2017 ANNUAL REPORT

Phosphagenics

ABN 32 056 482 403

Contents

2017 Highlights

Corporate

- Successful capital raise of $3.36 million via an Entitlement Offer strongly supported by existing and new shareholders. (Followed by a $1.37 million share placement in early 2018)
- Mylan arbitration hearing completed November 2017, awaiting decision

Human Health

- Collaboration with our partner Terumo, a Japanese pharmaceutical company, across multiple R&D programs. Primary focus moved to injectables in early 2018.
- Multiple new robust and higher performing TPM®/Oxymorphone patches formulated
- Total of $0.5 million in milestone payments secured, and $1.2 million invested in R&D
- New TPM®/Propofol injectable patent applications filed (jointly with Terumo)
- Marked increase in territories licensed and steady increase of sales of TPM®/Diclofenac gel via partner Themis
- Internal R&D program successfully advancing additional TPM® injectables

Animal Health

- Phosphagenics regained control of all licenses in animal health, following signing of settlement deed with Integrated Animal Health (IAH)
- Second poultry trial completed, reinforces positive findings that TPM® delivers improved growth rate and feed efficiency; additionally demonstrates TPM® benefits in heat stress
- Dairy study completed, further development work continues

Production and Personal Care

- Sale of BioElixia® brand to Pure Beauty Australia, secured upfront payment of $0.2 million plus ongoing royalty stream
- Signed non-exclusive licence agreement with international skin care company Rodan + Fields (R+F) for the use of TPM® in proprietary personal care products in USA, Canada, Australia, Japan and South Korea

CHAIRMAN'S REPORT TO SHAREHOLDERS

Dr Greg Collier, PhD

Non Executive Director and Chairman

Dear Shareholders,

I am pleased to present to you the 2017 Annual Report for Phosphagenics.

Over the past year, our CEO Dr Ross Murdoch, and his management team have continued to execute on the planned corporate strategy to derive value from our TPM® technology. They have done this in a highly disciplined manner, to ensure the company is working with high quality partners and focusing its efforts and resources on the programs that will deliver the most value and with high potential for return.

The company has delivered these milestones, despite the intense time and effort that was required for the Mylan arbitration proceedings, which culminated in a hearing held in Singapore in late October / early November 2017.

Along with our shareholders, we now wait in anticipation of a final decision from the arbitrator (which is expected during the first half of 2018). While we can offer no guarantee as to a positive outcome for Phosphagenics, I believe we have put forward an extremely strong case, and I stand by the merit of the decision to follow this action through to the hearing.

We have signalled our intention to return a portion of any award, if successful, to our shareholders. This is in recognition for the support of our long-standing investors, and the new investors who came onto the register during our recent capital raise and share placement, which provided a further $4.7 million in funding for working capital to support our operations.

Over the past year Ross and his team have explored, signed and advanced a number of partnerships that continue to provide validation for our technology, revenue streams and global partners who can assist with the development and advancement of our portfolio.

Notably, our partnership with the Japanese pharmaceutical company Terumo has continued to prosper over the past year. Collectively we have worked on the advancement of a 1-day TPM®/Oxymorphone patch. Although ultimately Terumo has decided not to take this product through to clinical trials, the process has been valuable for Phosphagenics. Over $2.5million has been invested into the partnership to date, enabling us to enhance the product with new technical developments, and resulting in Phosphagenics receiving financial compensation via the milestone payments paid to date by Terumo.

By applying the learnings from work undertaken with Terumo, we now have an improved 3-day patch to take to the global market. We will be undertaking further discussion with the US Food and Drug Administration, while we concurrently progress discussions with new potential commercial partners.

The partnership with Terumo now mirrors our own internal R&D focus and the alliance will now move focus to injectables. Most advanced is the TPM®/Propofol injectable product, with new patents jointly filed with Terumo.

Chairman's Report

The Animal Health business has had a strong year, following the completion of a second study in poultry. This study confirmed earlier positive findings that TPM® can improve feed efficiency and growth rate. Now armed with this data supporting the potential commercial value of TPM® as a feed additive, we are undertaking discussions with a number of animal health companies.

The Production and Personal Care business is also poised for growth. In line with our stated strategy, the successful completion of the ProPhase arbitration allowed us to rapidly complete the sale of the BioElixia brand to Pure Beauty Australia. This was then followed up with securing a non-exclusive agreement with Rodan + Fields, an internationally renowned skincare brand, for the use of TPM® in proprietary personal care products in USA, Canada, Australia, Japan and South Korea.

Our distribution partner Ashland, has also commenced re-ordering of VitalET® following a re-launch, having now worked through their excess stock. This should bode us well as we enter the 2018 financial year.

The CEO's report will expand on these highlights in more detail. In summary, I would like to acknowledge and commend Ross for his unwavering commitment to the company. Ross has a very clear strategy for Phosphagenics, he continues to improve the product / R&D portfolio, he has been decisive in leading the company to work with high calibre partners who are aligned with our goals and see the value in our technology.

Thank you to all of our shareholders for your ongoing support – I look forward to sharing more success with you in the year ahead.

Yours sincerely

Dr Greg Collier, PhD
Non Executive Director & Chairman
Phosphagenics Limited

"TPM® technology has potential to greatly improve the way many drugs are delivered to and absorbed by the body"

Dr Ross Murdoch, CEO, Phosphagenics

CEO's Report

DR ROSS MURDOCH, PHD, GAICD

CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR

Dear shareholders,

I am pleased to share with you an overview of our achievements and operational progress for 2017 financial year, and the first quarter of 2018.

There is no doubt that, as noted in the Chairman's Report, the Mylan arbitration has required a major effort over the past year, but let me assure shareholders that this has not distracted us from achieving the strategic goals we have set for TPM® and the company. We have continued to strengthen the fundamentals of the company, advance the TPM® technology portfolio (both partnered and internal), and secure commercial partners who can benefit from this unique technology while creating new revenue streams for the company. In keeping with the streamlined approach we have adopted over the past few years, we have maintained an aggressive approach to managing costs and a mantra to focus on the projects and partners that are the right fit for Phosphagenics; those in alignment with our goal to drive value for the business and investors.

Human Health

TPM® technology has potential to greatly improve the way many drugs are delivered to and absorbed by the body.

The Company continues to focus its Human Health resources on the development of its two TPM® enhanced opioid patch products as well as the growing area of strategic focus - TPM® enhanced injectable formulations.

There is a high unmet need for improvement in the formulations of many injectable drugs: both new and commonly used. Over the past 12 months, in line with our stated strategy, we have deliberately increased our focus and effort on creating new TPM® injectable formulations that:

- lessen the need for problematic and toxic excipients such as Cremophor EL and lecithin,
- enhance the solubility of relatively insoluble drugs,
- improve the stability and usability characteristics of existing commercially successful drugs,
- have less potential to harbour bacterial contamination or physical impurities.

This growing focus on TPM® injectable formulations is now mirrored in our partnership with Terumo.

In 2016 Phosphagenics and Terumo entered an agreement allowing for the development of up to four parallel projects utilising TPM®. Projects evaluated include the TPM®/Oxycodone patch, the TPM®/Oxymorphone patch, the TPM®/Propofol injectable and a number of other novel concepts including gels and sprays.

During 2017, Terumo progressed the TPM®/Oxymorphone patch into a separate agreement specifically addressing the development of a 1-day patch for the Japanese market and including a right to move forward to a full license agreement. Terumo specified requirements included high dermal delivery, a single day design and a size that could directly compete with the highly potent fentanyl patch already approved in Japan. The resultant TPM®/Oxymorphone patch program created multiple new patch formulations that are more robust and higher performing than our original prototype, however none matched all of Terumo's specific criteria – in particular the desired size. It was announced in March 2018, that both partners have come to the conclusion that production of a patch that satisfies all of

Terumo's specific requirements is unlikely within a mutually acceptable timeframe and the 1-day TPM®/Oxymorphone patch agreement was therefore terminated returning all rights associated with the TPM®/Oxymorphone patch program back to Phosphagenics.

The patch agreement has been beneficial to Phosphagenics allowing development to advance more efficiently and cost effectively than we would have achieved alone. The TPM®/Oxymorphone patch program will now focus on progression of a more globally applicable 3-day patch and securing a global partner to continue progress into the clinic. Discussions with the FDA are seen as essential to ensure a full understanding of the requirements for the US and global markets, and plans to initiate discussion for progression of this patch into an IND are being formulated.

Importantly, the relationship with Terumo remains strong and productive. It is a fact of doing business in biotech and pharma that not all projects will develop to commercial stage, and Terumo remains committed to working with us on other aspects of the portfolio which they believe will have considerable commercial potential in Japan. The solid progress we have seen with the TPM®/Propofol development program has encouraged Terumo to investigate further projects from our portfolio of TPM® injectables under development internally.

In collaboration with Terumo, we have finalised a clear, transparent TPM® based formulation of Propofol that does not contain the problematic excipients known to cause allergic reactions. We believe this formulation could displace the existing commercial formulations of Propofol, which are opaque, preventing contamination or other safety hazards from being observed prior to administration, and which contain egg lecithin and soybean oil, which can evoke serious allergic reactions.

Our formulation has successfully passed a number of technical milestones including six month real time (room temperature) and accelerated (40°C) stability, indicating the potential for two year shelf life. The formulation was also demonstrated to be compatible with several common diluents used during routine propofol sedation, which is a technical requirement described by the FDA for any new propofol products.

We have now generated two separate patent applications, based on these results, and the TPM®/Propofol injection has now entered the formal preclinical/toxicology phase.

The TPM®/Oxycodone patch program has positively benefited from the visibility of Terumo's investments and we have seen recent renewed interest from other potential partners. Some limited internal R&D trialling has recently been undertaken to strengthen the data set available for these partners.

Animal Health and Nutrition

TPM® as a feed additive for poultry

During the past year Phosphagenics has completed additional studies in poultry supporting the business case for TPM® in Animal Health, and demonstrating its commercial potential as a feed additive for use in livestock. This data is underpinning the business development discussions already underway in this area.

The Global Poultry Feed Market in 2016 was estimated to be worth over USD $2.6 billion and is predicted to reach USD $3.46 billion by 2021. For poultry to be healthy, they must get adequate protein, carbohydrates, vitamins and minerals from their feed and adequate amounts of water. TPM® is added to poultry feed to increase the absorption of vitamins and minerals, making it more efficient and cost effective. The poultry industry is very sensitive and receptive to even small improvements in feed efficiency and the results have caught the

interest of research groups and leaders across the global feed industry.

The first of Phosphagenics' studies of TPM® in poultry demonstrated that 10ppm of TPM® added to standard broiler feed significantly improved growth rate and feed efficiency. Enhanced nutrient uptake is believed of particularly benefit in times of stress. In line with this, the research facility that conducted the successful first study asked to assess TPM®'s potential benefits in their heat stress model. Heat stress can be a major problem for the poultry industry and has been shown in the past to significantly reduce growth and feed efficiency.

The results from this second study reinforced the findings of previous studies and demonstrated that 10ppm of TPM® could also protect the birds from the negative effect of heat stress. In fact the growth rate and feed efficiency of the TPM® fed "heat stressed" birds were "normalised" and not different from the controls that were not heat stressed. The two studies combined make a compelling case for potential partners and presently a number of key global players in the animal feed industry are undertaking due diligence activities.

Outcome of Dairy Cattle Study

Phosphagenics completed a study in dairy cattle designed to assess whether TPM® as a feed additive can promote improved milk quality and fertility. This blinded and placebo controlled study was initiated in mid 2016 across two farms in northern Victoria. The large, randomised, placebo-controlled study sought to assess if TPM® in pelleted dairy feed could provide the benefits previously seen with TPM® in oral drenches: pelleted feed formulations are considered far more commercially attractive than oral drenches in the dairy industry. This 12 month study was completed in late 2017.

Despite successful outcomes in monogastric (single stomach) species (i.e. pigs and poultry) functional differences in ruminant species have been reported in the past, giving rise to different responses. Oral drenches by-pass the first three stomachs of the cow directly entering the final stomach: changing the cow's gastric pathway to more closely resemble a monogastrics such as pigs and poultry. Pelleted feed is exposed to the full fermentation process and four stomachs of the cow, potentially lowering the effective dose of any ingredients including TPM®. Unfortunately in this study, TPM® in pelleted feed did not replicate the successful outcomes seen with the oral drench or that seen in other monogastrics. This indicates that more work is required to optimise the dose and delivery of TPM® in products for ruminants. This has been the focus of discussions with potential partners interested in the ruminant market.

Production and Personal Care

A number of positive developments occurred in the Production and Personal Care business unit, which should position us for a return to growing revenue from the manufacture of TPM® and VitalET® in 2018 and beyond.

Following the successful completion of the Prophase arbitration (decision handed down in November 2016) we executed the sale of BioElixia® brand to Pure Beauty Australia in mid 2017.

PureBeauty Australia is a Melbourne based company with a portfolio of Australian skincare brands. Phosphagenics received an upfront payment of $200,000 and will receive ongoing royalties of 5% of net sales made by PureBeauty of products incorporating TPM®. The two parties also have a ten-year supply agreement for Phosphagenics to supply TPM®.

Phosphagenics also signed a non-exclusive licence agreement with international skin care company Rodan + Fields (R+F) for the use of TPM® in proprietary personal care products in

USA, Canada, Australia, Japan and South Korea. Phosphagenics received a one-time payment of US$50,000 and the two parties have executed a formal supply agreement, enabling Phosphagenics to be the exclusive provider of TPM® derived from natural or synthetic Vitamin E. Rodan and Fields is currently undertaking a widespread evaluation on TPM® to ascertain how it will be incorporated into their product portfolio. Early results are promising and we look forward to seeing this partnership develop.

Sales of Vital ET® to our global distributor, Ashland, were minimal in 2017, as it worked through reaming excess stock from previous years. As of the end of 2017 this excess stock had been exhausted. Ashland informs us that enthusiasm for the product in the market place remains strong and a product relaunch in the second half of 2017 appears to have succeeded in encouraging existing customers as well as developing new customer partnerships. This has already resulted in Ashland's forecast and confirmed orders for 2018 exceeding those for 2016 and 2017 combined, amounting to over 14 tonnes (14,000kg). Vital ET® is already in over 100 brands used world-wide and we believe that the recent increase in sales bodes well for its use to expand.

Finally, I would like to acknowledge the continued support of our shareholders and invite you to read the full report.

Dr Ross Murdoch, PhD
Chief Executive Officer

Your directors are pleased to submit this report on Phosphagenics Limited and its controlled entities for the year ended 31 December 2017.

Directors

The names and particulars of the directors of Phosphagenics Limited in office at any time during or since the end of the period.

Information on Directors Currently in Office:

DR GREG COLLIER PhD

Independent non-executive director
(appointed April 2015, elected May 2015)

Chairman from 21 April 2017

Dr Collier has more than 20 years' experience spanning operational, clinical and scientific aspects of pharmaceutical research, development and commercialisation. He has led the planning and execution of multiple commercial transactions including in and out licensing deals and major M&A activities, and he has successfully taken a drug from discovery through to regulatory approval.

Notably, Dr Collier steered ChemGenex Pharmaceuticals Limited from a research-based Company with a market capitalisation of $10 million to a Company with completed clinical trials and regulatory dossiers submitted to the FDA and EMA. In 2011, ChemGenex was sold to Cephalon Inc. (now subsidiary of Teva Pharmaceuticals Industries Limited) for $230 million.

Prior to his commercial pharmaceutical career, Dr Collier had an outstanding academic career resulting in over 150 peer reviewed publications, and senior authorship on 33 patents. Dr Collier was the inaugural Alfred Deakin Professor at Deakin University, and also held positions at Melbourne University, Monash University and the University of Toronto. In 2010, Dr Collier was awarded the Roche Award of Excellence for his contribution to the biotechnology industry.

Dr Collier is currently Managing Director and CEO of listed drug development Company, Invion Limited.

Committee membership
Member audit and risk and nomination committees.
Member of remuneration committee (until dissolved on 28 November 2017)

Other current directorships of ASX listed entities: Invion Limited

Former directorships of ASX listed entities in last 3 years: None.

Interests in Phosphagenics Limited
2,000,000 ordinary shares
2,250,000 options

ROSS MURDOCH PhD GAICD

Chief Executive Officer and managing director (appointed April 2015)

Dr Murdoch joined Phosphagenics as CEO in January 2015 and was appointed as director in April 2015. He has more than 25 years' experience as a leader within the global healthcare, pharmaceutical and biotechnology industries. He has held senior management and executive positions in Australia, the USA and Europe, with responsibility for the strategy, development and commercialisation of products, product portfolios and the building and rebuilding of new and existing businesses.

Highlights of his career include Senior Vice President at Shire Pharmaceuticals (one of the world's leading specialty pharmaceutical companies), based in the USA and Switzerland, where he founded and grew both the Emerging Products Business and Haematology Business, and President and COO of Prana Biotechnology Limited based in Australia.

Dr Murdoch has a BSc degree with honours from Monash University, a PhD in Clinical Pharmacology from the University of Melbourne and additional postgraduate training in Health Economics from Monash University Business School. He is also a Graduate of the Australian Institute of Company Directors.

Committee membership
Member of nomination committee until 28 November 2017
Attends Board committee meetings by invitation.

Other current directorships of ASX listed entities: None

Former directorships of ASX listed entities in last 3 years: None.

