

PEP *Talk*

QUARTERLY REPORT TO SHAREHOLDERS
THREE MONTHS ENDED 31 MARCH 2006

***Corporate strategy
and shareholder
value illuminated***



Peplin

Pharmaceuticals for Life

THE MARCH QUARTER MANAGING DIRECTOR AND CEO MICHAEL ALDRIDGE

In last year's March quarter *PEPTalk* we set out Peplin's corporate strategy, which we later refined and re-affirmed in the 2005 annual report. In the 12 months since we first announced this strategy we have continued to develop plans and take action to implement it. It is timely to revisit the topic for our shareholders to gain further insight into where this strategy is taking Peplin and to note the company's progress and expectations.

On 28 March 2006 we released a presentation which outlines and discusses some of the key issues for Peplin. We have chosen to present these in the context of value creation and value recognition in pharmaceutical product development. This discussion can be seen and heard via a webcast which can be accessed by clicking the relevant link under the investor presentations tab in the investor information section of our website at www.peplin.com.

In our *PEPTalk* for the quarter ended 30 September 2005, we outlined an analysis of the market potential for our lead product PEP005 Topical in the treatment of actinic keratosis (AK) and non-melanoma skin cancer. This showed the United States is Peplin's prime target market with a multi-billion dollar potential. We believe it is very important for our shareholders and potential investors to understand our strategy as we pursue the enormously attractive market opportunities for this company. We therefore include the discussion on the company's strategy in this quarter's *PEPTalk*.

In late February we completed and announced preliminary results of the phase IIa dose escalation clinical trial which was conducted in the US over the previous six months. This

established a maximum tolerated dose of 0.05% for PEP005 Topical gel when treating an area of skin containing AK. The trial showed that the gel is well tolerated when applied once daily on two consecutive days. Blood samples also showed that there was no absorption of the active ingredient PEP005 into the bloodstream providing further strong indications that this topical drug will be safe.

This was the first time that the drug had been applied to an area of skin. All our other clinical trials have tested the safety and efficacy of PEP005 Topical gel when applied to discrete AK lesions or skin cancer tumours. The results are very significant for Peplin and show the potential for the drug to be a safe take home prescription medication which can be conveniently applied by the patient to affected areas of skin.

Our two phase IIa clinical trials of PEP005 Topical gel for the treatment of skin cancer tumours are progressing well. These trials have been conducted at a number of clinics around Australia. Preliminary results of the superficial basal cell carcinoma (BCC) trial are due to be announced in the first week of May and we announced that enrolment of patients was completed during the March quarter for the nodular BCC trial, so these results will be announced during the third quarter of 2006.

These are exciting times for Peplin and I look forward to providing further updates to you in future editions of *PEPTalk*.

SUMMARY MARCH QUARTER FINANCIALS

Cash flows	March quarter (\$'000)	Last four quarters (\$'000)
Net operating cash flows	(3,514)	(10,139)
Net investing cash flows (excl. term deposits)	(530)	(969)
Net financing cash flows	(3)	14,605
Net increase / (decrease) in cash held	(4,047)	3,497
Cash position at end of quarter (incl. term deposits)	14,367	

- Cash-on-hand (including cash on short-term deposit) at 31 March 2006 totalled \$14.4 million, down \$4.0 million from the 31 December 2005 balance.
- Net operating cash outflow during the quarter of \$3.5 million was spent mostly on the conduct of the US dose escalation phase IIa AK clinical trial, two phase IIa skin cancer clinical trials in Australia, preparations for the forthcoming phase IIb AK clinical trial and related activities. The US clinical trial reported positive results at the end of February 2006.
- Net investing cashflows during the March quarter increased to \$0.5 million due mainly to progress on construction of the new commercial scale manufacturing facility for the production of GMP grade PEP005.

