

QUARTERLY UPDATE

Business Update on NovaBiotics Ltd

Snapshot

March 4, 2010

NovaBiotics Ltd (“NovaBiotics” or “the Company”) is a closely held clinical-stage biotechnology company that designs and develops novel antifungal and antibacterial products to treat infectious conditions and diseases for which there are presently no fully effective therapies. Founded in 2004, NovaBiotics delivered its first clinical product in less than five years through the use of informed drug design. Its lead clinical-stage initiative is Novexatin[®] (NP213), a topical, brush-on treatment that has been shown in preclinical and clinical testing to clear a fungal nail infection (onychomycosis) after 28 days of once-daily application versus current treatment options, which often require at least 12 to 42 weeks of therapy. Novexatin[®] is designed to efficiently penetrate the nail without being absorbed through the skin. Data from a 12-patient Phase I trial with Novexatin[®] confirmed that there was no systemic exposure through skin penetration and demonstrated the agent’s safety and tolerability. In late 2009, NovaBiotics completed patient dosing for a 48-patient Phase IIa clinical study. Follow-ups for this trial are ongoing. To date, no adverse events have been reported, and safety and tolerability endpoints are being met. Pharmacodynamic analysis has indicated that the infection clears in most patients after 28 days of treatment with Novexatin[®]. The Company’s second drug candidate is Novamycin[®] (NP339/NP341), an antifungal peptide to treat potentially life-threatening systemic yeast and mold infections. Novamycin[®] was shown in preclinical evaluation to be rapidly fungicidal and able to kill yeasts within 30 minutes of exposure. NovaBiotics’ pipeline also entails antimicrobial peptides and compounds for respiratory, systemic, and dermal infections. As well, the Company has anti-infective peptides and several botanically derived compounds that could be incorporated into consumer healthcare and cosmetic products and are available for licensing. NovaBiotics is headquartered in Aberdeen, Scotland (UK).

NovaBiotics Ltd[®]
TAKING NATURE’S LEAD IN ANTIMICROBIALS

NovaBiotics Ltd
Cruickshank Building
Craibstone
Aberdeen, AB21 9TR, UK
Phone: +44 (0)1224 711377
Fax: +44 (0)1224 711370
www.novabiotics.co.uk

Key Points

- In late 2009, NovaBiotics completed dosing patients in its Phase IIa clinical trial with Novexatin[®]. Based on the Company’s initial analysis, the rate of indicative mycological cure for patients dosed with Novexatin[®] for one month was higher than that seen with existing remedies. To date, Novexatin[®] has not caused any of the potentially serious side effects associated with some currently marketed therapies (e.g., liver damage).
- NovaBiotics expects to receive final data from the trial in mid-2010, and believes that the data from its Phase I/IIa clinical trials could lead to a licensing agreement. The Company anticipates that Novexatin[®] could reach the market as early as 2014, an initiative that is dependent upon further successful clinical development and approval by various regulatory authorities worldwide.
- Fungal nail infections affect roughly 12% of individuals globally. While NovaBiotics considers the annual global market for onychomycosis to be static at approximately \$2 billion, the Company also believes that this market could reach \$5 billion if safer, more effective products are introduced that can meet current demand.
- To date, only two topical and two systemic (oral) therapies are approved for onychomycosis. Of these, one topical prescription lacquer (Penlac[®] Topical Solution, 8%) and one oral therapy (Lamisil[®] tablets) are off patent.
- Available topical medicines offer limited efficacy. Penlac[®] (ciclopirox) requires daily application for up to 42 weeks and, in the clinic, completely cured only 5.5% to 8.5% of patients (Source: sanofi-aventis SA [SNY-NYSE]). Preclinical models of Novexatin[®] demonstrated that once-daily application could clear fungal nail infections within 28 days.
- Oral therapies are the current standard of care for nail fungus. However, these medicines are costly and are associated with harmful side effects (e.g., liver or kidney damage). Lamisil[®] (terbinafine) costs \$1,100 to \$2,000 per treatment course and requires blood tests to monitor liver and kidney health during the course of therapy. NovaBiotics expects treatment costs for Novexatin[®] to compare favorably with generic terbinafine.
- The Company’s intellectual property portfolio now includes seven patent families composed of more than 40 patents both granted and pending worldwide.
- NovaBiotics’ Board of Directors offers expertise in the biotechnology and pharmaceutical industries, including negotiating licensing agreements for technology companies, driving shareholder exit events, and closing significant commercial transactions. The Company is also supported by a team of senior scientists who are experienced in immunology, microbiology, and peptide antimicrobials.
- Since its inception in 2004, NovaBiotics has raised circa £5 million in funding, largely from existing shareholders. NovaBiotics has also received funding from Scottish Enterprise, Scotland’s main government-sponsored economic development agency, and has continued bank support by way of an overdraft facility. A further fundraising is underway with the aim of securing £2.5 million in the first half of 2010. As of January 31, 2010, NovaBiotics had (£259,000) in cash.

