MARKET ANNOUNCEMENTS OFFICE
ASX LIMITED

Phosphagenics - Appendix 4D Report and Financial Report for Half-Year ended 30 June 2012

20 August 2012, Melbourne, Australia: Phosphagenics Limited (ASX: POH; OTCQX: PPGNY) today releases its consolidated Appendix 4D Report and Financial Report for the half-year ended 30 June 2012.

This summary is to be read in conjunction with the attached Appendix 4D and Financial Report.

Financial Results

For the six months ended 30 June 2012, the Company returned an after tax loss of $6.2 million (2011: $4.4 million). Revenue and other income for the period totalled $2.6 million (2011: $1.7 million).

The operating loss for the period before the impairment of acquired intangible assets and goodwill after income tax expenses was $3.8 million, a decrease from $4.3 million for the corresponding period in 2011. From 1 July 2011, the Company commenced amortising its acquired patent assets, amounting to a non-cash amount of $2.3 million for the six months ended 30 June 2012 (2011: nil). Also during the period, the Company booked other income of $1.0 million relating to the Australian Federal Government's R&D tax incentive program (2011: nil).

At 30 June 2012, the Company held $21.56 million (2011 $6.32 million) in cash and cash equivalents after having successfully raised $27.0 million by way of Placements to institutional and professional investors, together with a heavily oversubscribed Share Purchase Plan offering to shareholders in the December 2011 quarter.

As at 30 June 2012 Shareholders Equity totalled $67.27 million (2011: $42.04 million).

Operational Review

A number of R&D milestones have been achieved in the first half of 2012 including:

TPM/Oxycodone – World's First Oxycodone Patch System

In 2011, completion of preclinical studies for the proprietary TPM/oxycodone transdermal matrix patch system readied the patch for clinical trials. The collaborative agreement between Phosphagenics and 3M had yielded a 5-fold improvement in the delivery of oxycodone through human skin. The single dose trial that followed was reported to the market in February and showed that 4.5 times more oxycodone was delivered than the original prototype and the patch size had been reduced considerably.

Since the announcement of those results Phosphagenics has started working with the global company, Labtec GmbH (Germany), to optimise and finalise TPM/oxycodone matrix patch system, prior to a return to the clinic. Labtec is a specialist in the area of opioid patch development who has successfully undertaken a number of projects involving opioid patches. Following the optimisation and commercial scale-up of the patch, Phosphagenics will be in a position to commence Phase 3 clinical trials in Australia in Q1/2013. The current improvements to the TPM/oxycodone pain patch, which include investigating formulations using a wide range of adhesives and solvents, bode well for Phosphagenics' commercial prospects and are very encouraging from a clinical perspective. The developments within the patch program and the partnerships with 3M and Labtec are a significant positive step forward in the commercialisation pathway for Phosphagenics world-first pain patch.

ELIXIA BodyShaper Cellulite Contour Crème®

Highlighting the success of the ELIXIA® range launch in 2011 was the immense initial sales success of the ELIXIA BodyShaper Cellulite Contour Crème®. The ELIXIA® range was well received by consumers, retailers and the media alike – with Myer and TVSN stocking the range shortly after launch. Since then we have added Priceline and Terry White Chemists and this year David Jones. Whilst Australian retail has been challenging, ELIXIA® has built strong brand recognition.

Phosphagenics has continued to test the BodyShaper® in preparation for the international markets and, as with the human focus group in 2011, the 2012 results conclusively demonstrate that twice daily application of BodyShaper Cellulite Contour Crème® successfully reduced the visible appearance of cellulite over the eight week treatment period, and also had positive effects on skin parameters such as elasticity and hydration. In the first half 2012 the BioElixia™ expansion moved into full swing with sales through Watsons (Singapore), followed by a launch in May through the major European Health and beauty group Boots. Korean Drug Company reached agreement to supply BodyShaper® into South Korea which is due to launch later this year.

Commercial Agreements

Phosphagenics has extended the collaborative development with a global dermatology company to jointly develop a prescription drug to treat acne. Phosphagenics continues to undertake formulation development studies for a new product that combines Phosphagenics' TPM® delivery technology and an anti-acne drug.

Late in 2011, Phosphagenics signed an agreement with the Indian based Pharmaceutical Company, Themis Medicare Limited, for the development and commercialisation of TPM/diclofenac. The product is being developed for the Indian market and remains on track to be commercialised Q4/2012.

Phosphagenics announced an agreement with Nippon Zoki Pharmaceutical Co., Ltd. to test and assess our patented TPM/diclofenac topical non-steroidal pain formulation for its suitability as a prescription item in USA and Japan.

In April Phosphagenics announced it had completed a licensing agreement with Intas for the manufacture and sale of three anti-ageing products specifically formulated for the Indian market.

Ends

Enquiries:

David Segal
Investor Relations Manager
Phosphagenics Limited
+61 3 9565 1103

About Phosphagenics

Phosphagenics Limited is commercialising drug delivery applications based on its novel transdermal (drugs administered via skin) TPM® – Targeted Penetration Matrix technology. TPM® is a patient friendly and cost effective system used to deliver proven pharmaceutical and nutraceutical products.

