Metabolic Pharmaceuticals Limited
ABN 96 083 866 862

metabolic

10 August 2009

Market Update

Since the market update on 14 May 2009, the Metabolic board has focussed on the priorities identified at that time including initiating an Ownership and Funding Review of the company's investment in PolyNovo Biomaterials Pty Ltd (PolyNovo), completing a review of the legacy assets within Metabolic, preserving the company's cash balance and further reducing operating costs.

The company updates the market in each of these areas as follows:

1. PolyNovo Biomaterials Pty Ltd (PolyNovo)

Metabolic is the largest shareholder in PolyNovo with a 60% interest. Other shareholders are the ASX listed Xceed Capital Limited (ASX: XCD) with a 25.5% holding and the CSIRO with 14.5%. Key developments are as follows:

Ownership and Funding Review

A review of the current ownership structure of PolyNovo has substantially been completed including an evaluation of the expected future funding requirements for PolyNovo to deliver on its business plan over the next few years.

The Metabolic board considers that the best long term structure for PolyNovo is one in which it is not dependent on Metabolic for its funding requirements. The Board is considering a number of alternative proposals to achieve this outcome, including a listing of PolyNovo via a reverse takeover or through establishing a new listed entity.

This will address the current market uncertainty as to PolyNovo's longer term funding requirements and free Metabolic to more actively pursue other opportunities. It is expected that this will also unlock the value in Metabolic given the significant discount to net cash at which Metabolic shares currently trade.

In the interim, Metabolic has agreed to provide additional capital to PolyNovo to enable it to continue its product development programs and to meet its financial commitments over the next twelve months.

Medtronic and PolyNovo Mutually Terminate Development and License Agreement

PolyNovo has today agreed with Medtronic Vascular, Inc. ('Medtronic'), to terminate its partnering and licensing agreement. This agreement was focussed on the development, supply and commercialisation of PolyNovo's NovoSorb™ biodegradable polymer for potential application in stent design targeting the prevention and treatment of cardiovascular disease. As a result of the termination, all of PolyNovo's intellectual property and licensed rights will return to the company.

In commenting on the termination PolyNovo's acting CEO, Laurent Fossaert, said: "While termination of the agreement is disappointing, it is PolyNovo's intention to actively pursue new opportunities to licence NovoSorb™ in the biodegradable stent field. Our view is that the stent market remains a valuable opportunity for NovoSorb™. We believe NovoSorb can be developed to create a next-generation biodegradable stent and we intend to seek out partners who will work with us to achieve that ambition."

Other Projects

Management focus remains on all other existing partner relationships and delivering to expectations on these projects.

Smith and Nephew

PolyNovo entered a worldwide deal with Smith and Nephew, Inc. for the use of NovoSorb™ in two orthopaedic applications; fracture fixation and bone void fillers in February 2008. These are large potential markets of $1.1billion and $2.2billion respectively. PolyNovo is pleased that both projects are progressing according to their respective development timelines.

Biomet

Novosorb(TM) is currently being tested by Biomet for multiple applications and further announcement will be made in the future in this regard.

Joint Venture Partners

NovoSkin™

Design freeze has been reached on the development of the Burns Temporising Matrix ("BTM") product enabling the construct of an animal trial to commence which will be run by our JV partner Dr John Greenwood in Adelaide.

NovoCosmetica™

The delays in commencement of clinical work on the dermal filler NovoFill™ have been largely due to the facility move and technical difficulties in developing NovoSorb™ in a form that can be delivered through a very narrow gauge needle. Significant progress has been made in this regard which once validated will enable this JV to commence pre-clinical work.

In addition to the above projects, PolyNovo continues to receive approaches from parties interested in licenses and/or co-development opportunities and expects to make further announcements in the future in this regard.

Intellectual Property

The Australian Patent Office has recently granted the patent over the "In-situ cure" NovoSorb™ technology. This signifies a key milestone in the advancement of PolyNovo's IP portfolio. This was recently followed with the allowance of the Malaysian patent application on the same technology.

PolyNovo expects further patent grants in key jurisdictions in the near term.