Interests in Phosphagenics Limited
1,666,667 ordinary shares
10,000,000 options

PETER LANKAU BS

Independent non-executive director (appointed April 2015, elected May 2015)
Chairman of Board until 21 April 2017

Mr Lankau served as President and CEO and Director of US based pain management Company, Endo Pharmaceuticals Inc. from 2005 to 2008. He previously served as the Company's President and Chief Operating Officer and as Senior Vice President, US Commercial Business. While CEO, he led the Company to become an industry leader in specialty pharma, as well as developing its pipeline which included 12 product acquisitions and/or licensing transactions.

More recently, Mr Lankau was Executive Chairman of Nautilus Neurosciences Inc., a commercial stage, private equity-backed, neurology-focused specialty pharmaceutical Company, which sold its business to Depomed Inc. in December 2013. Mr Lankau was Chairman and CEO of Logical Therapeutics Inc., a development stage Company which developed novel compounds for inflammatory disease. Currently Mr Lankau is a Principal in the consulting firm, Lankau Consulting LLC.

Mr Lankau is a director of Cipla Limited (India) and InvaGen Pharmaceuticals Inc

Committee membership
Chairman of the audit and risk committee (from 28 November 2017)
Member of nomination committee
Member of remuneration committee (until dissolved on 28 November 2017)

Other current directorships of ASX listed entities: None
Former directorships of ASX listed entities in last 3 years: None.

Interests in Phosphagenics Limited
nil ordinary shares
1,500,000 options

DAVID SEGAL B.Ec, B.Law

Non-independent non-executive director
(elected 19 May 2016)

Mr Segal was the Investor Relations Manager at Phosphagenics from 2011 to 2015. Prior to this he worked for over 30 years in stockbroking, including setting up, raising capital for and running Trent Securities which was absorbed into Shaw Stockbroking in 1992. Mr Segal has been a shareholder of Phosphagenics since 1999.

Mr Segal has a law/commerce degree from Melbourne University and is a graduate of the Australian Institute of Company Directors

Committee membership
Chairman of nomination committee (from 28 November 2017)
Member of audit committee (from 28 November 2017)

Other current directorships of ASX listed entities: None
Former directorships of ASX listed entities in last 3 years: None.

Interests in Phosphagenics Limited
18,491,281 ordinary shares
1,500,000 options.

Former Directors:

DR GEERT CAUWENBERGH PhD

Independent non-executive director until his retirement on 30 May 2017

Dr Cauwenbergh has previously worked at Janssen Research Foundation in Belgium, Johnson & Johnson Consumer companies worldwide and Barrier Therapeutics until it was acquired by Stiefel Laboratories in 2008.

Dr Cauwenbergh is currently President and CEO of NASDAQ-listed Company RXi Pharmaceuticals. In this role he has guided RXi Pharmaceuticals through its initial public offering and helped it successfully prepare and submit its first US FDA Investigational New Drug Application.

Dr Cauwenberg is also a director of Moberg Pharma AB.

Dr Cauwenberg was the Chairman of the nomination comittee and a member of the remuneration and audit and risk committees until his retirement on 30 May 2017.

Other current directorships of ASX listed entities: None
Former directorships of ASX listed entities in last 3 years: None.

Interests in Phosphagenics Limited
20,000 ordinary shares
1,000,000 options

Company Secretary

Ms Legg has been the Company Secretary since December 2015 and Chief Financial Officer since January 2013. She holds a Bachelor of Economics from Macquarie University, a Diploma of Law from the Legal Practitioners Board (NSW) and has recently completed the Graduate Diploma in Corporate Governance with the Governance Institute of Australia.

Principal Activities

The principal activities of the Company are the development, production, sale and licensing of products incorporating its patented platform technology TPM®, for the pharmaceutical, skin care and animal health and nutrition industries.

Result

The financial report for the financial year ended 31 December 2017, and the results herein, have been prepared in accordance with Australian Accounting Standards.

The consolidated loss after income tax attributable to ordinary shareholders for the financial year ended 31 December 2017 was $8,545,358 (2016: $17,315,398). The net operating cash outflow for the year was $6,420,962 (2016: $6,412,563), with a cash balance at 31 December 2017 of $2,898,596 (2016: $6,091,508).

Dividends

No dividends were paid or declared during the period and no dividends are recommended in respect of the financial year ended 31 December 2017.

Review of Financials

Income statement

The reported net loss after tax was $8,545,358 (2016: $17,315,398).

Total revenue for the year was $1,150,356 (2016: $1,588,294), with slightly increased royalties and licence fees of $681,068 (2016: $636,165), the remainder arising from sale of goods and services.

Expenses from continuing operations were considerably lower at $10,869,104 (2016: $20,589,518), with no intangible impairment loss booked in the current year (2016: $7,207,000), and legal fees to support arbitrations increased to $3,439,377 (2016: $2,192,775) partially offset by lower employee and director expenses at $3,157,699 (2016: $3,429,404).

Balance sheet

At the end of December 2017, the Company held $2,899,596 in cash and cash equivalents (2016: $6,091,508). The Company received a further $1,252,095 from the R&D tax incentive scheme on 17 January 2018 and $1,371,688 from a placement of shares on 18 January 2018.

Statement of cash flows

The net operating cash outflow for the year was similar to the prior year at $6,420,962 (2016: $6,412,563), with lower receipts from customers at $1,257,523 (2016: $2,139,757) and government grants at $2,293,919 (2016: $2,441,911) but with lower payments to suppliers and employees at $10,048,943 (2016: $10,994,231).

Net cash inflow from financing activities was $3,174,522 (2016 nil) from a non-renounceable rights issue at 1.5 cents in September-October 2017.

Audit report

The Company's auditor has included an "emphasis of matter" paragraph in the Audit Report relating to the Company's ability to continue as a going concern in the event that all or part of the arbitration claims are unsuccessful and the arbitrator orders the Company to pay Mylan's costs (refer Note 1(a)(iii)).

Earnings per share

	2017	2016
Basic loss per share	($0.0066)	($0.0137)
Diluted loss per share	($0.0066)	($0.0137)

Review of Operations

Phosphagenics' continues to execute on its strategy of developing and commercialising its TPM® technology to translate this into value opportunities for its shareholders.

During the financial year, new agreements were signed with multiple partners across Human Health and Production and Personal Care further validating the technology, and delivering short term revenues and potential for future milestone payments, royalties and income from supply agreements.

Advancement of the TPM® trials in animal health, have increased the data set and will enhance business development discussions.

Human Health

The Human Health business contributed revenues of $918,485 in the year (2016: $238,382) primarily from Terumo Corporation, Phosphagenics' Japanese research partner.

Throughout 2017 the Company's internal R&D program continued its focus on the development and production of TPM® enhanced injectables. These are attractive for

a number of reasons, principally that they provide the opportunity to produce multiple valuable assets in a relatively short period of time and for a relatively low cost when compared to patch and even oral drugs. Work continues on a number of formulations based on their commercial attractiveness and where a clear unmet market need exists for an improved formulation.

Phosphagenics announced in January 2017, the signing of a non-binding term sheet with Terumo for the TPM®/Oxymorphone patch in Japan. Under the terms of the non-binding term sheet, Phosphagenics received a non-refundable payment of JPY35 million (approximately A$400,000) associated with the signing of the term sheet, in exchange for granting exclusive negotiation rights to Terumo.

Following this assessment period, during which time both companies worked together to finalise the composition of a 1-day (24 hour patch), in August 2017 Phosphagenics confirmed that Terumo had signed a development agreement for the TPM®/Oxymorphone patch in Japan. This targeted the progression of a 1-day TPM® enabled Oxymorphone patch into the clinic within 12 months, followed by a formal consultation with Japanese Regulatory Authorities (PMDA) to determine the most efficient path forward to market.

In August 2017 Terumo also advised Phosphagenics of its decision not to progress further in the development of the TPM®/Oxycodone patch. This patch is now free to be partnered by other companies across all territories.

In March 2018, Terumo advised that it had decided to shift its focus to the TPM® injectable portfolio and terminated the development agreement for the TPM®/Oxymorphone patch specifically designed for the Japanese market. All rights and obligations to the existing TPM®/Oxymorphone patch have reverted to Phosphagenics and all patch activities will be directed towards the requirements of the broader global market.

The two companies have initiated discussions around a number of TPM®-injectables already under development within Phosphagenics' internal R&D program.

In November 2017 Phosphagenics provided a positive update with regard to the TPM® enhanced Propofol injectable formulation and collaboration with Terumo. Existing commercial formulations of Propofol are not ideal. They are opaque, preventing contamination or other safety hazards from being observed prior to administration, and they contain egg lecithin and soybean oil, which can evoke serious allergic reactions.

It was announced that the two parties had finalised a clear, transparent TPM® based formulation that did not contain any excipients known to cause allergic reactions. The formulation had successfully passed a number of technical milestones including six month real time (room temperature) and accelerated (40°C) stability, indicating the potential for two year shelf life. The formulation was also demonstrated to be compatible with several common diluents used during routine propofol sedation, which is a technical requirement described by the FDA for any new propofol products. Phosphagenics and Terumo are confident the reformulated product containing TPM® overcomes the technical shortcomings of the existing product.

The parties have now generated two separate patent applications, based on these results, which will be progressed in all key territories and are also advancing the TPM®/Propofol injection to non-clinical development.

Terumo currently holds the rights to TPM®/Propofol in Japan, while Phosphagenics holds the rights in Australia and New Zealand, and licencing partners for the rest of the world are actively being pursued on behalf of the joint venture.

The broader R&D alliance is advantageous for Phosphagenics as it brings with it valuable data, expertise and the potential for future additional milestone payments.

Phosphagenics license with Themis for TPM®/Diclofenac gel in 17 countries produces relatively small revenues at this stage. The TPM®/Diclofenac gel is sold in India through Themis under the trade names Instanac® TPM and Aquadol® TPM, and through Novartis under the trade name Voveran® TPM. It is also sold in Georgia through Humanity under the trade name Diclofenac-HUMANITY, and in Sri Lanka as Instanac® TPM. There are additional regulatory packages being submitted for approval in several more countries under the licence, and we expect additional approvals in 2018 and 2019. Expansion of sales through this existing channel is being explored as an opportunity to increase revenue without further development risk.

In September 2017, Phosphagenics signed a term sheet with Sichuan Credit Pharma Co. Ltd

(known as Credit Pharma) for 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. A non-refundable payment of US$100,000 /A$115,741 was received upon signing of this term sheet, of which A$96,218 was recognised in licence revenue.

It was announced in March 2018, that after considerable negotiation it was determined that a full agreement that satisfied both party's interests would not be reached. Phosphagenics is now free to pursue other partners for the TPM®/Diclofenac gel in China.

Animal Health and Nutrition

Animal Health and Nutrition is an attractive opportunity for Phosphagenics, and currently a focus of partnering discussions.

Phosphagenics is developing TPM® as a feed additive to improve feed efficiency.

A second poultry trial, as reported in December 2017, confirmed the optimum TPM® dose in broilers and reinforced the positive results of the previous studies. The result demonstrated that TPM® when added to broiler feed at 10ppm significantly improves performance (ie growth rate, feed efficiency) and also confirmed that TPM® can negate the negative impact of heat stress. These positive results further demonstrate the commercial viability of TPM® as a feed additive in poultry, specifically in stressed livestock and will be used as the basis for further partnering discussions.

Phosphagenics completed a study in dairy cattle designed to assess whether TPM® as a feed additive can promote improved milk quality and fertility. This blinded and placebo controlled study was initiated in July 2016 across two farms in northern Victoria. The study showed that although the group treated with TPM® had a lower number of mastitis cases requiring treatment, no statistically significant improvements in milk quality and fertility endpoints ($p<0.05$) were seen in TPM® treated cows compared to controls. Notably, when included in a pelleted dairy ration the selected dose of TPM® did not replicate the successful outcomes seen when delivered as an oral drench. These latest results indicated that more work will be required to optimise the dose and delivery of TPM® in cattle as ruminant species may have different needs to the monogastric species (such as pigs and poultry) in which successful outcomes have already been demonstrated

During the first half of 2017, Phosphagenics and Integrated Animal Health Pty Ltd (IAH) announced that they had signed a settlement deed, mutually agreeing to cease all of their licences. The details of the settlement are confidential but provide a mutual solution to contractual issues that had arisen over the past years. The solution has allowed Phosphagenics to move forward and focus on new business opportunities for its TPM® enhanced products in racing animals and cattle. Previously, IAH sales were minimal and below those required and/or expected within the terms of the agreements.

Production and Personal Care

The Production and Personal Care business generated revenues of $231,871, a significant decline compared to the prior comparable period (2016: $1,293,344).

Disappointingly sales of Vital ET® to global distributor, Ashland, were minimal, as Ashland worked through the remaining excess stock purchased in prior years. As of the end of 2017 this excess stock had been exhausted. Enthusiasm for the product in Ashland and the market place remains strong and a product relaunch/refresh in the second half of 2017 appears to have succeeded in encouraging existing customers as well as developing new customer partnerships. An uptake in market sales in 2017 bode well for Ashland orders in 2018. Firm orders for over 14,000kgs have been received in 2018 and partially delivered to date.

The company restructure in 2015 (to ensure focus on its core business) and the successful completion of the Prophase arbitration (decision handed down in November 2016) cleared the way for the successful sale of the BioElixia® brand to Pure Beauty Australia in mid 2017.

The purchaser, PureBeauty Australia is a Melbourne based company with a portfolio of Australian skincare brands. Phosphagenics received an upfront payment of AU$200,000 and will receive ongoing royalties of 5% of net sales made by PureBeauty of products incorporating TPM®. The two parties also have a ten year supply agreement for Phosphagenics to supply TPM®.

The agreement provided best value to Phosphagenics' shareholders and will enable them to share in the potential of this brand.

Phosphagenics also signed a non-exclusive licence agreement with international skin care company Rodan + Fields (R+F) for the use of

TPM® in proprietary personal care products in USA, Canada, Australia, Japan and South Korea. Phosphagenics received a one-time payment of US$50,000 and the two parties have executed a formal supply agreement, enabling Phosphagenics to be the exclusive provider of TPM® derived from natural or synthetic Vitamin E.

Legal Matters

Mylan Arbitration

The Mylan arbitration remained a substantial focus for Phosphagenics in 2017 concluding with the hearing in late October/ early November 2017. It is expected that an arbitral award will be handed down within six months from the end of the hearing.

In May 2017 Phosphagenics announced it had filed its expert reports which included an independent expert assessment of the damages claimed. If Phosphagenics was to succeed on all aspects of all its claims, the maximum total damages assessed by Phosphagenics' independent expert was approximately US$300.4 million. This was the aggregate amount in respect of the individual claims arising from the multiple causes of action, each of which carries its own probability of success with the arbitrator.

In September 2017, Phosphagenics announced its intention to return to shareholders a proportion of any award granted (subject to shareholder approval) on the following scale:

- 30% of net cash proceeds below AU$50M;
- Plus 50% of cash proceeds received between AU$50M and $100M;
- Plus 70% of cash proceeds received above AU$100M.

The directors note that there is no guarantee or certainty in respect of the outcome of these arbitration proceedings. Similarly, even if successful there is no certainty in respect of the quantum of damages which may be awarded (and which may be materially less than the maximum total damages assessed by Phosphagenics' independent experts) or its recoverability.

If the arbitration against Mylan is unsuccessful the Company may be ordered to pay costs.

Phosphagenics may still consider settlement discussions with Mylan, which would take into account various commercial considerations and risks to the Company.

Capital Raising

Phosphagenics thanks its new and existing shareholders for the support of its recent capital raising (entitlement offer) which raised AU$3.36 million. Approximately 71% of the Entitlement Offer was taken up. The shortfall was utilised in January 2018 to complete a placement of 91,445,867 ordinary shares, raising a further AU$1.37 million at the same issue price as the Entitlement Offer (also referenced below).

R&D Tax Incentive

For the period ended 31 December 2017 the Company has recorded R&D tax incentive as Other Income of $1,007,684 (2016: $1,832,705). The Company received $1,252,095 for the R&D tax incentive for the period July 2016 to June 2017 on 17 January 2018.

Employee Long Term Incentive Scheme

At the May 2017 Annual General Meeting the shareholders approved a three-year Conditional Options Scheme for the CEO, identical to the employee scheme approved by directors in 2016. Shareholders also approved a three-year non-Conditional Options Scheme for non-executive directors. For further information see Remuneration Report (d)(iii) and (g).

Subsequent events

On 17 January 2018 the Company received a refund of $1,252,095 for the R&D tax incentive for the tax year ended 30 June 2016.

On 18 January 2018 the Company completed a placement to sophisticated investors of 91,445,867 ordinary shares raising $1,371,688.

Business Strategy and Future Developments

The Company will continue to use its cash resources to invest in research and development activities and licensing activities.

The Company continues to pursue commercialisation of all its development pipeline via licencing agreements appropriate for the stage of each product's development as well as continuing to look at new opportunities to build value for shareholders. The underlying business strategy of developing and commercialising TPM® within the three relevant Business areas (Human Health, Animal Health and Nutrition and Personal Care) remains unchanged from the previous year

Human Health

The underlying business strategy of developing and commercialising TPM® for dermal and injectable application remains unchanged from the previous year. The Company's key Human Health focus continues to be the development of its two TPM® enhanced opioid patch products, with an expanding focus on TPM®'s application in enhancing injectable formulations. The significant progress made during 2017 in TPM® injectables is expected to lead to candidates with the potential to enter the clinic in 2018/19.

Animal Health and Nutrition

The underlying business strategy of developing and commercialising TPM® as a feed additive for animal livestock remains unchanged from the previous year. The Company's key Animal Health and Nutrition focus is the out-licencing of the technology to suitable animal health partner/s.