The lead product advancing through clinical trials is an oxycodone matrix system for the relief of chronic pain.

Phosphagenics' shares are listed on the Australian Securities Exchange (POH) and its ADR – Level 1 program in the US is with The Bank of New York Mellon (PPGNY).

www.phosphagenics.com
www.elixia.com.au

Appendix 4D

PHOSPHAGENICS LIMITED

ABN 32 056 482 403

Half Year Report
Period Ended 30 June 2012

(Previous Corresponding Period: Half year ended 30 June 2011)

The Appendix 4D should be read in conjunction with the most recent Financial Report

Results for announcement to the market

		$A'000 6 months 30 June 2012	$A'000 6 months 30 June 2011
Revenues from ordinary activities	(Up 57%)	2,604	1,663
(Loss) from ordinary activities after tax attributable to members	(Up 42%)	(6,202)	(4,382)
Net (Loss) for the period attributable to members	(Up 42%)	(6,202)	(4,382)

Dividends (distributions)	**Amount per security**	**Franked amount per security**
6 months ended 30 June 2012 N/A	-	N/A ¢
6 months ended 30 June 2011 N/A	-	N/A ¢
Record date for determining entitlements to the dividend	N/A	

Net Tangible Assets Per Security

Net tangible assets per security (with the comparative figure for the previous corresponding period):

	30 June 2012	30 June 2011
Net tangible assets per security	2.45 Cents	1.07 Cents

Brief explanation necessary to enable the figures above to be understood:

For the six months ended 30 June 2012, the Company returned an after tax loss of $6.2 million (2011: $4.4 million). Revenue and other income for the period totalled $2.6 million (2011: $1.7 million).

The operating loss before impairment of intangible assets and income tax was $3.8 million, a decrease from $4.3 million in 2011. From 1 July 2011, the Company commenced amortising its acquired patent assets, amounting to $2.3 million for the six months ended 30 June 2012 (2011: Nil). Also during the current period, the Company booked other income of $1.0 million relating to the R&D tax incentive (2011: Nil)

A number of R&D milestones have been achieved in the first half 2012 including:

TPM/Oxycodone – World's First Oxycodone Patch System

In 2011 completion of preclinical studies for the proprietary TPM/oxycodone transdermal matrix patch system readied the patch for clinical trials. The collaborative agreement between Phosphagenics and 3M had yielded a 5-fold improvement in the delivery of oxycodone through human skin. The single dose trial that followed was reported to the market in February and showed that 4.5 times more oxycodone was delivered than the original prototype and the patch size had been reduced considerably.

Since the announcement of those results, Phosphagenics has started working with the global company, Labtec GmbH (Germany) to optimise and finalise TPM/oxycodone matrix patch system prior to a return to the clinic. Labtec is a specialist in the area of opioid patch development and has successfully undertaken a number of projects involving opioid patches. Following the optimisation and commercial scale-up of the patch, Phosphagenics will be in a position to commence Phase 3 clinical trials in Australia in Q1/2013. Current improvements to the TPM/oxycodone pain patch, which include investigating formulations using a wide range of adhesives and solvents, bode well for Phosphagenics' commercial prospects and it is very encouraging from a clinical perspective. The developments within the patch program and the partnerships with 3M and Labtec GmbH are a significant positive step forward in the commercialisation pathway for Phosphagenics' world-first pain patch.

ELIXIA® BodyShaper Cellulite Contour Crème™

Highlighting the success of the ELIXIA® range launch in 2011 was the immense initial sales success of the ELIXIA® BodyShaper Cellulite Contour Crème™. The ELIXIA® range was well-received by consumers, retailers and the media alike – with Myer and TVSN stocking the range shortly after launch. Since then we have added Priceline and Terry White pharmacies, and this year David Jones. Whilst Australian retail has been challenging Elixia has built strong brand recognition.

Phosphagenics has continued to test the BodyShaper in preparation for the international markets and, as with the human focus group in 2011, the 2012 results conclusively demonstrate that twice daily application of BodyShaper Cellulite Contour Crème™ successfully reduced the visible appearance of cellulite over the eight week treatment period, and also had positive effects on skin parameters such as elasticity and hydration. In the first half of 2012 the BioElixia™ expansion moved into full swing with sales through Watsons (Singapore), followed by a launch in May through the major European Health and beauty group Boots. Korean Drug Company reached agreement to supply BodyShaper into South Korea which is due to launch later this year.

Commercial Agreements

Phosphagenics has extended the collaborative development with a global dermatology company to jointly develop a prescription drug to treat acne. Phosphagenics continues to undertake formulation development studies for a new product that combines Phosphagenics' TPM® delivery technology and an anti-acne drug.

Late in 2011 Phosphagenics signed an agreement with the Indian based pharmaceutical company, Themis Medicare Limited, for the development and commercialisation of TPM/diclofenac. The product is being developed for the Indian market and remains on track to be commercialised Q4/2012.

Phosphagenics announced an agreement with Nippon Zoki Pharmaceutical Co. Ltd to test and assess our patented TPM/diclofenac topical non-steroidal pain formulation for its suitability as a prescription item in USA and Japan.

