PHOSPHAGENICS LIMITED

ABN 32 056 482 403

FINANCIAL REPORT

FOR THE HALF YEAR ENDED 30 JUNE 2017

CONTENTS

Directors' Report

Your directors are pleased to submit this report on Phosphagenics Limited and its controlled entities for the half-year ended 30 June 2017.

Directors

The following persons were directors of Phosphagenics Limited for the whole of the half-year and up until the date of this report unless otherwise noted:

Dr Greg Collier (Chairman)
Dr Ross Murdoch (Managing Director)
Mr Peter Lankau
Mr David Segal
Dr Geert Cauwenbergh (to 30 May 2017)

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

For the six months ended 30 June 2017 the Company returned a loss from continuing operations after tax of $4,180,229 (2016: $5,406,344). The net operating cash outflow for the period was $2,029,482 (2016: $2,612,559), with a cash balance at 30 June 2017 of $4,031,305 (31 December 2016 $6,091,508).

Dividends

The directors have not recommended the payment of any dividends and no dividends were declared, paid or reinvested in the period to 30 June 2017.

Review of Financials

Income statement

The reported net loss after tax from continuing operations for the 6 months ended 30 June 2017 was $4,180,229 (H1 2016: $5,406,344).

Total revenue from continuing operations for the 6 months ended 30 June 2017 was $812,629, down from $1,306,035 million in the prior comparable period (H1 2016). The revenue for the current period was largely made up of the payment received from Terumo Corporation in exchange for exclusive negotiation rights in respect of the TPM®/Oxymorphone patch in the Japanese market. Production and Personal Care revenue declined significantly over the period as sales of key product Vital ET® declined substantially due to inventory overstocking by global distribution Ashland in prior periods. The global distribution partner for Vital ET®, Ashland, has informed the Company of its plan to relaunch Vital ET® in the second half of 2017.

The R&D tax incentive of $475,000 for the six months to 30 June 2017 was less than in the prior comparable period (H1 2016: $864,995), reflecting the impact of lower R&D expense. This reflects Phosphagenics' strategy to move towards partner supplemented R&D and to focus on new product areas that require less R&D expense to advance to the Proof of Concept stage, such as the injectables portfolio.

Expenses from continuing operations decreased to $5,517,434 down from $7,480,772 in H1 2016 reflective of the continued focus on cost containment and efficiencies as well as reduced amortisation expense.

Balance sheet

At the end of June 2017, the Company held $4,031,305 in cash and cash equivalents (31 December 2016 $6,091,508). The Company expects to receive a further $1,195,000 million from the R&D tax incentive scheme before the end of 2017.

Statement of cash flows

The net operating cash outflow for the period was $2,029,482 (2016: $2,612,559), with receipts from customers lower at $539,349 (2016: $1,001,812). The Company also received $2,293,919 (2016: $2,441,911) from the R&D tax incentive. Payments to suppliers and employees of $4,939,289 were lower than the prior period (2016: $6,056,282).

Auditor's Review Report

The Company's auditor has included an "emphasis of matter" paragraph in the Auditor's Review Report relating to the Company's ability to continue as a going concern (refer Note 1).

Earnings per share

	2017	2016
Basic loss per share	($0.0033)	($0.0043)
Diluted loss per share	($0.0033)	($0.0043)

Review of Operations

Phosphagenics' core business strategy is to develop and commercialise its TPM® technology, and translate this into value opportunities for its shareholders.

During the six months to 30 June 2017, Phosphagenics continued to make progress towards achieving its business plan. Each of the business divisions – Human Health, Animal Health and Nutrition, and Production and Personal Care – have progressed multiple discussions with potential partners with the common goal of advancing commercialisation of the Company's TPM® technology.

Human Health

The Human Health business contributed revenues of $651,825 in the six months to 30 June 2017 (H1 2016: $189,074) primarily from Terumo Corporation, Phosphagenics' Japanese research partner.

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 35 million JPY (approximately A$400,000) associated with the

signing of the term sheet, in exchange for granting exclusive negotiation rights to Terumo. Both companies worked together over the following months to further assess and develop the patch. As at close of 1H 2017 Terumo and Phosphagenics had not moved to a binding agreement.