POSITIVE RESULTS OF US DOSE ESCALATION PHASE IIA CLINICAL TRIAL IN ACTINIC KERATOSIS

On 27 February Peplin announced preliminary results of its US-based dose escalation clinical trial designed to establish the maximum tolerated dose of its proprietary product PEP005 Topical on an area of skin with actinic (solar) keratosis (AK).

There are two very important conclusions:

1. PEP005 Topical at 0.05% concentration is well tolerated when applied once daily on two consecutive days to an area of skin with AK;
2. In addition blood samples confirmed no absorption of PEP005 into the blood stream and thus our expectations

that PEP005 Topical will prove to be a safe drug are further strengthened.

This concentration is equal to the highest concentration tested in Peplin's earlier phase IIa study reported in November 2005 (Trial PEP005-001) where two applications of the drug directly to lesions proved effective in clearing lesions.

The results of this trial significantly expanded the market opportunity for PEP005 Topical in the treatment of actinic keratosis as it establishes the potential for this drug to be a safe convenient take home prescription medication, applied on two days by the patient to areas of skin affected by sun spots.

PEPLIN'S CORPORATE STRATEGY

Net present value

We probably all have heard about the present value of future cash flows. We generally appreciate that there is both a time factor and a risk factor at work. Intuitively, we would all rather have a dollar today than a dollar next year. This is because we can do something with that dollar (earn interest is one example) over the year. This is the time value of money. And then, because a dollar today is sure and certain, whereas who knows whether you will even get the dollar next year, there is the risk adjusted value of money. Both concepts are important in the valuation of a future cashflow stream.

The good news is that while risk and time are exceedingly difficult to forecast in biotechnology, there are some helpful benchmarks of time, risk and return available.

Time:

We all know that the development of a pharmaceutical product takes a considerable amount of time. Further most would understand that the development of a product typically breaks down into five general stages or phases: pre-clinical (or pre-human) testing, clinical trials phase I, phase II and phase III, and then a period during which the regulatory agencies review the information generated through the development phase to determine whether to approve a new pharmaceutical product for marketing or not.

While it is difficult to generalise, these are indicative time frames of development:

Phase	Time frame
Pre-clinical	2-5 years
Phase I	1-2 years
Phase II	2-3 years
Phase III	2-5 years
Regulatory review	1+ year

It is usual in this industry to see development time frames of 8 years or more.

Risk:

The only measure of success in this business is putting an attractive therapeutic product on the market. Risk in that case can be expressed as the likelihood of failure, the risk of a product not making it through the challenging development process and regulatory approval and finally to market.

Again while very difficult to generalise there are some industry analyses which have looked at the risk of a product candidate failing at each stage of the development process. Here we have used an analysis by Bain in 2003:

13 enter pre-clinical dev.	8% chance of success
9 enter phase I	11% chance of success
5 enter phase II	20% chance of success
2 enter phase III/file	50% chance of success
1 product is launched	100% chance of success

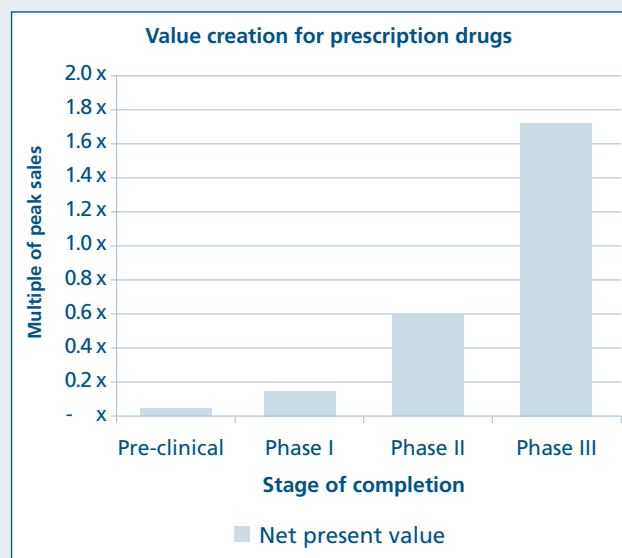
Overall, on average there is an 8% rate of success for each product candidate from the start of pre-clinical development to get to market

What is obvious is that the chances of a single development candidate making it through the complete gamut of tests and checks is (by most measures) extraordinarily low. Only 8% of those products that enter pre-clinical testing become marketed products. What is very important to understand is that the risk of failure drops dramatically as you advance through the development phase. So what does this mean for value?