In April Phosphagenics announced it had completed a licensing agreement with Intas Pharmaceuticals Limited for the manufacture and sale of three anti ageing products specifically formulated for the Indian market.

In June this year Phosphagenics announced that it reached agreement with Equine Nutrition Australia (ENA) to conduct trials to test 2 new supplements for horses. The trials are due to start later this year. ENA also launched on the market new stock feed products which incorporated TPM.

Looking Forward

Clinical trials have clearly shown TPM® technology can be used to safely deliver active agents into the blood stream, or the dermis, without causing irritation or erythema. 2012 has been about focussing the Company's endeavours on optimising the patch for the next phase of the human trials which should be ready by the final quarter this year. The appointment of Labtec to complete this development stage gives Phosphagenics the confidence that the patch will be a unique best in class product which will be suitable for commercialisation.

With a very experienced advisory board and the appointment of staff with experience at taking products through the final stages of clinical trials to successfully gaining FDA approval, we now have in place the team to best commercialise this product. The recent appointment of Neura Therapeutik a team of very well credentialed and experienced consultants with expertise in the area of commercialisation of several blockbuster pain products will help us to maximise future returns from our technology.

Other areas using our platform technology which should see further progress in 2012-13 will be the continued expansion of the BioElixia™ brand and the licensing of TPM® into the cosmetics market. We believe that we will make progress in launching BioElixia™ and TPM® into the US market to add to the international expansions already made.

We are confident that our first pain product will be launched later this year through Themis in India, and are hopeful that other agreements relating to diclofenac will be progressed.

In the area of animal nutrition, having just launched some products into the local market, we are optimistic that following trial results to be conducted later this year we will be able to launch further products where we can make solid claims based on science. With the potential to expand the animal nutrition business internationally, this opportunity may be able to provide some solid base revenues going forward. With Mastitis trials also due to be conducted later this year the animal health area could start to become an important contributor for Phosphagenics.

As at 30 June 2012 funds in hand totalled $21.562 million (2011: $6.328 million); refer to the Statement of Cash Flow. At 30 June 2012 Shareholders Equity totalled $67.271 million (2011: $42.038 million); refer to the Statement of Changes in Equity.

To examine in detail the information referred to above please visit the Company's website at: www.phosphagenics.com or contact the Company by telephone +613 9565 1119 or by facsimile +613 9565 1151

Phosphagenics Limited

ABN 32 056 482 403

Condensed Financial Report

for the half year ended 30 June 2012

Contents

Directors' Report

The Directors of Phosphagenics Limited submit their report for the half-year ended 30 June 2012.

DIRECTORS

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

Currently in Office

JONATHAN LANCELOT ADDISON (AGED 59 YEARS) BEC (TAS), ASIC, CFTP (SNR)
INDEPENDENT DIRECTOR SINCE NOVEMBER 2002, CHAIRMAN SINCE MAY 2010
LAST RE-ELECTED MAY 2011

Mr Addison has over 30 years in the investment management industry, including wide experience in superannuation, and insurance. Currently, in addition to holding a number of Board positions he is an Investment Advisor to the Meat Industry Employee Superannuation Fund (MIESF). Previously he was the Fund Manager/CEO, of the Fund.

MIESF, a self-administered industry superannuation fund established in 1981 which operates nationally, currently holds 21,800,000 shares in Phosphagenics Limited. Prior to his appointment to MIESF, Mr Addison was a Director and Asset Consultant within the corporate finance section of PricewaterhouseCoopers and in this role was responsible for establishing an investment consulting practice with clients ranging from superannuation funds to insurance funds and funds managers. Prior to that, Mr Addison held a number of investment management and consulting positions in both the public and private sectors.

In recent years Mr Addison has spoken at a number of economics and investment related conferences both in Australia and overseas.

Mr Addison also holds Non-Executive Directorships with, African Enterprise International, (In October 2010 he was elected International Chairman), African Enterprise (Australia) Limited, African Enterprises New Zealand Limited, Hawksbridge Limited, Global Masters Fund Limited, TPCG Limited and Athelney Trust plc. Mr Addison stepped down as the Chairman of the Company's Audit, Compliance and Corporate Governance Committee in May 2010 as he is now Chairman of the Board.

HARRY ROSEN (AGED 64 YEARS) BA , LLB
EXECUTIVE DIRECTOR APPOINTED TO THE BOARD IN JUNE 1999
APPOINTED MANAGING DIRECTOR - PRESIDENT DECEMBER 2005
LAST RE-ELECTED MAY 2004*

Mr Rosen, as founding director of Phosphagenics Limited has, since 1999, been instrumental in the corporate and commercial development of the Company's portfolio of patents based upon the patented TPM drug delivery system.

Previously, Mr Rosen was one of the founders of Betatene Limited and Denehurst Limited, two formerly ASX listed companies which commercialised significant research and development. Betatene is the world's largest producer of natural beta carotene. After the purchase of Betatene Limited by Henkel Corporation, Mr Rosen served as Vice President, Corporate Development. As a Vice President of Henkel Corporation, he worked for a number of years in the U.S. in the nutrition and health care industries.