The three month extended exclusivity period granted to Terumo to evaluate the TPM®/Oxycodone patch expired in February 2017 and a further extension of the exclusive due diligence period was not requested.

Phosphagenics continues to work with Terumo more broadly to develop a TPM® enhanced Propofol injectable formulation as well as on some additional products containing the TPM® technology. This work continues to proceed well. This broader R&D alliance is advantageous for Phosphagenics as it brings with it valuable data, expertise and the potential for future additional milestone payments.

The Company's internal R&D program has been re-oriented over the past six months to increase 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. Work has commenced on a number of formulations based on their commercial attractiveness and where a clear unmet market need exists for an improved formulation.

Additionally, Phosphagenics has licensed Themis to sell TPM®/Diclofenac gel in 17 countries. 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 2017 and 2018. While sales continue to grow, revenues remain relatively small at this stage. Expansion of sales through this existing channel is being explored as an opportunity to increase revenue without further development risk. Work to identify additional commercial partners for the existing product as well as potential product extensions are ongoing.

Mylan Arbitration

The Mylan arbitration remains a substantial focus for Phosphagenics in 2017. Both the TPM®/ Daptomycin product itself, and the damages Phosphagenics is seeking, represent significant value potential for the Company and contribute to the ongoing protection of the company's Intellectual Property.

It was announced in May 2017 that Phosphagenics had filed its expert reports in respect of the Mylan arbitration 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 is approximately US$300.4 million. This is 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 (the Singapore International Arbitration Centre).

It should be noted, however, that it is likely Mylan will challenge the assumptions which underlie the calculation of this claimed quantum and will continue to contend that it is not otherwise liable in respect of the various claims. Therefore there are no assurances as to the outcome of the arbitration proceedings at this stage.

The next stage of the arbitration has seen both parties file "reply Independent Expert evidence". The arbitration remains on schedule for hearing in October/November 2017.

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

Animal Health and Nutrition

Animal Health and Nutrition is a large and attractive opportunity for Phosphagenics.

Significant progress has been made on trial activities aimed to assess the commercial potential of TPM® as a feed additive to improve feed efficiency. Studies in pigs and poultry were completed in 2016 and this increased data package has been used as a basis to engage in discussions with multiple major global feed companies in the first half of 2017.

Phosphagenics are also more than half way through a study in dairy cattle designed to assess whether TPM® as a feed additive can promote improved milk quality and fertility. This study was initiated in July 2016 and is multi-sited, blinded and placebo controlled. The primary milk quality and immune endpoints will be assessed during the most critical lactation and production periods. Secondary end-points will examine if there are any improvements in fertility due to TPM® treatment. These end-points are deemed some of the most costly facing the dairy industry (ie mastitis and infertility) and pose the most lucrative for Phosphagenics' TPM® technology being applied to dairy cattle. The study is due to complete in late 2017.

Also during the half year period, Phosphagenics and Integrated Animal Health Pty Ltd (IAH) announced that following the signing of a settlement deed, they have mutually agreed 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 will allow 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 $160,804 in the six months to 30 June 2017, a significant decline compared to the prior comparable period (H1 2016: $1,058,468).

Disappointingly there were minimal sales of Vital ET® in the period, mainly due to global distributor, Ashland, having over stocked in prior years.

Phosphagenics' continues to work closely with Ashland, and have been advised of their intention to undertake a product refresh and relaunch in the second half of 2017. Enthusiasm for the product remains strong and a product refresh will aim to reinvigorate existing partners as well as identify and develop new customer partnerships.

Despite the disappointing sales performance, the Production and Personal Care business has, over the past 12-18 months, successfully strengthened the quality and capacity of TPM® / Vital ET® production whilst also looking for new customers. The Company is now well placed to respond to any increase in demand associated with the existing and new potential product partnerships. Phosphagenics' TPM® production capacity has increased more than 10 fold resulting in substantial reduction to the cost of goods.

Business Strategy and Future Developments

The underlying business strategy of developing and commercialising TPM® within the three business divisions – Human Health, Animal Health and Nutrition, and Production and Personal Care – remains unchanged from the previous period. Over the next 12 months, the following strategic milestones have been identified.