Production and Personal Care

Phosphagenics continues to produce TPM® products such as TPM® and Vital ET® for commercial sale. The key focus into 2018-19 is improved profit through increased top line revenue predominantly via improved sales volume and improved overall margin via increased efficiencies.

Legal

The Company concluded its arbitration hearing with Mylan Laboratories Ltd in early November 2017. An award is expected to be rendered within six months from its conclusion.

The directors note that there is no guarantee or certainty in respect of the outcome of these arbitration proceedings. Similarly, even if successful there is no certainty in respect of the quantum of damages which may be awarded (and which may be materially less than the maximum total damages assessed by Phosphagenics' independent experts) or its recoverability.

If the arbitration against Mylan is unsuccessful the Company may be ordered to pay costs.

Material Business Risks

As Phosphagenics is in the biotechnology and pharmaceutical sectors, it undertakes both research and development, which by its nature is high-risk. The Company is subject to normal business risks, including but not limited to government policies, exchange rate fluctuations, labour market conditions and other factors which are outside the control of the Board and management. Material risks specific to the group include, but are not limited to:

- **Scientific, technical and clinical** – product development requires a high level of scientific investigation, the outcomes of which cannot be known beforehand. Activities are experimental in nature so risk of failure or delay is a real possibility. Key activities, such as product manufacture, preclinical testing and clinical trials, are outsourced to specialist contract organisations, where there are risks in managing performance, costs, timelines and quality outcomes.
- **Regulatory** – products and their safety data may not be approved by the regulatory agency (e.g., FDA) to proceed to next stage of clinical development or whose approvals are required before the products can be sold in market.
- **Financial** – the group does not receive sufficient income to cover its operating expenses. Although there are sufficient current cash reserves, there is no certainty that additional funding from raising capital or from other sources will not be required and there is no certainty that this funding will be available.
- **Intellectual Property** – the Company needs to ensure it operates without infringing other patents and ensure it adequately protects its own existing patents and new experimental outcomes.
- **Commercialisation** – the Company's strategy is to partner with large and medium sized pharmaceutical, specialty pain companies or global animal health companies to finalise and market its products. There are risks in establishing and maintaining these relationships and in the manner in which the partners execute the agreements.
- **Key personnel** – the execution of the Company's development plan relies on key personnel of its executive and scientific teams. The ability to attract and retain these personnel is critical.
- **R&D Incentives** – the Company is eligible for cash rebates of its research and development programs, which are subject to changes in government policy.
- **Legal risks** – The Company must continue to protect its intellectual property and legal rights as these are core to its success and

overall value. These commitments have significant on-going costs but uncertain outcomes.

- **Arbitration outcome** – the Mylan arbitration may not be successful and may result in costs being awarded against the Company.
- **Arbitration award risks** – a successful arbitral award against Mylan Laboratories Ltd may not be voluntarily paid and may require enforcement in the courts. Despite recent law changes in India this process can be difficult and time consuming, and may result in additional costs and delays in receipt of any damages awarded.

Health and Safety

The Board, CEO and senior management team are committed to creating a positive environment for the health and wellbeing of our employees and anyone affected by our operations, including contractors and visitors. The Company has adopted a Health and Safety Policy and has established a Health and Safety Steering (HSS) committee structure as part of its overall framework.

The HSS committee, which includes representatives of employees from each operational area, is a forum for employees to consult and monitor health and safety matters. The HSS committee meets regularly throughout the year and reports regularly to the senior management team.

Environmental Regulations

The Company is registered with relevant authorities to use certain compounds in the manufacture of goods. All waste chemicals are disposed of using accredited service providers with notification to the relevant authorities.

The Company is not aware of any material breaches of any environmental regulations.

Directors' Meetings

The number of meetings of the Company's Board of Directors and of each committee held during the year and the number of meetings attended by each director during the period that the director was in office or was a member of the committee:

	Board	Audit and Risk	Nomin-ation	Remun-eration
G Collier	16 of 16	3 of 3	1 of 1	1 of 1
R Murdoch	16 of 16	-	1 of 1	-
P Lankau	16 of 16	3 of 3	1 of 1	1 of 1
D Segal	16 of 16	-	0 of 0	-
G Cauwenbergh	9 of 9	1 of 2	1 of 1	1 of 1

The remuneration report sets out remuneration information for non-executive directors, executive directors and other key management personnel (KMP) of the group. The report contains the following sections:

a) Key management personnel disclosed in this report
b) Remuneration governance
c) Use of remuneration consultants
d) Executive remuneration policy and framework
e) Relationship between remuneration and performance
f) Performance review and development
g) Non-executive director remuneration policy
h) Voting and comments made at the Company's 2017 Annual General Meeting
i) Details of remuneration
j) Service agreements
k) Details of share-based compensation and bonuses
l) Equity instruments held by key management personnel

a) Key management personnel

Non-executive and executive directors	
(see pages 9 to 11 for details about each director)	
G Collier	
R Murdoch	
P Lankau	
D Segal	(from 19 May 2016)
G Cauwenbergh	(until 30 May 2017)
N Drona	(until 18 May 2016)

Other key management personnel

Name	**Position**
P Gavin	Chief Scientific Officer
A Legg	Chief Financial Officer
R Libinaki	General Manager, Animal Health and Nutrition
G Moses	General Manager, Production and Personal Care (until 9 June 2017)
J Rosen	General Counsel (until 1 January 2016)
A Stojanovic	VP, Business Development and Commercial Operations

Changes since the end of reporting period
None.

b) Remuneration Governance

On 28 November 2017 the Board resolved to dissolve the Remuneration Committee with the functions to be undertaken by the Board. From the beginning of the financial year to 30 May 2017, the Committee had consisted of three independent non-executive directors and after this date the Committee consisted of two independent directors. The Committee advised the Board on remuneration policies and practices generally, including key management personnel, and made specific recommendations on remuneration packages and other terms of employment for non-executive directors and executive directors.

The objective of the Company's remuneration policies is to attract and retain the highest calibre of employee whilst promoting and rewarding workplace culture and contributions to Company performance. The framework balances employee reward with achievement of strategic objectives and the creation of value for shareholders.

c) Use of remuneration consultants

If remuneration consultants are to be engaged to provide remuneration recommendations as defined in section 9B of the *Corporations Act 2001*, then they are engaged by, and report directly to, the remuneration committee or Board. No remuneration consultants were engaged to provide remuneration services during the financial year.

d) Executive remuneration policy and framework

In determining executive remuneration, the Board aims to ensure that the remuneration practices are:

- Competitive and reasonable, enabling the Company to attract and retain key talent
- Aligned to the Company's strategic and business objectives and creation of shareholder value
- Transparent and easily understood
- Acceptable to shareholders.

The executive remuneration framework has three components:

- Base pay and benefits
- Short-term incentives
- Long-term incentives through participation in Phosphagenics Equity Incentive Plan (EIP).

A combination of these components comprises an executive's total remuneration, with base

pay and benefits at an appropriate level to competitive market benchmarks.

(i) Base pay and benefits

Australian based executives receive their base pay and benefits structured as a Total Remuneration Package (TRP) which may be delivered as a combination of cash and prescribed non-financial benefits at the executive's discretion. Superannuation is included in the TRP.

US based executives receive their base pay and health and dental insurance. Phosphagenics has also established a defined contributions pension plan (401(k)) for all its US employees and contributes under Safe Harbour matching contributions to a maximum of 4% or US$8,500 per annum. There are no guaranteed base pay increases in any executives' contracts.

Salaries are subject to annual review effective 1 July each year. Due to concerns regarding cash availability pay rises were last awarded to some KMP on 1 July 2016

(ii) Short term incentives

The Company has in place a Short Term Incentive Program for all employees to reward for achievement of defined Company and agreed individual performance expectations for 12 months ending 31 December each year.

The available bonus would comprise:

- 33.3% corporate component set by the Board based on organisational targets which align with the Company's overall strategic goals.
- 33.3% individual key performance targets set at beginning of each period, aligning with corporate with organisational targets as well as team and personal targets, the achievement of which will be assessed by the employee's immediate manager.
- 33.3% individual constructive behaviours as assessed by the employee's immediate manager.

Eligible executives, apart from the CEO, can receive up to 10% of their fixed base salary as a bonus should they meet expected KPIs and up to 20% if KPI targets are exceeded. The CEO is eligible to receive up to 40% of his fixed base salary as a bonus. The bonus is set to be paid in March of each year (unless modified) in the form of cash.

Any US employee is under a separate contract and is entitled to a discretionary annual cash bonus of up to 20% of base pay or other agreed amount based on achieving KPI targets set each year.

The bonus outcomes are discretionary and are based on performance criteria outlined above, the overall health of the business and other factors which may arise. The Board approves the total bonus pool, the corporate component as well as the total awarded to each KMP.

The Program was modified by the Board in December 2016 to take into account the timing of appointment of the new CEO as well as the significant restructure announced in October 2016. In 2016 and 2017 pro-rata periods were applied with bonuses paid for the period January 2016 to June 2016 in August 2016. Bonuses for the period July 2016 to December 2016 and January 2017 to December 2017 have been deferred until a significant non-dilutive cash inflow occurs.

(iii) Long term incentives

The long-term incentive remuneration scheme was replaced during 2016 with an Equity Incentive Plan (EIP). It was the view of the Board that the milestones set in the previous Phosphagenics' Employee Conditional Rights Scheme (ECRS) could not be achieved and therefore did not provide the requisite incentive.

The Phosphagenics' EIP is designed to reward staff in a manner that aligns remuneration with the creation of shareholder value and to ensure that all staff, including executives, views their relationship with the Group as a long-term one. As such the EIP has been offered to all staff who meet the minimum service criteria, with vesting requiring continuation of service.

During 2016 the Board approved the issue of options (EIP 2016 Option) to employees. In May 2017 shareholders approved the issue of EIP 2016 Options to the CEO. Any outstanding ECRS were forfeited by employees on the issue of EIP 2016 Options.

Equity Incentive Plan 2016 Option (EIP 2016 Option)

The EIP 2016 Option allows eligible employees to acquire shares at a price of $0.023, which was set at 10% over the 5-day VWAP at the invitation date, subject to certain vesting conditions being achieved. The options will vest and become exercisable in tranches as follows:-

- one-third of the Options would vest on 11 September 2017 (Tranche 1 Vesting Date), subject to the volume weighted average of the prices of shares traded on ASX in any 5 consecutive trading days (5 Day VWAP)

during the period commencing 3-months immediately prior to and extending to 3-months post the Tranche 1 Vesting Date being greater than 50% above the Invitation VWAP ($0.021), calculated to be $0.032. This tranche lapsed on 11 December 2017;

- one-third of the Options will vest on 10 September 2018 (Tranche 2 Vesting Date), subject to any 5 Day VWAP during the period commencing 3-months immediately prior to and extending to 3-months post the Tranche 2 Vesting Date being greater than 100% above the Invitation VWAP ($0.021), calculated to be $0.042;
- one-third of the Options will vest on 9 September 2019 (Tranche 3 Vesting Date), subject to any 5 Day VWAP during the period commencing 3-months immediately prior to and extending to 3-months post the Tranche 3 Vesting Date being greater than 150% above the Invitation VWAP ($0.021), calculated to be $0.053.

All current and prospective employees, including executive and non-executive directors, are eligible to participate in the scheme.

The scheme is administered by the Board, with all objectives, determinations, approvals or opinions made or given by the Board in its absolute discretion.

Employee Conditional Rights Scheme approved by Board January 2015 (ECRS Scheme 2)

Under the terms of the ECRS Scheme 2, the rights would vest if certain non-market or market conditions were fulfilled. One of the key overriding conditions of the Scheme was that if the 10-day Volume Weighted Average Price (VWAP) was not less than $0.25 at any time prior to 31 December 2017, then 100% of the Performance Rights would vest. The VWAP price was not met.

Alternatively, vesting of the Rights was conditional on Phosphagenics achieving the following conditions:

Milestone 1 (16.5% of Rights awarded any two of five conditions achieved, or 33% of Rights awarded if any four of five conditions were achieved, by 31 December 2015) - Completion of treatment phase of Phase 2a clinical trial of the TPM®/Oxycodone patch, Submission of a US IND for the TPM®/Oxymorphone patch, completion of treatment phase of a clinical trial of the TPM®/Oxymorphone patch, selection of new priority molecule demonstrating transdermal delivery and gross revenues from sales of TPM® products or commercialisation of not less than $6 million. This milestone was not achieved as only one of the five conditions was met.

Milestone 2 (34% of Rights awarded if any three of the following achieved by 31 December 2016) – Submission of a US IND for any product other than TPM®/Oxymorphone, completion of a Phase 2 clinical trial of the TPM®/Oxycodone patch under a US IND, completion of a Phase 2 clinical trial of the TPM®/Oxymorphone patch under a US IND, completion of a licencing agreement which exceeds $20 million, gross revenues from sales of TPM products of not less than $10 million, and completion of a Phase 1 clinical trial of a product containing TPM® not previously in the development pipeline as at 31 December 2014. This milestone was not achieved as none of the conditions were met.

Milestone 3 (33% of Rights awarded if any one of the following achieved by 31 December 2017) - Completion of a Phase 3 clinical trial for TPM®/Oxycodone patch or TPM®/Oxymorphone patch, execution of commercial agreements with minimum upfronts of $10 million and total value of at least $100 million, spin-off of the Company's pain portfolio by way of IPO and gross revenues from sales of TPM® products of not less than $15 million.

This milestone was not achieved as none of the conditions were met.

All rights issued to employees under this scheme lapsed or were forfeited in October 2016 and December 2016.

Employee Conditional Rights Scheme approved May 2015 (ECRS Scheme 3)

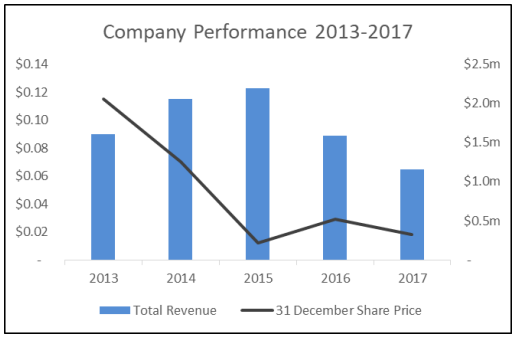
Under the terms of the ECRS Scheme 3, approved by the shareholders at the Annual General Meeting held on 18 May 2015 for the CEO, the rights would vest if certain non-market or market conditions were fulfilled. One of the key overriding conditions of the Scheme was that if the 10 day Volume Weighted Average Price was not less than $0.25 at any time prior to 31 December 2017, and provided the CEO remained an employee, 33.3% of the Performance Rights would vest on or after 31 December 2015, 33.3% would vest on or after 31 December 2016 and the remainder on or after 31 December 2017. All other vesting conditions were the same as for ECRS Scheme 2.

This scheme remained on foot until the AGM in May 2017 when the replacement EIP scheme and the issue of options to the CEO were

approved by shareholders, and at this time these rights were forfeited.

e) Relationship between remuneration and Phosphagenics Limited's performance

Typical of companies in the biotech sector at the company's stage of development, performance metrics, such as total revenues or profitability, are not an appropriate measure of executive performance. The following chart shows the Company's total revenues (2013 to 2017 from continuing operations) and year end share price over the five-year period from 1 January 2013 to 31 December 2017.



The main focus is on growth in shareholder value through achievement of development and commercial milestones. The Board, however, recognises that share price performance is relevant and has linked share price performance to the vesting of executive long term equity incentives. The impact of share price performance of the vesting of equity options in 2017 resulted in 100% or 11,250,000 options lapsing.

f) Performance review and development

All staff, including executives, participate in a formal bi-annual performance review and development process. Establishment of objectives, setting KPIs and planning relevant staff development are documented and agreed at the beginning of the year. A formal half-year review occurs, the outcome of which contributes to the annual salary review. The full-year review contributes to the award of short-term incentives.

g) Non-executive director remuneration policy

The Company's remuneration strategy for non-executive directors is to remunerate them appropriately for their time and expertise, which has been determined to involve a combination of fixed fees and a non-performance based equity component.

All non-executive directors receive a fixed fee and the chair of the audit and risk committee receives an additional fee for chairing that committee, see table below.

Annual Director's Fees	2016 and 2017 ($)
Chair	110,000
Other non-executive directors	55,000
Audit and risk committee - Chair	10,000

Fees are determined within an aggregate non-executive director's pool limit approved by shareholders. The aggregate currently stands at $400,000 and was approved by shareholders at 2014 Annual General Meeting. This amount, or part thereof, is divided among non-executive directors as determined by the Board and reflecting time and responsibility related to the Board and committees. The aggregate paid to non-executive directors was $248,599 (2016 $284,896). Directors fees include statutory superannuation contributions as required under Australian superannuation guarantee legislation.

Non-executive director's fees are reviewed annually by the Board and there have been no changes to fees in either 2016 or 2017.

The non-executive directors do not receive retirement benefits nor do they participate in any short-term incentive programs. Non-executive directors are entitled to participate in the long-term incentive scheme as detailed in the Executive remuneration section.

In May 2017 shareholders approved the award of non-performance based options (EIP 2017 Options) to directors, where under the terms of the EIP, the strike price is the same as the employee options at $0.023 and further one-third of the options vest each September of 2017, 2018 and 2019, with the sole vesting condition that the director remains in office at that vesting date. 1,750,000 options vested in September 2017.

h) Voting and comments made at the Company's 2017 Annual General Meeting

Of the votes cast on the Company's remuneration report for the 2016 financial year, 72% were in favour of the resolution, and accordingly a "first strike" was recorded. The Company received specific feedback regarding KMP bonuses at the Annual General Meeting.

i) Details of remuneration

The following tables show details of the remuneration received by the group's key management personnel for the current and previous financial year.