Net present value at a point in time is a function of risk, time to market, cost to market and market opportunity. As a product candidate progresses successfully through consecutive stages of development, the combined effects of reducing the risk (or

increasing the probability of getting to market) and reducing the time to market have an exponential effect on value.

We have modelled this using a pharmaceutical product with the development cost and product profitability profile similar to our expectations for Peplin's lead product, our PEP005 Topical gel. The exponential effect on value is illustrated below where we have expressed value as a multiple of peak sales of the drug to normalise smaller versus larger market opportunities. The higher bars represent greater value.

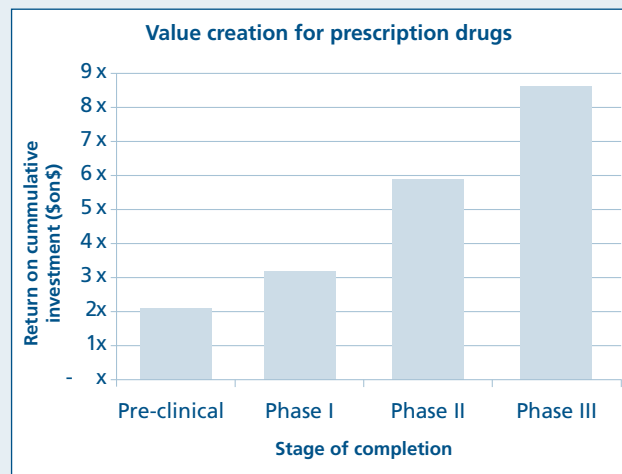


The important conclusion from this analysis is that while the "Eureka moment" is the most exciting, the point at which researchers first perceive a new approach to better treat a disease, it is by definition the furthest from market and carries the most risk.

This analysis has resulted in many companies avoiding the research and early stage development activity if at all possible to focus on late stage development and why large pharmaceutical and biotechnology companies have large in-licensing programs, alongside their discovery programs.

So is investment in pharmaceutical product development worthwhile?

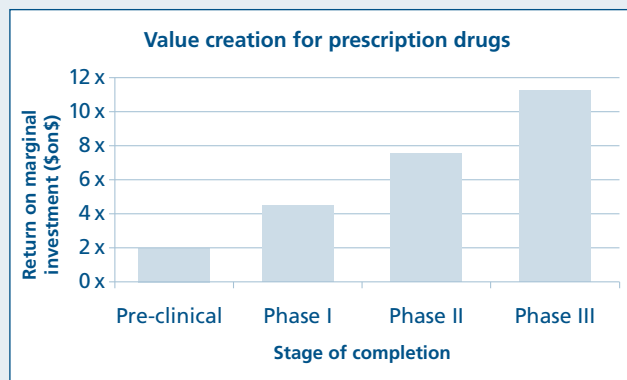
Based on this model we can look at the expected value returns on invested capital in the development of pharmaceutical products. The following chart illustrates the return on investment (value created against the cumulative investment required) using this model.



PEPLIN'S CORPORATE STRATEGY continued

While average returns are “better than even” in the pre-clinical stage of drug development, it is only in the later stages that the average investment really starts to pay big value returns.

We can use the same model to see where the marginal investment has its best return. Rather than looking at the cumulative investment (as we did in the previous graph), we can look at which part of the development cycle delivers the most value. This analysis might be relevant to decisions about whether Peplin should prioritise investment in its lead topical program or its pre-clinical candidates.



