

Newsletter – October 2017



Welcome to the October edition of our shareholder newsletter. Since our AGM in May, it has been a very busy time for the Company and we have delivered on a number of important milestones, and continue to progress across all aspects of our strategic and operational priority areas.

We have:

- concluded the sale of BioElixia®
- signed the agreement with Terumo to further develop the TPM®/Oxymorphone patch;
- progressed the Mylan Arbitration, concluding the expert witness phase of the process and announcing the Board's recommended capital return on any positive cash outcome;
- initiated a 1:4 Entitlement offer capital raising;
- progressed our internal injectable R&D projects and our Terumo partnerships closer to key milestones;
- negotiated and signed a term sheet with Credit Pharma to license TPM®/Diclofenac for China, Hong Kong, Taiwan and Macau.

These are positive developments for your Company, and in this issue of the newsletter I would like to expand on several of these.

Announcement of Sale - BioElixia® Sold to Pure Beauty Australia

As you are aware Phosphagenics has been pursuing a buyer for the BioElixia® personal care brand. This is part of a broader strategic restructure since early 2015 designed to ensure Phosphagenics is focused on its core business of commercialising our proprietary technology TPM®. In August of this year we were pleased to announce that we had finalised this process with Pure Beauty Australia Pty Ltd, part of the CEM Group of Companies, purchasing the BioElixia® brand. Pure Beauty is a dynamic Melbourne based company which already owns and is building a portfolio of complementary Australian skincare brands.

Although the intention to sell the brand was announced and the search for a partner commenced in 2015, the process was put on hold while the ProPhase Arbitration was completed. Upon a successful conclusion to the ProPhase Arbitration, we were able to complete negotiating the deal within six months.

In selecting a buyer, our mandate was to find a partner with both the capability and drive to build the brand and provide Phosphagenics shareholders with a suitable return. We believe Pure Beauty Australia was the best group to deliver this.

The sale of the BioElixia® brand has been structured to allow Pure Beauty Australia to market the existing BioElixia® product range as well as to expand the range with new products containing Phosphagenics' proprietary TPM® technology. Under the terms of the sale contract, Pure Beauty Australia provided Phosphagenics with an upfront payment of \$200,000, and will provide:

- on-going royalties of 5% based on net sales of product incorporating TPM®, and
- income from Pure Beauty Australia's purchases of TPM®, through a 10 year supply agreement.

I am confident that the sale of BioElixia® to Pure Beauty Australia represents the best value opportunity for Phosphagenics' shareholders and that this arrangement will at last allow Phosphagenics shareholders to share in the potential of the BioElixia® brand. Under the ownership of a specialist skincare group such as Pure Beauty Australia the brand will have the right skill set and investment to thrive and become strong and successful in the competitive skincare marketplace. The CEM Group of Companies is led by Mr Neale Joseph (CEO) who has extensive experience in the retail and consumer goods sectors across both Australia and overseas – working with major brands including Motorola Solutions, Westpac Banking Corporation, David Jones and Orica.

Initially Pure Beauty Australia intends to market the BioElixia® range, including TPM® enhanced products, alongside its [Handsome Men's skincare range \(www.ha.ndso.me\)](http://www.ha.ndso.me), and its soon to be released ranges including "*Blessed by Nature*".

Phosphagenics and Terumo Sign Development Agreement for TPM®/Oxymorphone Patch in Japan

We were also pleased to announce in August 2017 that we had signed a development agreement with Terumo for the TPM®/Oxymorphone patch in Japan. This agreement followed the non-binding term sheet executed by the parties in January 2017, and was the result of both successful negotiation and satisfying further Due Diligence by Terumo which included production of considerable new data. The signing of the agreement hopefully signals to shareholders a strong validation of the potential of our core technology TPM® and our TPM® enhanced products.

The development agreement targets progression of a 1-day TPM® enabled Oxymorphone patch into the clinic within 12 months of signing, followed by a formal consultation with the Japanese Regulatory Authorities (PMDA) to determine the most efficient way to progress the product to commercialisation in Japan. Phosphagenics and Terumo will undertake activities required for progression of the patch and Phosphagenics will receive up to \$2M in development milestone payments through this period.

The agreement grants Terumo an exclusive option to progress to a full license agreement in respect of the Japanese market, on successful completion of the first Phase 1 study and PMDA consultation. A full license agreement would involve Terumo funding all Japanese development costs, providing additional development and sales milestones to Phosphagenics and paying us royalties on sales in Japan. Phosphagenics would retain the full rights to market the product outside of Japan.

This is now the fourth R&D partnered project between Terumo and Phosphagenics and the relationship has grown to one of the most significant partnerships we have had in our TPM® human health and injectables portfolio. To date Terumo and Phosphagenics have built a considerable level of comfort and understanding and have an excellent working relationship. Importantly, these agreements are seen as strategically important by both parties.

I would like to reiterate to shareholders that success with the development of this TPM®/Oxymorphone patch has huge commercial value for Phosphagenics shareholders with the joint development process potentially providing important data that will assist with commercialisation of TPM® in other products and in other markets. The data generated from this joint development process should also directly assist efforts to partner a TPM®/Oxymorphone patch capable of meeting the 3-day requirements of the USA and other ex-Japan markets.