2017	Short-term employee benefits			Post-employment benefits	Long-term benefits	Share based payment		
($)	Cash salary & fees	Cash Bonus	Benefits	Super-annuation	Long service leave	Perform-ance rights	Options	Total
Non executive directors								
G Collier	84,361	-	-	8,014	-	-	2,316	94,691
P Lankau	72,903	-	-	-	-	-	1,544	74,447
G Cauwenbergh[1]	22,917	-	-	-	-	-	-	22,917
D Segal	50,228	-	-	4,772	-	-	1,544	56,544
Sub-total	230,409	-	-	12,786	-	-	5,404	248,599
Executive directors								
R Murdoch	357,404	-	-	33,889	3,431	(3,810)	11,316	402,230
Other key management personnel								
P Gavin	199,616	-	-	19,000	3,333	-	15,808	237,757
A Legg	186,711	-	-	18,050	4,822	-	31,617	241,200
R Libinaki	177,658	-	-	16,435	2,883	-	15,808	212,784
G Moses[2]	78,037	-	-	7,290	-	-	(3,842)	81,485
A Stojanovic	320,236	-	34,054	29,176	-	-	15,808	399,274
Total	**1,550,071**	**-**	**34,054**	**136,626**	**14,469**	**(3,810)**	**91,919**	**1,823,329**

1 Retired 30 May 2017
2 Resigned 9 June 2017

2016	Short-term employee benefits			Post-employment benefits	Long-term benefits	Share based payment		
($)	Cash salary & fees	Cash Bonus	Benefits	Super-annuation	Long service leave	Perform-ance rights	Options	Total
Non executive directors								
P Lankau	110,000	-	-	-	-	-	-	110,000
G Collier	55,860	-	-	5,307	-	-	-	61,167
G Cauwenbergh	55,000	-	-	-	-	-	-	55,000
N Drona[1]	24,812	-	-	-	-	-	-	24,812
D Segal[2]	30,974	-	-	2,943	-	-	-	33,917
Sub-total	276,646	-	-	8,250	-	-	-	284,896
Executive directors								
R Murdoch	371,538	49,000	-	37,905	953	2,286	-	461,682
Other key management personnel								
P Gavin	200,770	16,000	-	20,520	3,333	(200)	3,916	244,339
A Legg	183,021	19,000	-	18,675	4,387	(200)	7,833	232,716
R Libinaki	170,483	13,600	-	17,584	3,513	(200)	3,916	208,896
G Moses	169,704	13,600	-	17,584	4,202	(200)	3,916	208,806
J Rosen[3]	1,905	-	6,456	4,206	-	(200)	-	12,367
A Stojanovic	328,326	26,769	25,613	28,474	-	(200)	3,916	412,898
Total	**1,702,393**	**137,969**	**32,069**	**153,198**	**16,388**	**1,086**	**23,497**	**2,066,600**

1 Retired 18 May 2016
2 Elected 19 May 2016
3 Ceased employment 1 January 2016

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

	Fixed remuneration		At risk – STI		At risk - LTI	
	2017	2016	2017	2016	2017	2016
Name	**%**	**%**	**%**	**%**	**%**	**%**
Executive directors						
R Murdoch	98%	89%	-	11%	2%	-
Other key management personnel						
P Gavin	93%	91%	-	7%	7%	2%
A Legg	87%	89%	-	8%	13%	3%
R Libinaki	93%	91%	-	7%	7%	2%
G Moses	100%	91%	-	7%	-	2%
J Rosen	-	100%	-	-	-	-
A Stojanovic	96%	93%	-	6%	4%	1%

j) Service agreements

Remuneration and other terms of employment for the executives are formalised in service agreements which include a position description that sets out duties, rights and responsibilities as well as entitlements on termination. All service agreements include provision that the Company can dismiss the employee at any time without notice if the employee is guilty of serious misconduct, becomes unable to pay debts or is found guilty by court of a criminal offence.

The entitlement to participate in Phosphagenics Employee Incentive Schemes is governed by the Scheme document and may not be specifically detailed in the service agreement.

Where termination with cause occurs the executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination. On termination with cause, any unvested options or rights will immediately be forfeited.

Name	**Term of agreement and notice period**	**Base salary including superannuation #**	**Termination payments ##**
R Murdoch Chief Executive Officer	No fixed term 6 months	$383,250	6 months[1]
P Gavin Chief Scientific Officer	No fixed term 1 month	$219,000	1 month
A Legg Chief Financial Officer	No fixed term 1 month	$208,050	1 month
R Libinaki General Manager, Animal Health and Nutrition	No fixed term 3 months	$189,435	3 months
G Moses (until 9 June 2017) General Manager, Production and Personal Care	No fixed term 3 months	$189,435	3 months
A Stojanovic VP, Business Development and Commercial Operations	No fixed term 14 days	US$241,065	30 days[2]

Base salary quoted as at 31 December 2017, reviewed annually by the Board.
Base salary payable if the Company terminates employee with notice and without cause.
1 Entitled to severance pay of 6 months base pay where there has been significant or unreasonable diminution of powers or responsibilities, subject to employee giving 30 days notice within 6 months of such change.
2 Entitled to severance pay of 33.3% of base pay due to sale or other disposition of all or substantially all of Company's asset or business by way of merger, consolidation or spin-off.

k) Details of share-based compensation and bonuses

Options Granted During the Year to Key Management Personnel

In 2017, 15,000,000 (2016: 22,500,000) 2016 Options were awarded to key management personnel. These options were valued at weighted average of $0.002 each, are non-quoted, have strike price of $0.023, vesting dates in September 2017, 2018 and 2019, or 3 months either side, and an expiry date of five years. No options vested during the year.

In 2017, 5,250,000 (2016: nil) 2017 Options were awarded to key management personnel. These options were valued at weighted average of $0.003 each, are non-quoted, have strike price of $0.023, vesting dates in September 2017, 2018 and 2019 and an expiry date of five years. 1,750,000 options vested during the year.

l) Equity instruments held by key management personnel

The tables below show the number of:

i) options over ordinary shares in the Company;

ii) performance rights holdings granted under the Employee Conditional Rights Scheme;

iii) shares in the Company; and

that were held during the financial year by key management personnel of the group, including their close family members and entities related to them. There were no shares granted during the reporting period as compensation.

i) Option holdings

2017	Grant date	Strike Price	Balance at start of year	Granted	Other changes#	Balance at end of year	Vested
			No.	No.	No.	No.	No.
Non executive directors							
G Collier	30 May 2017	$0.023	-	2,250,000	-	2,250,000	750,000
P Lankau	30 May 2017	$0.023	-	1,500,000	-	1,500,000	500,000
D Segal	30 May 2017	$0.023	-	1,500,000	-	1,500,000	500,000
G Cauwenbergh [1]	23 May 2014	$0.17	1,000,000	-	(1,000,000)	-	1,000,000
Other key management personnel							
R Murdoch	30 May 2017	$0.023	-	15,000,000	(5,000,000)	10,000,000	-
P Gavin	6 October 2017	$0.023	3,750,000	-	(1,250,000)	2,500,000	-
A Legg	6 October 2017	$0.023	7,500,000	-	(2,500,000)	5,000,000	-
R Libinaki	6 October 2017	$0.023	3,750,000	-	(1,250,000)	2,500,000	-
G Moses[2]	6 October 2017	$0.023	3,750,000	-	(3,750,000)	-	-
A Stojanovic	6 October 2017	$0.023	3,750,000	-	(1,250,000)	2,500,000	-

1 Retired 30 May 2017
2 Resigned 9 June 2017
Other changes during the year relate to forfeiture or cancellation of rights.

3,750,000 options were cancelled during the year in line with scheme terms in which options are forfeited when personnel cease employment. A further 11,250,000 lapsed on 11 December 2017 when the vesting condition was not satisfied.

ii) Performance rights holdings

2017	Grant date	Fair value per option at award date	Balance at start of year	Granted	Other changes#	Balance at end of year	Vested
			No.	No.	No.	No.	No.
R Murdoch	18 May 2016	$0.0004	15,000,000	-	(15,000,000)	-	-

Other changes during the year relate to forfeiture or cancellation of rights.

No performance rights vested or were exercised during the year. 15,000,000 rights were forfeited in May 2017 as part of the replacement of the long term incentive plan.

iii) Share holdings

2017 Name	Balance at start of year No.	Received during year on exercise of option No.	Received vesting of rights to deferred shares No.	Other changes during the year# No.	Balance at end of year No.
G Collier	-	-	-	2,000,000	2,000,000
R Murdoch	-	-	-	1,666,667	1,666,667
P Lankau	-	-	-	-	-
G Cauwenbergh [1]	20,000	-	-	(20,000)	-
D Segal	14,931,281	-	-	3,560,000	18,491,281
P Gavin	99,000	-	-	-	99,000
A Legg	266,500	-	-	1,000,000	1,266,500
R Libinaki	338,951	-	-	84,738	338,951
G Moses [2]	-	-	-	-	-
A Stojanovic	64,000	-	-	-	64,000

Other changes during the year relate to on market purchases or take-up of entitlement of non-renounceable rights issue
1 Retired 30 May 2017
2 Resigned 9 June 2017

Share Options

Share options convertible to ordinary shares on issue at the date of this report. All options are unquoted on the Australian Securities Exchange.

Issuing entity	Shares under option	Exercise price	Expiry date
	No.	$	
Phosphagenics	3,000,000	$0.17	22 May 2019
Phosphagenics	1,750,000	$0.023	9 September 2021
Total	**4,750,000**		

Indemnification of Officers and Auditors

During the financial year, the Company paid a premium in respect of a contract insuring its Directors and Officers against a liability, other than a wilful breach of duty, of a nature that is required to be disclosed under section 300(8) of the Corporations Act 2001 (the Act). In accordance with section 300(9) of the Act, further details have not been disclosed due to confidentiality provisions contained in the insurance contract.

Non-audit services

The Directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 6 to the financial statements.

Auditor's independence declaration

The auditor's independence declaration is included on page 27 of the financial report.

Changes in State of Affairs

During the financial year there was no significant change in the state of affairs of the Consolidated Entity other than that referred to in the financial statements or notes thereto.

Signed in accordance with a resolution of the Directors made pursuant to s.298(2) of the *Corporations Act 2001*.

Greg Collier
Chairman
28 March 2018
Melbourne

Auditor's Independence Declaration

As lead auditor for the audit of Phosphagenics Limited for the year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Phosphagenics Limited and the entities it controlled during the period.

Anton Linschoten
Partner
PricewaterhouseCoopers

Melbourne
28 March 2018

This statement summaries the corporate governance policies and procedures adopted by the Phosphagenics' Board of Directors ("Board") and discloses the extent to which the Company has followed the ASX Corporate Governance Council's Corporate Governance Principals and Recommendations (3rd Edition)("ASX Principles") during and since the reporting period. The Board aims to ensure the Company operates with a corporate governance framework and culture that is relevant, practical and cost effective for the current size and stage of development of the business.

Principle 1: Lay solid foundations for management and oversight

1.1 Roles and Responsibilities of Board and Management

The relationship between the Board and senior management is critical to the group's long term success. The Board acts in the best interests of the Company as a whole and is accountable to shareholders for the overall direction, management and corporate governance of the Company and the Group.

Responsibilities of the Board

The responsibilities of the Board include oversight, accountability and approval of:

(a) Strategic Issues
- Approving management's corporate strategy and performance objectives;
- Providing strategic advice to management;
- Monitoring performance and implementation of strategy and ensuring appropriate resources are available.

(b) Shareholding items
- Issuing shares, options or conditional rights;
- Determining the amount of dividend.

(c) Financial items
- Approving and monitoring financial and other reporting;
- Approving and monitoring the progress of major capital expenditure, capital management, acquisitions and divestitures;
- Reporting to shareholders.

(d) Risk and control
- Overseeing groups control and accountability system;
- Reviewing and ratifying systems of risk management, internal compliance and control, and legal compliance to ensure appropriate compliance frameworks are in place.

(e) Board and senior management
- Appointment, performance assessment and, if necessary, removal of CEO;
- Ratifying appointment and, where appropriate, removal of CFO and Company Secretary;
- Ratifying other senior executive appointments, organisational changes and senior management remuneration policies and practices;
- Approving succession plans for management;
- Monitoring performance of the Board both collectively and individually;
- Recommending directors for nomination and removal.

(f) Other Board responsibilities
- Monitoring and ensuring compliance with best practice corporate governance requirements;
- Approving board committee charters.

Further details are outlined in the Board Charter which can be found at www.phosphagenics.com/investors/corporate-governance

Responsibilities of the CEO

Responsibility for day to day management and administration of the Group is delegated by the Board to the Chief Executive Officer ("CEO"). The CEO manages the Group in accordance with the strategy, plans and policies approved by the Board.

1.2 Director appointment and election

The Board undertakes appropriate checks before appointing any new candidates as directors, which include review by the Nomination Committee against the board skills matrix, interview by all directors and appropriate reference checking. All material information regarding any director proposed for re-election will be included in the Explanatory Information to the relevant Notice of Meeting.

1.3 Written Agreements with Directors and Senior Executives

New directors receive a letter of appointment which outlines the key terms and conditions of their appointment. Senior executives and all employees are required to sign employment agreements, which set out the key terms of their employment.

1.4 Responsibilities of the Company Secretary

The Company Secretary is responsible for providing administrative support to the Board and its Committees. The Company Secretary is accountable directly to the Board, through the Chair, on all matters relating to proper functioning of the Board. The specific responsibilities of the Company Secretary are outlined in the Board Charter which is available at www.phosphagenics.com/investors/corporate-governance

1.5 Diversity Policy

The Company recognises the value contributed to the organisation by employing people with varying skills, cultural backgrounds, ethnicity and experience. The Company believes its diverse workforce is the key to continued growth and improved productivity and performance. The Company actively values and embraces diversity of its employees and is committed to creating an inclusive workplace where everyone is treated equally and fairly, and where discrimination, harassment and inequality are not tolerated. While the Company is committed to fostering diversity at all levels, gender diversity continues to be a priority for the group.

In accordance with the Diversity Policy the Nomination Committee established measureable objectives for achieving gender diversity and has conducted an assessment of the progress towards them.

Diversity Objective	Measurement	FY17 Performance
Program activity - training	Refresh staff training	Completed by November 2017
Program activity - new policy development	Review and update of all policies	Completed by November 2017
Program participation in training of policies	Employees undertaking training	85% participation, 2 employees were absent
Program participation in flexible working arrangements	An increase in employees working under flexible working arrangements	Not achieved. Employees working under flexible working arrangements decreased from 7 to 5 due to resignations.
Program participation in leave purchase requests	An increase in participation	There were no requests for purchased leave in 2017
Program participation in performance and development planning	Employees having performance plans	100% of employees had performance plans. No development plans were undertaken in 2017.
Program effectiveness reflected in gender diversity by job level	Increase in 2016 rates	Not achieved. See gender diversity table below
Program effectiveness reflected in gender diversity in recruitment	Increase in 2016 rates	There were no new employees in 2017
Program effectiveness reflected in gender diversity in turnover	Decrease in 2016 rates	Not achieved. 100% of departures were female, compared to 0% in 2016

It is noted that although Phosphagenics has a high level of gender diversity, due to the low overall number of staff and lack of growth, a change of a few employees can have significant impact on the Company's performance in respect of its measurable diversity objectives.

The table below outlines gender diversity within Phosphagenics for 2017 and 2016:

	Whole organisation		Senior Executive		Board	
	2017	2016	2017	2016	2017	2016
Total	15	18	5	6	4	5
Female	8	10	2	2	0	0
% Female	53%	56%	40%	33%	0%	0%

1.6 Board, committee and director performance

The Board and its committees undertake an annual self-assessment of their performance using a questionnaire. Each director is asked to consider matters such as strategies, reporting and control, management, board meetings and the composition and functioning of the Board and its Committees. The questionnaires are collated by the Company Secretary and reviewed by Chairman of the Board. The outcomes and recommendations are discussed by the Board.

The Chairman undertakes a one-on-one assessment with each of the non-executive directors with respect to individual director performance.

The Board, Committees and Chairman undertook performance assessments in February 2018 and they were conducted in accordance with these procedures.

1.7 CEO and senior executive performance

The Company has a performance management program which includes annual assessments of performance in February each year. For further detail please see Remuneration Report pages 18 to 25.

Principle 2: Structure the Board to add value

2.1 Nomination committee

The Board has a nomination committee which is composed of three directors, the majority independent, and is chaired by a non-independent director. The Board considers that due to the small number of directors on the Board and the intent to share the committee roles, that although Mr Segal is not considered independent, his skills and experience suitably qualify him for the role. At the date of this report the committee consisted of the following members:

Mr D Segal (Chairman)

Mr P Lankau

Dr G Collier

Details of these directors' attendance at committee meetings are set out in the Directors' Report on page 17.

A charter for the nomination committee can be found at www.phosphagenics.com/investors/corporate-governance

2.2 Board skills

The Board seeks to achieve a mix of skills and diversity that it enables it to most effectively carry out its functions and responsibilities. The following Board skills matrix describes the combined skills of the Board across a range of areas.