Mr Rosen has consulted to many technology companies assisting them with the commercialisation of new technologies. He has had significant experience in the areas of seed capital raising, stock exchange listings, taxation and corporate law. Mr Rosen graduated from the Australian National University (BA-Psychology) and Melbourne University (LLB).

* As Managing Director Mr Rosen is not required to retire by rotation.

DON CLARKE (AGED 58 YEARS) LLB (HONS)
INDEPENDENT DIRECTOR APPOINTED AUGUST 2010
ELECTED MAY 2011

Mr Don Clarke has been a partner of law firm Minter Ellison since 1988. He serves in the Melbourne Private Equity & Capital Markets group, predominantly advising ASX listed companies across a range of industries with emphasis on technology and manufacturing.

Mr Clarke is also the Deputy Chairman of Webjet Limited and a Director of Circadian Technologies Limited. He previously served on the Board of Calzada Limited (formerly Metabolic Pharmaceuticals Limited).

Mr Clarke was appointed as the Chairman of the Company's Audit, Compliance and Corporate Governance Committee in August 2010.

STUART JAMES (AGED 63 YEARS) BA (HONS)
INDEPENDENT DIRECTOR APPOINTED AUGUST 2010
ELECTED MAY 2011

Mr Stuart James has held a number of high profile executive positions during his career and has extensive experience in the oil, health, pharmaceutical and financial services sectors. Following a 25 year career with Shell, both in Australia and internationally, Mr James' past roles have included Managing Director of Australian Financial Services for Colonial Group and Managing Director of Colonial State Bank (formerly the State Bank of NSW).

Mr James' most recent executive role was as CEO of the Mayne Group, including Mayne Health and Mayne Pharma. He is a Member of the Supervisory Board of Wolters Kluwer NV. Mr James is Chairman of Pulse Health Ltd, Progen Pharmaceuticals Ltd, Prime Financial Group Ltd and a Non-Executive Director of Greencross Ltd.

Mr James is a member of the Company's Audit, Compliance and Corporate Governance Committee.

DR SANDRA WEBB (AGED 66 YEARS) BPHARM, PHD, DIP LAW
INDEPENDENT DIRECTOR APPOINTED AUGUST 2010
ELECTED MAY 2011

Dr Sandra Webb rejoined Phosphagenics, having served with the company as Pharmaceutical Development Advisor from February 2005 to June 2006. Dr Webb is a Director of Ground Zero Pharmaceuticals Pty Limited and Chair of the Advisory Board of Knightsbridge Lawyers & Patent Attorneys. She previously served on the Boards of AusBiotech Limited, Amrad Corporation Limited and Quintiles Pty Limited.

An experienced biopharmaceutical professional, Dr Webb has a strong track record of achievements in the commercial world of drug development. As founding Managing Director of Quintiles Australia, she successfully grew the company as the leading commercial research organisation in Australia. Under her stewardship Quintiles Australia was the most profitable subsidiary of the worldwide Quintiles Transnational Inc.

Dr Webb is a member of the Company's Audit, Compliance and Corporate Governance Committee.

DR ESRA OGRU (AGED 36 YEARS) BSC (HONS) PHD
EXECUTIVE DIRECTOR SINCE OCTOBER 2005
CHIEF EXECUTIVE OFFICER SINCE MAY 2010
LAST RE-ELECTED MAY 2012

Dr Ogru was appointed CEO of Phosphagenics in April 2010. Her responsibilities include involvement in setting strategic direction, management of operations and financing activities for the company. She also plays an active role in driving key commercial negotiations, development programs and corporate activity. She achieves this through strong leadership of an experienced pharmaceutical development team and strategic collaborations.

Dr Ogru has many years experience in the pharmaceutical and biotechnology industries working in development and senior management roles. She is currently the chair of the Australian Biotechnology Victorian Committee and also is the member for the Victorian Biotechnology Council.

FORMER DIRECTORS:

None

PRINCIPAL ACTIVITIES

The principal activities of the Company are the production, sale and licensing of products for the nutraceutical and pharmaceutical industries.

RESULTS

For the six months ended 30 June 2012, the Company returned an after tax loss of $6.2 million (2011: $4.4 million). Revenue and other income for the period totalled $2.6 million (2011: $1.7 million).

The operating loss before impairment of intangible assets and income tax was $3.8 million, a decrease from $4.3 million in 2011. From 1 July 2011, the Company commenced amortising its acquired patent assets, amounting to $2.3 million for the six months ended 30 June 2012 (2011: Nil). Also during the current period, the Company booked other income of $1.0 million relating to the R&D tax incentive (2011: Nil)

Cash at 30 June 2012 totalled $21.562 million (2011: $6.328 million); refer to the Statement of Cash Flow. As at 30 June 2012 Shareholders' Equity totalled $68.093 million (2011: $41.988 million); refer to the Statement of Changes in Equity.

For further details refer to the attached Financial Statements and notes.

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 2012.

OPERATING AND FINANCIAL REVIEW

At the end of June 2012, the company held $21.6 million in cash and cash equivalents. Closing cash was 243% above the amount held at June 2011 of $6.3 million.

