



PHOSPHAGENICS

Newsletter September 2012

Dear Shareholders

Phosphagenics' TPM® Delivery Technology is a platform delivery system with a wide range of applications for pharmaceutical, animal care, dietary supplement and personal care products. Although we are engaged in the development of several products using the TPM® technology, these are usually in response to requests made by third parties and at their cost.

Our Company's focus remains principally on the development of the oxycodone patch and, secondly, on the expansion of our Personal Care Division, both domestically and internationally, particularly in the US. With the worsening economic climate worldwide, progress in personal care has not matched our expectations. However, with the wonderful products that have been developed by our Company utilising our technology, we are well poised for success once the world economy comes out of its current slump.



Highlights

The patch development program we initiated with Labtec GmbH in the middle of this year is progressing well with the crystallisation issues encountered with the 3M patch resolved. We expect to return to the clinic with an improved patch before the end of the year.

In June of this year we also announced an arrangement with Equine Nutrition Australia to develop two nutritional supplements to improve the wellbeing of racehorses, as well as the launch of a stock feed product incorporating TPM® for specific application to weanlings and yearlings. This was the second agreement by our company in the area of animal health and nutrition.

In 2011 we announced an arrangement with Mastitis Management Australia to research mastitis in dairy cows, with the potential benefit of avoiding the need to use antibiotics. Recently published papers suggest that the size of the animal medication market is expected to grow to \$42.9 billion per annum by 2018 with the animal feed market expected to reach \$17.5 billion.

As a genuine platform technology, TPM is our gateway to a multitude of investment opportunities. We will continue to leverage our technology into multiple markets and create shareholder value.

We thank you for your continued support and look forward to updating you regularly.

Dr Esra Ogru
Chief Executive Officer





Equine Nutrition Australia (ENA)

The thoroughbred horseracing industry is growing rapidly around the globe, both in terms of the number of horses racing and the size of the prize money. In Australia alone annual prize money has reached over \$400 million and yearling sales of racehorses exceeds \$250 million. There are over 250,000 horses racing around the world each year.

In July of this year Phosphagenics reached agreement with ENA to develop and test two new supplements for racehorses. The first supplement combines the essential trace mineral selenium with TPM[®] and aims to increase the oral absorption of the mineral. Earlier pilot studies conducted by ENA indicated that selenium formulated with

TPM[®] has superior absorption than selenium taken alone.

The second supplement is formulated with the aim of boosting the red blood cell count in horses to provide horses greater stamina. In December 2011 pilot studies were conducted on 18 working racehorses with promising results being achieved.

This formulation falls within the guidelines of daily oral supplementation. Extensive studies will be conducted for both of these supplements in the second half 2012. Some have commenced at stud farms on the Mornington Peninsula and involve up to 76 horses.





Diclofenac

Our commercial arrangement with Indian pharmaceutical company Themis Medicare continues to progress on track. Themis is scaling up its manufacturing process to enable it to commence commercial production of the new diclofenac product. This commissioning stage should be completed in the next quarter with the market launch of the product scheduled during the first quarter of 2013. Themis will initially be manufacturing the product for one major pharmaceutical company that will use its extensive marketing and distribution networks within India to sell the product. Phosphagenics expects the successful launch of the diclofenac product could lead to additional deals with Themis, for other active pharmaceutical ingredients. Phosphagenics will receive royalties on the sales of the diclofenac product, with revenues commencing in 2013. The arrangements entered into with Nippon Zoki for the US and Japanese markets continue.





Oxycodone Update

The final stages of the patch development process with Labtec GmbH appear to have overcome issues associated with crystallisation. A number of formulations are now being trialled both in Australia and Germany with results due out shortly. Labtec, with its track record of developing and commercialising transdermal opioids will ensure that our patch development progresses according to plan. Labtec's fentanyl patch is the top selling patch of its type in Germany.

During the last quarter we also announced the appointment of Neura Therapeutik, a group whose consultants have had a history of involvement in the commercialisation of a large number of major pain products, including transdermal opioids. Each step of our clinical and commercial development process is being conducted in close consultation with our experts. We expect to return to the clinic by the year's end, with the lodgement of the IND with the FDA to follow closely after the release of our next clinical trial results.



Labtec





Elixia and BioElixia

The successful launch of our personal care products in 2011 provided us with optimism for this division in 2012. The slowdown in the retail sector arising as a consequence of the worsening economic climate resulted in our personal care division not meeting our expectations. Consequently, we conducted a review of our strategy and made a number of changes which we expect to improve future profitability of the division.

In a short period of time we have built a large network of retail outlets, an excellent range of products based on a strong scientific philosophy and results, with growing consumer awareness that our products can be differentiated on performance. The challenge remains to effectively communicate the inherent advantages of our products in a noisy and crowded personal care market. With a small budget this will take time.

We had very positive responses from the Cosmoprof Health and Beauty Expo that we attended in July in Las Vegas. We received over 60 enquiries deemed worthy of follow up. The majority of these enquiries were from US and Canadian companies and commercial discussions are ongoing. We are minimising

financial risk by placing greater emphasis on a private labeling and licensing strategy while still promoting our own label.

We are very conscious of trying to meet the expectations of consumers and to streamline the local and global operations to make them more consistent in terms of price and formulations. We believe that this will make us more competitive, and will place our products within reach of more Australians consumers. We are also focusing on increasing brand awareness. We expect to launch new personal care products containing TPM® over the next few months.