Recent Events

Note: Unless otherwise stated, all monetary amounts are in U.S. dollars. At 03/04/2010, US\$1.00 ≈ £0.67.

Recent Events

An overview of the Company's recent news is provided below, referring the reader to NovaBiotics' website (www.novabiotics.co.uk) for complete press releases and news articles.

- On January 20, 2010, NovaBiotics was featured in an article published in *Life Sciences Scotland News* (Issue 48) discussing the completion of the dosing phase and initial analyses of the Company's Phase IIa clinical trial with Novexatin[®]. As well, the article reported that NovaBiotics was in active discussions to outlicense the clinical development of Novexatin[®]. Greater details of the Phase IIa trial are provided on page 5.
- On January 11, 2010, the Company announced that it planned to attend PepTalk 2010 (www.chi-peptalk.com) in San Diego, California, from January 11-15, 2010. Dr. Deborah O'Neil, NovaBiotics' founder, chief scientific officer, and a director, was scheduled to present Novexatin[®] at the engineering peptides session. Dr. O'Neil's biography is provided on page 10 of Crystal Research Associates' base report, the Executive Informational Overview[®] (EIO[®]), published on November 2, 2009, and available at www.crystalra.com.
- On January 4, 2010, NovaBiotics issued a release, which was summarized in *The Herald* (www.heraldscotland.com) in print and online, announcing that the Company was in active discussions to outlicense Novexatin[®] for further clinical development following the completion of dosing and initial analysis for its Phase IIa clinical trials. In the Phase IIa study, 48 patients were dosed daily with Novexatin[®] or placebo control on one infected toenail for 28 days. The endpoints of safety and tolerability were achieved.
- On November 20, 2009, an article was published in *Scrip News* (www.scripnews.com) discussing NovaBiotics' potential to enter into a licensing agreement for Novexatin[®] following the completion of the Phase IIa trial. NovaBiotics expected the data from this trial to lead to a license agreement in early 2010.
- On November 4, 2009, the Company was featured in an article in *Therapeutics Daily* (www.therapeuticsdaily.com) announcing that the first patients enrolled in NovaBiotics' Phase IIa trial completed 28 daily applications of Novexatin[®]. The treatment was well tolerated and had not been detected in plasma, with no adverse reactions reported.
- On November 3, 2009, an article in *The Scotsman* (www.scotsman.com) announced that NovaBiotics revealed on November 2, 2009, that it was at an advanced stage in appointing a financial advisor to value its first product candidate and that the first patients had successfully completed the Phase IIa trial of Novexatin[®]. No safety issues were reported during the trial.
- On November 1, 2009, NovaBiotics was featured in an article published in *The Times Online* (www.timesonline.co.uk), reporting that the Company was close to signing a licensing agreement for Novexatin[®]. NovaBiotics stated that it was in discussions with roughly 10 pharmaceutical companies to establish a partnership for the commercialization of Novexatin[®]. NovaBiotics believes that the market for Novexatin[®] may be valued at up to approximately £3 billion.

Company Background

Note: Unless otherwise stated, all monetary amounts are in U.S. dollars. At 03/04/2010, US\$1.00 ≈ £0.67.

NovaBiotics Ltd (“NovaBiotics” or “the Company”) is focused on the discovery and early-stage development of novel anti-infective compounds. In general, the anti-infectives market has been largely underserved by major pharmaceutical companies, in part, because these medicines do not address chronic conditions—such as cancer, heart disease, or diabetes—which are progressive and may last for a patient’s lifetime. However, the anti-infectives market provides a significant and growing opportunity for NovaBiotics in a therapeutic area characterized by considerable unmet need. Infectious diseases cause the deaths of 14 million to 17 million individuals each year, many of which are in developing countries (Source: the Global Health Council). Of the top 10 causes of death compiled by the World Health Organization (WHO), five are due to infectious diseases.

