June 20, 2013

A Letter from the CEO

Dear Stockholders,

The past year was one of transition and opportunity for Helix BioMedix, Inc., (HXBM), and I am pleased to be writing Helix stockholders with the first of an ongoing series of updates that will discuss our progress.

On December 28, 2012, we concluded what was almost a year-long effort when the Helix BioMedix stockholders voted to approve a reverse stock split to enable us to suspend our SEC reporting obligations. This step paved the way for more efficient business operations and a significant reduction in overhead expenses. This has allowed us to spend more money on activities that help to generate revenue.

We remain committed to keeping you informed, but going forward we will be providing less formal quarterly communications, such as this letter, rather than the typical SEC reports on Forms 10-K and 10-Q which we are no longer required to file. We plan to post on our website a letter to stockholders after each calendar quarter to report highlights and financial results. The 2012 audited financials are posted on our website, as are the unaudited Q1 2013 financials.

Since we have just successfully completed our 2012 audit, I am taking this opportunity to bring you up to date on many topics. I have divided this letter into five parts:

1. The 2012 audited financial results;
2. The Q1 2013 unaudited financial results;
3. Company business update;
4. Company strategy update;
5. Comments on suspending our SEC reporting obligations.

**1. The 2012 audited financial results:**

Our revenue for 2012 rose for the third year in a row to \$2.0M from \$1.9M in 2011. Expenses were \$3.9M in 2012 compared to \$3.6M in the prior year. Despite our modest increase in revenue and our higher expense level, we generated \$1.4M in gross profits compared to \$1.1M in gross profits the prior year. Our net operating loss for 2012, excluding a one-time expense for suspending our SEC reporting obligations of \$0.3M, was \$2.2M compared to \$2.5M in the previous year. This improvement reflects the increased profitability of our revenue mix, a continuing trend that I will address later in this letter.

At the end of 2012, we had $333,000 in cash and cash equivalents, and $1.25M remaining available through our line-of-credit. Subsequently, investors have purchased an additional $1.2M in common stock and warrants from the company during Q2 2013. Consequently, we believe that we will have sufficient funds to operate the company past the end of 2013.

**2. The Q1 2013 unaudited financial results:**

The total revenue for the first quarter of 2013 was $459,000 compared to $680,000 for the same period in 2012. Gross profits for the first quarter of 2013 were $390,000 compared to $471,000 for the same period in 2012. However, operating expenses for the first quarter of 2013 declined to $831,000 compared to $1,017,000 for the first quarter of 2012. As a result, our operating losses for the first quarter of 2013 were $441,000 compared to operating losses of $546,000 in the first quarter of 2012.

Going forward, it is useful to remember that there will be substantial variability in our quarter-to-quarter results. Given the seasonality of our consumer products sales and the uneven timing of our royalty revenues, I believe that it is best to evaluate Helix on a year-to-year comparison which will average out quarterly timing variances.

We have elected to omit substantially all disclosures required by U.S. GAAP for the Q1 reports.

**3. Company business update:**

Before discussing 2013 and beyond, I want to make a few comments regarding our financial performance in 2012. Our revenue and gross profits were the highest ever, and our losses (excluding one-time items) were lower, but we did not make as much progress toward profitability as we had in the two previous years. This was attributable to three factors, two of which were one-time occurrences that we believe will have a positive longer-term impact.

First, the successful effort to suspend our SEC reporting obligations during 2012 was expensive and time-consuming. However, as we had expected, we are already seeing a significant reduction in our ongoing overhead costs, as evidenced by our lower Q1 2013 expenses compared to Q1 of the prior year.

A second, one-time event occurred during 2012 when our landlord sought to break our lease to accommodate another tenant. While our resulting move was distracting and generated some relocation expenses, it gave us an opportunity to combine our office, lab facilities, and warehouse under one roof. Our previous, multi-site configuration was far from ideal. We are very pleased with our new, consolidated premises. Going forward, our relocation will be financially as well as operationally beneficial due to the concessions our landlord made to encourage us to move.

Finally, NuGlow Cosmaceuticals, LLC, had a series of setbacks during 2012 which resulted in lower sales than had been expected for the year. This has been disappointing. Based on its weak performance during 2012, we are assuming minimal revenue impact from NuGlow in the near future. Despite the fact that NuGlow has not met our expectations, this has been and continues to be a cash-positive investment for Helix. The gross profits from our product sales to NuGlow have more than covered our investment.

**4. Company strategy update:**

We have three primary sources of revenue: the sale of peptides as product ingredients; sales of our own branded consumer products; and licensing/royalty revenues from partners who develop products sold by major “brand name” cosmeceutical industry players.

Our near-term strategy is to focus on those product opportunities which will make us profitable the most quickly. The two product categories that have the biggest impact on our bottom line are consumer product sales and licensing revenues.

While both of these categories have grown from a small initial base, we are very encouraged by the trajectory of their growth and their longer-term prospects. The profitability of our company depends heavily upon our success in these two categories, and we have invested heavily in backing them. Over the past several years, we have nearly tripled our business development budget in order to build an infrastructure capable of supporting their growth.

