOR ELECTRONIC SHAREHOLDER COMMUNICATIONS

Simply register for electronic communications through the company's share registry, Link Market Services (formerly ASX Perpetual) to enjoy the many advantages which include:

- Email alerts all company announcements
- Notification of shareholder meetings
- Lodgment of online proxy forms
- Viewing holding details and making address changes

To register, all you have to do is follow the simple steps below:

1. Have your holder identifier (HIN/SRN) ready for access to the Link site. The holder identifier (HIN/SRN) is an 11 digit number usually starting with "X", "I" or "C" supplied at the time of acquiring your shares
2. Visiting the company website: **www.cytopia.com.au**
3. Click on the "Share Registry" link under "Investor Centre" and select the link "to be transferred to the share registry"

4. Log in by entering your account holder details
5. Click on "Communication Options" from "Actions" drop down menu
6. Complete the required fields:
 - email address
 - Communication Delivery Method
7. Press "UPDATE" icon at the button to submit changes

We encourage you to take few minutes to register for electronic communications. This is more efficient and keeps shareholders actively informed.

STAFF PROFILE

KATHRYN HARRISON INTELLECTUAL PROPERTY MANAGER

Kathryn joined Cytopia in December 2006 as the Intellectual Property Manager following nine years of Patent and Trade Mark Attorney professional practice, primarily working with biotechnology, pharmaceutical and specialty chemical clients.



She has a technical background in chemistry and life sciences with a Bachelor of Applied Science majoring in Chemistry and Biochemistry and a Master of Science based on research into *S. cerevisiae* cell cycle, primarily using molecular biology techniques. Kathryn's laboratory based employment experience includes research into biocompatible polymers at the CSIRO and development of diagnostic and research reagent products at an Australian biotechnology company.

Kathryn is eager to combine her technical and commercial experience and knowledge of intellectual property law and practice to contribute to the growth of Cytopia.

She is a Fellow of the Institute of Patent and Trade Mark Attorneys and also a Member of the Intellectual Property Society of Australia and New Zealand.

PDF STATUS

Cytopia currently enjoys Pooled Development Fund (PDF) status for tax purposes, meaning that for most Australian resident taxpayers, any gains or losses on disposal of shares are exempt from tax.

Having converted from an investment to drug discovery company, Cytopia will no longer meet the legislative PDF criteria and will not seek PDF renewal after 30 June 2007.

Shareholders should seek independent taxation advice, but as a general rule shares in the company will be deemed for tax purposes to have been acquired immediately after the company ceases to be a PDF using the share price at that time.

An Australian resident Cytopia shareholder should subsequently declare capital gains on the sale of Cytopia shares in assessable income.

PATENT UPDATE

Cytopia has recently received notification of the grant of two patent applications in the United Kingdom and New Zealand. These grants add to the company's already extensive patent estate. Further patent grants are expected over coming months.

The company has also filed two new patents describing a new class of chemical compounds as inhibitors of selected kinases and a patent protecting certain aspects of our cardiovascular research.



RECRUITMENT

Specific job openings will be posted on the Cytopia website from time to time. Please refer to the following link for details: www.cytopia.com.au/careers.html

CYTOPICS

Further copies of *cyTopics* are available from the company website: www.cytopia.com.au

CONFERENCES AND PRESENTATIONS

In recent months, Cytopia has participated at a number of international conferences.

BIO-EUROPE 2006

Düsseldorf, Germany (6 – 8 November 2006)

18TH EORTC-NCI-AACR INTERNATIONAL CONFERENCE ON "MOLECULAR TARGETS AND CANCER THERAPEUTICS"

Prague, Czech Republic (7 – 10 November 2006)

AUSBIOTECH 2006

Sydney, Australia (19 – 22 November 2006)

DRUG DISCOVERY AMONGST THE VINES

Hunter Valley, Australia (3 – 7 December 2006)

19TH LORNE CANCER CONFERENCE

Lorne, Australia (8 – 10 February 2007)

BIO CEO CONFERENCE NYC

New York, USA (12 – 14 February 2007)



developing better drugs

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