Revenues for the 6 months ended 30 June 2012 of $0.7 million decreased by 42% from $1.2 million in 2011, due mainly to a decrease in ELIXIA® sales caused by the current challenging conditions of the Australian retail environment. Product sales decreased year on year by 39%, mainly due to the decrease of ELIXIA® sales. The operating loss after income tax was $6.2 million, an increase from $4.4 million in 2011. For further details refer to the attached Financial Statements and notes.

A number of R&D milestones have been achieved in the first half 2012 including:

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SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the period to 30 June 2012 there was no significant change in the state of affairs of the consolidated entity other than that referred to in the half-year report or notes thereto.

SIGNIFICANT EVENTS AFTER BALANCE DATE

There has not been any matter or circumstance, other than that referred to in the half-year report and notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

LIKELY DEVELOPMENTS AND FUTURE RESULTS

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly this information has not been disclosed in this report.

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (unless stated otherwise) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

REGISTERED OFFICE

11 Duerdin Street, Clayton, Victoria 3168

Signed in accordance with a resolution of the Board of Directors:

Jonathon Lancelot Addison
Chairman and Independent Director

Dated this 20th day of August 2012

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8 Exhibition Street
Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

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Auditor's Independence Declaration to the Directors of Phosphagenics Limited

In relation to our review of the financial report of Phosphagenics Limited for the half-year ended 30 June 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

David Petersen
Partner
20 August 2012

Consolidated Statement of Comprehensive Income

for the half-year ended 30 June 2012

	Notes	Consolidated 30 June 2012 $'000	Consolidated 30 June 2011 $'000
Revenue			
Sale of goods	4a	733	1,204
Licences	4a	133	124
Finance revenue	4a	664	105
Total Revenue		1,530	1,433
Cost of sales		(330)	(518)
Gross Profit		1,200	915
Income from government grants	4a	1,008	84
Other income	4a	66	146
Employee and Directors benefits expenses	4b	(2,281)	(1,849)
Occupancy and communications expenses		(103)	(102)
Consulting and professional expenses		(382)	(560)
Administration expenses		(1,066)	(667)
Research expenses		(1,730)	(1,194)
Impairment of available-for-sale investment		-	(727)
Amortisation of intangible assets		(2,354)	(33)
Other expenses	4c	(560)	(395)
Loss before income tax		(6,202)	(4,382)
Income tax/(expense)		-	-
Loss after income tax		(6,202)	(4,382)
Other Comprehensive Income			
Foreign currency translation		10	(3)
Income tax/(expense) on items of other comprehensive income		-	-
Other comprehensive loss for the period, net of tax		10	(3)
Total comprehensive loss for the period		(6,192)	(4,385)
Loss per share from continuing operations attributable to the ordinary equity holders of the parent:			
Basic loss per share		(0.61 cents)	(0.56 cents)
Diluted loss per share		(0.61 cents)	(0.56 cents)

Consolidated Statement of Financial Position

as at 30 June 2012

		Consolidated	
	Notes	30 June 2012 $'000	31 December 2011 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	6	21,562	27,196
Trade and other receivables		2,481	2,376
Inventories		1,099	964
Other current assets		391	223
Total Current Assets		**25,533**	**30,759**
Non-current assets			
Intangible assets		42,326	44,657
Plant and equipment		1,149	1,161
Total Non-Current Assets		**43,475**	**45,818**
TOTAL ASSETS		**69,008**	**76,577**
LIABILITIES			
Current liabilities			
Trade and other payables		1,354	3,358
Provisions		341	244
Total Current Liabilities		**1,695**	**3,602**
Non-current liabilities			
Provisions		42	29
Total Non-Current Liabilities		**42**	**29**
TOTAL LIABILITIES		**1,737**	**3,631**
NET ASSETS		**67,271**	**72,946**
EQUITY			
Contributed equity	11	209,861	209,546
Accumulated losses		(172,120)	(165,918)
Reserves		29,530	29,318
TOTAL EQUITY		**67,271**	**72,946**

Consolidated Statement of Cash Flow

for the half-year ended 30 June 2012

		Consolidated	
	Notes	30 June 2012 $'000	30 June 2011 $'000
Cash flows from operating activities			
Receipts from customers and related parties		1,391	973
Receipts of government grants		27	84
Payments to suppliers and employees		(7,888)	(4,795)
Net cash used in operating activities		**(6,470)**	**(3,738)**
Cash flows from investing activities			
Interest received		687	69
Purchase of plant and equipment		(166)	(42)
Net cash from investing activities		**521**	**27**
Cash flows from financing activities			
Proceeds from share issues	11	-	7,299
Costs of issue of shares	11	(41)	-
Proceeds from exercise of options	11	356	-
Net cash from financing activities		**315**	**7,299**
Net increase/(decrease) in cash and cash equivalents		(5,634)	3,588
Cash and cash equivalents at beginning of the period		27,196	2,740
Cash and cash equivalents at the end of the period	**6**	**21,562**	**6,328**

