PHOSPHAGENICS LIMITED

ABN 32 056 482 403

FINANCIAL REPORT

FOR THE HALF YEAR ENDED 30 JUNE 2016

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 2016.

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:

Mr Peter Lankau (Chairman)
Dr Ross Murdoch (Managing Director)
Dr Geert Cauwenbergh
Dr Greg Collier
Mr David Segal (from 19 May 2016)
Mr Nathan Drona (to 18 May 2016)

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 2016 the Company returned a loss from continuing operations after tax of $5.4 million (2015: $8.2 million). The net operating cash outflow for the period was $2.6 million (2015: $4.8 million), with a cash balance at 30 June 2016 of $9.9 million (31 December 2015 ($12.4 million).

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 2016.

Review of Financials

Income statement

For the six months ended 30 June 2016 total revenue from continuing operations was up 34% to $1.3 million (2015 $1.0 million). Sales of TPM® and Vital ET® were static, although at an improved margin. Royalties and licences fees increased 350% to $0.4m due to increase in royalties from Le Métier de Beauté and the receipt of a number of small licence fees. The R&D tax incentive at $0.9 million was slightly less than the prior comparative period (2015: $1.0 million) reflecting lower R&D employee expenses.

Expenses from continuing operations decreased to $7.5 million (2015: $10.3 million) primarily due to booking of an intangibles impairment of $2.6 million in the prior comparative period. Reduction in employee expenses to $1.6 million (2015: $3.2 million) due to the company restructure in late 2015, was offset by increases in legal fees related to two on-going arbitrations.

Balance sheet

At the end of June 2016, the Company held $9.9 million in cash and cash equivalents (31 December 2015 $12.4 million). The Company expects to receive a further $2.0 million from the R&D tax incentive scheme before the end of 2016.

Statement of cash flows

The net operating cash outflow for the period was $2.6 million (2015: $4.8 million), with receipts from customers higher at $1.0 million (2015: $0.7 million) with a further $0.8 million in trade receivables for sales made in June 2016 due in August 2016. The Company also received $2.4 million (2015: $nil) from the R&D tax incentive. Payments to suppliers and employees of $6.1 million were in line with the prior period (2015: $6.0 million).

Earnings per share

	2016	2015
Basic loss per share	($0.0043)	($0.0070)
Diluted loss per share	($0.0043)	($0.0070)

Review of Operations

Phosphagenics is focused on the development and commercialisation of proprietary products based on its TPM® delivery technology. The business is organised across three internal units: Human Health, Animal Health and Nutrition, and Production and Personal Care. Each focused on optimising delivery of value from the company's key assets over the short, medium and long term.

The Company continues to execute its corporate strategy to **assess** the portfolio, people and growth opportunities, **refine** the resources to focus on the products and technologies with the highest value and likelihood of commercialisation and **partner and commercialise** to facilitate development of the technology and explore non-organic growth opportunities. The Company has demonstrated its ability to advance to the third phase of this process, with the announcement of several new partnerships, which provide positive validation of the technology and strategic approach.

The Company currently has two arbitrations underway. The formal hearings in the arbitration with ProPhase were completed in the first quarter of 2016 and we now await the arbitrator's decision. The timing of the decision is completely at the discretion of the Arbitrator. The arbitration against Mylan continues to progress and it is worth noting Mylan has not submitted any counterclaims. The hearing is scheduled for fourth quarter 2017.

Human Health

The Human Health division contributed revenues of $0.2 million (2015: $0.1 million), in royalties and licence fees.

In April and May 2016 the Company announced it had secured two partnerships with Terumo Corporation, one of Japan's largest healthcare companies, covering several of Phosphagenics' existing and new products.

The agreements with Terumo cover two different types of partnerships – (i) option agreements to assess the TPM®/Oxymorphone and TPM®/Oxycodone patches, and (ii) R&D alliance agreements covering up to four other TPM®-based (non-patch) assets.

Phosphagenics has received approximately $200,000 in the form of upfront option payments to maintain exclusivity for six months and sponsorship of a US-based Scientific Advisory Board on opioids. If either or both options are exercised, and the companies enter into an exclusive license arrangement, the company expects to receive a licensing fee, payments upon the achievement of certain milestones and royalties on commercial sales of the TPM®/ opioid patches in Japan.