Through an external administrative error that occurred at the time of assignment of six families of patent applications in 2006 from the CSIRO to PolyNovo, a European patent application relevant to one of those patent applications the in-situ cure application of NovoSorb™, was inadvertently allowed to lapse by PolyNovo's former patent attorneys. An application for reinstatement of this patent application is underway. PolyNovo will utilise all the courses available to it to have the patent application reinstated.

Management

The Board of PolyNovo is pleased with the excellent work being done by the acting CEO Laurent Fossaert and the PolyNovo team and specifically with the progress made on various key development programs and focus areas. In recognition of this performance, the Board has extended the acting CEO appointment to 31 December 2009.

2. Review of Legacy Assets

The initial review has been completed. While a number of the legacy assets have commercial appeal, it is the intention of Metabolic not to commit substantial funding to these projects. Rather, the Board will seek to out-licence technology where appropriate to create shareholder value.

The status of each project is as follows:

AOD9604

AOD9604 is a peptide drug derived from human growth hormone which Metabolic has developed with the aim of targeting two potential applications; the treatment of osteoporosis and obesity.

AOD9604 for Osteoporosis

AOD9604 has previously been shown to prevent loss of bone mass in an animal model for human osteoporosis when delivered orally once per day.

Results from laboratory animal experiments recently presented have indicated that AOD9604 may also have an additional role in treating osteoporosis in that it assists in bone repair and healing.

Metabolic is considering the feasibility of preparing a data package for the programme with the aim of seeking to out-licence AOD9604, at minimal cost to Metabolic, to a partner with the capability of managing the long and expensive human trials required for osteoporosis drugs. A number of factors make this an attractive potential project for a well funded partner.

AOD9604 for Obesity
In February 2007, Metabolic terminated this project following the drug's inability to prove efficacy as an orally delivered obesity medication in a large human phase 2 trial. The potential remains to explore the use of alternative (non-oral) mechanisms for the delivery of AOD9604 for example injection, slow-release implants, sublingual (under tongue), nasal, inhalable, transdermal etc. modes of delivery.

Metabolic has received proposals from external parties interested in exploring the potential of AOD9604 using alternative delivery methods. The Board is actively exploring these opportunities with a view to licensing, at minimal cost to Metabolic, the use of AOD 9604 to interested parties with the objective of developing a non-orally delivered compound for the treatment of obesity and fat metabolism.

Solid progress has been made in progressing one of these licensing opportunities and an announcement will be made immediately if an agreement is signed.

Oral Peptide Delivery Platform
In May 2008 the company advised that this portfolio of technology had been placed on hold to conserve funds. Metabolic has now decided to discontinue this project due to the requirement for very large investment of funds before any reasonable shareholder value can be created.

Neural Regeneration Peptides (NRPs)
Metabolic has worked in collaboration with Neuren Pharmaceuticals Limited ("Neuren") since early 2005 to develop NRPs, a group of small peptide drugs that appear to protect nerves from damage and help them recover.

This project has been placed on hold to conserve funds. Metabolic is currently exploring ways of deriving value from its past investment in the NRP collaboration.

3. Preserving the Company's Cash and Reducing Operating Costs

Over the last three months Metabolic has successfully retained its cash reserves at approximately $11.3m. The company has further cut expenditure to the point where most costs are covered by interest received on term deposits.

Metabolic Pharmaceuticals Limited
ABN 96 083 866 862

Unlocking Value for Metabolic Shareholders

The Board of Metabolic is aware that the current share price of the company is not reflective of the underlying assets of the company. The company has approximately 3.7 cents per share in cash in addition to a controlling shareholding in the highly prospective PolyNovo and the legacy assets.

To address this apparent discount, the Board has been focused on establishing a strategic direction for each of its assets. As detailed above, this is likely to result in the out-licencing of the legacy assets and better clarity as to Metabolic's long term funding commitments to PolyNovo. Once these initiatives have been set in place the Board will be able to devote its attentions to the optimal use of the surplus capital within the company.

For further information on this release please contact:

Chairman of Metabolic, David Franklyn on 0402 447 839 or

Non-Executive directors David Kenley on 0400 151 490 or George Cameron-Dow 0439 992 944