



▶ Message from Dr. Esra Ogru, Joint CEO, Phosphagenics Limited

Phosphagenics' strategy is to leverage its unique platform technology, TPM™, across many markets to develop products for human health, veterinary medicines, personal care and cosmetics, over the counter (OTC) and dermatology products. This strategy enables the company to diversify its portfolio, thereby reducing risk and driving the company towards becoming financially self-sufficient.

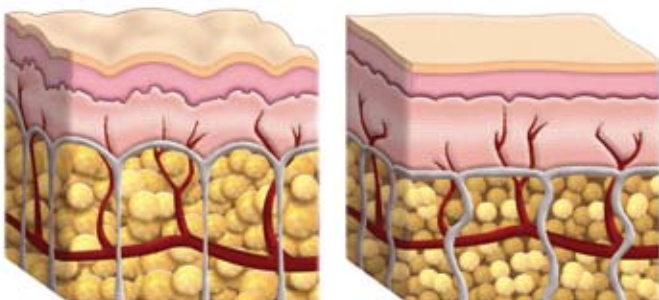
The company continues to form strategic alliances with both small and multi-national corporations. Partnering with companies and combining complementary expertise and resources creates an environment that enables our company to move its projects forward. Partnerships provide Phosphagenics with credibility, capability and, most importantly, funding for many of its projects. All the while, it remains focused on developing its oxycodone patch, which is currently undergoing clinical trials to optimise the product profile before re-entering the clinic towards the end of the year to undertake Phase 2/3 studies.

▶ Update on key programs

TPM/AOD9604 – NOVEL ANTI-FAT PEPTIDE

The novel biological properties of AOD9604, combined with the company's delivery technology, provide Phosphagenics an opportunity of developing a product that may reduce the visible appearance of subcutaneous fat or cellulite.

▶ Before and after cross-section of cellulite



Formulation work has been underway to maximise the delivery of this novel peptide into the skin, eliminating the need for the active to travel through the systemic circulation by directly targeting problem areas. Human studies are planned to assess the cosmetic benefits of TPM/AOD9604 in relation to the appearance of these problem areas. By developing AOD as a cosmetic product, development costs will be substantially reduced, as will the time required to get the product to market. If successful, the TPM/AOD9604 product will not only capture a significant percentage of the global anti-cellulite market but will likely also increase the size of that market.

The AOD program has attracted commercial interest and Phosphagenics is working with experts to plan the development and commercial strategy for the product. The current leading commercial cosmetic creams with which our product will compete have little supporting scientific data demonstrating efficacy. An efficacious topical cream able to improve the visible appearance of subcutaneous fat should quickly impact the global market. The low cost of entry into the personal care industry and the speed in which products can be launched into the market makes this product commercially extremely attractive.

Phosphagenics aims to complete its formulation and efficacy study this year and to commence the commercialisation process for TPM/AOD9604 in the first quarter of 2011. This program is proceeding in line with expectations and Phosphagenics is encouraged by the developments completed to date.

“Phosphagenics has an opportunity of developing a product that may reduce the visible appearance of subcutaneous fat or cellulite”

▶ R & D Update

TPM/OXYCODONE – FOR THE MANAGEMENT OF CHRONIC PAIN

Phosphagenics has re-entered the clinic to conduct a comprehensive study aimed at identifying the optimum-dosing regimen for its TPM/oxycodone matrix patch system. Commercially, it is desirable to design a patch for either a one or seven-day application as this leads to better patient compliance.

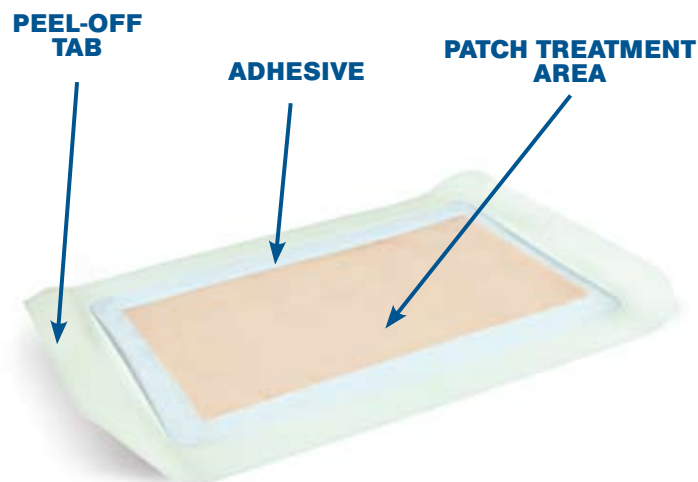
The current study is expected to be completed by the end of Q3 2010. Phosphagenics is working closely with leading pain experts who will review the data when the study is completed and advise on the most appropriate path forward into the Phase 2/3 program.

The company is also in late-stage discussions with commercial patch manufacturers and regulatory experts to plan the program for registering and commercialising the TPM/oxycodone matrix system.