The increase in drug-resistant and emerging pathogen populations has also become a worsening public health problem, in part, due to the lack of choice in appropriate medicines to combat even the most common microbial infections. Bacterial strains have surfaced that are resistant to almost all classes of antibiotics and, in a few rare cases, are resistant to all antibiotics. Beyond the trend of increasing drug resistance, there is also concern of an inadequate pipeline of therapeutics to treat drug-resistant infections, particularly those caused by gram-negative pathogens (Source: *Clinical Infectious Diseases* 2009, 48:1-12). This lack of choice in the antifungal arena combined with drug resistance in fungal species has become a significant problem. Medical agencies around the world, including the U.S. Centers for Disease Control and Prevention (CDC) and the WHO, have announced concerns regarding the dwindling pipeline of therapeutics available for drug-resistant infections.

To address the trends of increasing resistance and a decreasing pipeline of candidates to treat such conditions, NovaBiotics is focused on the discovery and early-stage development of anti-infective compounds to treat infectious diseases for which there are presently no fully effective therapies. NovaBiotics seeks to offer a potential step-change in the industry versus a reinvention or reformulation of existing classes of antimicrobials. The Company believes that its stepwise approach is key in reducing the risk of encountering the same problems that the industry currently faces (e.g., lack of choice and antibiotic resistance). To NovaBiotics’ knowledge, there are currently no peptide antimicrobials in development for the indications that the Company is pursuing.

Fungal Nail Infections (Onychomycosis)

Fungal nail infections are frequently caused by a fungus that belongs to a group of fungi called dermatophytes. However, yeasts and molds can also be responsible. Each of these microscopic organisms live in warm, moist environments, such as in swimming pools or showers, and have the potential to invade an individual’s skin through even a small, invisible cut or a minute separation between one’s nail and nail bed. Problems often result if the nail is continually exposed to warmth and moisture. Infection with nail fungus occurs more frequently in toenails than in fingernails because toenails are often confined in a dark, warm, moist environment inside shoes, where fungi can thrive. Another reason may be the diminished blood circulation to the toes versus the fingers, which makes it more difficult for the body’s immune system to detect and eliminate the infection.

Should a fungal nail infection be left untreated, it can spread to tissues underneath the nail, to adjacent skin, or to other nearby nails. In extreme cases, as sometimes is seen in immunosuppressed individuals, the infection can be debilitating or require amputation of the affected extremity. Even the most common forms of mild to moderate onychomycosis (affecting less than half of the nail plate) can cause discomfort and negatively impact a patient’s quality of life. As well, the social stigmas associated with nail fungus can impact the psychological or social well-being of those affected.

Onychomycosis is considered to be one of the most difficult fungal infections to treat due to its location between the nail bed and nail plate, which is slow-growing, hardy, and receives very little blood supply. At present, treatments for fungal nail infections comprise either oral or topical therapies. Oral antifungals are considered to be the most effective treatment method. For example, Novartis AG's (NVS-NYSE) Lamisil[®] (terbinafine hydrochloride) tablets led to a "complete cure" (mycologic cure plus clinical cure) in up to 59% of patients with fingernail infections and in up to 38% of those with toenail infections in clinical testing (Source: Novartis). However, oral medicines can also be costly, require lengthy treatment regimens, cause negative side effects, and can become ineffective if the fungi become resistant to the medication. Currently available topical agents for nail fungus are only indicated for use in mild to moderate infections, while systemic therapies, alone or in combination with topical medicines, are recommended for more severe cases (depending on the health status of the patient)—particularly those with nail bed involvement. Topical therapies are presently the preferred treatment method by patients and healthcare providers.

The nail is a highly efficient biological barrier. As such, the delivery of therapeutic molecules into and across its various strata (layers) is a significant challenge. There is a need for effective topical treatments for economically significant conditions of the toenails, fingernails, and nail bed, such as fungal infections, for which chemistry-led approaches and small, hydrophobic, solvent-delivered topical antifungals have failed to deliver completely effective solutions thus far.