Board Skills Matrix	Board Representation
Extensive Board / Director Experience Has extensive director experience in a range of listed companies.	2
Global Executive Management Has been successful in senior executive roles in global companies or equivalent experience in a range of business environments.	3
Strategy Has ability to identify and critically assess strategic opportunities and develop successful strategies.	4
Governance Has commitment to high standards of corporate governance.	4
Financial / Risk Management Has audit / risk management experience at Board or senior executive level in financial accounting and reporting, corporate finance and assessment of financial viability and planning.	3
Pharmaceutical Industry Experience Has senior executive experience in large pharmaceutical or biotech organisation.	4
R&D / Product Development Has experience in research and development or product development within pharmaceutical or biotech organisation.	4
Business Development Has extensive knowledge of licencing and deal structures in US and rest of world.	4
Production Has experience in manufacturing or quality operations of production facilities and global supply	2
Regulatory Has knowledge of regulatory authority pathways in Australia, US and EMEA.	4
Leadership knowledge and abilities Has an understanding of effective leadership principles and systems at organisational level.	4
Ethics and Integrity Has an understanding of the role as director and sets high personal standards for behaviour and values.	4

2.3 Board members

Details of the members of the Board, their experience, qualifications, term of office and independence status are set out in the Directors' Report under the section titled "Information on Directors" on pages 9 to 11.

2.4 Directors' independence

An independent director must be independent of management, be free of any business or other relationship and otherwise meet the criteria for independence set out in the ASX Principles.

Under these criteria the Board has determined at the date of this report that two non-executive directors were independent and that one non-executive director was not independent. Independent directors do not form a majority of the Board. The Board considers it important to have a majority of independent directors and is seeking to appoint a suitably qualified independent director as soon as practicable.

The Board assesses the independence of directors as and when required.

2.5 Independent Chairman

The current Chairman, Dr Collier, is an independent non-executive director appointed in April 2017. The CEO, Dr Murdoch, was appointed CEO in January 2015 and as Managing Director in April 2015.

In accordance with current practice, the Board Charter requires the role of Chairman and CEO to be separate.

2.6 Director induction and professional development

The Nomination Committee oversees, reviews and makes recommendations to the Board in relation to induction and development of non-executive directors, to ensure they develop and maintain the skills and knowledge needed to perform their roles as directors effectively.

The Company has a program for the induction of new directors which includes briefings with the CEO, Company Secretary, Senior Management and industry experts, site visits and provision of appropriate Company documentation.

The Board receives regular updates provided by the Company's legal advisors to assist with keeping current with relevant legal and industry developments.

Principle 3: Promote ethical and responsible decision making

3.1 Code of Conduct

The directors are committed to making positive economic, social and environmental contributions, while complying with all applicable laws and regulations and acting in a manner that is consistent with the principals of honesty, integrity, fairness and respect. The Company has established a Code of Conduct to establish clear standards against which to guide decision making and hold itself accountable. The Code provides a set of guiding principles covering employment practices, responsibility to shareholders and financial markets, equal opportunity, harassment and bullying, conflicts of interest, use of Company resources and disclosure of confidential information. The Code of Conduct is available on the Company's website at www.phosphagenics.com/investors/corporate-governance

Principle 4: Safeguard integrity in financial reporting

4.1 Audit and Risk Committee

The Board has established an Audit and Risk Committee comprising three non-executive directors, two of which are independent. The chairman of the committee must be an independent director who is not chairman of the board. For the period to 21 April 2017 to 28 November 2017 Dr Collier was both Chairman of the Board and the Audit and Risk Committee. Following the conclusion of the Mylan arbitration the Board reassessed its Committee structures and appointed Mr Lankau as Chairman of the Audit and Risk Committee. At the date of this report the Committee consisted of the following members:

Mr P Lankau (Chairman from 28 November 2017)

Dr G Collier

Mr D Segal

Details of these directors' qualifications and attendance at committee meetings are set out in the Directors' Report on pages 9 to 11 and page 17. The Committee meets at least two times per year and has direct access to the Company's auditors.

The charter of the Committee can be found on the Company's website at www.phosphagenics.com/investors/corporate-governance.

4.2 CEO and CFO Declarations for financial statements

Prior to approval of the Company's financial statements for the half or full year by the Board, the CEO and CFO provide a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

4.3 External auditors

The external auditor, PricewaterhouseCoopers, attends each AGM and is available to answer questions from shareholders relevant to the audit.

Principle 5: Make timely and balanced disclosure

5.1 Continuous disclosure

The Company has a continuous disclosure policy to ensure compliance with ASX Listing Rules and has a vetting and authorisation process designed to ensure announcements are factual, complete and balanced.

A copy of this policy is available on the Company's website at www.phosphagenics.com/investors/corporate-governance.

Principle 6: Respect the rights of shareholders

6.1 Information on website

The Company provides information about itself and its corporate governance to its shareholders and members of the public on its website at www.phosphagenics.com

6.2 Communication with shareholders

The Board has approved a Shareholder Communication Policy to ensure that shareholders and the wider community are informed of all major developments affecting the Company in a timely and effective manner. Including its disclosure obligations under the ASX Listing Rules, the Company communicates with its shareholders in a number of ways, comprising:

- annual and half-yearly reports;
- regular newsletters and shareholder calls to provide updates on operation and developments;
- announcements on the Company's website;
- market briefings; and
- presentations at general meetings.

In addition to ensuring all Company information is available on the Company's website soon after receiving confirmation by the ASX of the receipt of the announcement, the Company will send to each shareholder or member of the public, who has requested, either by post or email, a copy of the release.

6.3 Participation at shareholder meetings

The Company holds its Annual General Meeting (AGM) in May each year in Melbourne. The Notice of Meeting and related Explanatory Notes are distributed to shareholders in accordance with the requirements of the Corporations Act, and simultaneously posted to the ASX. The AGM provides the Company the opportunity to communicate with shareholders through the CEO presentation and the Chairman's address.

Shareholders are given the opportunity at the AGM to ask general questions about the management of the Company, as well as ask questions about particular agenda items. Shareholders who are unable to attend the meeting in person may submit written questions together with their proxy form.

6.4 Electronic communication

Shareholders are encouraged to receive shareholder material electronically, which can be established by registering on the Company website or to certain information via the Company's share registry, Computershare.

Shareholders are also able to contact the Company via the general contact email address info@phosphagenics.com, and where appropriate a response will be provided.

Principle 7: Recognise and manage risk

7.1 Audit and risk committee

The Board has established an Audit and Risk Committee consisting of three non-executive directors, two of which are independent. Details regarding composition, meetings and charter are set out in section 4.1 of this Corporate Governance Statement.

7.2 Risk management framework

The Board considers risk management fundamental to maintaining efficient and effective operations and generating and protecting shareholder value. The management and oversight of risk is an ongoing process integral to the management and corporate governance of the Company's business.

The Board, through its Audit and Risk Committee, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal controls. The Company has established a risk management system which aligns with the vision, strategy, processes, technology and governance and provides for:

- appropriate levels of risk taking and acceptance;
- an effective system for management of risk across the Company;

- informed and effective strategy setting, decision making, planning and performance oversight; and
- reliable and efficient execution of operations, programs and projects.

The Company has a Risk Management Policy, a summary of which is available on the Company's website, which sets out the objectives and key principals of risk management, along with responsibilities and authorities of the Board, the Audit and Risk Committee, the CEO, CFO, Executive Management and management. The Company has adopted a risk management strategy that aims to identify and minimise the potential for loss, while also maximising strategic opportunities for growth and development. The Board sets risk appetite and tolerance levels for the Company and reviews this and the risk management framework each reporting period in order to satisfy itself that it continues to be sound.

During the reporting period Executive Management has reported to the Audit and Risk Committee as to the effectiveness of the group's management of its material business risks and the effectiveness of the risk management framework.

7.3 Internal audit function

With regard to the Company's size, the Board does not deem it necessary to have an internal audit function. As outlined in section 7.2 the Company has a comprehensive system of risk management and undertakes regular reviews of its effectiveness and where necessary utilises the resources of an external risk consultant.

7.4 Sustainability risks and management

The Company does not have any material exposure to environmental or social sustainability risks. The Company's key economic risks are outlined on page 7 of the directors' report under the heading 'Material Business Risks'. In addition to risk management strategies outlined in section 7.1 and 7.2, the Company utilises risk mitigation strategies including employing qualified and specialised consultants and advisors, as and when required, and holding a comprehensive insurance program.

Principle 8: Remunerate fairly and responsibly

8.1 Remuneration committee

At the date of this report the Board has determined that due to its size and the small number of employees that a separate Remuneration Committee was not required to manage remuneration and that the function to ensure fair and responsible remuneration would be managed by the Board. The Company has a remuneration framework to ensure an executive's total remuneration is set at an appropriate level. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the AGM. Further information on remuneration is set out in the Remuneration Report on pages 18 to 25

8.2 Executive and non-executive remuneration policies

Non-executive directors are remunerated at market rates for comparable companies for time, commitment, and responsibilities. The Board as a whole determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties, and accountability. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the AGM.

Each executive has a formal service agreement, which includes a position description and sets out duties, rights and responsibilities as well as entitlement on termination. The Company has policies which apply to base salaries, short-term incentives and long-term incentives. Further information on remuneration is set out in the Remuneration Report on pages 18 to 25.

8.3 Hedging of equity incentive schemes

Phosphagenics prohibits Key Management Personnel from entering into transactions in associated products which operate to limit the economic risk of security holdings in Phosphagenics over unvested entitlements or entitlements which have vested but remain subject to a holding lock. A copy of the Securities Trading Policy can be found on the Company's website at www.phosphagenics.com/investors/corporate-governance.

The Corporate Governance Statement was approved by the Board of directors on 28 March 2018.

Contents

These financial statements are consolidated financial statements for the group consisting of Phosphagenics Limited and its subsidiaries. A list of subsidiaries is included in note 20.

The financial statements are presented in the Australian currency.

Phosphagenics Limited is a Company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Phosphagenics Limited

Unit A8, 2A Westall Road

Clayton Victoria 3168

The financial statements were authorised for issue by the directors on 28 March 2018. The directors have the power to amend and reissue the financial statements.

All press releases, financial reports and other information are available on our website: www.phosphagenics.com.

Consolidated Income Statement
for the year ended 31 December 2017

	Notes	2017 $	2016 $
Revenue from continuing operations			
Total revenue	2	1,150,356	1,588,294
Cost of sales		(93,755)	(329,162)
Gross profit		1,056,601	1,259,132
Income from government grants	2	1,007,684	1,832,705
Finance revenue		35,997	171,186
Other income	2	74,255	79,848
Recoveries	2	76,539	-
Employee and directors benefits expenses	3a	(3,157,699)	(3,429,404)
Research expenses		(1,191,231)	(1,752,153)
Consulting and professional expenses		(824,983)	(1,198,661)
Legal expenses	3b	(3,584,140)	(2,677,732)
Amortisation and depreciation		(776,468)	(2,471,546)
Impairment losses	10	-	(7,207,000)
Other expenses	3c	(1,334,583)	(1,853,022)
Loss before income tax		(8,618,028)	(17,246,647)
Income tax benefit	4	-	-
Loss from continuing operations		(8,618,028)	(17,246,647)
Profit / (loss) from discontinued operations	18	72,670	(68,751)
Loss for the period attributable to the ordinary equity holders of the Company		(8,545,358)	(17,315,398)

Loss per share from continuing operations attributable to the ordinary equity holders of the Company:			
Basic loss per share	15	(0.66) cents	(1.37) cents
Diluted loss per share	15	(0.66) cents	(1.37) cents

Loss per share attributable to the ordinary equity holders of the Company:			
Basic loss per share	15	(0.66) cents	(1.37) cents
Diluted loss per share	15	(0.66) cents	(1.37) cents

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated Statement of Comprehensive Income
for the year ended 31 December 2017

	Notes	2017 $	2016 $
Loss for the period		(8,545,358)	(17,315,398)
Other Comprehensive Income			
Items that may be classified to profit or loss			
Exchange differences on translation of foreign operations	14	(5,859)	(3,463)
Income tax/(expense) on items of other comprehensive income		-	-
Other comprehensive income for the period, net of tax	14	(5,859)	(3,463)
Total comprehensive income for the period		(8,551,217)	(17,318,861)
Total comprehensive income for the period attributable to:			
Owners of Phosphagenics Ltd and arises from:			
Continuing operations		(8,623,887)	(17,246,647)
Discontinued operations		72,670	(68,751)
		(8,551,217)	(17,315,398)

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet
as at 31 December 2017

	Notes	31 December 2017 $	31 December 2016 $
ASSETS			
Current Assets			
Cash and cash equivalents	22a	2,898,596	6,091,508
Trade and other receivables	7	2,394,732	3,607,529
Inventories	8	291,642	237,017
Other current assets		217,512	247,190
Total Current Assets		5,802,482	10,183,244
Non-Current Assets			
Plant and equipment	9	251,032	384,933
Intangible assets	10	2,186,000	2,786,000
Total Non-Current Assets		2,437,032	3,170,933
Total Assets		8,239,514	13,354,177
LIABILITIES			
Current Liabilities			
Trade and other payables	11	1,238,838	1,318,162
Deferred income		108,262	-
Provisions	12	366,429	345,495
Total Current Liabilities		1,713,529	1,663,657
Non-Current Liabilities			
Deferred income		76,078	-
Provisions	12	46,545	44,000
Total Non-Current Liabilities		122,623	44,000
Total Liabilities		1,836,152	1,707,657
Net Assets		6,403,362	11,646,522
EQUITY			
Issued Capital	13	231,274,227	228,099,705
Reserves	14	30,351,533	30,223,857
Accumulated Losses		(255,222,398)	(246,677,040)
Total Equity attributable to the ordinary equity holders of the Company		6,403,362	11,646,522

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity
for the year ended 31 December 2017

Phosphagenics

	Contributed capital	Reserves	Accumulated losses	Total equity
	$	$	$	$
Balance at 31 December 2015	228,099,705	30,191,262	(229,361,642)	28,929,325
Loss for the year	-	-	(17,315,398)	(17,315,398)
Other comprehensive income	-	(3,463)	-	(3,463)
Total comprehensive income (loss) for the period	-	(3,463)	(17,315,398)	(17,318,861)
Transactions with owners in their capacity as owners:				
Employee equity settlement benefits	-	36,058	-	36,058
Total transactions with owners	-	36,058	-	36,058
Balance at 31 December 2016	228,099,705	30,223,857	(246,677,040)	11,646,522
Loss for the year	-	-	(8,545,358)	(8,545,358)
Other comprehensive income	-	(5,859)	-	(5,859)
Total comprehensive income (loss) for the period	-	(5,859)	(8,545,358)	(8,551,217)
Transactions with owners in their capacity as owners:				
Issue of share capital	3,360,685	-	-	3,360,685
Transaction costs	(186,163)	-	-	(186,163)
Employee equity settlement benefits	-	133,535	-	133,535
Total transactions with owners	3,174,522	133,535	-	3,308,057
Balance at 31 December 2017	231,274,227	30,351,533	(255,222,398)	6,403,362

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows
for the year ended 31 December 2017

	Notes	2017 $	2016 $
OPERATING ACTIVITIES			
Receipts from customers (inclusive of goods and services tax)		1,257,523	2,139,757
Receipt of recoveries		76,539	-
Receipt of government grants		2,293,919	2,441,911
Payments to suppliers and employees (inclusive of goods and services tax)		(10,048,943)	(10,994,231)
Net cash used in operating activities	22(b)	(6,420,962)	(6,412,563)
INVESTING ACTIVITIES			
Interest received		33,816	171,085
Proceeds from sale of plant and equipment		75,300	-
Purchase of plant and equipment		(55,588)	(62,284)
Net cash from investing activities		53,528	108,801
FINANCING ACTIVITIES			
Proceeds from issues of shares	13	3,360,685	-
Costs of issue of shares	13	(186,163)	-
Net cash from financing activities		3,174,522	-
Net (decrease)/ increase in cash and cash equivalents		(3,192,912)	(6,303,762)
Cash and cash equivalents at the beginning of period		6,091,508	12,395,270
Cash and cash equivalents at the end of period	22(a)	2,898,596	6,091,508

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Contents

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of all significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the group consisting of Phosphagenics Limited and its subsidiaries (the group).

a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. Phosphagenics Limited is a for-profit entity for the purposes of preparing the financial statements.

i) Compliance with IFRS

The consolidated financial statement of the Phosphagenics Ltd group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

ii) Historical cost convention

These financial statements have been prepared on a historical cost basis except for certain classes of property, plant and equipment and intangible assets, which have been measured at fair value.

iii) Going concern

For the year ended 31 December 2017, the consolidated entity has incurred losses of $8,545,358 (2016: $17,315,398) and experienced net cash outflows of $6,420,962 from operations (2016: $6,412,563). As at year end the cash position was $2,898,596 (2016: $6,091,508). Subsequent to year end the Company received a further $1,371,688 in a share placement to sophisticated investors and $1,252,095 for the R&D tax incentive for the year ended 30 June 2017.

During 2018 the Company expects increased revenues and decreased operational costs, primarily from reduced legal expenses associated with the Mylan arbitration. In the normal course of operations the directors are satisfied there is sufficient working capital, including those funds from its recent capital raise, that the Company has the ability to realise its assets and pay its liabilities and commitments in the normal course of business.

In 2016 the Company entered an arbitration with Mylan Laboratories Ltd (India) which concluded with a hearing in early November 2017 with an award expected to be rendered within six months from its conclusion. The outcome of arbitration is by nature uncertain and a positive award is not assured. If unsuccessful and costs are awarded against the Company, the Company is likely to need to find additional sources of funding.