The Mylan Arbitration

As with everything we release around the ongoing Arbitration with Mylan, I will start by reminding you that the Arbitration detail is confidential and we are very restricted on the amount and type of information we can release.

Preparation of information for the Arbitration is progressing well and we have now completed the period where both “fact witness” and “expert witness” evidence has been developed, collated and shared between the parties. The next major activity is the formal Hearing which has been set for late October/early November this year. While litigation of any type is uncertain, I can say that the Board retains its commitment to pursuit of the case and having looked at all information available to date remain confident in the decision to continue on behalf of shareholders. Settlement too remains a potential outcome prior to a decision.

Since my last newsletter we have provided:

- the upside quantum of potential damages by Phosphagenics’ independent Expert assessment (released 29 May 2017),
- an outline of the process and timeline (released in presentation form 1 September 2017), and
- the Board of Directors recommended capital return to shareholders from any net cash received from the arbitration (released 1 September 2017).

The Credit Pharma TPM/Diclofenac Agreement

Late in September Phosphagenics announced the signing of a Term Sheet with Sichuan Credit Pharmaceutical Co. Ltd (Credit Pharma) outlining the proposed terms of a development and licensing agreement which would grant Credit Pharma exclusive rights to develop, market and sell the TPM®/Diclofenac gel in China, Hong Kong, Macau and Taiwan. Within 30 days of signing the Term Sheet, Phosphagenics is due to receive a non-refundable payment of USD \$100,000 with an additional USD \$300,000 due within 30 days of signing a definitive agreement. Signing of this definitive agreement is targeted to occur prior to the end of January 2018.

Upon the commercialisation of the product, Phosphagenics would be entitled to receive a 10% royalty on the net sales by Credit Pharma. This is exciting progress for the Company as success in China would mean that TPM®/Diclofenac gel could be available to almost half of the world’s population.

Immediately following this announcement I received a number of calls questioning how impactful the expansion of the TPM®/Diclofenac gel into China is for Phosphagenics “given that our present sales across 17 markets are relatively modest”. There are two points I would like to clarify here for shareholders:

- Although we have recently expanded the license to allow sales in 17 markets, the TPM®/Diclofenac gel is not at present launched in all countries due to differing approval times. We do expect that Phosphagenics revenue from sales, whilst modest at present, will increase as more and more of these countries launch, and
- China is expected to be a high volume and relatively high priced country for TPM®/Diclofenac gel. It is definitely expected to be an opportunity to greatly increase both revenue from the sale of TPM® as an ingredient for manufacture and royalty revenue.

The Entitlement Offer (Rights Issue)

In past newsletters I have highlighted some of the tough decisions made since 2015 including tightening our cost base and reducing our headcount. This has helped us stretch our cash reserves from the last cash raising in 2014 through 2017 despite the considerable unexpected costs associated with both the ProPhase arbitration (now successfully concluded) and the ongoing Mylan arbitration. We have done this while continuing to accelerate our core mission (to develop and partner valuable assets from TPM®), improve our manufacturing and manufacturing efficiency and expand our partnerships – as outlined in our May 2017 newsletter where I discussed our progress and achievements to date and our goals moving forward over the next 9-12 months.

The present Entitlement Offer will assist us to continue to show a strong financial position through the present Mylan Arbitration as well as support our ongoing operations now and beyond. The 1 for 4 offer has an intent of raising between AUD \$3M and AUD \$4.7M. A small number of key shareholders and potential investors have already shown their support and committed to the offer with pre-commitments of approximately AUD \$1.5M (as part rights uptake and part underwriting) - this includes members of the Board of Directors. We now hope that the remainder of our shareholders see the value in supporting the Company through this period and encourage them to participate in taking up their rights (at 1.5 cents per share) and even subscribe for additional (if available). The timetable for the entitlement offer is below:

	Date (AEST)
Announcement of Entitlement Offer	26 September 2017
POH Shares begin to trade on an “ex-entitlement” basis	29 September 2017
Record Date for determining Eligible Shareholders under the Entitlement Offer	2 October 2017
Entitlement Offer opens & Entitlement Offer Booklets despatched	3 October 2017
Entitlement Offer closes	12 October 2017
Allotment of New Shares issued under the Entitlement Offer	19 October 2017
Despatch of holding statements and normal trading of New Shares issued under Entitlement Offer	20 October 2017

For further details around this offer refer to Phosphagenics website. Additional information will be sent to all shareholders as part of the formal entitlement offer documentation.

Conclusion

The past few months since the AGM have seen considerable progress across the Company. I believe the next three to six months holds even more promise. I thank you for your support as shareholders so far and hope that you are as excited as I am about our future prospects. For those shareholders eligible for the Entitlement Offer your documentation should arrive this week. Please note that the offer closes on 12 October 2017. I encourage you to support the Company in this endeavour.

CEO Quarterly Update Teleconference

Interested parties are invited to participate in a teleconference.

Date: Friday, 6 October 2017

Time: 8:30 am AEST

Further dial-in details to follow in a separate announcement.



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