The Human Health business is highly focused on the Terumo relationship and its focus will now be to complete the Phase 1 study and PDMA consultation for the TPM®/Oxymorphone patch for the Japanese market. The Company continues to support the Terumo partnership across further product areas. The Company will also seek new partnering opportunities for the TPM®/Oxycodone patch.

Additionally, the internal R&D remains focused towards TPM® enhanced injectables which is designed to deliver several valuable assets that can improve the formulation of existing or novel compounds, and for a reasonable R&D investment. This is seen an area of great potential value to shareholders.

The focus for the Animal Health business will be to continue utilising the strength of the trial data to advance towards a commercial agreement with a leading player in the sector.

Production and Personal Care will assist Ashland in the relaunch of Vital ET® to drive sales growth and utilise the manufacturing efficiencies which have been put in place. The Company does not expect to see royalty revenue from BioElixia® until first half 2018.

The Company will continue to use its cash balances to invest in R&D and in the Mylan arbitration. To ensure a strong financial position going forward the company is considering funding options, such as a capital raising, with a goal to raise additional cash by late 2017.

Auditor's independence declaration

The auditor's independence declaration is included on page 4 of the financial report.

Subsequent events

On 22 August Phosphagenics announced it had signed a Development Agreement with Terumo targeting the progression of a 1-day patch into the clinic within 12 months followed by a formal consultation with the Japanese Regulatory Authorities (PDMA). Phosphagenics will undertake some of the activities associated with the progression of the patch and will receive up to $2 million in development milestone payments through this period. On successful completion of the first Phase 1 study and PDMA consultation, Terumo can progress to a full licence agreement. Phosphagenics invoiced $115,740 on signing.

Terumo formally advised Phosphagenics in August that it would only progress one TPM® enabled patch, releasing the TPM®/Oxycodone patch for partnering opportunities.

On 10 August the Company announced it had finalised the sale of BioElixia® to Pure Beauty Australia Pty Ltd for $200,000, on-going royalties of 5% based on net sales of products incorporating TPM®, and income from TPM® sales associated with a 10 year supply agreement.

This report is made in accordance with a resolution of directors.

Greg Collier
Chairman
Melbourne, 31 August 2017

Auditor's Independence Declaration

As lead auditor for the review of Phosphagenics Limited for the half-year ended 30 June 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 review; and

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

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

Anton Linschoten
Partner
PricewaterhouseCoopers

Melbourne
31 August 2017

Interim Financial Report

Contents

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2016 and any public announcements made by Phosphagenics Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Consolidated Income Statement

For the half-year ended 30 June 2017

	Notes	30 June 2017 $	30 June 2016 $
Revenue from continuing operations			
Sale of goods and services		311,864	869,601
Royalties and licence fees		500,765	436,434
Total revenue		812,629	1,306,035
Cost of sales		(48,858)	(273,848)
Gross profit		763,771	1,032,187
Income from government grants		475,000	864,995
Finance revenue		21,271	129,112
Other income		624	48,134
Recoveries	3a	76,539	-
Employee and directors benefits expenses	3b	(1,683,869)	(1,658,095)
Research expenses	3c	(487,711)	(1,124,051)
Consulting and professional expenses	3d	(392,250)	(748,230)
Legal expenses	3e	(1,711,445)	(1,486,091)
Amortisation and depreciation		(402,230)	(1,458,193)
Other expenses	3f	(839,929)	(1,006,112)
Loss before income tax		(4,180,229)	(5,406,344)
Income tax benefit		-	-
Loss from continuing operations		(4,180,229)	(5,406,344)
Loss from discontinued operations		-	(61,293)
Loss for period		(4,180,229)	(5,467,637)

Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the Company:		
Basic profit / (loss) per share	(0.33) cents	(0.43) cents
Diluted profit / (loss) per share	(0.33) cents	(0.43) cents

Earnings per share for loss attributable to the ordinary equity holders of the Company:		
Basic profit / (loss) per share	(0.33) cents	(0.43) cents
Diluted profit / (loss) per share	(0.33) cents	(0.43) cents