Some currently available topical antifungals, such as prescription lacquers, have a complete cure rate of less than 10%, even when applied daily to the toenail for up to 42 weeks. Due to the disadvantages of marketed therapies, NovaBiotics believes that there is an unmet need for a medicine that has a shorter treatment period and offers increased efficacy over available treatment options. The Company believes that these factors are behind the market only realizing less than 50% of its theoretical \$5 billion value. It is noteworthy that although the off-patent systemic therapy Lamisil[®] kills fungi (i.e., is fungicidal), others in this category are only fungistatic, inhibiting the growth of but not killing the source of the infection. NovaBiotics maintains that the combination of a fungicidal drug that is delivered topically, acts rapidly, and is safe is best suited for this market.

Novexatin[®]: A Topical Treatment for Fungal Nail Infections

Figure 1
 A FUNGAL NAIL INFECTION



Source: www.ehow.com.

NovaBiotics' lead product candidate is Novexatin[®] (NP213), a brush-on treatment for fungal nail infections, which affect more than 23 million individuals in the U.S. alone. Symptoms of a fungal nail infection include a thick, discolored, disfigured, and brittle nail, as illustrated in Figure 1. The nail may even become detached from the nail bed. In general, fungus of the toenail takes much longer to treat than an infection located beneath a fingernail. NovaBiotics believes that Novexatin[®] can be applied across all types of nail infections. However, since the majority of fungal nail infections are mild to moderate, the Company initially targeted the largest population of mild to moderate patients in its Phase I/IIa clinical studies. In subsequent clinical evaluation, the Company expects to target a broader range of patients, including patients with fungal infection of the fingernails. NovaBiotics' intention is to eventually position Novexatin[®] as a therapy to cover all degrees of fungal nail infections in the toenail or fingernail.

Using a biology-led informed drug design approach, NovaBiotics has re-engineered the endogenous peptide antimicrobials—natural infection-fighting agents that provide antimicrobial protection within the skin and nail—and has produced a novel, third-generation, first-in-class peptide therapeutic, Novexatin[®], which is able to clear fungal toenail infections within a fraction of the time it takes for currently available

small molecule alternatives to do so. Novexatin[®] is a fast-drying solution that is applied once daily to the surface of infected nails. The compound was designed, on the basis of its charge, size, and cyclic structure, to achieve the following: (1) efficiently penetrate the nail but to be excluded from skin; (2) remain stable and bioavailable within the nail; and (3) rapidly kill the causative dermatophyte fungi associated with onychomycosis.

These abilities have been demonstrated in both preclinical and clinical evaluation. Despite the ability of Novexatin[®] to efficiently penetrate the nail, no skin absorption was observed in the Phase I component of the current first-in-man clinical study or during pivotal preclinical development in which concentrations 100 times the clinical dose were applied daily for 28 days. This safety characteristic was expected by NovaBiotics as the molecule was designed to perform in this manner. Furthermore, preclinical studies demonstrated the ability of Novexatin[®] to remain bioavailable and bioactive within the nail. The bioavailability and biostability of Novexatin[®] was confirmed by microbiological, biochemical, and radiochemical assays in an *ex vivo* nail model. These characteristics are key among those that NovaBiotics believes may separate its candidate from the limited number of currently available treatments and from therapies in development, providing a potential solution to a poorly served global market that could exceed \$5 billion. To date, Novexatin[®] has been well tolerated and highly active against dermatophytes and, with its ability to penetrate thoroughly into the infected nail, has been shown to rapidly kill fungal infections.

Clinical Development

In July 2009, the Company received clearance from Germany's Federal Institute for Drugs and Medical Devices and the Ethics Commission to initiate first-in-man Phase I/IIa clinical studies with Novexatin[®] and subsequently commenced clinical testing. In September 2009, NovaBiotics completed the Phase I in-life component of the two-part trial, which successfully demonstrated the safety and tolerability of Novexatin[®]. Additionally, NovaBiotics completed dosing all 48 patients in the Phase IIa trial in late 2009. Over a 28-day period, one third of the participants received placebo control while the remaining patients were administered daily doses of Novexatin[®] on a single infected toenail. The Company announced results from its initial analysis in early 2010, which showed that the agent met its safety and tolerability endpoints. As well, pharmacodynamic analysis to determine the degree of nail penetration showed that most samples had no viable dermatophyte fungi present after a month's exposure to Novexatin[®]. NovaBiotics stated that the rate of indicative mycological cure (assessed as a measure of drug pharmacodynamics) after only one month of treatment is higher than that achieved by existing remedies over longer treatment times. To date, Novexatin[®] has not caused any of the potentially serious side effects that are known to occur with some currently marketed therapies (e.g., liver damage).

