Shareholder Newsletter

Quarter 2, 2013

From the CEO

Gavin Currie, CEO

Dear Shareholders,

Welcome to our second shareholder update for 2013.

What a great quarter Biosceptre has enjoyed! Our topical drug has now officially been navigated through all the US FDA pre-clinical hurdles, and is officially in a Phase 1 clinical trial! Our first subject (there will be a total of 20 patients) was treated last week. This is a significant step forward for Biosceptre, as it will provide not only a great proof of concept, but also a reasonable likelihood of generating a licensing deal within the next 18 months.

In addition to the news above, you may recall from the last newsletter, and from the shareholder update we held in April, that we were assessing the potential of entering a Dendritic Cell Vaccination clinical trial. You will be able to read more on that in the Scientific and Therapeutic Update, however I can tell you that the board approved this program last week. By August/September of this year, we should also have this Phase 2 clinical trial underway.

Last week, we held a board meeting In Cambridge and the non-executive directors were able to visit the new laboratory there. You will recall that our Lab was initially in the Moneta building of the Babraham biotechnology park (www.babraham.co.uk). After initially moving into this facility, we were offered a slightly bigger facility with better space in the brand new Jonas Webb building. Dr Moulder has organised temporary use of university labs that our new staff can use while our equipment is arriving to keep things moving. We have filled all the staff positions that Dr Kevin Moulder had in mind apart from a clinical trial / regulatory role. We are currently negotiating with an individual for this position, and hope to have them come on board in the near future.

Ensuring our many company initiatives are adequately resourced will be a key to maintaining the momentum that we have seen over the last six months. The unfortunate reality is that for too long Biosceptre has moved at a glacial pace. I have challenged our senior management to ensure that if we can achieve our goals faster with additional resourcing, then I will strongly support any business case in this regard. While this means our cash burn increases, I can assure you that the higher price we will get for our technologies due to getting them to market quicker, and hence having a longer patent life, will compensate many times over.

It has been nice to connect with a number of you over the last 3 months, both one on one and at the shareholders update. The shareholders update was our first attempt at ensuring we had dial in access as well as being live over the Internet for those of you who could not attend. We had a good group of shareholders turn up for that meeting along with close to 10 shareholders who were able to dial in or log in to the live stream.

One of the clear messages we got from that meeting, was that the shareholders were more interested in getting the share price up than having a rights issue. The board have taken this into consideration and once we have finalised our fund raising strategy for a fund raise in July/August, we will ensure investors are given an opportunity to invest as we raise further funds. At this stage, it is likely that we will raise circa $7M AUD. We have funding through to the first quarter next year, however as we are undertaking more initiatives, such as the Dendritic Cell vaccination trial, it will require us to raise a little more than the $4-5 million we had talked about earlier.

As we work through our strategy, you will recall that one of those deliverables was to "Create a shareholder liquidity opportunity by Q2, 2015 based on a strong company valuation that delivers substantial return on investment for our shareholders". As we work towards this goal, we are planning to ensure that we have the ability to make an initial public offering of our shares (IPO) to achieve this goal. As we discussed at the shareholder update, to achieve this, we have been investigating the best geographies to potentially move the company to in preparation for an IPO, given the best IPO outcome would be achieved in either the US or the UK. The board is seriously considering the UK given the huge tax advantages the government has set up for companies such as ours. This is work in progress, however I mention this because if a decision is made in this regard, it will be because of the benefits that will ultimately accrue to you as shareholders via the valuation/share price.

We have an exciting future before us!

If you have any questions or suggestions, please do not hesitate to contact me, or any of the management team on the ceo@biosceptre.com email address.

Gavin Currie, Chief Executive Officer

Scientific & Therapeutic Update

Dr Kevin Moulder, CSO

We continue to believe that we have a technology that is disruptive and world changing, and we are getting closer to having the experienced internal team that can navigate through the challenges of delivering a therapeutic drug to patients who need it, as quickly and safely as possible.

The unfortunate reality is that if we took the average time required to progress a technology from the stage we are at now to a marketing approval, we could expect that we would not have a drug "in market" for another 8 years! This is a frustrating fact. However, as you will read in the "Commercial Update", we are looking to support from a scientific standpoint, a commercial strategy that aims at stimulating a disruptive event that may be the catalyst for creating a fast track through regulatory approval. A successful Phase 2 clinical trial in Singapore may well achieve this goal.