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

Consolidated Statement of Comprehensive Income

For the half-year ended 30 June 2017

	Notes	30 June 2017 $	30 June 2016 $
Loss for the period		(4,180,229)	(5,467,637)
Other Comprehensive Income			
Items that may be classified to profit or loss			
Exchange differences on translation of foreign operations		(4,232)	(11,274)
Income tax/(expense) on items of other comprehensive income			-
Other comprehensive loss for the period, net of tax		(4,232)	(11,274)
Total comprehensive loss for the period		(4,184,461)	(5,478,911)
Total comprehensive loss for the period attributable to owners of Phosphagenics Ltd arises from:			
Continuing operations		(4,184,461)	(5,417,618)
Discontinued operations		-	(61,293)
		(4,184,461)	(5,478,911)

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

Consolidated Balance Sheet

As at 30 June 2017

	Notes	30 June 2017 $	31 December 2016 $
ASSETS			
Current Assets			
Cash and cash equivalents		4,031,305	6,091,508
Trade and other receivables		1,864,343	3,607,529
Inventories		165,468	237,017
Other current assets		155,247	247,192
Total Current Assets		6,216,363	10,183,246
Non-Current Assets			
Plant and equipment		338,222	384,933
Intangible assets	4	2,486,000	2,786,000
Total Non-Current Assets		2,824,222	3,170,933
Total Assets		9,040,585	13,354,179
LIABILITIES			
Current Liabilities			
Trade and other payables		1,092,215	1,318,162
Provisions		370,007	345,495
Total Current Liabilities		1,462,222	1,663,657
Non-Current Liabilities			
Provisions		46,000	44,000
Total Non-Current Liabilities		46,000	44,000
Total Liabilities		1,508,222	1,707,657
Net Assets		7,532,363	11,646,522
EQUITY			
Issued Capital	5	228,099,705	228,099,705
Reserves		30,289,927	30,223,857
Accumulated Losses		(250,857,269)	(246,677,040)
Total Equity		7,532,363	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 half-year ended 30 June 2017

	Contributed capital	Reserves	Accumulated losses	Total equity
	$	$	$	$
Balance at 1 January 2017	228,099,705	30,223,857	(246,677,040)	11,646,522
Loss for the half-year	-	-	(4,180,229)	(4,180,229)
Other comprehensive income / (loss)	-	(4,232)	-	(4,232)
Total comprehensive income / (loss) for the year	-	(4,232)	(4,180,229)	(4,180,229)
Transactions with owners in their capacity as owners:				
Employee equity settlement benefits	-	70,302	-	70,302
Total transactions with owners	-	70,302	-	70,302
Balance at 30 June 2017	228,099,705	30,289,927	(250,857,269)	7,532,363
Balance at 1 January 2016	228,099,705	30,191,262	(229,362,642)	28,929,325
Loss for the half-year	-	-	(5,467,637)	(5,467,637)
Other comprehensive income / (loss)	-	(11,274)	-	(11,274)
Total comprehensive income / (loss) for the period	-	(11,274)	(5,467,637)	(5,478,911)
Transactions with owners in their capacity as owners:				
Employee equity settlement benefits	-	2,243	-	2,243
Total transactions with owners	-	2,243	-	2,243
Balance at 30 June 2016	228,099,705	30,182,231	(234,830,279)	23,451,657

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

Consolidated Statement of Cash Flows

For the half-year ended 30 June 2017

	30 June 2017 $	30 June 2016 $
OPERATING ACTIVITIES		
Receipts from customers	539,349	1,001,812
Receipt of recoveries	76,539	-
Receipt of government grants	2,293,919	2,441,911
Payments to suppliers and employees	(4,939,289)	(6,056,282)
Net cash used in operating activities	(2,029,482)	(2,612,559)
INVESTING ACTIVITIES		
Interest received	21,255	128,124
Sale / (purchase) of plant and equipment	(51,976)	3,715
Net cash (used in) / from investing activities	(30,721)	131,839
Net (decrease)/ increase in cash and cash equivalents	(2,060,203)	(2,480,720)
Cash and cash equivalents at the beginning of period	6,091,508	12,395,270
Cash and cash equivalents at the end of period	4,031,305	9,914,550

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

Notes to the consolidated financial statements

For the half-year ended 30 June 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The condensed consolidated interim financial report for the half-year ended 30 June 2017 has been prepared in accordance with *AASB 134 Interim Financial Reporting* and *Corporation Act, 2001*.