Boots have completed the “Latest Finds” promotion that included the sale of BioElixia’s BodyShaper product in the UK. Boots will not continue to stock the product but we believe the exposure will assist us in appointing other stockists in Europe in 2013.

In the meantime, we are in advanced discussions with a US based global player who is interested in our BioElixia™ products and TPM® technology for personal care applications.





Other Personal Care Operations

ISP (Ashland) and Le Métier de Beauté both continue to provide revenues to Phosphagenics through licensing and supply arrangements that have been in place for several years. Phosphagenics has also recently entered into a licensing arrangement with Intas Pharmaceuticals Limited, an Indian company that has finalised a number of personal care formulations that it intends to market in India. These anti-ageing formulations will be manufactured in India by Intas, and next quarter should undergo a final commissioning phase prior to launch of the product at the beginning of 2013.

We continue to progress discussions with other global companies about licensing the use of TPM® in personal care formulations.

ASHLAND

LE MÉTIER DE BEAUTÉ

INTAS

INTAS





Mastitis Management Australia (MMA)

In March 2011 Phosphagenics announced an agreement with Mastitis Management Australia Pty Ltd (MMA) to develop a new product that will undergo registration as a treatment for mastitis in dairy cows. In a small proof of concept study the all-natural formulation that incorporates TPM® was shown to reduce the somatic cell count (white blood cells) in cows.

MMA has licensed the technology for Australia and New Zealand, which have around 6 million dairy cattle in production. Worldwide there are about 250 million dairy cows, with India having around 40 million, Europe around 25 million and the USA around 10 million. Approximately 15% of dairy cows suffer from clinical or subclinical mastitis at any given time. With mastitis costing US farmers around \$200 per annum per cow in lost milk production, discarded milk and the cost of treatment, mastitis is a \$2 billion problem for those farmers. As the US represents only about 3.5% of the global herd of dairy cows, it is clear that mastitis poses a major problem and, therefore, presents a significant market opportunity for Phosphagenics and MMA.

Our product potentially offers inherent advantages over currently prevailing treatment options. If it can be shown that the introduction of our

formulation into feed of healthy animals reduces the occurrence of mastitis in the general herd (ie it acts prophylactically), then the value proposition of the product becomes even more compelling. By investigating the dairy cow mastitis problem, from both a preventative and curative point of view, our TPM technology may offer a complete solution for farmers.

Phosphagenics, in consultation with animal health experts, is currently in the process of establishing protocols for the size and design of those trials, and establishing what further may be required. It is looking to partnering the development further.





Mastitis Management Australia (MMA) (cont)

Phosphagenics has appointed Dr Ralph Slaughter as its consultant for the mastitis project. Whilst at CSL he was instrumental in taking a TB diagnostic product for livestock to market. This became a world leader and was the basis of a similar technology for humans which was sold to Cellestis Ltd in 2000. After successfully commercialising this product, Cellestis was taken over in 2009 by the Dutch company Qiagen for around \$350 million. Dr Slaughter also worked in UK, New Zealand, USA and Australia where he was involved in the development of several major antibacterial products, including the introduction to USA of the world's most effective leptospiral vaccine for cattle. His experience and knowhow will be invaluable.

If the trials are completed successfully and data is produced to support the claims

we are pursuing, we anticipate that the regulatory process to gain marketing approval in Australia will about six months after completion of the trials. We would then be in a position to launch products during 2014. In some other countries the regulatory process may not take as long. The Australian and New Zealand dairy herd is about 2.5% of the global population. There will be considerable advantages if MMA and Phosphagenics can license this technology to an international partner with established marketing and distribution networks. With this objective in mind, Phosphagenics has been talking to a number of major companies whose interest is likely to pique as the trials are completed and the scope of the specific efficacy claims is established.





Product Development Update

Product	Target application	R&D	Pre-clinical	Phase 1	Phase 2	Phase 3	
Drug Delivery - Pharmaceutical							
Insulin	Diabetes	[Progress bar]					
Oxycodone	Pain	[Progress bar]					
Lidocaine	Pain	[Progress bar]					
Diclofenac	Pain	[Progress bar]					
Drug Delivery - Dermatology							
Retinoic acid	Acne	[Progress bar]					
Undisclosed- Global Dermatology Co	Acne	[Progress bar]					

Product	Target Application	Product Development	Market Development	Commercial Production	Launch	
Cosmetic						
ELIXIA®	Natural Anti-ageing	[Progress bar]				
ELIXIA® - High Performance Range	Anti-ageing	[Progress bar]				
ELIXIA®- BodyShaper®	Body Sculpting	[Progress bar]				
Le Métier - Peau Vierge	Anti-ageing	[Progress bar]				
Intas Pharmaceuticals	Anti-ageing	[Progress bar]				
Undisclosed	Undisclosed	[Progress bar]				
Animal Health - Products						
Insulin - Novartis Veterinary	Diabetes	[Progress bar]				
Nutritional Supplements - Animal Feed (ENA - Thoroughbreds)	Antioxidants, Minerals	[Progress bar]				
Nutritional Supplements - Dairy Cattle (MMA)	Mastitis	[Progress bar]				
OTC Pharmaceuticals						
Themis Medicare Pvt Ltd (Indian Market Exclusive)	Topical Diclofenac	[Progress bar]				
Other Licensing Agreements - Personal Care						
Ashland (Formerly ISP)	TPM® Supply	[Progress bar]				

[Light Blue Bar] Phosphagenics Project [Dark Blue Bar] Collaborative Project for commercial partner

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