

PHOSPHAGENICS

NEWSLETTER | JULY 2008

PHOSPHAGENICS LIMITED
ABN: 32 056 482 403



President & CEO - Harry Rosen

Dear Shareholders,

I would like to take this opportunity to update you on our progress since our December newsletter.

Our strategy is focused on accelerating our clinical program and we plan to have seven products in the clinic by the end of 2008 (*refer to pages 2 and 3*).

This month we achieved favourable results in our U.S. safety and irritation human trial for our lead dermal product, TPM/tretinoin (tretinoin is also known as retinoic acid). Based on these results, and the three-fold increase in penetration rates achieved in our pre-clinical development with this product, we are planning a human dermal pharmacokinetic trial later this year. This will then be followed by an efficacy trial.

We also completed phase 1b transdermal insulin and phase 1 transdermal oxycodone trials, announced in August and December 2007, respectively.

This year, we are scheduled to complete the following trials:

- a phase 2 transdermal insulin trial, despite frustrating delays in patient recruitment;
- a phase 2 Phospha E[®] trial, in partnership with Nestlé Nutrition (Nestlé);
- a phase 1 lidocaine trial (localised delivery); and
- a phase 1 diclofenac trial (localised delivery).

We've experienced recruitment delays in our Phospha E[®] clinical trial. In an effort to address this issue we have increased the number of trial sites from three to five. We now expect to complete this trial by the end of 2008 with results anticipated during Q1 2009.

To finance our clinical program we raised A\$9.1 million via institutional investors in Australia and the U.S. which, together with government grants and other expected revenues, will underpin our R&D program through to the end of 2009.

This capital raising is a testament to the strength of our technology and market confidence in the Company, despite

turbulent world financial markets. It is also consistent with our strategy to balance risk and maximise returns by internally funding our clinical program and not license our intellectual property too early in its development.

We are committed to establishing our commercial operations in the U.S. and have recently appointed New York-based Fred Banti as our Chief Business Officer and Senior Vice President. Meanwhile, our Board has been strengthened with the appointment of Michael Ashton as a Non-Executive Director.

Fred and Michael have an accumulated 55 years' experience in the pharmaceutical industry, and their appointments indicate that we have reached a pivotal point in our corporate development where greater emphasis will be placed on commercial outcomes.

As we look forward, we are anticipating an exciting second half of 2008.

Regards,

Harry Rosen

PHOSPHAGENICS APPOINTS U.S. - BASED NON-EXECUTIVE DIRECTOR

This month Phosphagenics appointed Michael Ashton as a Non-Executive Director.

Michael has more than 30 years' experience in the international pharmaceutical industry having held senior management positions with Merck Inc., Pfizer Inc., Faulding Inc. and SkyePharma Plc, where he was CEO.

He is a member of the Boards of Hikma Plc., Proximagen Neuroscience Plc. and Transition Therapeutics Inc.

Harry Rosen, Phosphagenics' President & CEO, said: "I am delighted to welcome Michael to our Board and believe his appointment considerably strengthens our commercial team."

Michael Ashton said: "The Company's technologies and new product development opportunities are very exciting. I am very pleased to be joining the Board at this time."

2008 PRODUCT PIPELINE

TRANSDERMAL DELIVERY

Insulin

Phosphagenics commenced a phase 2 insulin trial in late 2007 after the completion of a phase 1b trial in August 2007 confirmed the safety and tolerability of our proprietary drug delivery platform (TPM) to deliver insulin into the bloodstream without adverse effects.

Recruiting suitable patients with diabetes, which fall within the parameters of the trial selection criteria, has frustratingly hindered our progress. Consequently, we have recently opened an additional site and now anticipate the completion of our phase 2 insulin trial by the end of 2008.

This trial is being conducted under the guidance of William Hsu of the Joslin Diabetes Centre, Harvard Medical School, Boston, MA.

Oxycodone

Phosphagenics' aim is to become the first company to commercialise a sustained-release oxycodone patch for chronic-pain sufferers.

We are currently developing a transdermal patch for oxycodone in collaboration with a leading global patch development company and plan to re-enter the clinic with oxycodone as soon as the patch development is complete.

Our agreement with the patch company provided for the patch development to be completed this month and to re-enter clinical trials this quarter. We are now informed that the patch should be completed prior to the end of the year.

Oxycodone is a blockbuster drug with annual sales exceeding US\$1.5 billion. It is currently only available in tablet or injectable form so a new delivery system should capture a reasonable percentage of the current market.