The interim report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report. Accordingly this report is to be read in conjunction with the annual report for the year ended 31 December 2016 and be considered together with any public announcements made by Phosphagenics Limited during the half-year ended 30 June 2017 in accordance with the continuous disclosure obligations of the *Corporation Act, 2001*.

The accounting policies and methods of computation are consistent with those of the previous financial year and corresponding half-year reporting period.

Going concern

For the half year ended 30 June 2017, the consolidated entity has incurred losses of $4,180,229 (2016: $5,467,637) and experienced net cash outflows of $2,029,482 from operations (2016: $2,612,559). As at year end the cash position was $4,031,305 (31 December 2016: $6,091,508).

During the 2017 financial year, the Company expects to maintain reduced operational and R&D expenses. However whilst the Company is still in development phase there is not sufficient certainty in anticipated licencing revenue to be relied upon in cash flow planning. In addition the directors intend to continue to fund significant legal costs relating to the arbitration against Mylan to the end of 2017. As a result of these outflows, the directors propose to raise funds by new equity funding or via other sources to ensure the Company continues to hold adequate levels of available cash resources to meet creditors and other commitments.

The continued viability of the Company and its ability to continue as a going-concern and meet its debts and commitments as they fall due is dependent on the satisfactory completion of raising equity or securing funding from other sources.

Due to uncertainty surrounding the timing, quantum and ability to raise additional funds via the issuance of new equity or reach contractual agreement for other funding, 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 unable 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 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.

2. 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.

Human Health

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

The division continues to prioritise development work on the two existing opioid patch assets: TPM®/Oxymorphone and TPM®/Oxycodone as well as continue to assess commercial opportunities for TPM® enhanced products delivered as gels and injectables. Revenue is derived from royalty streams and contract research.

All other segments
The BioElixia® product line, which previously formed part of the Production and Personal Care segment, was put up for sale at the end of 2014 and sold in August 2017. 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 half-year ended 30 June 2017 is as follows:

2017	Production and Personal Care $	Human Health $	Total all Segments $	Unallocated $	Total Group $
Sales, royalties and licences	160,804	651,825	812,629	-	812,629
Total segment revenue	**160,804**	**651,825**	**812,629**	**-**	**812,629**
Cost of sales	(48,858)	-	(48,858)	-	(48,858)
Other income	-	-	-	624	624
Interest revenue	-	-	-	21,271	21,271
Income from government grants	-	323,000	323,000	152,000	475,000
Recoveries	-	-	-	76,539	76,539
Depreciation and amortisation	(4,175)	-	(4,175)	(398,055)	(402,230)
Employee and directors benefits expenses	(254,107)	(415,368)	(669,475)	(1,014,394)	(1,683,869)
Research expenses	(6,763)	(334,172)	(340,935)	(146,776)	(487,711)
Other operating expenses from continuing operations	(70,422)	(150,126)	(220,548)	(2,723,076)	(2,943,624)
Net operating profit/(loss) after tax	**(223,521)**	**75,159**	**(148,362)**	**(4,031,867)**	**(4,180,229)**
Segment assets	**222,932**	**138,511**	**361,443**	**8,679,142**	**9,040,585**

2016	Production and Personal Care $	Human Health $	Total all Segments $	Unallocated $	Total Group $
Sales, royalties and licences	1,058,468	189,074	1,247,542	58,494	1,306,036
Total segment revenue	**1,058,468**	**189,074**	**1,247,542**	**58,494**	**1,306,036**
Cost of sales	(273,848)	-	(273,848)	-	(273,848)
Other income	-	44,133	44,133	4,001	48,134
Interest revenue	-	-	-	129,112	129,112
Income from government grants	-	-	-	864,995	864,995
Depreciation and amortisation	(6,052)	-	(6,052)	(1,452,141)	(1,458,193)
Employee and directors benefits expenses[1]	(209,609)	(413,929)	(623,538)	(1,034,557)	(1,658,095)
Research expenses[2]	(20,817)	(756,635)	(777,452)	(346,599)	(1,124,051)
Other operating expenses from continuing operations[2]	55,635	(134,649)	(79,014)	(3,161,420)	(3,240,434)
Net operating profit/(loss) after tax	**603,777**	**(1,072,006)**	**(468,229)**	**(4,938,115)**	**(5,406,344)**
Segment assets	**1,404,678**	**121,126**	**1,525,804**	**23,692,771**	**25,218,575**

[1] Employee and directors benefits expenses were shown in Unallocated segment in 2016.
[2] Research expenses were shown in Other operating expenses in 2016.