The Company is in active discussions to outlicense Novexatin[®] for further clinical development. As of November 2009, NovaBiotics had signed Confidential Disclosure Agreements (CDAs) with several interested parties, including both specialty and large pharmaceutical companies. The Company believes that Novexatin[®] could be on the market as early as 2014, an initiative that is dependent upon further successful clinical development and approval by various regulatory authorities worldwide. NovaBiotics estimates that the market for Novexatin[®] could reach an estimated \$5 billion (~£3.2 billion).

NovaBiotics believes that Novexatin[®] could follow a development path similar to Novartis' off-patent systemic therapy Lamisil[®]. In addition to the onychomycosis indication, Novexatin[®] may be used to treat other fungal infections of the skin that are caused by the same groups of organisms. As such, there is potential for a product extension for indications such as ring worm or athlete's foot.

Potential Partnering and Mergers and Acquisitions Activity

The Company has selected Phase II for potential partnering and mergers and acquisitions (M&A) activity, as this stage of development has been a value inflection point for product candidates in development in this area in recent years. In December 2009, AstraZeneca plc (AZN-NYSE) entered into an agreement to acquire Novexel, a closely held infection research company, for a total cash consideration of up to \$505 million. Novexel's clinical development pipeline includes two Phase II candidates and two preclinical programs. Based on NovaBiotics' pipeline candidates and current industry trends, the Company believes that it has the potential to become a target for acquisition.

Novamycin[®]: An Antifungal Peptide for Systemic Fungal Infections

Potentially life-threatening systemic (related to internal tissue and/or the bloodstream) fungal infections are caused by a variety of opportunistic pathogens that can cause disease in individuals with weakened or otherwise compromised immune systems (e.g., the elderly, newborns, and post-transplant, chemotherapy, and HIV/AIDS patients). Long-term hospital care and indwelling medical devices, such as catheters or intravenous lines, are also risk factors for these infections, which are among the leading causes of nosocomial (hospital-acquired) infections worldwide. Conventional first-line antifungal treatments for systemic fungal infections are limited in number, in most cases, more so than the choice for bacterial infections. These therapies are also associated with serious, potentially fatal complications and side effects that are more significant than for antibacterials, as fungal cells are more similar to human cells than bacteria. This includes a small risk of developing potentially fatal liver disease when taking oral or intravenous Diflucan[®] (fluconazole) or Vfend[®] (voriconazole), or the more significant risk of damage to the kidneys associated with amphotericin B treatment. Liposomal forms of amphotericin, such as Astellas Pharma US, Inc.'s Ambisome[®], reduce this risk but are costly.

Systemic fungal infections are a growing problem in medicine and represent a market estimated to be valued at \$5.7 billion by 2014 (Source: BioPharm Insight). Chemotherapies and immunosuppressive agents, which compromise patients' immune systems and leave them more susceptible to infection, are becoming more commonly and successfully employed in medicine (e.g., cancer treatment, transplantation, etc.). Antifungal resistance is prevalent in the pathogens that cause these infections. The limited choice of available treatments, combined with safety shortcomings in some cases, leaves a significant unmet medical need in this space. To address this, NovaBiotics has developed Novamycin[®] (NP339/NP341), an antifungal peptide for the treatment of systemic fungal infections caused by various forms of yeast (but predominantly *Candida*).

NovaBiotics derived Novamycin[®] from the same platform as Novexatin[®], its lead clinical-stage compound. In preclinical evaluation, Novamycin[®] was rapidly fungicidal and capable of killing *Candida* yeasts within 30 minutes of exposure and demonstrated little to no cytotoxicity *in vitro* against human lung, skin, and liver cell lines when administered at concentrations higher than any potential therapeutic dose. Based upon preliminary *in vivo* studies with Novamycin[®], NovaBiotics believes that the peptide could have a promising safety and toxicity profile. The Company's peptide has demonstrated fungicidal activity across representatives of all *Candida* species, both type strains and clinical isolates, including those known to be resistant to conventional systemic antifungal therapies. More recently, evidence of *in vivo* efficacy for intravenously administered Novamycin[®] has been shown in murine candidemia models. Life-threatening systemic *Candida* infections or invasive candidiasis places a \$1.8 billion burden on the U.S. healthcare system annually (Source: Georgetown University Medical Center, October 2008).