Although oxycodone, an opioid derivative, is more potent than morphine, it nevertheless produces less adverse side effects. It has become the drug of choice for chronic pain management of patients suffering from debilitating diseases such as cancer, with annual sales exceeding US\$3 billion globally. Currently the drug can only be administered orally or intravenously. Phosphagenics aims take this program as far as possible in-house and to become the first company to offer chronic pain sufferers an oxycodone patch that will provide sustained pain relief.

TPM/INSULIN – FOR THE MANAGEMENT OF DIABETES

Phosphagenics has successfully developed a TPM/insulin matrix patch system. The product has performed well in all preclinical studies and is now ready for clinical development. This is a very exciting key program for the company. A TPM/insulin patch system has the potential to be a blockbuster and the ability to revolutionise the way basal insulin can be treated. However, the program requires significant monetary investment given the complexity of the disease state. Consequently, the company has made a strategic decision to prioritise the TPM/oxycodone program ahead of its insulin program. The TPM/insulin project is a high priority program for the company and will advance its



Pictured above: TPM/oxycodone Pain Relief Patch

clinical development program once the oxycodone project has been bedded down.

This decision was made because TPM/oxycodone has a much easier route to market from a clinical, regulatory and cost perspective. This strategy will allow the company to progress its lead program into commercialisation and provide maximum returns to shareholders.

PHUSION LABORATORIES LLC

Phusion Labs, the new joint venture company (50% owned by Phosphagenics and 50% by ProPhase Corporation, formerly known as Quigley Corporation), has completed a preliminary evaluation of the US OTC market for 'non prescription' pharmaceutical products. The first product category to initiate the development phase is being evaluated for market value, differentiation and development feasibility. A final decision will be announced in the coming weeks as more work is completed. Other exciting new products with a range of different actives for the treatment and management of various conditions are also being considered for incorporating the benefits of TPM™ technology. The joint venture is working toward commercialising these products as soon as possible.

Beyond these initial developments, the JV continues to consider additional new market sectors where TPM™ technology may provide added value. This OTC venture will provide a significant avenue for Phosphagenics to use TPM™ technology in the development and commercialisation of OTC products.

ELIXIA®

www.elixia.com.au



Phosphagenics' first venture into the commercial world of personal care has resulted in a successful launch of our Elixia® skincare range. Product feedback has been very positive from our close retail partners – Pulse Pharmacies, Vitamin Me and Roy Young – and consumers, who are continuing to buy the range.

CUSTOMER FEEDBACK:

"It has a pleasant perfume which fades to allow you to use your own perfume without it conflicting. It absorbs quickly into the skin and leaves the skin soft. I have a problem with patches of extremely dry areas, which seem to be clearing up but has taken until yesterday to show real signs of going. I shall continue to use the Elixia lotion and to monitor my problem areas of dryness."
– Valerie (via email, June 2010)

"I'm aged 59 years and since my early 40s I've experienced a lot of drying of my skin and increased sensitivity. The only products that have consistently helped have been very expensive French ones, so I've been absolutely thrilled with the new Elixia range. I also love the fact that it's an Australian product." – Jenny (via email, June 2010)



"Elixia® is the perfect combination of scientifically proven biotechnology and amazing ingredients, including anti-ageing retinol, making this range unique – the results are truly exciting"

A significant program of advertising, promotion and training continues as we build Elixia® brand recognition and awareness of the benefits of TPM™ in the Australian marketplace, and develop strategies to expand distribution and sales into the global cosmetics industry.

Elixia® product development is in full swing, with four new high-end products specifically targeting anti-ageing scheduled for production in Q3 2010. Market-leading anti-ageing ingredients plus TPM™ have been formulated into a Daily Skin Smoothing Lotion, Night Renew Complex, Eye Brightening Fluid and a Hand Revitalising Cream. Together they create a skincare regimen that balances 'botox-like' properties during the day with the renewal of skin cells at night. An Eye Fluid to help reduce dark circles and puffiness under eyes, and a rich Hand Cream with anti-ageing ingredients and sun protection, complete our new Personal Care product offer for 2010.

Phosphagenics is confident these new range additions will showcase Elixia® as a competitive premium brand that will expand our appeal and exposure to consumers, and form the foundation of our global Personal Care growth strategy.



PHOSPHAGENICS



LE MÉTIER DE BEAUTÉ

Following from the success of the two Peau Vierge products launched in November 2009, Le Métier de Beauté is now getting ready to launch six new products containing TPM™ in September 2010. These new products will be sold at a premium and will be exclusively available through dermatologists throughout the USA. Phosphagenics is working closely with Le Métier to develop and market high-end personal care products containing TPM™ technology.

▶ Commercial Partnerships

Phosphagenics continues to work closely with Novartis Animal Health to develop TPM/insulin for domestic pets. The program is proceeding well and on plan.

Phosphagenics has entered into several research and development agreements with leading companies in the dermatology and cosmetics fields. These programs are at various stages of development. If they are successful, Phosphagenics will announce the nature of the future relationships as they move towards definitive commercial arrangements, which are expected to be achieved by early 2011.

All of these research and development programs are funded by external parties. The fact that Phosphagenics has been able to attract these parties to pay for research is a validation of its technology by global market leaders.