3. REVENUES AND EXPENSES

	30 June 2017	30 June 2016
	$	$
(a) Recoveries		
Recoveries received	76,539	-
Total	76,539	-

Recoveries from misappropriations are recognised when they are virtually certain, which is principally on receipt of cash.

(b) Employee and directors benefit expenses		
Directors fees	(126,621)	(139,352)
Research and development employee expenses	(544,213)	(539,324)
ESOP expenses	(70,302)	(2,243)
Other employee expenses	(942,733)	(977,176)
Total	**(1,683,869)**	**(1,658,095)**
(c) Research expenses		
Research expenses[1]	(487,711)	(1,124,051)
Total	**(487,711)**	**(1,124,051)**

[1] Research expenses of $115,425 were shown in Consulting and professional expenses in 2016

(d) Consulting and professional expenses		
Consulting and professional expenses[1,2]	(392,250)	(748,230)
Total	**(392,250)**	**(748,230)**

[1] Research expenses of $115,425 were shown in Consulting and professional expenses in 2016

[2] Consulting and professional expenses of $49,650 were shown in Other expenses in 2016

(e) Legal expenses		
Legal expenses associated with arbitrations	(1,574,418)	(1,288,130)
Other legal expenses	(137,027)	(197,961)
Total	**(1,711,445)**	**(1,486,091)**
(f) Other expenses		
Travel	(166,081)	(287,606)
Patent portfolio expenses	(182,913)	(235,789)
Occupancy expenses	(172,402)	(243,764)
Expenses allocated to inventory	26,659	139,433
Doubtful debts	-	(690)
Other[2]	(345,192)	(377,696)
Total	**(839,929)**	**(1,006,112)**

[2] Consulting and professional expenses of $49,650 were shown in Other expenses in 2016

4. INTANGIBLE ASSETS

Half year ended 30 June 2017	Intellectual Property $
At 1 January 2017 net of accumulated amortisation and impairment	2,786,000
Amortisation	(300,000)
At 30 June 2017, net of accumulated amortisation and impairment	2,486,000
At 30 June 2017	
Cost (gross carrying amount)	121,362,000
Accumulated amortisation and impairment	(118,876,000)
Net carrying amount	2,486,000

Half year ended 30 June 2016	Intellectual Property $
At 1 January 2016 net of accumulated amortisation and impairment	12,269,000
Amortisation	(1,355,000)
At 30 June 2016, net of accumulated amortisation and impairment	10,914,000
At 30 June 2016	
Cost (gross carrying amount)	121,362,000
Accumulated amortisation and impairment	(110,448,000)
Net carrying amount	10,914,000

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.

As at 30 June 2017, it was assessed there were no triggers of impairment related to share price or other external factors relevant to the patents.

The 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.

5. ISSUED CAPITAL

(a) Share capital

	2017 No. '000's	2017 $	2016 No. '000's	2016 $
Fully paid ordinary shares	1,261,965	228,099,705	1,261,965	228,099,705

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

(b) Share options

During the six months ended 30 June 2017, 5,250,000 2017 Options (2016: nil) were granted after approval by shareholders at the Annual General Meeting on 31 May 2017. As at 30 June 2017 there were a total of 5,250,000 2017 Options on issue. Subject to the terms of the Employee Equity Incentive Plan, 2017 Options which have not lapsed will vest and become exercisable in tranches as follows:-

- one-third of the Options will vest on 11 September 2017 (Tranche 1 Vesting Date);
- one-third of the Options will vest on 10 September 2018 (Tranche 2 Vesting Date);

- one-third of the Options will vest on 9 September 2019 (Tranche 3 Vesting Date).