Based on the preclinical data with Novamycin[®] to date, the Company believes that its systemic antifungal peptide technology provides an opportunity for early co-development with an appropriate partner in the future. NovaBiotics has already met several key technical milestones for Novamycin[®] concerning *in vivo* safety and efficacy in an established model of candidemia, and believes that the compound could reach the clinic by late 2010/early 2011.

Antimicrobial Peptides for Respiratory Infections

NovaBiotics also aims to develop technologies that address respiratory infections caused by gram-negative *Pseudomonas aeruginosa* (*P. aeruginosa*), an opportunistic pathogen that causes various community-associated and hospital-acquired infections, including pneumonia, urinary tract infections, and bacteremia. *P. aeruginosa* is also known to colonize in the lungs of cystic fibrosis and severe chronic obstructive pulmonary disease (COPD) patients. Cystic fibrosis is an inherited disease that is characterized by unusually thick, sticky mucus that can clog the lungs and provides an environment that promotes bacteria growth. *Pseudomonas*, including *P. aeruginosa*, can colonize the lungs of cystic fibrosis patients and thus increase the risk of pulmonary damage and the high mortality rates that are already associated with this disease. Current therapies include Tobramycin Inhalation Solution USP, or TOBI[®], which delivers antibiotics directly into the lungs to treat infections caused by *P. aeruginosa* and other pathogens. However, the cost of tobramycin is approximately \$20,000 per patient.

Similar to TOBI[®], NovaBiotics plans to administer its antimicrobial peptides in an aerosol form to facilitate delivery of the medicine directly to the infection site within the lung. NovaBiotics' peptides have demonstrated antimicrobial activity against planktonic, persister, and biofilm bacterial cells, which are believed to be a main cause of recurring respiratory infections. Each year in the U.S., biofilm-associated infections cause approximately 500,000 deaths—an annual figure that is nearly as high as cancer-related deaths in the U.S., which were estimated by the American Cancer Society (ACS) to be 562,340 in 2009 (Source: *Discover*, a science and technology magazine, July 2009). Treatment of biofilms is difficult because these organisms can resist the effects of both the human immune response and conventional antibiotics, and are considered to be up to 1,000 times more resistant to antimicrobials than the same bacteria growing in a state of suspension (versus in a biofilm).

Among other advantages, NovaBiotics anticipates that its antimicrobial peptides may be less likely to trigger resistance by targeted pathogens than currently marketed antibiotics. The Company expects to obtain *in vivo* data on its antimicrobial peptides for respiratory infections in late 2010.

Antimicrobial Compounds to Treat Acne/Dermal Infections

NovaBiotics' antimicrobial compounds also have potential to treat polymicrobial infections, which are the result of infection by multiple organisms. The pathogens comprising these complex infections consist of various combinations of viruses, bacteria, fungi, and parasites. Infection by more than one organism can occur at the same time or one after the other. Polymicrobial infections are widely found on several anatomic sites, including the oral cavity, respiratory tract (both upper and lower), and gastrointestinal tract—all of which provide a moist, nutrient-rich environment for microorganisms. Open wounds caused by surgery, accident, burns, or ulcers, among others, are also common locations for infection. Patients who are immunosuppressed by medicine, disease (e.g., diabetes or cancer), or injury are at a higher risk of developing a polymicrobial infection. These individuals are also more susceptible to infection by drug-resistant pathogens, which are costly to treat and are potentially life-threatening, particularly for patients who are already immunosuppressed or critically ill.

NovaBiotics believes that its compounds may be less toxic than existing antibiotics while maintaining microbicidal activity. As such, the Company expects that its proprietary compounds could treat polymicrobial infections, such as dermal infections and acne, more safely and effectively than conventional therapies when administered as a topical formulation. NovaBiotics' antimicrobial compounds have not been shown to carry the same risks of acquired resistance development as most conventional antibiotics. The Company's data has suggested that resistance cannot develop because its compounds act via a "physical kill" mechanism and cause membrane disruption. There is no single pathway or set of genes that the compounds target, which is a key factor in the development of drug-resistant bacteria.