The result of this is that the team is involved not only in the usual research required to progress a drug, but also in work required to support the commercial team in traversing the challenges of working with collaboration partners who can range from an intriguing scepticism to a strong reticence to work on our target as it challenges their understanding of oncology, and at worst may displace projects for which they have years of vested interest in commercialising.

Systemic Development Program

Our continued principal focus is towards the development of an antibody based therapy for the systemic treatment of cancer (a drug that can be administered via an infusion or injection and will seek out and treat the cancer). Our Sydney and Cambridge teams are working towards a decision on a lead antibody and cancer type to progress into the clinical development stage.

You may recall that a number of patients were treated under the TGA's Special Access Scheme in Australia a few years ago. Whilst the program was considered successful, the program was put on hold until it was felt that we had a better understanding of our Antibodies' mechanism of action. We were also unsure of whether the particular Antibody used for this treatment was a definite consideration as a potential lead to take through clinical trials. As we have a more sophisticated understanding of this Antibody now, we have decided to re-implement this program, on an extremely limited basis. This requires considerable effort to ensure the program is completed according to TGA guidelines, however we are ensuring that the appropriate level of resources are focussed on this project.

Topical Therapeutic

As noted above, the topical program continues to move along satisfactorily with our IND (investigative new drug) application having just having been approved by the US Food and Drug Administration (FDA) to commence FDA phase 1 trials. This is a great achievement to finally have our first drug in clinical trials and will be one of the proof of concepts that we are relying on to give a wake up call to all the Biosceptre sceptics.

All things going well, we should enter phase 2 trials in Quarter 1, 2014. Our commercial team have already started working on the commercialisation strategy for this product. There is a risk through this work, that we may need to look seriously at switching from our sheep polyclonal antibody to a monoclonal antibody. The reason for this is that there may be a limited number of potential buyers willing to manage the more difficult logistics surrounding the production of a polyclonal antibody, and if this becomes an issue we will consider a change to this program.

Dendritic Cell Vaccination

Our Collaboration with the National Cancer Center (NCCS) in Singapore is progressing well, with us planning on a Phase 2 Dendritic Cell Vaccination trial scheduled to start in August / September this year.

There are two reasons we are entering this trial. The first is that it again gives us another "proof of concept" and validation around our science. The second is that Singapore has a highly respected regulatory system to work with and if we get good results from this trial, there is the possibility of early marketing approval for this type of procedure being granted in Singapore. This would mean a welcome early revenue source. Based on a similar trial that was also performed by Dr Toh at the NCCS, the US FDA may also accept this trial as an "equivalent" FDA phase 2 trial, which would provide an avenue to move straight into Phase 3 trials in the US.

Veterinary and Imaging Projects

The Veterinary and Imaging projects with Gryphon Capital continue to move slower than we would like. As per the AGM and shareholder discussions, we are in discussion with Gryphon regarding our wish to improve our position in these agreements.

Diagnostics

We have early proof of concept work in the diagnostic area that look promising and are exploring best options to move this forward. We hope to have clarity on our best way to maximise the value of this asset by the next update.

Commercial Update

We have continued our commercial focus on:

a) Ensuring that we maximise value for Biosceptre shareholders when we enter into any commercial transaction, and
b) Developing a mechanism to allow our existing shareholders to realise value, or add to their current holdings.

A couple of major things have come out of this focus. The first was to defer another round of funding until July-September, when we felt that we would be able to justify a higher price for our shares. At this point, we will have two products in clinical trial along with the results of quite a lot more validation around the:

I. Ubiquitous nature of our target, and
II. The specificity of our target.

In addition to this, we may also have more data from a number of patients that may well have been treated by then under the TGA's Special Access Scheme.

The other large piece of work has been to investigate what the best geographic location for Biosceptre to be headquartered would be. Australia has a number of major disadvantages in that the company tax rate is high at 30%, and the support for IPO's for Biotech's has not been particularly great.