Due to uncertainty surrounding the probability of a cost order being awarded against the Company, and its timing and quantum, as well as having sufficient or alternative funds available, there is material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore, that it may be able to realise its assets and discharge its liabilities in the normal course of business. However, the directors have confidence that the Company will be successful in obtaining appropriate funding, if required, and accordingly have prepared the financial report on a going concern basis. As such no adjustments have been made to the financial statements relating to the recoverability and classification of the asset carrying amounts or classification of liabilities that might be necessary should the Company not be able to continue as a going concern.

iv) New and amended standards adopted by the group

The group has applied AASB 2017-2 Amendments to Australian Accounting Standards – Further Annual Improvements 2014-2016 Cycle for the first time for the financial year beginning 1 January 2017. The adoption did not have any impact on the amounts recognized in prior periods and will not affect the current or future periods.

v) New standards and interpretations not yet adopted

The group has elected not to apply any pronouncements before their operative date in the annual reporting period beginning 1 January 2017. The group's assessment of the impact of these new standards and interpretations is set out below.

- AASB 16 Leases was issued in February 2017.
  - Nature of change: Almost all leases will be recognized on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.
  - Impact: The standard will affect primarily the accounting for the group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of $187,100, see note 16. However, the group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows.

- Date of adoption by group: Mandatory for financial years commencing on or after 1 January 2019. At this stage, the group does not intend to adopt the standard before its effective date.

- AASB 15 Revenue from Contracts with Customers
  - Nature of change: This is a new standard for the recognition of revenue. This will replace AASB 118 which covers revenue arising from the sale of goods and the rendering of services. The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified approach for the adoption.
  - Impact: Management does not expect the new standard to have a material impact on the group's financial statements.
  - Date of adoption by group: Mandatory for financial years commencing on or after 1 January 2018. At this stage, the group does not intend to adopt the standard before its effective date.
- AASB 9 Financial Instruments
  - Nature of change: The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under AASB 139. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under AASB 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts.
  - Impact: Based on the assessments undertaken to date, the group does not expect a material impact on the allowance for trade debtors. The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.
  - Impact: Management does not expect the new standard to have a material impact on the group's financial statements.
  - Date of adoption by group: Mandatory for financial years commencing on or after 1 January 2018. At this stage, the group does not intend to adopt the standard before its effective date.

vi) Critical accounting estimates and judgements

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas of assumptions and estimates are:

(1) R&D Tax Incentives

From 1 July 2011 the Australian Government has provided a tax incentive, in the form of a refundable tax offset of 43.5%, for eligible research and development expenditure. Management has assessed its research and development activities and expenditure to determine which are likely to be eligible under the scheme. For the period ended 31 December 2017 the Company has recorded an item in other income of $1,007,684 (2016: $1,832,705) to recognise this amount which relates to this period.

(2) Share-based payment transactions

The group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the binomial and Black Scholes methods taking into account the terms and conditions upon which the instruments were granted, as discussed in note 5. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

(3) Estimated impairment of intangibles

The group tests whether intangible assets have suffered any impairment at each reporting date. The recoverable amount of intangible assets is assessed at its value in use. This calculation requires the use of assumptions. (Refer to Note 10 for details of these assumptions).

b) Principles of consolidation

i) Subsidiaries

Subsidiaries are all entities (including structured entities) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transactions provides evidence of an impairment of the transferred asset. Accounting

policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

d) Foreign currency translation

i) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is Phosphagenics Limited's functional and presentation currency.

ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

Licence revenue is recognised in accordance with the underlying agreement. Upfront payments are brought to account as revenues unless there is a correlation to ongoing research or other conditions and both components are viewed as one agreement, in which case the licence income is amortised over the anticipated period of the research program or relevant conditions. Unamortised licence revenue is recognised in the balance sheet as deferred income.

Interest revenue is recognised on a time proportion basis using the effective interest rate method. All revenue is stated net of the amount of Goods and Services Tax (GST).

f) Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions. Government grants relating to costs are deferred and recognized in profit

or loss over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

g) Income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Phosphagenics Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

h) Investment allowances and similar tax incentives

Companies within the group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure (eg the Research and Development Tax Incentive regime in Australia or other investment allowances). The group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

i) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases (note 16). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

j) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an

impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

k) Cash and cash equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

l) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See note 7 for further information about the group's accounting for trade receivables and the group's impairment policies.

m) Inventories

Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Cost includes the reclassification from equity of any gains or losses on qualifying cash flow hedges relating to purchases of raw material but excludes borrowing costs. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

n) Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the noncurrent asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the income statement.

o) Investments and other financial assets

i) Classification

The group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 7) in the balance sheet.

p) Plant and equipment

All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

The depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of the residual values, over their estimated useful lives. The expected net useful lives are 3 to 10 years. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(j))

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

q) Intangible assets

i) Intellectual Property

Intellectual property acquired separately or in a business combination are initially measured at cost, which is its fair value as at the date of acquisition. Following initial recognition, intellectual property is carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful life of the intellectual property is referenced to its expiry date. The intellectual property purchased, primarily registered patents, had remaining lives of 15 to 19 years at purchase date. Intellectual property is amortised over its useful life and tested for impairment whenever there is an indication that the intellectual property may be impaired.

Internally generated intellectual property is not capitalised and expenditure is recognised as an expense as incurred.

ii) Trademarks and licences

Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation and impairment losses.

iii) Development costs

An intangible asset arising from development expenditure on an internal project is recognised only when Phosphagenics can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Any expenditure capitalised is amortised over the period of expected future benefit from the related project on a straight line basis.

r) Trade and other payables

These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period.

s) Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

t) Employee benefits

i) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

ii) Other long-term employee benefit obligations

The liabilities for long service leave and annual leave are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are

therefore recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

iii) Share-based payments

Share-based compensation benefits are provided to employees via the Phosphagenics Employee Option Plan and an employee share scheme. Information relating to these schemes is set out in note 5

The fair value of options granted under the Phosphagenics Employee Option Plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

The fair value of deferred shares granted to employees for nil consideration under the short-term incentive scheme is recognised as an expense over the relevant service period, being the year to which the bonus relates and the vesting period of the shares. The fair value is measured at the grant date of the shares and is recognised in equity in the share-based payment reserve. The number of shares expected to vest is estimated based on the non-market vesting conditions. The estimates are revised at the end of each reporting period and adjustments are recognised in profit or loss and the share-based payment reserve.

iv) Bonus plans

The group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the Company's shareholders after certain adjustments. The group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

v) Termination benefits

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of AASB 137 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

u) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group Company purchases the Company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of Phosphagenics Limited as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of Phosphagenics Limited.

v) Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

w) Earnings per share

i) Basic loss per share

Basic loss per share is calculated by dividing:

- the loss attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

ii) Diluted loss per share

Diluted loss per share adjusts the figures used in the determination of basic loss per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential
- ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

x) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

2. REVENUE AND OTHER INCOME

	2017 $	2016 $
Revenue from continuing operations		
Sale of goods and services	469,288	952,129
Royalties and license fees	681,068	636,165
Total	1,150,356	1,588,294
Income from Government Grants		
R&D tax incentive credit	1,007,684	1,832,705
Total	1,007,684	1,832,705
Other income		
Profit on sale of fixed assets	73,781	4,000
Miscellaneous income	474	75,848
Total	74,255	79,848
Recoveries		
Recoveries received	76,539	-
Total	76,539	-

The Company recognises payments received under Deeds of Settlement or from the Bankruptcy Trustee, related to the misappropriations announced in 2014, when they are virtually certain.

3. EXPENSES

	2017 $	2016 $
(a) Employee and directors benefit expenses		
Directors fees	(243,195)	(284,895)
Research and development employee expenses	(1,074,904)	(1,076,567)
Redundancy costs	-	(30,577)
ESOP expenses	(133,535)	(36,058)
Other employee expenses	(1,706,065)	(2,001,307)
Total	**(3,157,699)**	**(3,429,404)**
(b) Legal expenses		
Legal expenses associated with arbitrations	(3,439,377)	(2,192,775)
Other legal expenses	(144,763)	(484,957)
Total	**(3,584,140)**	**(2,677,732)**

	2017 $	2016 $
(c) Other Expenses		
Net foreign exchange (loss) / gain	(23,788)	(61,340)
Travel	(268,887)	(465,951)
Doubtful debts	-	(63,826)
Insurance	(150,543)	(155,923)
Shareholder and listing expenses	(127,790)	(149,151)
Patent portfolio expenses	(330,508)	(448,526)
Occupancy expenses	(282,855)	(443,527)
Other	(150,212)	(64,778)
Total	**(1,334,583)**	**(1,853,022)**

4. INCOME TAXES

Major components of income tax expense are:

Current income tax	-	-
Deferred income tax	-	-

The prima facie income tax expense/(benefit) on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

Accounting (loss) before income tax	(8,545,358)	(17,315,398)
Tax expense calculated at the Australian tax rate of 30% (2016: 30%)	(2,563,607)	(5,194,619)
Non-assessable income	(325,267)	(549,812)
Non-deductible expenses	1,902,885	3,938,893
Unused tax losses and tax offsets not recognised as deferred tax assets	985,989	1,805,538
Income tax benefit reported in income statement	-	-

Deferred tax liabilities comprise:		
Intellectual property	-	-
Unrecognised deferred tax balances		
The following items have not been brought to account as deferred tax assets:		
Tax losses not recognised (at current tax rate of 30%)	43,984,118	41,351,256
Temporary differences not recognised	-	-
Total	**43,984,118**	**41,351,256**

Tax Losses

Deferred tax assets have not been recognised in respect of carried forward tax losses.

Tax consolidation

(i) Members of the tax consolidated group and the tax sharing arrangement

Phosphagenics Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2009. Phosphagenics Limited is the head entity of the tax consolidated group.

(ii) Tax effect accounting by members of the tax consolidated group

Measurement method adopted under AASB Interpretation 1052 Tax Consolidation Accounting

The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the Group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 *Income Taxes*.

5. SHARE BASED PAYMENTS

The Group provides benefits to service providers in the form of share-based payments. Employees render services in exchange for rights over shares (equity-settled transactions). There is currently one scheme in place to provide these benefits to employees, being the Equity Incentive Plan (EIP), under which there are two variations:

- The EIP 2016 Option Plan was approved by the Board in September 2017, and also by the shareholders at the May 2017 AGM, and is designed to reward staff in a manner that aligns remuneration with the creation of shareholder wealth and to ensure that all staff, including executives, view their relationship with the Group as a long-term one. As such the EIP has been offered to all staff who met the minimum service criteria, with vesting requiring continuation of service as well as achievement of a predefined share price. The vesting share price condition requires that for a period of 3-months before and after the annual vesting date that the 5-day weighted share price increase from the share price on the offer date ($0.021) by 50% ($0.32) relating to September 2017,100% ($0.042) relating to September 2018 and 150% ($0.053) relating to September 2019. The EIP allows staff to exercise vested options at $0.023
- In May 2017 shareholders approved the award of non-performance based options (EIP 2017 Options) to directors, where under the terms of the EIP, the strike price is the same as the employee options at $0.023 and further one-third of the options vest each September of 2017, 2018 and 2019, with the sole vesting condition that the director remains in office at that vesting date.

All options granted to key management personnel have been issued in accordance with the provisions of the Equity Incentive Plan (EIP).

Summary of options granted as share based payments

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options issued during the year.

Item	2017 Options No.	2017 WAEP $	2016 Options No.	2016 WAEP $
Outstanding at beginning of the year	36,948,150	$0.17	3,000,000	$0.17
Granted during the year	20,250,000	$0.023	33,948,150	$0.023
Forfeited during the year	(4,216,200)	$0.023	-	-
Exercised during the year	-	-	-	-
Expired during the year	(14,910,650)	$0.023	-	-
Outstanding at end of the year	38,071,300	$0.034	36,948,150	$0.035
Exercisable at end of the year	4,750,000	$0.12	3,000,000	$0.17

When a participant in the EIP ceases employment prior to the vesting of their options, the options are forfeited unless cessation of employment is due to retirement or death or otherwise provided by the Board of directors.

During the year ended 31 December 2017 $13,411 (2016: nil) was reversed as a result of forfeited unvested options. An amount of $151,066 (2016: $35,454) was recognised as an expense in the period. The net expense recognised in the period relating to options was $137,655 (2016: $35,454).

The outstanding balance as at 31 December 2017 is represented by:

Issuing entity	Shares under option (No)	Class of shares	Exercise price ($)	Expiry date
Phosphagenics Ltd	3,000,000	Ordinary	$0.17	22 May 2019
Phosphagenics Ltd	35,071,300	Ordinary	$0.023	9 September 2021
Total	**38,071,300**			

Summary of performance rights granted as share based payments

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, performance rights issued during the year.

Item	2017 Performance Rights No.	2017 WAEP $	2016 Performance Rights No.	2016 WAEP $
Outstanding at beginning of the year	15,000,000	-	30,960,000	-
Granted during the year	-	-	-	-
Forfeited during the year	(15,000,000)	-	(15,960,000)	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at end of the year	**-**	**-**	**15,000,000**	**-**
Exercisable at end of the year	-	-	-	-

During the year 15,000,000 (2016: 15,960,000) performance rights were forfeited.

During the year ended 31 December 2017 $4,120 (2016: $3,100) was reversed as a result of forfeited unvested performance rights. An amount of $nil (2016: $3,704) was recognized as an expense in the period. The net income recognised in the period relating to performance rights was $4,120 (2016: $604 expense).

Option pricing model

Fair value for the EIP 2016 Option was calculated using a variation of the Black-Scholes model which took account of the share-price hurdle vesting condition. Fair value for the EIP 2017 Option was calculated using the Black-Scholes model. Options will be settled in ordinary shares of Phosphagenics Limited and vested options lapse if unexercised after the expiry date.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance is fulfilled (the vesting period), ending on the date on which the relevant party becomes fully entitled to the award (the vesting date).

Model Inputs	2017 Options	2016 Options
Dividend yield %	0.0%	0.0%
Expected volatility %	60%	60%
Risk-free interest rate %	1.76%	1.76% - 1.83%
Option life (years)	4.28 years	4.28 - 4.93 years
Option Exercise price $	$0.023	$0.023
Weighted Average Share price at measurement date	$0.017	$0.017-$0.026

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

6. REMUNERATION OF AUDITORS

The auditor of Phosphagenics Limited (the parent), and the Group for the period ended 31 December 2017 is PricewaterhouseCoopers.

Amounts received or due and receivable by auditor	2017 $	2016 $
PricewaterhouseCoopers		
Audit or review of the financial report	112,311	111,724
Other non-audit services	-	5,000
Total	**112,311**	**116,724**

7. CURRENT TRADE AND OTHER RECEIVABLES

	2017 $	2016 $
Trade receivables	212,322	337,447
Allowance for impairment losses	-	(63,136)
	212,322	274,311
R&D tax incentive credit receivable	1,727,684	3,013,919
Other receivables	454,726	319,299
Total	**2,394,732**	**3,607,529**

Trade receivables are non-interest bearing and are generally 45 day terms or as specified in contracts or agreements. An amount of $1,252,095 was received from the R&D tax incentive scheme on 17 January 2018. A further amount of $475,589 will form part of the R&D tax incentive claim for the tax year ended 30 June 2018 and is expected to be received before December 2018.

At 31 December, the ageing analysis of trade receivables is as follows:

	Total	Neither past due or impaired	Past due but not impaired			
			1-30 days	31-60 days	61-90 days	90+ days
	$	$	$	$	$	$
31 December 2017	212,322	81,912	-	-	29,286	101,124
31 December 2016	274,311	1,545	76,000	108,329	-	88,437

Allowance for impairment loss

A provision for impairment is recognised when there is objective evidence that the group may not be able to collect all the amounts due under the original terms of the invoice. Impaired debts are derecognised when they are assessed as uncollectable. Debts totalling $nil (2016: $63,135) were deemed impaired at 31 December 2017. Debts totalling $63,135 (2016: $nil) were written-off during the year.

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

Fair value and credit risk

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivables.

8. INVENTORIES

	2017 $	2016 $
Raw materials (at cost)	74,133	464,920
Finished goods (at cost)	217,509	263,635
Less provision for obsolesce	-	(491,538)
Total inventories at the lower of cost and net realisable value	291,642	237,017

During 2017 $35,360 (2016: $nil) was recognised as an expense for inventories written off or a provision raised for inventories adjusted to their net realisable value. This is recognised in other expenses.

9. PLANT AND EQUIPMENT

Year ended 31 December 2017	**Total $**
At 1 January 2017, net of accumulated depreciation and impairment	384,933
Additions	55,588
Disposals	(13,021)
Depreciation charge for the year	(176,468)
At 31 December 2017, net of accumulated depreciation and impairment	251,032
At 31 December 2017	
Cost	2,428,332
Accumulated depreciation and impairment	(2,177,300)
Net carrying value	251,032

Year ended 31 December 2016	**Total $**
At 1 January 2016, net of accumulated depreciation and impairment	519,096
Additions	62,284
Disposals	(901)
Depreciation charge for the year	(195,546)
At 31 December 2016, net of accumulated depreciation and impairment	384,933
At 31 December 2016	
Cost	2,837,891
Accumulated depreciation and impairment	(2,452,958)
Net carrying value	384,933

10. INTANGIBLE ASSETS

Year ended 31 December 2017	Total Intellectual Property $
At 1 January 2017 net of accumulated amortisation and impairment	2,786,000
Amortisation	(600,000)
At 31 December 2017, net of accumulated amortisation and impairment	2,186,000
At 31 December 2017	
Cost (gross carrying amount)	121,362,000
Accumulated amortisation and impairment	(119,176,000)
Net carrying amount	2,186,000

Year ended 31 December 2016	Total Intellectual Property $
At 1 January 2016 net of accumulated amortisation and impairment	12,269,000
Impairment losses	(7,207,000)
Amortisation	(2,276,000)
At 31 December 2016, net of accumulated amortisation and impairment	2,786,000
At 31 December 2016	
Cost (gross carrying amount)	121,362,000
Accumulated amortisation and impairment	(118,576,000)
Net carrying amount	2,786,000

Impairment Testing

Intellectual Property

Intellectual property asset cost represents the fair value of nine patents acquired by the Company at 31 December 2004, less accumulated amortisation and adjusted for any accumulated impairment loss. Intellectual property is amortised over its useful life, being the patent life of between 15 -19 years at acquisition (to between 2020 and 2023), and tested for indicators of impairment at each reporting date. In 2010 one of the purchased patents was abandoned.