Consumer Healthcare/Cosmetics

In addition to its therapeutic compounds, NovaBiotics has other anti-infective peptides and some botanically derived compounds available for license that could be incorporated into over-the-counter healthcare and cosmetic products for the skin, hair, and nails. NovaBiotics has established relationships with undisclosed global consumer healthcare providers and cosmetics entities for the development and commercialization of its Luminaderm[™] technology, which entails various therapeutic molecules that may be used to enhance consumer healthcare and cosmetic products. During the fiscal year ended August 31, 2008, the Company received £15,000 from co-development activities for one of its Luminaderm[™] molecules. A further £52,000 was generated for this work in fiscal 2009. NovaBiotics has also been in discussions with other parties for the use of Luminaderm[™] in further indications. In the short term, the Company may seek to market this technology for various applications, including dandruff, acne, athlete's foot, and nail care, among others.

Intellectual Property Portfolio Expansion

NovaBiotics' intellectual property portfolio is composed of over 40 patents both granted and pending worldwide. The Company's patents are contained within seven patent families: cyclic peptides, peptides, compounds and their use, antifungal peptides, antibacterial peptides, biofilms, and nail model. The nail model patent family, which represents the latest addition to the Company's patent portfolio, consists of two pending patents, one in the U.S. and one in the UK.

Corporate Information

NovaBiotics was founded by Dr. Deborah A. O'Neil in 2004 as a spin-out from research performed at the University of Aberdeen's Rowett Institute of Nutrition and Health (www.rowett.ac.uk). The Company's corporate headquarters are located in Aberdeen, Scotland. NovaBiotics' Board of Directors and management team are focused on high-value opportunities and the delivery of commercial success from a solid technology base. NovaBiotics has received several accolades for its business initiatives since its inception. In 2006, Scottish Enterprise named NovaBiotics the "Most Promising New Life Science Company" and the Royal Bank of Scotland awarded the Company the "Sir Ian Wood Award for Innovation" at the Grampian Awards for Business Enterprise 2006. In February 2009, the Company received the UK BioIndustry Association's Rising Star Award, which recognizes companies with a clear vision and development objectives. Including members of its Board, NovaBiotics employs 17 individuals, 10 of whom are full time.

NovaBiotics is in the process of fundraising during the first half of 2010 in order to facilitate further clinical development of Novexatin[®] and the delivery of key milestones on its pipeline products. The Company reports that it is on track to secure £2.5 million, the majority of which has already been committed from its existing shareholder base. Since its inception in 2004, NovaBiotics has raised circa £5 million in funding from existing shareholders, Scottish Enterprise (Scotland's main government-sponsored economic development agency), and local investor syndicates. The Company has continued bank support by way of an overdraft facility.

Key Points to Consider

Note: Unless otherwise stated, all monetary amounts are in U.S. dollars. At 03/04/2010, US\$1.00 ≈ £0.67.