What this analysis clearly shows is that the return on investment is most attractive at later stages of drug development, and particularly at phase II and III of drug development.

So what are the conclusions of this analysis? We have based this analysis on observed industry standards of time to market, risk of failure to get to market and market returns, and Peplin specific costs and product profitability. On that model the following are apparent:

1. Later stage development products are more valuable than earlier stage (all other factors being the same).
2. Investment in the development of pharmaceuticals delivers on average a positive return.
3. Compared to early stage investment, returns on the marginal investment dollar are highest in the later stages of development.

How does Peplin use this information?

The Board of Peplin carefully evaluates these analyses because they are important underpinnings of our corporate strategy. In Peplin's 2005 annual report we outlined key elements of our operational, partnership and financing corporate strategy (this was on pages 6 and 7):

1. **Operational:** we “will continue to enhance our therapeutic product development capability...adding formal regulatory, medical, marketing research and corporate development functions progressively and as needed” ...this in order to have the necessary resources and capabilities to participate in the later stage development of our products.
2. **Partnership:** we “are seeking to establish a relationship where each partner would contribute its particular expertise and then share in the product's value” ...there is need for careful selection of a partner with better capability to maximise returns from our product and thus deliver more value to Peplin than we agree to forego. Peplin expects a partner to bring sales and marketing expertise to the venture.
3. **Financing:** Product development “will require capital. The effective investment of that capital in our products' continued development would add materially to their

attraction and value”....to add and crystallise value we must invest capital and the investment of that capital delivers the best returns at later stages of the development chain. Peplin is now moving into these later stages of development for its lead product PEP005 Topical gel.

You can see that Peplin's corporate strategy has a single focus: maximising shareholder value.

We outlined this strategy early in 2005 soon after we seized the opportunity to reacquire full product rights for PEP005 Topical gel. We have invested a significant amount of time and resources since then in its execution and this is starting to bear fruit as the probability of success increases and the timeline to get a product to market shortens.

Peplin has a goal to participate in the complete product development and commercialisation pathway. That will require us to both raise capital and to recruit and secure management resources. We believe that these strategic initiatives will add materially to shareholder value.

Moreover we have stated that these initiatives “are likely to have an international component to them and more specifically focus on North America.”

This is a very important second layer of strategic intent. It relates to the goal of not only value creation but also of value recognition.

Peplin's late stage development activities will require more capital. We need to access larger and deeper capital markets where Peplin's value can be recognised in order to get the necessary capital at the lowest cost. To address both the actual risk and market perceptions of risk that we would be inhibited by a lack of resources and capabilities in progressing our development program on schedule, we must establish a strong capital position and we must attract and retain the most talented people. And finally, to allow shareholders to ultimately monetise the value created will require a highly liquid capital market. For these and many other reasons North America is a very important focus for us, now and in the future:

1. Our products are being developed under investigational new drug (IND) applications filed with FDA.
2. The largest market for prescription pharmaceutical products is the US, and in particular it is the largest market for a pharmaceutical product which is intended to be a more cosmetically attractive way to treat skin lesions.
3. It is most likely to be the location of the most attractive partner for Peplin (corporate partner, merger or sale of product rights).
4. It is the largest capital market for biotechnology companies.
5. Advanced companies enjoy the lowest cost of capital (so valuation is most attractive).
6. And it is home for the most experienced pharmaceutical product development managers, consultants and contractors.