At 31 December 2016 it was assessed that an impairment event had occurred due to delays to the commercialisation of TPM®/Daptomycin product and to the resulting cash flows assumptions in the valuation model. An independent valuer was engaged to calculate the fair value of the acquired patents using a number of management assumptions. The independent valuer used a discounted cash flow model as the valuation basis, applying probability weightings to clinical trials and regulatory approval for products still in development and discount rates of between 13-20% were applied to risk adjusted forecasted cash flows over the remaining economic life of the patents. Forecasted cash flows primarily relate to anticipated royalty payments on successful commercialisation of a product or existing revenue streams if commercialised. A range of product launch dates for the initiation of royalty streams was modelled, including an assumption that the commercialisation partner for TPM®/Daptomycin did not have an intention to launch the product. The valuer provided a range of valuations of which the Company judged to utillise the low-point of valuations provided. As at 31 December 2016, the fair value of the acquired patents was assessed at $3,218,000. Where the valuer provided a higher patent value than the existing net carrying amount, the lower of the two values was taken. Accordingly the Company recognised an impairment of $7,207,000.

At 31 December 2017 it was assessed that no impairment events had occurred to relevant patents.

The remaining fair value of the acquired patents is dependent on the continued sales of Vital ET® and the commercialisation of TPM®/Oxycodone prior to the expiry of the patents. Revenue assumptions related to this have been assessed for delays in revenue receipts, with delays of one year not materially impacting the value of the assets.

11. CURRENT TRADE AND OTHER PAYABLES

	2017 $	2016 $
Trade payables	1,079,885	571,668
Accrued expenses	78,160	525,641
Other payables	80,793	220,851
Total	**1,238,838**	**1,318,160**

Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value.

Trade payables are non-interest bearing and are generally settled on 30 day terms. Other payables are non-trade payables and non-interest bearing.

12. PROVISIONS

	2017 $	2016 $
Current		
Annual leave benefits	195,608	196,680
Long service leave benefits	170,821	148,815
Total Current	**366,429**	**345,495**
Non-Current		
Long service leave benefits	46,545	44,000
Total Non-Current	**46,545**	**44,000**
Total	**412,974**	**389,495**

a) Movement in provisions

$	Annual leave	Long service leave	Total
Carrying amount at start of year	**196,680**	**192,815**	**389,495**
Charged to profit or loss			
Additional provisions recognised	158,924	24,551	183,475
Amounts used during the year	(159,996)	-	(159,996)
Carrying amount at end of year	**195,608**	**217,366**	**412,974**

b) Amounts not expected to be settled in the next 12 months

The provision for annual leave represents the employee's statutory entitlements and the entire amount of $195,608 (2016: $196,680) is presented as current since the group does not have the right to defer such settlements. The provision for long service leave shown in current includes all unconditional entitlements where employees have completed the required period of service. The amount of $170,821 (2016: $148,815) is presented as current as the group does not have the unconditional right to defer settlement.

However, based on past experience, the group does not expect all employees to take the full amount of accrued leave or require payment in the next 12 months. The following amounts reflect leave that is not expected to be taken or paid in the next 12 months.

	2017 $	2016 $
Annual leave obligations expected to be settled after 12 months	64,689	55,754
Long service leave obligations expected to be settled after 12 months	217,366	192,815
Total	**282,055**	**248,569**

13. ISSUED CAPITAL

Fully paid ordinary shares	2017 No. '000's	2017 $	2016 No. '000's	2016 $
Balance at beginning of year	1,261,965	228,099,705	1,261,965	228,099,705
Issue of shares	224,047	3,360,685	-	-
Costs of issue	-	(186,163)	-	-
Balance at end of year	**1,486,012**	**231,274,227**	**1,261,965**	**228,099,705**

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Share options

As at close of business on 31 December 2017 there were a total of 38,071,300 unexercised unquoted options issued as share based payments, of which 4,750,000 options are fully vested and can be exercised at any time up to the date of expiry.

Share options carry no rights to dividends and no voting rights. For further details of share based payments refer to note 5.

14. RESERVES

	2017 $	2016 $
a) Reserves		
Business combination	27,812,871	27,812,871
Employee equity-settled benefits	2,229,359	2,095,824
Other equity-settled benefits	305,323	305,323
Foreign Currency Translation Reserve	3,980	9,839
	30,351,533	30,223,857
b) Movement in reserves		
Business combination reserve		
Balance at beginning of year	27,812,871	27,812,871
Balance at end of year	27,812,871	27,812,871
Employee equity-settled benefits reserve		
Balance at beginning of year	2,095,824	2,059,766
Share based payment expense	133,535	36,058
Balance at end of year	2,229,359	2,095,824
Other equity-settled benefits reserve		
Balance at beginning of year	305,323	305,323
Balance at end of year	305,323	305,323
Foreign Currency Translation Reserve		
Balance at beginning of year	9,839	13,302
Foreign Currency Translation	(5,859)	(3,463)
Balance at end of year	3,980	9,839

c) Nature and purpose of reserves

i) The business combinations reserve is used to record fair value adjustments relating to the business combination
ii) The employee share option and share plan reserve is used to record the value of equity benefits provided to employees and Directors as part of their remuneration. For further details refer to note 5 in the Financial Statements.
iii) The other equity-settled benefits reserve is used to record the value of equity benefits provided to suppliers as part of their remuneration.
iv) The foreign currency translation reserve is used to record the translation from Phosphagenics Inc.'s functional currency into Phosphagenics Limited's reporting currency.

15. EARNINGS PER SHARE

a) Basic earnings per share

Basic earnings per share is calculated by dividing the net profit / (loss), from continuing operations attributable to ordinary equity holders of the parent for the year, by the weighted average number of ordinary shares outstanding during the year.

	2017 cents	2016 cents
From continuing operations attributable to the ordinary equity holders of the Company	(0.66)	(1.37)
From discontinued operations	(0.00)	(0.00)
Total basic earnings per share attributable to the ordinary equity holders of the Company	(0.66)	(1.37)

b) Diluted earnings per share

Diluted earnings per share is calculated by dividing the net profit / (loss) attributable to ordinary shareholders by the weighted average number of ordinary shares on issue during the year (adjusted for the effects of dilutive options).

From continuing operations attributable to the ordinary equity holders of the Company	(0.66)	(1.37)
From discontinued operations	(0.00)	(0.00)
Total diluted earnings per share attributable to the ordinary equity holders of the Company	(0.66)	(1.37)

There are no instruments (e.g. share options) excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future. There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

c) Reconciliation of earnings used in calculating earnings per share

	2017 $	2016 $
Net Loss attributable to ordinary equity holders for the calculation of basic and diluted earnings per share		
From continuing operations	(8,618,028)	(17,246,647)
From discontinued operations	72,670	(68,751)
	(8,545,358)	(17,315,398)

d) Weighted average number of shares used as the denominator

	2017 No. '000's	2016 No. '000's
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,301,865	1,261,966
Effect of dilution:		
Share options	45,510	10,977
Performance rights	6,205	26,090
Weighted average number of ordinary shares adjusted for the effect of dilution	1,353,580	1,299,033

Share options and performance rights are anti-dilutive and are not included in earnings per share dilutive calculation.

Information on the classification of securities

Options quoted on the ASX and options granted to employees and other service providers are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent they are dilutive. These options have not been included in the determination of basic earnings per share.

16. COMMITMENTS AND CONTINGENCIES

a) Lease Commitments

Non-cancellable operating leases relate to the rent of commercial property used for business operations.

Non-cancellable operating lease payments	2017 $	2016 $
Within 1 year	86,480	81,456
After 1 year but not more than 5 years	100,620	180,638
After more than 5 years	-	-
Total minimum lease payments	187,100	262,094

b) Cash Commitments

The Company holds term deposits totalling $125,730 (2016: $155,515) as security for the corporate credit card facility and lease at its principal place of business.

c) Contingent Liability

The Company concluded its arbitration hearing with Mylan Laboratories Ltd in early November 2017. An award is expected to be rendered within six months from its conclusion. Arbitration is by nature uncertain and the outcome may ultimately not be successful. If the arbitration against Mylan is unsuccessful the Company may be ordered to pay costs.

17. SEGMENT INFORMATION

a) Description of segments

The group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer in assessing the performance and in determining the allocation of resources.

The operating segments are identified by management based on the group's risks and returns that are affected predominantly by differences in the products and services provided. The reportable segments are based on aggregated operating segments determined according to the nature of the products and services provided, with each reportable segment representing a strategic business unit that offers different products and serves different markets.

Production and Personal Care

Production and Personal Care manufactures and sells TPM® and Vital ET® for the use in drug delivery and cosmetic formulations.

Research at Phosphagenics has shown that α-tocopheryl phosphate (TP) is a natural molecule with increased activity over standard Vitamin E (α tocopherol). TP has scientifically proven anti-inflammatory properties, it reduces redness, protects against UV induced photo damage, and also helps to heal and prevent acne. The structure of TP allows it to act as a penetration enhancer, increasing dermal absorption compared to tocopherol acetate and α-tocopherol, allowing it to penetrate deeper into the skin for increased action. TPM® is also able to increase the penetration of molecules formulated in the same cream.

Human Health

Phosphagenics' Human Health portfolio covers delivery of drugs through gels, injectables and patches.

The division continues to prioritise development work on the two existing patch assets: TPM®/Oxymorphone and TPM®/Oxycodone.

The division intends to continue to assess commercial opportunities for TPM® enhanced products in gels and injectables.

Revenue is derived from royalty streams and contract research.

All other segments

The BioElixia® division, which previously formed part of the Production and Personal Care segment, was put up for sale at the end of 2014 and was sold in 2017. Information about this discontinued division is provided in note 18.

Sales to the Animal Health and Nutrition segment did not meet materiality levels and is included in the unallocated segment.

b) Segment results

The segment information provided to the chief executive officer for the reportable segments for the year ended 31 December 2017 is as follows:

2017	Production and Personal Care $	Human Health $	Total all Segments $	Unallocated $	Total Group $
Sales, Licences and Royalties	231,871	918,485	1,150,356	-	1,150,356
Total segment revenue	**231,871**	**918,485**	**1,150,356**	**-**	**1,150,356**
Other income	-			74,255	74,255
Interest revenue	-	-	-	35,997	35,997
Income from government grants	-	672,408	672,408	335,276	1,007,684
Depreciation and amortisation	(6,183)	-	(6,183)	(770,285)	(776,468)
Employee and directors benefit expense	(426,700)	(816,425)	(1,243,125)	(1,914,574)	(3,157,699)
Research expenses	-	(914,416)	(914,416)	(276,815)	(1,191,231)
Other operating expenses from continuing operations	(141,914)	(187,960)	(329,874)	(5,358,378)	(5,688,252)
Net operating profit/(loss) after tax	**(342,926)**	**(327,908)**	**(670,834)**	**(7,874,524)**	**(8,545,358)**
Segment assets	**512,942**	**207,815**	**720,757**	**7,518,757**	**8,239,514**

2016	Production and Personal Care $	Human Health $	Total all Segments $	Unallocated $	Total Group $
Sales, Licences and Royalties	1,293,344	238,382	1,531,726	56,568	1,588,294
Total segment revenue	**1,293,344**	**238,382**	**1,531,726**	**56,568**	**1,588,294**
Other income	-	75,848	75,848	4,880	79,848
Interest revenue	-	-	-	171,186	171,186
Income from government grants	-	-	-	1,832,705	1,832,705
Depreciation and amortisation	(10,778)	-	(10,778)	(2,460,768)	(2,471,546)
Impairment losses on intangible assets	-	-	-	(7,207,000)	(7,207,000)
Employee and directors benefit expense	(446,808)	(854,754)	(1,301,562)	(2,127,842)	(3,429,404)
Other operating expenses from continuing operations	(366,573)	(1,363,862)	(1,730,435)	(6,080,295)	(7,810,730)
Net operating profit/(loss) after tax	**469,185**	**(1,904,386)**	**(1,435,201)**	**(15,810,566)**	**(17,246,647)**
Segment assets	**634,027**	**162,369**	**796,396**	**12,557,781**	**13,354,177**

c) Understanding segment results

i) Segment revenue

Revenues from external customers comes from the sale of services and TPM® products on a wholesale basis as well as royalties and licences. Revenues of approximately $771,145 (2016: $123,161) are derived from a single external customer group. These revenues are attributed to the Human Health segment.

The entity is domiciled in Australia. The amount of its revenue from external customers broken down by location of customers is shown below.

	2017 $	2016 $
Australia	35,891	6,065
Switzerland	-	809,146
United States	121,230	398,052
India	125,872	192,297
Japan	771,145	123,161
China	96,218	-
Other	-	3,005
Total revenue	1,150,356	1,531,726

Segment revenue reconciles to total revenue from continuing operations as follows:

Total segment revenue	1,150,356	1,531,726
Other revenue	-	56,568
Total revenue from continuing operations (note 2)	1,150,356	1,588,294

ii) Segment assets

Segment assets are measured in the same way as the financial statements. These assets are allocated based on the operations of the segments and physical location of the asset.

The total of non-current assets broken down by location of assets is as follows:

	2017 $	2016 $
Australia	2,434,564	3,170,147
United States	2,468	786
Total assets	2,437,032	3,170,933

Reportable segments' assets are reconciled to total assets as follows:

Segment operating assets	720,757	796,396
Unallocated		
• Intangibles	2,186,000	2,786,000
• Cash & cash equivalents	2,898,596	6,091,508
• All other operating assets from continuing activities	2,434,161	3,680,273
Total assets per the balance sheet	8,239,514	13,354,177

iii) Segment liabilities

Segment liabilities are measured in the same way as the financial statements. These liabilities are allocated based on the operations of the segment.

Reportable segments' liabilities are reconciled to total liabilities as follows:

Segment operating liabilities	-	-
Unallocated:		
• Deferred tax liabilities	-	-
• Other operating liabilities from continuing activities	1,836,152	1,707,655
Total liabilities per the balance sheet	1,836,152	1,707,655

18. DISCONTINUED OPERATION

a) Description

The sale of branded cosmetics division, BioElixia®, which was put on hold pending the outcome of the Prophase arbitration in early 2016, was completed in August 2017. Accordingly, this division has been treated as a discontinued operation for the periods ended 31 December 2016 and 2017.

b) Financial performance and cash flow information

The financial performance and cash flow information presented is for the years ended 31 December 2017 and 2016.

	2017 $	2016 $
Total sales	-	48,309
Cost of sales	-	(43,429)
Profit on sale of BioElixia	200,000	-
Stock obsolescence expense	-	(2,255)
Legal expenses	(127,330)	
Other expenses	-	(71,376)
Profit / (loss) before income tax	72,670	(68,751)
Income tax expense	-	-
Profit / (loss) from discontinued operation	72,670	(68,751)

19. RELATED PARTY TRANSACTIONS

a) Subsidiaries

Interests in subsidiaries are set out in note 20(a)

b) Key management personnel compensation

Short-term employee benefits	1,584,125	1,872,431
Post-employment benefits	136,627	153,198
Long-term benefits	14,469	16,388
Share-based payments	88,109	24,583
	1,823,329	2,066,600

Detailed remuneration disclosures are provided in the remuneration report on pages 18 to 25.

c) Transactions with other related parties

The loss from operations includes no items of revenue and expense that resulted from transactions other than remuneration or equity holdings, with specified directors or their personally-related entities.

20. INTEREST IN OTHER ENTITIES

a) Subsidiaries

The consolidated financial statements include the financial statements of Phosphagenics Limited and the subsidiaries listed in the following table.

Entity	Country of Incorporation	2017 Equity Interest	2016 Equity Interest	2017 Investment $	2016 Investment $
Vital Health Sciences Pty Ltd	Australia	100%	100%	4,300,000	4,300,000
Preform Technologies Pty Ltd[1]	Australia	100%	100%	-	-
Adoil Pty Ltd[1]	Australia	100%	100%	-	-
Phosphagenics Inc.	USA	100%	100%	-	-

[1]Non-operating subsidiaries

b) Interests in associates and joint ventures

Entity	Country of Incorporation	2017 Equity Interest	2016 Equity Interest	2017 Investment $'000	2016 Investment $'000
Phusion Laboratories LLC	USA	-	50%	-	-

Phusion Laboratories was a jointly controlled entity formed in March 2010 with ProPhase Labs Inc. Under the Operating Agreement Phosphagenics was not required to contribute to funding. Phusion had accumulated losses which management had assessed that Phosphagenics did not have an obligation to make good. Accordingly Phosphagenics' share of losses has historically not been recorded in the Consolidated Income Statement or Balance Sheet.