Consolidated Statement of Changes in Equity

for the half-year ended 30 June 2012

	Consolidated					
	Contributed Equity	**Employee Benefits Reserve**	**Other Benefits Reserve**	**Business Combination & Foreign Currency Translation Reserve**	**Accumulated Losses**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Balance at 1 January 2012	209,546	1,193	306	27,819	(165,918)	72,946
Loss for the period	-	-		-	(6,202)	(6,202)
Other comprehensive income	-	-	-	10	-	10
Total comprehensive income for the half year	209,546	1,193	306	27,829	(172,120)	66,754
Transactions with owners in their capacity as owners						
Issue of shares	356	-	-	-	-	356
Transaction costs on share issue	(41)	-	-	-	-	(41)
Share based payments	-	202	-	-	-	202
Balance at 30 June 2012	**209,861**	**1,395**	**306**	**27,829**	**(172,120)**	**67,271**
Balance at 1 January 2011	176,905	1,057	248	27,821	(167,024)	39,007
Loss for the period	-	-	-	-	(4,382)	(4,382)
Other comprehensive income	-	-	-	(3)	-	(3)
Total comprehensive income for the half year	176,905	1,057	248	27,818	(171,406)	34,625
Transactions with owners in their capacity as owners						
Issue of shares	7,551	-		-	-	7,551
Transaction costs on share issue	(252)	-		-	-	(252)
Share based payments	-	-	67	-	-	67
Balance at 30 June 2011	**184,204**	**1,057**	**315**	**27,818**	**(171,406)**	**41,988**

Notes to the Financial Statements

for the half-year ended 30 June 2012

1. CORPORATE INFORMATION

The condensed half-year consolidated financial statements of Phosphagenics Limited for the six months ended 30 June 2012 were authorised for issue in accordance with a resolution of the directors on 21 August 2012.

Phosphagenics Limited is a limited company incorporated and domiciled in Australia whose shares are publicly traded. The principal activities of the company and its subsidiaries (the Group) are described in the Directors Report.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

This general purpose condensed financial report for the half year ended 30 June 2012 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act, 2001*.

The half-year financial 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.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 31 December 2011 and be considered together with any public announcements made by Phosphagenics Limited during the half-year ended 30 June 2012 in accordance with the continuous disclosure obligations of the ASX Listing rules.

The accounting policies and methods of computation are the same as those adopted in the most recent annual financial report and this condensed financial report has been prepared on the historical cost basis.

3. OPERATING SEGMENTS

Identification of reportable segments

The group has identified its operating segments based on the internal reports that are reviewed and used by the chief executive officer and the management team (the chief operating decision makers) 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.

Types of products and services

Nutraceuticals

Nutraceuticals is the use of vitamins and nutritious products to improve human health. The nutraceutical business is developing active ingredients for the following market segments:

- Dietary Supplements - e.g. vitamin capsules & tablets. Phosphagenics is using its patented technology to orally deliver dietary supplements aimed at improving bioavailability and efficacy.

- Functional Foods and Beverages - e.g. nutritionally enhanced foods. Functional foods are an expanding nutraceutical market division, aimed at improving the nutritional benefits of everyday foods.

- Personal care products. Discovery 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. TP is also able to increase the penetration of molecules formulated in the same cream.

In 2010 Phosphagenics launched its own brand of cosmetic products in Australia (Elixia®) which were initially sold exclusively through Pulse Pharmacies. In April 2011 Elixia® was relaunched in Australia with an expanded product range. The distribution channels have since expanded to include Myer, TVSN, David Jones, Priceline and Terry White Pharmacy chains and online sales through the Elixia website. The international brand, BioElixia®, was launched through Singapore AS Watson's stores in December 2011 and the United Kingdom Boots retail stores in June 2012. Phosphagenics' nutraceutical business is a revenue-generating growth business. The route to market for Phosphagenics' nutraceutical products is through partnering with companies that have established distribution networks within the relevant market segments.

Pharmaceuticals

Phosphagenics' pharmaceutical segment is focused on:

- Drug delivery – enhancing the delivery of existing drugs orally or through the skin, utilising Phosphagenics' delivery technology TPM™

- Drug enhancement – augmenting the biological activity of existing drugs by adding a phosphate group to the chemical structure of the drug

The route to market for Phosphagenics' pharmaceutical products is through partnering with larger pharmaceutical companies at the appropriate stage in a product's development so as to maximise return on the Company's research and development investment.

The core competencies of the pharmaceutical business are generation of pharmaceutical intellectual property and translation of this knowledge base into commercially viable product candidates for the treatment of human conditions and disease.

Phosphagenics' strategy is to capitalise on its proprietary technology through joining its resources and development capabilities with co-development partners or licensees.

The objective of any development or marketing agreement entered into is to generate revenues from three sources:

- milestone payments and development fees during the pre-marketing phases of product development;
- royalties on product sales by partners; and
- manufacturing and supply of product to partners, predominantly of the phosphorylated delivery compound.

Phosphagenics choice of development products is based on market opportunity and the overall commercial viability of each individual drug candidate, including assessment of the current and expected competition for the product, the cost, timing and degree of difficulty to commercialise the product, the patent status of the drug compound and the market size of the product to be developed.

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally is the same as those contained in note 1 to the accounts and in the prior period.