- NovaBiotics is focused on the discovery and early-stage development of anti-infective compounds to treat infectious conditions and diseases for which there are presently no fully effective therapies. Infectious diseases are a major healthcare concern worldwide, in part, due to the emergence of drug-resistant microbes and the lack of appropriate medicines to treat such illnesses.
- The Company's lead, clinical-stage initiative is Novexatin[®] (NP213), a topical, brush-on treatment for nail fungus (onychomycosis). Preclinical and clinical studies demonstrated that Novexatin[®] can clear a fungal infection from full thickness toenails within 28 days.
 - NovaBiotics commenced a Phase I/IIa clinical study with Novexatin[®] in July 2009. Data released from the 12-patient Phase I portion of the two-stage trial demonstrated the safety and tolerability of Novexatin[®] and confirmed that there was no systemic exposure through skin penetration.
 - The Company has completed dosing and preliminary analysis of the 48-patient Phase IIa clinical trial with Novexatin[®], which met its safety and tolerability endpoints. For patients treated with Novexatin[®], the rate of indicative mycological cure after only one month of treatment was higher than that seen with existing remedies, which can require application for 12 to 42 weeks.
- NovaBiotics believes that the data from its Phase I/IIa trials could lead to a licensing agreement or technology acquisition event in 2010/2011. The Company has signed Confidential Disclosure Agreements (CDAs) with several interested parties to date, including both specialty and large pharmaceutical entities. NovaBiotics anticipates that Novexatin[®] could reach the market as early as 2014, dependent upon further successful clinical development and approval by various regulatory authorities globally.
- While the global onychomycosis market is estimated by the Company to be static at nearly \$2 billion, introduction of a more effective, safer therapy could expand the market to \$5 billion worldwide. NovaBiotics believes that Novexatin[®] could serve as a stimulus to expand the market by better serving the market's needs as the compound is less costly, requires a shorter treatment period, and may provide improved safety and efficacy in onychomycosis patients versus existing therapies.
 - Topical delivery is the preferred treatment route for onychomycosis by patients and healthcare providers. Currently available topical antifungals (e.g., prescription lacquers) are reported to have a complete cure rate of less than 10%, even when applied daily to the toenail for up to 42 weeks.
 - Presently, oral (systemic) antifungals are considered to be the most effective treatment method available for onychomycosis. However, while oral antifungals can lead to a complete cure in a greater number of patients than topical therapies, the efficacy of these treatments continues to be limited, particularly in fungal toenail infections.
- Within its pipeline portfolio, NovaBiotics also has proprietary antifungal peptides to treat systemic fungal (yeast and mold) infections as well as antimicrobial peptides and compounds to treat respiratory, systemic, and dermal bacterial and polymicrobial infections. In addition to these therapeutic compounds, NovaBiotics has other anti-infective peptides and some botanically derived compounds available for license to be used in over-the-counter healthcare or cosmetic products.
- The Company's intellectual property portfolio entails over 40 patents both granted and pending globally. Because NovaBiotics has developed its molecules rapidly—with its first product candidate reaching the clinic in under five years—substantial patent life remains for potential pharmaceutical or biotechnology partners, affording these entities more time to recuperate costs prior to patent expiry.
- Since its inception in 2004, NovaBiotics has raised circa £5 million in funding, largely from existing shareholders. NovaBiotics has also received funding from Scottish Enterprise, Scotland's main government-sponsored economic development agency, and has continued bank support by way of an overdraft facility. A further fundraising is underway with the aim of securing £2.5 million in the first half of 2010. As of January 31, 2010, NovaBiotics had (£259,000) in cash.

Risks

Some of the information in this Quarterly Update relates to future events or future business and financial performance. Such statements can only be predictions and the actual events or results may differ from those discussed due to the risks described in NovaBiotics' reports and press releases, as well as other forms filed from time to time. The content of this update with respect to NovaBiotics has been compiled primarily from information available to the public released by the Company. NovaBiotics is solely responsible for the accuracy of this information. Information as to other companies has been prepared from publicly available information and has not been independently verified by NovaBiotics. Certain summaries of activities have been condensed to aid the reader in gaining a general understanding. For more complete information about NovaBiotics, please refer to the Company's website at www.novabiotics.co.uk. Additionally, please refer to Crystal Research Associates' base report, the Executive Informational Overview[®] (EIO[®]), dated November 2, 2009, and located on Crystal Research Associates' website at www.crystalra.com for more comprehensive details of NovaBiotics' risk factors.

Intentionally Blank.



Jeffrey J. Kraws or Karen B. Goldfarb
Phone: (609) 306-2274
Fax: (609) 395-9339
Email: eio@crystalra.com
Web: www.crystalra.com

Legal Notes and Disclosures: This Quarterly Update has been prepared by NovaBiotics Ltd (“NovaBiotics” or “the Company”) with the assistance of Crystal Research Associates, LLC (“CRA”) based upon information provided by the Company. CRA has not independently verified such information. In addition, CRA has been compensated by the Company in cash of thirty-eight thousand five hundred U.S. dollars and one hundred thousand Warrants/Options for its services in creating the base Executive Informational Overview[®] (EIO[®]), for updates, and for printing costs.

Some of the information in this update relates to future events or future business and financial performance. Such statements constitute forward-looking information within the meaning of the Private Securities Litigation Act of 1995. Such statements can be only predictions and the actual events or results may differ from those discussed due to, among other things, the risks described in NovaBiotics’ reports and press releases issued from time to time. The content of this report with respect to NovaBiotics has been compiled primarily from information available to the public released by the Company. NovaBiotics is solely responsible for the accuracy of that information. Information as to other companies has been prepared from publicly available information and has not been independently verified by NovaBiotics or CRA. Certain summaries of scientific activities and outcomes have been condensed to aid the reader in gaining a general understanding. For more complete information about NovaBiotics, the reader is directed to the Company’s website at www.novabiotics.co.uk. This report is published solely for information purposes and is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any state. Past performance does not guarantee future performance. Free additional information about NovaBiotics and its public filings, as well as free copies of this report, can be obtained in either a paper or electronic format by calling +44 (0)1224 711377.