During the six months ended 30 June 2017, 15,000,000 2016 Options (2016: nil) were granted after approval by shareholders at the Annual General Meeting on 31 May 2017. As at 30 June 2017 there were a total of 48,948,150 2016 Options on issue. Subject to the terms of the Employee Equity Incentive Plan, 2016 Options which have not lapsed will vest and become exercisable in tranches as follows:-

- one-third of the Options will 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;
- 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.

Vesting conditions may be waived at the discretion of the Board. 2016 Options and 2017 Options will lapse unless the applicable vesting conditions are satisfied or waived. Share options carry no right to dividends and have no voting rights.

As at 30 June 2017 the Company had on issue the following Options:

Class	Grant Date	Vesting Date	Shares under option (No)	Class of shares	Exercise price ($)	Expiry date
2014 Option	30 May 2014	30 May 2014	3,000,000	Ordinary	$0.17	22 May 2019
2016 Option	6 October 2016	11 September 2017	11,316,050	Ordinary	$0.023	10 September 2021
2016 Option	6 October 2016	10 September 2018	11,316,050	Ordinary	$0.023	10 September 2021
2016 Option	6 October 2016	9 September 2019	11,316,050	Ordinary	$0.023	10 September 2021
2016 Option	31 May 2017	11 September 2017	5,000,000	Ordinary	$0.023	10 September 2021
2016 Option	31 May 2017	10 September 2018	5,000,000	Ordinary	$0.023	10 September 2021
2016 Option	31 May 2017	9 September 2019	5,000,000	Ordinary	$0.023	10 September 2021
2017 Option	31 May 2017	11 September 2017	1,750,000	Ordinary	$0.023	10 September 2021
2017 Option	31 May 2017	10 September 2018	1,750,000	Ordinary	$0.023	10 September 2021
2017 Option	31 May 2017	9 September 2019	1,750,000	Ordinary	$0.023	10 September 2021
Total			**57,198,150**			

(c) Performance Rights

During the six months ended 30 June 2017, 15,000,000 performance rights were forfeited. (2016: nil). As at 30 June 2017 there were a total of nil (2016: 30,960,000) performance rights on issue. Performance rights carried no right to dividends and had no voting rights.

6. EVENTS AFTER BALANCE SHEET DATE

On 22 August Phosphagenics announced it had signed a Development Agreement with Terumo targeting the progressions of a 1-day patch into the clinic within 12 months followed by a formal consultation with the Japanese Regulatory Authorities (PDMA). Phosphagenics will undertake some of the activities associated with the progression of the patch and will receive up to $2 million in development milestone payments through this period. On successful completion of the first Phase 1 study and PDMA consultation, Terumo can progress to a full licence agreement. Phosphagenics invoiced $115,740 on signing.

Terumo formally advised Phosphagenics in August that it would only progress one TPM enabled patch, releasing the TPM/Oxycodone patch for partnering opportunities.

On 10 August the Company announced it had finalised the sale of BioElixia to Pure Beauty Australia Pty Ltd for $200,000, on-going royalties of 5% based on net sales of products incorporating TPM, and income from TPM sales associated with a 10 year supply agreement.

Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes of Phosphagenics Limited for the half-year ended 30 June 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 30 June 2017 and of its performance for the half-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.

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

Greg Collier
Chairman

31 August 2017
Melbourne

Independent auditor's review report to the shareholders of Phosphagenics Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Phosphagenics Limited (the Company), which comprises the consolidated balance sheet as at 30 June 2017, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Phosphagenics Limited (the consolidated entity). The consolidated entity comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001,* including giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Phosphagenics Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Phosphagenics Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting*, the *Corporations Regulations 2001*

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 $4,180,229 during the half year ended 30 June 2017 and a net cash outflow from operating activities of $2,029,482. The group's ability to continue as a going concern and meet its debts and commitments is dependent upon the Group being successful in raising funds via the issuance of new equity or reaching contractual agreements for other funding. These conditions, along with other matters set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt about the Group's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

PricewaterhouseCoopers

Anton Linschoten
Partner

Melbourne
31 August 2017