*Licensing Agreements* – We currently have two powerful licensee partners. They represent our portal to large, blue-chip accounts that a small company such as ours could not access directly.

We have invested a great deal of time and effort building collaborative working relationships with these partners --- relationships characterized by mutual trust. They trust us to continue delivering high-quality, patent-protected peptides, and developing new peptides with novel and important functions. We trust them to develop, formulate, test and sell pre-mix solutions to the brand-name companies under whose labels these products will ultimately be sold.

Our licensing revenues are royalty-based and, therefore, carry no cost of goods. While royalty payments appear to be “pure profit”, we must measure this royalty income against the costs required to support our ongoing patent obligations and the development/production costs required to support our licensing partners and generate new product opportunities. Our licensing activities are solidly profitable to date, and we are enthusiastic about the growth opportunities in this component of our business.

*Consumer Products* - While our royalty-based licensing agreements deliver attractive margins, we have less control over our own destiny in this market. The leverage provided by our licensee partners is powerful and very important to us, but our revenue stream is twice-removed from the end consumer. Once we have developed and delivered peptides to our licensee partner, the resulting revenue stream is dependent on their sales to branded-product companies and, ultimately, dependent on the success of those branded products in the marketplace.

By contrast, we have direct control over our own high-margin branded product sales. Consequently, we are placing a great deal of emphasis on developing this business, and relatively less emphasis on the sale of lower-margin bulk peptides simply used as ingredients.

Over the past two years we have launched nine new products under the Apothederm® brand, and we will continue to add new products to that line. Many of these products incorporate our patented SmartPeptides® technologies which provide effective solutions to the daily concerns of aging, acne, stretch marks and dull, blotchy skin. More information on these products as well as related press coverage can be found at www.apothederm.com.

In addition to our branded Apothederm® products, we are selling private label cosmeceuticals both domestically and internationally.

*Company R&D* - Our commitment to research and development remains strong. Our R&D department focuses on developing technologies that can have broad and commercially competitive applications in the marketplace. We are also in the very earliest of stages of exploring one prospective Rx technology which would have a material impact on the company's future if it successfully survives development and testing.

The heart of our company has always been our large patent portfolio. Since the beginning of 2011, we have had a total of twenty patents issue in various countries including the United States, Canada, Hong Kong, the Philippines, Russia, South Korea, Australia, Mexico, China, and the European Community.

One of our challenges is to manage the cost of our patent portfolio. Over the past few years, the patent process has become more restrictive and more expensive, especially in Europe. We do not see material relief on this issue any time soon. While we are delighted that our R&D efforts are generating a robust flow of patentable peptide sequences, our patent expense has tripled over the last six years, and we anticipate that the number of our issued patents will continue to accelerate. Fortunately, some of these patents cover peptide sequences that have been licensed to partners and are now just beginning to reach the consumer market. We anticipate that these will add solid profits to our future royalty stream.

**5. Comments on suspending SEC reporting obligations:**

Helix was established as a public company more than fifteen years ago. While there was little advantage to our being a public company during the subsequent years, the cost of preserving that status was relatively minimal. After the enactment of the Sarbanes-Oxley regulations, expenses associated with remaining public rose dramatically such that, by 2012, we estimate that the annual cost of remaining a public company was approximately $350K --- or about 10% of the total annual expenses of running our business. In addition, some of the information we were required to disclose, such as details regarding development agreements for new technologies, was potentially damaging to the competitive positions of both Helix and our partners.

Consequently, our board proposed and stockholders approved the suspension of our SEC reporting obligations as enabled by a reverse split and repurchase of the resulting fractional shares. As a result of that reverse split, you now have 1/300$^{th}$ the number of shares of stock that you had prior to the split. However, the split did not materially change the percentage of the company that you own or the intrinsic value of your stock.

Our 2013 budget now reflects savings of over $350,000 in annual expenses that are directly attributable to suspending our SEC reporting obligations. As we had hoped, significant savings have been realized in financial reporting, legal costs, etc. For example, we were able to reduce our audit expense by more than $160,000 (about 80% less than our previous cost) and we have had a seamless integration with our new audit firm, Moss Adams LLP – one of the twelve largest accounting firms in the United States.

As a final benefit of our non-reporting status, we are continuing to develop a number of exciting new product initiatives with our licensing partners with no fear of premature disclosure that might damage the competitive position that both of us wish to preserve.

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I hope that you have found this informal update helpful. As a company, it is our objective to communicate fully and clearly with all stockholders. Despite the absence of formal SEC filings, we intend to maintain a continuing flow of information on both a quarterly and an occasional basis as circumstances merit. I expect to be mailing our annual proxy to you in connection with our annual stockholders meeting in the near future, and I look forward to providing you my next update regarding our future progress and business highlights. Future updates may be posted on our website at www.helixbiomedix.com.

On a final note, we are pleased to announce that Robin L. Carmichael, our Vice President and Chief Operating Officer, has been appointed to the board of directors. Her contributions to the company's progress have been enormous, and our board endorsed her appointment unanimously and enthusiastically.

Sincerely,

**R. Stephen Beatty**
President and Chief Executive Officer