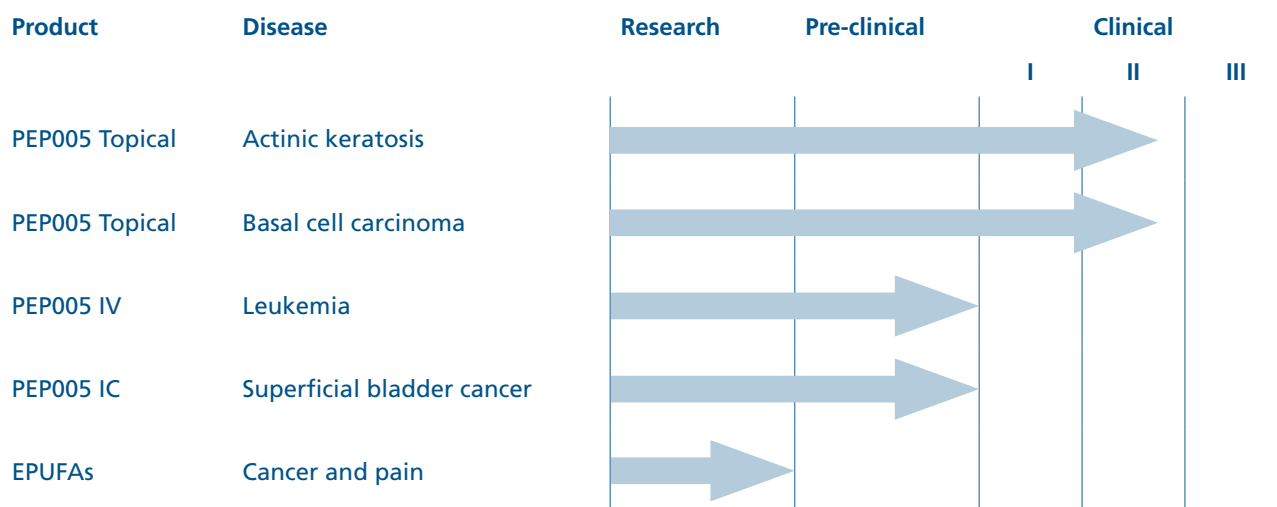
On pages 18 and 19 of our 2005 annual report we set out the people we have in place to deliver on this strategy and the milestones we expect to achieve. I am pleased to report that this team has been significantly augmented and that we will continue to build it. I can also add that with regard to the most important milestones on our lead program we are right on track to get our first product to market as quickly as possible.

PLANS FOR THE JUNE 2006 QUARTER

- **Australian phase IIa clinical trial for superficial basal cell carcinoma (BCC):** The three month follow-up period for patients enrolled in the sBCC trial is now complete; we are collecting the data and expect to report results in the first week of May 2006.
- **Australian phase IIa clinical trial for nodular BCC:** Enrolment for the nodular BCC phase IIa clinical trial is now complete; the three month follow-up period for patients continues and we expect to announce results in the third quarter of 2006.
- **Phase IIb AK clinical trial.** We are finalising our plans for this important trial and expect to initiate the clinical trial in the US during the second quarter of 2006.
- **PEP005 IV for leukemia.** the biocompatibility study continues and we are making plans for the final pre-clinical toxicology studies before filing an IND application with FDA.
- **New commercial scale API manufacturing facility:** We expect construction of Peplin's new GMP manufacturing facility for the production of the PEP005 active pharmaceutical ingredient (API) to be completed and the facility to be opened and operational in the June quarter 2006.
- **Expenditure mainly on skin cancer trials:** We expect expenditure during the June 2006 quarter to be primarily for the Australian-based phase IIa clinical trials in sBCC and nBCC, the US-based phase IIb AK clinical trial, commissioning and operation of the API manufacturing plant and conducting the biocompatibility study for delivery of PEP005 IV to treat leukemia. All expenditure is fully funded by cash reserves on hand.

Michael Aldridge
Managing Director & Chief Executive Officer
10 April 2006

PRODUCTS IN DEVELOPMENT



To help reduce the cost of paper, printing and postage, you can receive an e-mail notifying you of the release of company announcements, reports and other information. The e-mail will contain a convenient link to the information on Peplin's website.

To register for this service shareholders can simply visit the Computershare website at www.computershare.com and:

- click on **Investors**,
- click on **Email address update**,
- enter **PEP** in the field,
- enter your holder identification number (**HIN**) or Security Reference Number (**SRN**), name and postcode, and
- click **Submit** and follow the prompts.

