

In this edition...

The term arana is an aboriginal word for moon. However, some shareholders might be howling in the moonlight if US pharmaceutical Cephalon snaps up one of the best cashed up biotechs in Australia at a bargain price. Unless of course, a superior offer is made.

The Progen-Avexa merger goes to the vote on March 11 but the battle for Progen's funds continues.

Finally Part II of our report on profitable pharma and biotech companies as at December 31, 2008, completes the edition.

The Editors

Companies Covered: AAH, APH, AVX, CBB, CGS, CMP, CLV, CYT, MVP, MSB, PGL, SRX, SDI

	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)	-37%
Cumulative Gain	30%
Av Annual Gain (7 yrs)	17.8%

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Bioshares

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

Extract from Bioshares –

Mesoblast – Safety Cleared from First 20 Patients in CHF Trial

Mesoblast's (MSB: 79 cents) sister company Angioblast has reported positive safety data in the first 20 patients of its leading allogeneic stem cell study in patients with congestive heart failure. Using the lowest dose of its allogeneic (off-the-shelf) stem cells, no adverse events were detected. This is an important milestone as it reinforces the safety aspect of these allogeneic cells for the first time in clinical studies for Mesoblast. It also opens the way to move into therapeutic doses of the stem cells.

The current Phase II study being conducted in the US will evaluate three doses of the stem cells: a low, medium and high dose. The doses are the same as used in sheep studies. In the low dose group, which is the dose given to the first 20 patients, no therapeutic effect was detected in the sheep, although an effect was detected in the higher dose groups. It is not expected to deliver a therapeutic effect in the first 20 patients although there could be a surprise. Efficacy data on the low dose group is expected in the next two months.

The medium and high dose arms should be completed this year with efficacy outcomes ascertained. Up to 60 patients will be included in the trial, including a placebo group which will receive the current standard of care. The efficacy is judged at three months following treatment. Another positive outcome from this trial was the speed at which patients could be recruited, taking only three months to recruit these first 20 patients.

The treatment involves around 15-18 injections delivered with a development-stage **Johnson & Johnson** cardiac catheter. The procedure takes less than one hour to complete. The stem cells are injected into heart tissue that is assessed as being damaged (not dead) using a cardiac mapping type catheter. The patients have stage II - IV heart disease.

If the current study is successful, Angioblast will likely move into Phase III studies in around 300 patients. Another Phase II heart study is expected to start in coming months in patients who have experienced a heart attack and are implanted with a coronary stent.

Mesoblast recently teamed up with **Parkway Group Healthcare** to trial the Mesoblast stem cells to prevent or treat osteoarthritis in the knee. The Parkway group operates 15 hospitals in Asia, offering leading edge therapies to middle-to-upper class residents across Asia. According to Mesoblast, the company was approached by PGH which has been assessing available stem cell therapies. This trial will run in parallel with an Australian trial looking at using the Mesoblast stem cells for prevention of osteoarthritis in people undergoing anterior cruciate ligament (ACL) surgery following sports injuries. About 50%-60% of people who damage their ACL are expected to experience osteoarthritis 12 months after the injury.

Bioshares recommendation: **Speculative Buy Class A**

Bioshares

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

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