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26 May 2004

The Manager - Companies
Australian Stock Exchange Limited
20 Bridge Street
SYDNEY NSW 2000

(2 pages by email)

Dear Madam,

RE: OPERATIONS UPDATE

The Director's advise that there is, in their opinion, no reason for the recent decline in the Company's share price.

To the contrary, results of the Company's activities, particularly in the Virion Project, have been very encouraging. These activities are part of an ordered program which the Company will continue to pursue to maximise returns to shareholders in the commercialisation of the project by way of collaboration with a pharmaceutical company.

In order to select a lead drug candidate for further development, the Company has synthesized its original anti-Vpu activity compound, BIT009, into more than 160 novel analogues which have been subjected to a series of anti-Vpu activity tests. As a result of these tests, 6 of the most promising lead candidates were sent overseas for additional testing.

Consistent with results previously announced to the market, these studies, undertaken by Advanced Biotechnologies Incorporated, Maryland, USA, independently confirmed that the Company's compounds are able to inhibit replication of HIV-1 virus.

With these efficacy results in hand, the Company has advanced to the next stage of lead drug candidate selection program and has commenced toxicity studies of the 6 most promising lead candidates. Favourable results from these animal toxicity studies, which are expected within a matter of weeks, will advance the Company's commercialisation process.

A manuscript describing inhibition of HIV-1 replication by some of the Company's compounds has just been released for publication in a prestigious, international, peer-reviewed journal (*Antimicrobial Agents and Chemotherapy*, June 2004, 48:2325-2330).

As previously reported, addition studies are on-going testing the Company's compounds against other viruses. Some of this testing will be undertaken in conjunction with researchers at the National Institute of Health (NIH) in the USA.

In order to complete the Company's planned development program, the Company has recently been awarded a \$1.66 million Federal Government Start Grant which is in addition to the Company's cash reserves which exceed \$3 million.

For further information, please contact Dr. Michelle Miller, CEO, on (61-2) 61258001.

Yours sincerely

A handwritten signature in black ink, appearing to read 'PJN', with a stylized flourish at the end.

Peter J. Nightingale
Company Secretary

pjn2567