An e-mail will be sent to you for confirmation. Simply click on **reply** and then **send**.

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PEPLIN OVERVIEW

Mission

We are dedicated to the development of prescription therapeutic products which allow people with cancer to live healthier, happier and longer lives.

Vision

Peplin's vision is to deliver superior returns to shareholders through a focus on developing and commercialising therapeutic products for the global market.

Peplin's first goal is to dominate the skin cancer market by delivering a novel product for the treatment of skin cancer. Peplin will build on that foundation to deliver market leading products for other fields of cancer.

Business

Peplin Limited is a public company based in Brisbane, Australia, focused on the development and commercialisation of proprietary prescription pharmaceutical products for the treatment of cancer. Its shares are listed on the Australian Stock Exchange (ASX) using the ticker PEP.

Technology

Peplin has a patent protected technology comprising a new class of naturally occurring molecules which show significant potential as anti-cancer agents for a wide range of human cancers. Peplin's lead molecule in this technology is PEP005, which is chemically described as ingenol-3-angelate. PEP005 has demonstrated powerful anti-cancer effects by way of a unique mode of action, and Peplin is the first to take this class of molecule into clinical development. Peplin holds global proprietary rights to the use of PEP005 in all oncology and other diseases.

Lead product

Peplin's lead compound is PEP005, the first in a new class of investigational agents. Peplin's lead product is PEP005 Topical, which is being studied in phase II clinical trials for the treatment of actinic keratosis (AK) (a pre-cancerous lesion) and non-melanoma skin cancer (NMSC). PEP005 Topical works by a powerful mode of action, directly killing most cancer cells and then recruiting and activating the local immune system to clean-up these dead cancer cells and kill any remaining cancer cells. PEP005 Topical is potentially a rapidly acting and cosmetically attractive non-surgical treatment for AK and NMSC. Peplin's product development activities are supported by the Australian Federal Government under its Pharmaceuticals Partnerships Program.

Market opportunity

PEP005 Topical's market opportunity is significant. AKs are the most common pre-cancerous skin lesions worldwide and the treatment of AKs is the most common dermatologic procedure performed in the out-patient setting.

In the US each year there are about 8.2 million procedures for AK. AK affects more than 58 million North Americans. The worldwide prevalence of AK is highest in Australia. AKs typically occur on sun damaged skin of Caucasians older than 40 years.

NMSC is the most common form of cancer worldwide. It affects more than 1.2 million people per year in the US. According to the Cancer Council Australia of all cancers NMSC is the biggest burden on the healthcare system accounting for \$232 million per year in treatment costs. Peplin is developing PEP005 Topical to address the highly attractive and significant global market opportunity for non-surgical approaches to the treatment of AK and NMSC.

Leukemia is a cancer of the blood and blood forming organs. The Leukemia & Lymphoma Foundation estimated there would be 34,810 new cases of leukemia in the US in 2005. According to the Leukaemia Foundation in Australia there are 2,370 people diagnosed with leukemia each year.

The most common type of leukemia is acute myeloid leukemia or AML which was estimated to strike 11,960 people in the US during 2005. AML is both the most common and the most devastating form of leukemia with a 5 year survival rate of less than 20%.

Pipeline

Peplin's earlier stage pipeline is targeted at leukemia (a blood borne cancer) using its lead compound PEP005 in an intravenous formulation (PEP005 IV) and bladder cancer using an intra-cavitary or intravesical formulation (PEP005 IC). PEP005 has demonstrated selective and potent anti-leukemia activity in pre-clinical disease models. PEP005 induces apoptosis in leukemia cells via the activation of PKC delta. Peplin holds global proprietary rights for PEP005 Topical and other oncology applications of PEP005. Its research portfolio of EPUFA compounds opens additional potential opportunities particularly in cancer and pain.