The following table presents revenue and profit information regarding operating segment performance for the half-year periods ended 30 June 2012 and 30 June 2011.

Half-year ended 30 June 2012	Nutraceuticals $'000	Pharmaceuticals $'000	Total Group $'000
Revenue			
Sales and Royalties	864	2	866
Total segment revenue	864	2	866
Finance revenue			664
Total revenue per statement of comprehensive income			1,530
Result			
Segment result	(594)	(685)	(1,279)
Segment assets			
Segment operating assets	1,997	1,133	3,130
Unallocated assets			3,853
Cash and cash equivalents			21,562
Intangible assets			42,326
Total assets per the statement of financial position			69,008

Half-year ended 30 June 2011	Nutraceuticals $'000	Pharmaceuticals $'000	Total Group $'000
Revenue			
Sales and Royalties	1,325	2	1,327
Total segment revenue	1,352	2	1,327
Finance revenue			106
Total revenue per statement of comprehensive income			1,433
Result			
Segment result	21	(497)	(476)
Segment assets			
Segment operating assets	799	1,047	1,846
Unallocated assets			3,988
Cash and cash equivalents			6,328
Intangible assets			47,023
Total assets per the statement of financial position			57,339

Segment net operating profit after tax reconciliation to the statement of comprehensive income

The executive management committee meets on a monthly basis to assess the performance of each segment by analysing the segment's net operating profit before tax. A segment's net operating profit before tax excludes non operating income and expense such as dividends received, fair value gains and losses, gains and losses on disposal of assets and impairment charges.

Reconciliation of segment net operating profit before tax to net profit/loss before tax	2012 $'000	2011 $'000
Segment net operating profit/(loss) before tax	(1,279)	(476)
Other operating loss from continuing activities	(4,923)	(3,906)
Total net profit before tax per the statement of comprehensive income	(6,202)	(4,382)

4. REVENUES AND EXPENSES

	Consolidated	
	30 June 2012 $'000	**30 June 2011 $'000**
a) Revenue & Income		
Sales revenue	733	1,204
Income from Licences - Other	133	124
	866	**1,328**
Government grants		
Export market development grant	27	84
R&D tax incentive credit	981	-
	1,008	**84**
Interest revenue	664	105
Total finance revenue	**664**	**105**
Other income	66	146
Total revenue and income	**2,604**	**1,663**
b) Salaries and employee benefits expense		
Salaries and wages	(1,927)	(1,713)
Superannuation	(152)	(127)
Employee equity settled benefits	(202)	9
Total salaries and employee benefits expense	**(2,281)**	**(1,849)**
c) Other expenses		
Net foreign exchange gains/(losses)	24	96
Depreciation	(111)	(128)
Operating lease rental expenses	(281)	(165)
Travel	(94)	(116)
Other	(98)	(82)
Total other expenses	**(560)**	**(395)**

d) Seasonality of Operations
Phosphagenics Limited operations are not affected by seasonality

5. DIVIDENDS PAID AND PROPOSED

There were no dividends declared or paid during the half year ended 30 June 2012. (2011: NIL)

6. CASH AND CASH EQUIVALENTS

	Consolidated	
	30 June 2012 $'000	31 December 2011 $'000
For the purposes of the half-year condensed statement of cash flows, cash and cash equivalents are comprised of the following:		
Cash at bank and in hand	1,411	1,064
Short-term deposits	20,151	26,132
	21,562	27,196
Total Cash and Cash Equivalents	21,562	27,196

7. 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 are currently two schemes in place to provide these benefits to employees, being the Employee Share Option Plan (ESOP) and the Employee Conditional Rights Scheme (ECRS).

Employee Share Option Plan

The long term incentive plan grants to executives are delivered in the form of share options under the Employee Share Option Plan (ESOP). The share options will vest over differing periods depending on the offer conditions, with no opportunity to retest. Executives are able to exercise the share options after vesting and before the options lapse.

Where a participant ceases employment prior to the vesting of their share options, the share options are forfeited unless cessation of employment is due to retirement or death. In the event of a change of control of the Group, the performance period end date will be brought forward to the date of the change of control and awards will vest over this shortened period.

Employee Conditional Rights Scheme

The ECRS allows eligible employees to be granted Performance Rights to acquire Shares at no cost. The purpose of the Scheme, and the performance conditions within, is to provide a long term incentive to staff as part of a focus to more closely link overall remuneration to the achievement of performance benchmarks, to encourage direct involvement and interest in the performance of the Company and to enable the acquisition of a long term equity interest in the Company by its staff. All employees, including executive and non-executive Directors, and any individual whom the Board determines to be an eligible participant for the purposes of the Scheme, are eligible to participate in the Scheme.

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

Under the terms of the ECRS, the rights will vest if certain non-market or market conditions are fulfilled. One of the key overriding conditions of the Scheme is that if the 10 day Volume Weighted Average Price is not less than $0.35 at any time prior to 31 December 2014, then 100% of the Performance Rights will vest. Alternatively, vesting of the Rights is conditional on Phosphagenics achieving the following conditions:

Milestone 1 (16.5% of Rights awarded if achieved by 30 Jun 2012) - Completion of recruitment for the clinical trial of the Oxycodone patch, Submission of an IND for the Oxycodone patch, and gross revenues from global sales of all non-prescription products of the Company of not less than $10 million.