While investigations are continuing, we are very close to a decision to move the headquarters to the UK. A number of the advantages that a move like this would bring to Biosceptre would include:

1. A likely corporate tax percentage of 10% due to our ability to fall under the UK's new "patent box" legislation
2. Access to a larger pool of willing investors again fuelled by the UK's EIS tax breaks. This tax break allows investors a tax deduction for investments in companies like Biosceptre for the complete investment up £1M GBP
3. A stable and reliable government to underpin these advantages to a company vehicle looking to IPO or implement a compliance listing
4. Much stronger capital markets in the event of an IPO
5. Fast track ability for main board listings if a company fits a profile that is likely Biosceptre will by 2nd quarter 2015.

As we move closer to earning revenue, the ability to conserve revenue as we grow would be a great advantage for two reasons. Firstly it will reduce the working capital requirements, but more importantly it will flow through to reflect in a higher share price point due to the higher free cash flows and ultimately higher dividends that could be paid.

If this move goes ahead, we would still look to maintain the Australian company along with staff in Australia.

After hosting a large Japanese Pharmaceutical company earlier this year, we were provided with a licensing agreement that they would like to pursue. This offer was opportunistic and the work surrounding this was a distraction to our strategy moving forward. As a result of this, the board has agreed not to actively talk to any large pharmaceutical companies until we have completed our further validation work and various proof of concepts.

We have had strong early stage interest from a couple of interested parties on our diagnostics potential, and an expressed desire to work with us. We are continuing these discussions.

In regards to fund raising, we will advise over the next month or so our strategy (including price) for the next round. We do have good demand, particularly externally for the shares, so would encourage those of you who may be interested in further investment to please do let us know.

While our Intellectual property portfolio is strong, after recent discussions with Sir Greg Winter, the board have decided to further increase our portfolio in a number of areas. These new areas will add significant strength to our licensing ability over the next few years and shows the value of having a strong Scientific Advisory Board.

The Board

Michael Lovett	**Non-executive Director**
Peter Newton	**Non-executive Director**
Ron Watts	**Non-executive Director**
Gavin Currie	**Executive Director and CEO**
Ivan Gunatilleke	**Executive Director and Group CFO**
Kevin Moulder	**Executive Director and CSO**

Meet the Team

Ivan Gunatileke
Executive Director and Group CFO

Ivan Gunatilleke joined the Board of Biosceptre International Ltd in December 2012 and is proficient at managing growth companies at a senior level. As one of the directors of the Car Finance Company, he has helped it grow and become the largest alternative car finance company in the UK. This has involved helping to raise significant amounts of finance to support the companies lending operations through it's stellar growth.

Prior to this, Ivan worked for Cable and Wireless Worldwide plc for 10 years. He held several senior roles at Cable and Wireless Worldwide plc, including Chief Operating Officer and was Chief Financial Officer when it joined the public markets in 2010. During this time Ivan was regularly involved in leading teams that won customer contracts with values in excess of £100m. He also helped to structure the acquisition and integration of Thus plc, when it was acquired.

Ivan qualified as a Charted Accountant with Price Waterhouse Coopers in London and has also held Corporate Advisory roles for Dresdner Kleinwort Benson.

Meet the Team

Beatriz Goyenechea Corzo
Principal Scientist

Beatriz received her Honours degree in Biochemistry from Havana University (Cuba) in 1987. She worked in the Genetic Engineering and Biotechnology Center on various molecular biology projects until 1991.

Beatriz then won a WHO Fellowship to work in the laboratory of Cesar Milstein in the LMB, Cambridge-UK. She stayed in his lab, and under his supervision completed her PhD in Molecular Immunology where she acquired experience on phage display, transgenic mice and hybridoma generation. This involved close oversight from Greg Winter.

From 1996 until 2008 she worked on immunology/oncology related projects, where she further developed her interest in designing "in vitro" and "in vivo" experimental models, which helped to elucidate novel protein functions and mechanisms. In 2008 Beatriz decided to move her career from academia into the Biotech industry and joined F-star, where she worked for 5 years engineering the Fc domains of antibodies to generate Fcabs (antigen binding Fc) using phage and yeast display libraries.

Beatriz joined Biosceptre in April and is based in our Babraham facility.