PRODUCTS IN DEVELOPMENT IN AUSTRALIA

	Discovery & Research	Pre-clinical	Phase 1	Phase 2	Target Application
Drug Delivery - Systemic/Transdermal					
Insulin	[Progress bar]				Diabetes
Morphine	[Progress bar]				Pain Management
Oxycodone	[Progress bar]				Pain Management
Drug Delivery - Non-systemic/Localised					
Lidocaine	[Progress bar]				Pain Management
Diclofenac	[Progress bar]				Pain Management
Oral					
Phospha E® (Nutra)	[Progress bar]				Metabolic Syndrome

ORAL

Phospha E®

Late last year we commenced a phase 2 clinical trial with Nestlé to establish the efficacy of Phospha E® in the management of metabolic syndrome.

Metabolic syndrome is characterised by a group of risk factors that increase the threat of diabetes, coronary heart disease and other diseases associated with plaque build up in artery walls.

Due to recruitment delays, the completion of this trial is now expected later in the year with results to be finalised in Q1 2009.

Upon the successful completion, under the terms agreed, a commercial agreement is expected to be signed granting Nestlé a worldwide exclusive licence to use Phospha E® in certain foods while we maintain the manufacturing rights.

Phosphagenics has built a strong relationship with Nestlé since undertaking two pre-clinical studies in 2006, which showed that Phospha E®, when given orally, significantly reduced many of the key biomarkers associated with metabolic syndrome.

PRODUCTS IN DEVELOPMENT IN THE U.S.

	Safety	Dermal Pharmacokinetic	Efficacy	Target Application
Drug Delivery - Dermatology				
Tretinoin (Retinoic Acid)	[Progress bar]			Acne

LOCALISED DELIVERY

Lidocaine

In April 2008, we announced positive results of a pre-clinical study – our first targeted localised delivery study – using TPM for the delivery of lidocaine, a pain management drug, commonly used as a local anaesthetic for dentistry, minor surgeries, back pain and arthritis, among other indications.

The results of this study showed that TPM is capable of improving the penetration rate and delivery concentration of lidocaine, while importantly, limiting systemic exposure.

A phase 1 human clinical trial is scheduled to commence in Q3 2008, with completion due prior to the end of 2008.

Diclofenac

In addition to lidocaine, Phosphagenics is also utilising its TPM targeted, non-systemic delivery technology to deliver anti-inflammatory compounds.

We plan to conduct a phase 1 clinical trial in Q4 2008 to improve the delivery of a leading anti-inflammatory drug, diclofenac, commonly marketed as Voltaren®.

DERMAL DELIVERY

Tretinoin (Retinoic Acid)

Tretinoin is the topical treatment of choice for acne. However, it is poorly soluble and associated with irritation and dryness of the skin.

Our pre-clinical study in June 2007 showed a three-fold increase in the level of tretinoin delivered into the skin using our platform technology, compared to tretinoin alone.

Following this, we have obtained favourable results in our human safety and irritation TPM/tretinoin clinical trial conducted in the U.S. and plan to commence a human dermal pharmacokinetic trial towards the end of 2008.

The market for topical prescription retinoids, such as tretinoin, for acne treatment exceeds US\$350 million annually. If our pre-clinical study results are repeated in our forthcoming human clinical trials then we can expect to potentially expand the current market, and very likely capture a significant proportion of the existing market.

PHOSPHAGENICS WELCOMES FRED BANTI



**Senior Vice President
& Chief Business Officer
- Fred Banti**

Q: What attracted you to Phosphagenics?

A: I was attracted to Phosphagenics because of its proprietary world-class TPM technology. This unique delivery platform is capable of delivering a wide range of small and large molecules both topically (into skin) and across the skin (into the bloodstream) – it has many applications in multiple therapeutic areas, including pharmaceutical, nutraceutical and cosmeceutical.

It is an exciting time to be at Phosphagenics with seven products in our pipeline that are either in clinical trials or about to enter the clinic.

Q: What are your priorities in the next six months?

A: In short, my role will be to prioritise our pipeline projects, with respect to project value, speed to market

and overall cost of development. Then to leverage this information to generate data in clinical trials that will drive collaborations with partners.

Convincing data that meets an unmet medical need, such as the transdermal delivery of insulin, will focus worldwide attention on our technology from potential collaboration partners.

Q: As an Australian company with a global focus, how do you think Phosphagenics fares at a global level?

A: I believe we are very competitive. Our TPM technology differs from any technology in the world and is capable of producing vesicles that can carry a range of drugs through the skin.

This makes it an incredibly robust technology that can improve or meet unmet needs faced by patients all around the globe, such as pain management and diabetes, as well as many other areas that we have yet to start development – so I think we are well positioned with our technology platform.

PHOSPHAGENICS' GLOBAL POSITIONING