Milestone 2 (16.5% of Rights awarded if any two of the following achieved by 31 Dec 2013) - Completion of the clinical trial of the oxycodone patch on time and on budget and the Board determines to continue the development and commercialisation of the patch, gross revenues from the commercialisation of the Company's TPM technology for use in or in connection with dermatology products of not less than $1million, and gross revenues from global sales of all non-prescription products of the Company of not less than $20million.

Milestone 3 (34% of Rights awarded if any two of the following achieved by 31 Dec 2014) - Completion of all pivotal human clinical trials of the oxycodone patch, gross revenues from the commercialisation of the Company's TPM technology for use in or in connection with the dermatology products of not less than $2million, and gross revenues from global sales of all non-prescription products of the Company of not less than $30million

Milestone 4 (34% of Rights awarded if either of the following achieved by 31 Dec 2015) - NDA (or equivalent) registration of the oxycodone patch or commercial agreement for the marketing and sale of the oxycodone patch, or gross revenues from global sales of all non-prescription products of the Company of not less than A$40million.

Fair values under both methods are calculated using a Binomial model. Options and Rights will be settled in ordinary shares of Phosphagenics Limited and vested options/rights lapse if unexercised after the expiry date.

In valuing equity-settled transactions, no account is taken of any vesting conditions, other than conditions linked to the price of the shares of Phosphagenics Limited.

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

During the six months ended 30 June 2012 no share options were granted under the ESOP (2011: NIL).

During the six months ended 30 June 2012, a total of 1,650,000 Rights with a fair value of $0.14 were granted on 1 April 2012 under the ECRS (2011: 5,800,000) which will vest based upon achievement of certain performance objectives.

During the six months ended 30 June 2012, NIL options were granted (2011: 1,000,000).

The following table lists the inputs to the model used for the half-year ended 30 June 2012.

	Consolidated		
	30 June 2012 ECRS	**30 June 2011 ECRS**	**30 June 2011 Other**
Dividend yield (%)	0.00%	0.00%	0.00%
Expected volatility (%)	60%	60%	61%
Risk-free interest rate (%)	4.00%	4.87%	4.75%
Option life (years)	2.8 years	3.6 years	3 years
Exercise price ($)	Nil	Nil	17.0 cents

8. INVENTORIES

During the half-year ended 30 June 2012, as a result of new product releases, the Group wrote-down inventory which was recognised as an expense of $8,246 (2011: $43,676).

9. PLANT & EQUIPMENT

Acquisitions and disposals

During the half-year ended 30 June 2012, the Group acquired assets with a cost of $103,189 (2011: $20,066).

10. COMMITMENTS AND CONTINGENCIES

Lease Commitments

At 30 June 2012 the Group has commitments of $519,297 (2011: $85,045) relating to non-cancellable operating leases over the office and manufacturing facilities, which expire in 2013 and 2014.

11. CONTRIBUTED EQUITY

	Consolidated	
	(No. '000's)	**($'000's)**
Issued and paid up capital		
Fully paid ordinary shares carry one vote per share and carry the right to receive dividends		
Movement in ordinary shares on issue:		
At 1 January 2012	1,017,565	209,546
Issue of shares	-	-
Exercise of options	2,650	356
Transaction costs on share issue	-	(41)
At 30 June 2012	**1,020,215**	**209,861**
At 1 January 2011	739,696	176,905
Issue of shares	83,897	7,551
Exercise of options	-	-
Transaction costs on share issue	-	(252)
At 30 June 2011	**823,593**	**184,204**

During May 2012, 2,000,000 options with an exercise price of $0.1337and 650,000 options with an exercise price of $0.1370 were exercised.

During March 2011, Phosphagenics raised gross $7.55 million through the placement of 83.90 million shares at 9 cents per share to institutions, professional and sophisticated investors. The funds will be primarily used to advance the clinical development and manufacturing of the Company's core development product - the world's first oxycodone pain patch, and to fund product rollouts of its new cosmetic range, including its new anti-cellulite cream.

12. EVENTS AFTER THE BALANCE SHEET DATE

No events occurred between the balance sheet date and the date when these financial statements were authorised for issue.

Directors' Declaration

In accordance with a resolution of the directors of Phosphagenics Limited, we state that:

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and the performance for the half-year ended on that date of the consolidated entity.

   (ii) complying with Accounting Standards AASB 134*: Interim Financial Reporting* and *Corporations Regulations 2001*: 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.

On behalf of the Board

Jonathon Lancelot Addison
Chairman and Independent Director

Melbourne
20th August 2012

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Independent auditor's report to the members of Phosphagenics Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Phosphagenics Limited, which comprises the condensed statement of financial position as at 30 June 2012, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the 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 controls as the directors determine are 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 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 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 2012 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 and the entities it controlled during the half-year, 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*. We have given to the directors of the company a written Auditor's Independence Declaration.

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:

a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young

Ernst & Young

David Petersen
Partner
Melbourne
20 August 2012