Phosphagenics and ProPhase were in arbitration relating to the jointly controlled entity from October 2014 until the ruling was handed down by the American Arbitration Association in November 2016. The ruling included an order for the jointly controlled entity to be wound up which has now been completed.

21. EVENTS AFTER BALANCE SHEET DATE

On 17 January 2018 the Company received a refund of $1,252,095 for the R&D tax incentive for the tax year ended 30 June 2017.

On 18 January 2018 the Company completed a placement to sophisticated investors of 91,445,867 ordinary shares raising $1,371,688.

22. NOTES TO THE CASH FLOW STATEMENT

a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year, as shown in the statement of cash flows, is reconciled to the related items in the statement of financial position as follows:

	2017 $	**2016 $**
Cash at Bank	1,469,037	5,886,872
Short Term Deposits	1,429,559	204,636
	2,898,596	6,091,508

b) Reconciliation of net loss after tax to net cash flows from operations

	2017 $	2016 $
Net Loss after tax	(8,545,358)	(17,315,398)
Adjustments for:		
Depreciation and amortisation and impairments	776,468	2,471,546
Impairment of intangible assets	-	7,207,000
Write down of fixed assets for obsolescence	11,502	901
Profit on sale of fixed asset	(73,781)	-
Share based payment expense	133,535	36,058
Foreign currency translation reserve	(5,859)	(3,463)
Interest received	(33,816)	(171,085)
Changes in assets and liabilities:		
Decrease in trade receivables and other receivables	1,212,797	1,116,419
(Increase) / decrease in inventories	(54,625)	40,815
Decrease in other current assets	29,678	295,266
Decrease in assets classified as held for sale	-	17,000
(Decrease) / increase in trade payables and other payables	(79,322)	106,850
Increase in deferred revenues	184,340	-
Increase / (decrease) in provisions	23,479	(214,467)
Net cash (used in) operating activities	(6,420,962)	(6,412,558)

23. FINANCIAL RISK MANAGEMENT

This note explains the group's exposure to financial risks and how these risks could affect the group's future financial performance. Current year profit and loss information has been included where relevant to add further context.

Risk	Exposure arising from	Measurement	Management
Market risk – interest rate	Cash deposits at variable rates	Sensitivity analysis	
Market risk – foreign exchange	Future commercial transactions Recognised financial assets and liabilities not denominated in AUD	Cash flow forecasting Sensitivity analysis	Foreign currency hedges
Credit risk	Cash and cash equivalents, trade receivables	Aging analysis	Credit limits
Liquidity risk	Other liabilities	Rolling cash flow forecast	Availability of cash

The group's overall risk management program recognises the unpredictability of financial markets and seeks to minimise material adverse effects on the financial performance of the group. The Chief Executive Officer, Chief Financial Officer and Executive Management team are responsible to the Board through the audit and risk committee for the risk management program.

a) Market risk

i) Interest rate risk

The group holds interest bearing assets and therefore the income and operating cash flows are exposed to market interest rates. At the end of the reporting period, the group had the following term and at call deposits. Refer to note 22 for additional information.

	2017 $	2016 $
Financial Assets		
Cash and cash equivalents	2,898,596	6,091,508

Sensitivity

Profit or loss is sensitive to higher/lower interest income from cash and cash equivalents as a result of changes in interest rates. Equity does not change as a result of increase/decrease in interest rates as the group does not hold financial assets or liabilities designated as cash flow hedges.

	Impact on post tax profit		Impact on other components of equity	
	2017 $	2016 $	2017 $	2016 $
Judgements of reasonably possible movements:				
+1% (100 basis points)	28,986	60,915	-	-
-0.5% (50 basis points)	(14,493)	(30,458)	-	-

ii) Foreign Currency Risk

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the group's functional currency. The group operates in the United States as well as sells TPM® products and buys raw materials for their production which are denominated in US dollars. The Company still has outstanding commitments related to the reformulation of the TPM®/Oxymorphone patch which are denominated in Euros. The group is exposed to foreign exchange risk arising from currency exposures of transactions in US dollars and Euros.

The Chief Executive Officer and Chief Financial Officer regularly monitor the potential impact of movements in foreign exchange exposure and from time to time may take out short-term foreign exchange hedges for committed expenditures.

Approximately 71% of total revenue (2016: 84%) is denominated in currencies other than the presentation currency of the Group (Australian dollars), whilst approximately 89% (2016: 68%) of costs are denominated in the Groups presentation currency.

At 31 December 2017 the Group had the following exposure to US dollar foreign currency not designated in cash flow hedges:

	2017 $	2016 $
Financial Assets		
Cash and cash equivalents	59,030	730,755
Trade and other receivables	223,716	186,592
	282,846	917,347
Financial Liabilities		
Trade and other payables	(42,426)	(114,959)
Net Exposure	240,320	802,388

Sensitivity

The group is primarily exposed to changes in US/AUD exchange rates. The sensitivity of profit or loss to changes in the US/AUD exchange rate arises mainly from US-denominated financial assets and liabilities.

	Impact on post tax profit		Impact on other components of equity	
	2017 $	2016 $	2017 $	2016 $
Judgements of reasonably possible movements:				
Consolidated				
AUD/USD +10%	(21,847)	(72,944)	-	-
AUD/USD -10%	26,702	89,154	-	-

b) Credit risk

Credit risk arises from the financial assets of the Group comprising cash and cash equivalents and trade and other receivables. Credit risk refers to the risk the counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and setting appropriate credit limits, as a means of mitigating the risk of financial loss from defaults.

Group exposure to counterparties are continuously monitored and the aggregate value of transactions concluded are with approved counterparties. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The Group measures credit risk on a fair value basis.

The carrying value of financial assets recorded in the financial statements, net of any allowances for losses, represents the Groups maximum exposure to credit risk. Maturity analysis of financial assets and liabilities based on management's expectations as follows:

Year Ended 31 December 2017	≤ 6 Months $	6-12 Months $	1-5 Years $	>5 Years $	Total $
Financial Assets					
Cash and cash equivalents	2,898,596	-	-	-	2,898,596
Trade and other receivables	1,919,143	475,589	-	-	2,394,732
	4,817,739	475,589	-	-	5,293,328
Financial Liabilities					
Trade and other payables	(1,238,838)	-	-	-	(1,238,838)
	(1,238,838)	-	-	-	(1,238,838)
Net Exposure	3,578,901	475,589	-	-	4,054,490

c) Liquidity risk

Prudent liquidity risk management implies maintain sufficient cash balances. The directors regularly monitor the cash positon of the group, giving consideration to the level of expenditure and future project commitments.

d) Fair value

Due to the short term nature of the financial instruments, their carrying value is assumed to approximate their fair value.

24. PARENT ENTITY FINANCIAL INFORMATION

	2017 $	2016 $
Balance Sheet		
Current assets	5,627,453	9,273,599
Total assets	33,927,492	38,278,525
Current liabilities	1,671,608	1,538,903
Total liabilities	1,794,231	1,594,903
Shareholders' equity		
Issued capital	231,274,227	228,099,705
Reserves		
Employee equity benefits reserve	2,229,359	2,095,824
Foreign Currency Translation Reserve	245,063	348,843
Other equity-settled benefits reserve	305,323	305,323
Accumulated losses	(201,918,711)	(194,166,073)
	32,133,261	36,683,622
Loss of the parent entity	(7,752,638)	(17,229,818)
Total comprehensive loss of the parent entity	(7,752,638)	(17,229,818)
Guarantees entered into by the parent entity in relation to the debts of its subsidiaries	-	-
Contingent liabilities of the parent entity	-	-
Contractual commitments by the parent equity for the acquisition of property, plant or equipment.	-	-

Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes of Phosphagenics Limited for the financial year ended
31 December 2017 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the year ended on that date; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 1(a) confirms that the financial statements and notes also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.

Greg Collier
Chairman
28 March 2018
Melbourne

Independent auditor's report

To the members of Phosphagenics Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Phosphagenics Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

1. giving a true and fair view of the Group's financial position as at 31 December 2017 and of its financial performance for the year then ended
2. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated balance sheet as at 31 December 2017
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated income statement for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Material uncertainty related to going concern

We draw attention to Note 1 in the financial report, which indicates that the Group incurred a net loss of $8,545,358 during the year ended 31 December 2017 and a net cash outflow from operations of $6,420,962. These conditions, along with other matters set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

The Group operates in the biotechnology industry, undertaking development and optimisation of proprietary drug delivery methodology for pharmaceutical, consumer products and animal health sectors. The Group owns a portfolio of proprietary technology with applications in different stages between development and commercialisation. Operations are primarily based in Australia.

Materiality	***Audit scope***	***Key audit matters***
• For the purpose of our audit we used overall Group materiality of $415,500, which represents approximately 5% of the Group's loss before tax. • We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial	• Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. • The accounting processes are structured around a Group finance function at the corporate head office in Melbourne, where we predominantly performed our	• Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee: – Material uncertainty related to going concern – Carrying value of intangible assets – Research and development tax incentive • These are further described in the *Key audit matters* section of our report, except for the matter

report as a whole.

- We chose loss before tax as the benchmark because, in our view, it is the metric against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark.
- We selected 5% based on our professional judgement which is within the range of commonly acceptable thresholds.

audit procedures.

which is described in the *material uncertainty related to going concern* section.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	***How our audit addressed the key audit matter***
Carrying value of intangible assets *(Refer to note 10, Intangible Assets)* The Group holds amortising intangible assets which relate to patents that were purchased by the Group at 31 December 2004. Other intellectual property developed by the Group is not capitalised on the Balance Sheet. In accordance with Australian Accounting Standards, the Group considers annually if there are any indicators that the intangible assets are impaired. The two main indicators that the Group consider are: • market capitalisation • the ongoing viability of the capitalised patent portfolio. At 31 December 2017 the Group did not identify any impairment indicators and therefore did not impair any intangible assets. We considered the carrying value of intangible assets a key audit matter due to their financial significance and	We performed the following procedures, amongst others, to evaluate the Group's assessment that there had been no indicators of impairment: • Compared the Group's market capitalisation to its net assets as at 31 December 2017, noting that its market capitalisation of $26.7 m exceeded its net assets of $6.4m by $20.1m. • Assessed if there were significant changes to the key assumptions (including product market size, patent life, risk factors and discount rate) used in the Group's valuation models from previous periods, by: o Inspecting Board of Director meeting minutes. o Enquiring of key operational and finance staff and developing an understanding of the current status, ongoing viability and future intentions for each product to which the patents have been allocated and that has a carrying value as at 31

Key audit matter	How our audit addressed the key audit matter
the inherent judgement required by the Group in assessing indicators of impairment.	December 2017. o Inspecting evidence of commercial arrangements in place to continue utilising the assets. • Inspected the Group's paper on the assessment of impairment indicators that was presented to the Audit and Risk Committee and considered whether there was any other information that might indicate that the patents portfolio may be impaired.
Research and development tax incentive *(Refer to note 1(vi), Critical accounting estimates and judgements)* Under the research and development (R&D) Tax Incentive scheme, the Group is entitled to receive a 43.5% refundable tax offset of eligible expenditure if its turnover is less than $20 million per annum provided, it is not controlled by income tax exempt entities. An R&D plan is filed with AusIndustry in the following financial year, and based on this filing, the Group receives the incentive in cash. The Group prepared an estimate of its total research and development expenditure to determine the potential claim under the R&D tax incentive legislation. The receivable at year end for the incentive was $1.7m. This includes: • A lodged claim of $1.3m relating to the period from 1 July 2016 to 30 June 2017. • An estimated claim of $0.5m relating to the period from 1 July 2017 to 31 December 2017. We considered the R&D tax incentive a key audit matter due to the size of the accrual and because judgement and interpretation of the R&D tax legislation is required by the Group to assess the eligibility of the R&D expenditure under the scheme.	We considered the Group's R&D tax estimate to assess the amount accrued as at 31 December 2017. Our procedures included: • Agreeing the estimates made in previous years to the amount of cash received after lodgement of the R&D tax claim. • Comparing the nature of the R&D expenditure included in the current year estimate to the prior year estimate. • Comparing the amount of eligible expenditure used to calculate the estimate to the expenditure recorded in the general ledger.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 December 2017, including Chairman's report, CEO's report, operating and financial review, director's report, corporate governance statement, shareholder information and corporate directory, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 18 to 25 of the directors' report for the year ended 31 December 2017.

In our opinion, the remuneration report of Phosphagenics Limited for the year ended 31 December 2017 complies with section 300A of the *Corporations Act 2001.*

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

Anton Linschoten
Partner

Melbourne
28 March 2018

Shareholder Information

The shareholder information set out below was applicable as at 19 March 2018.

Supplementary information as required by ASX listing requirements.

A. Distribution of Equity Shareholders

Range of Shareholders	Holders	Ordinary shares	%
1 - 1,000	460	112,565	0.01
1,001 - 5,000	925	2,851,757	0.18
5,001 - 10,000	710	5,610,327	0.36
10,001 - 100,000	2,258	89,442,860	5.67
100,001 – and over	1,260	1,479,439,911	93.78
	5,613	1,577,457,420	100.00

There were 3,371 holders of less than a marketable parcel of ordinary shares.

B. Equity Security Holders

The names of the twenty largest holders of quoted equity securities are listed below:

	Name	Number held	% of issued shares
1	HSBC Custody Nominees (Australia) Limited	89,140,665	5.65
2	Citicorp Nominees Pty Limited	80,753,018	5.12
3	Paradyce Pty Ltd	60,116,731	3.81
4	BNP Paribas Nominees Pty Ltd <Ingalls & Snyder LLC DRP>	40,926,146	2.59
5	J P Morgan Nominees Australia Limited	40,764,196	2.58
6	Paroha Nominees Pty Ltd	40,053,096	2.54
7	Rosscope Pty Ltd <Ross Copeland Family A/C>	33,558,184	2.13
8	Equitas Nominees Pty Ltd <Pb-601018 A/C>	30,000,001	1.90
9	Mr Ross Copeland + Mrs Gina Copeland	23,018,212	1.46
10	Holdrey Pty Ltd <Don Mathieson Family A/C>	22,500,000	1.43
11	Ack Pty Ltd <Markoff Super No 2 A/C>	20,494,147	1.30
12	Berkeley Consultants Pty Ltd	20,418,784	1.29
13	Mr Brandon Armon Batagol	16,005,597	1.01
14	Dr Maurice Arthur Trewhella + Mrs Elizabeth Trewhella <Simpetejen Super Fund A/C>	16,000,000	1.01
15	BHL Pension Pty Ltd <BHL Pension Fund A/C>	15,000,000	0.95
16	Mr Mark Gregory Kerr	14,166,666	0.90
17	Mr Ross Graham Copeland + Mrs Gina Copeland <Publicity Press S/F A/C>	13,868,545	0.88
18	Gold Road Orient Holdings Pty Ltd	12,500,000	0.79
19	Jogra Nominees Pty Ltd	11,570,000	0.73
20	Mr David Segal	11,000,000	0.70
	Sub-Total – Top 20 Holders	611,853,988	59.99
	– Other Holders	965,603,432	40.01
	Total Issued Shares	1,577,457,420	100.00

Unquoted equity securities over ordinary shares	Number on issue	Number of holders
Employee options	35,071,300	17
Options expiring 22 May 2019	3,000,000	3

Holders of options	Number on issue	% of options
Dr G Cauwenberg	1,000,000	33.3
Mr N Drona	1,000,000	33.3
Montoya Pty Ltd (ATF Buttercup Trust)	1,000,000	33.3

C. Substantial Holders

Substantial shareholders with a shareholding greater than 5% as shown in substantial shareholder notices received by the Company as at 16 March 2018:

Holder of relevant interest	Entitlement to No. securities	Date of SSH Notice	Form No.
Mark Gregory Kerr	109,083,634	27.10.2017	603

D. Voting Rights

The voting rights attached to each class of equity securities are set out below:

(a)	Ordinary shares	On a show of hands every member present at a meeting in person or by proxy shall have one vote and on a poll each share shall have one vote.
(b)	Options	No voting rights

E. Buy-Back

The Company has not undertaken any share buy-backs during or since the year ended 31 December 2017.

Corporate Directory

Phosphagenics Limited

(ABN 320 56 482 403)

Board of Directors

Dr Greg Collier (Chairman)

Dr Ross Murdoch (Chief Executive Officer)

Mr Peter Lankau

Mr David Segal

Company Secretary

Ms Anna Legg

Registered Office

Unit A8, 2A Westall Road

Clayton VIC 3168

Australia

Principal Business Office

Unit A8, 2A Westall Road

Clayton VIC 3168

Australia

Telephone: +61 3 95002 5000

Email: info@phosphagenics.com

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Auditors

PricewaterhouseCoopers

2 Riverside Quay

Southbank VIC 3006

Australia

Share Registry

Computershare Investor Services Pty Ltd

Yarra Falls

452 Johnston Street

Abbotsford VIC 3067

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Melbourne VIC 3001

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Online Investor Centre:

https://www.computershare.com/investor

Stock Exchange Listing

ASX Limited

Level 4, North Tower, Rialto

525 Collins Street

Melbourne VIC 3000

Australia

ASX Code: POH

Phosphagenics' American Depositary Receipts (ADRs) trade under the code PPGNY. Each Phosphagenics ADR is equivalent to thirty ordinary shares of Phosphagenics traded on the ASX. The Bank of NY Mellon is the depository bank.

Phosphagenics' ADRs are listed on OTCQX International (www.otcmarkets.com), a premium market tier in the U.S. for international exchange-listed companies, operated by OTC Markets Group, Inc.