As part of the "R&D Alliance Agreement", the companies have agreed to collaborate on the global development of up to four additional pharmaceutical products leveraging Phosphagenics' proprietary TPM® technology: a TPM®/Propofol injection, building on the prototype already developed at Phosphagenics, and up to three additional novel TPM® containing pharmaceutical products. Under the terms of this agreement, the two companies will jointly conduct an initial 24-month development program. Terumo will pay for all development costs, expected to exceed $1.0 million, for the full 24 month period.

Upon meeting agreed success criteria, the two companies will initiate negotiations for global development and licensing of each of the products

The Company also expanded its license agreement for TPM®/Diclofenac gel with its Indian partner, Themis Medicare Limited, to cover 17 countries. Phosphagenics received a one-off payment of US$30,000 for exclusivity to these territories. It will also receive a double digit royalty on net sales of the product sold by Themis. Themis has also modified its agreement with Novartis India to be non-exclusive, allowing Themis to potentially expand to other partners inside India.

The Company has continued to progress the reformulation of the TPM®/Oxymorphone patch, with tesa Labtec GmbH. Multiple new TPM®/Oxymorphone patch candidates are on track towards stability testing in third quarter 2016.

Phosphagenics also continues to investigate a number of other injectable candidates, with formulation feasibility on a number of candidates underway. This work has gained further momentum under the R&D alliance with Terumo, particularly around the development of a TPM®/Propofol injection.

Despite the ongoing arbitration with Mylan, the existing Licencing Agreement continues in full force with royalties due quarterly after the launch. Launch date of this product is uncertain.

Animal Health and Nutrition

The Animal Health and Nutrition business is primarily focused on validating and commercialising TPM® as a feed additive in livestock nutrition applications. The Company is assessing TPM®'s benefits in:

i. livestock growth and performance; and
ii. immune (milk quality) and fertility benefits in dairy cattle.

The livestock growth and performance program is focussed on pigs and poultry. During the period the Company reported the results of the second of two studies in pigs; where the TPM® treatment was isolated to older (grower/finisher) pigs. Combined with the previous study the results indicate that TPM® likely provides its best effects in younger piglets. The initial study, conducted in weaner pigs, showed that TPM® provided a statistically significant improvement in feed efficiency (FCR) in the first 14 days of treatment post weaning – a highly stressful time in which growth performance of the pig is affected. TPM® treatment isolated to older pigs did not seem to benefit in the same way from the treatment (at doses of 5 to 30ppm).

The data generated from these studies provides important insights into the best use and application of TPM® in this sector, including timing for inclusion, dose and benefits which will assist in marketing and the attraction of potential licensing partners. The data will also inform the design of a subsequent study to be conducted in poultry (broilers), which is expected to commence shortly.

The Company has also initiated a study in cattle, to assess the effect of TPM® of immunity and fertility in dairy cattle. This blinded, placebo controlled study, will assess somatic cell counts (milk quality and immunity) and fertility (conception rates) in over 1000 dairy cows. The study will run on-farm for over 12 months, and is expected to be completed by the end of 2017. Currently two sites are participating in the study.

Phosphagenics currently has three agreements with Integrated Animal Health (IAH), which granted IAH exclusive license to manufacture and sell animal nutrition products that incorporate Phosphagenics' propriety vitamin E phosphate technology (TPM®) in racing animals and cattle. Currently, IAH sales are below those required and/or expected within the terms of these agreements.

Production and Personal Care

The Production and Personal Care business generated revenues of $1.1 million (2015: $0.9 million), related to the sale of goods and royalty fees and continues to perform well, strengthening its profitability in the period.

Directors' Report

This business unit is responsible for the manufacture and supply of TPM® and Vital ET® as a raw material to Phosphagenics' customers – (including many of the world's leading cosmetic brands, via global distributor Ashland Inc) as well as for use in human and animal health.

The focus of this business over the past year has been to deliver operational improvements and expand its partnerships in order to increase demand, lower cost, strengthen quality, gain efficiencies and improve margins.

Revenue from Ashland, the global distributor of Vital ET®, was in line with the previous corresponding period. Based on the current pipeline of orders, revenue from Ashland is expected to be lower in the second half while Ashland works through its current inventory.

Phosphagenics is currently working closely with Ashland towards a product refresh and relaunch in the first quarter of 2017, with the aim of driving new interest and volume sales of the product.

TPM® and Vital ET® continue to be used in a wide range of personal care products and featured in some of the world's most prestigious beauty brands. The range continues to expand with Le Métier de Beauté recently launching two additional products containing TPM® and Vital ET®. Le Métier de Beauté products have recently featured in the prestigious Neiman Marcus 2016 Beauty Awards in New York, winning the category with the Peau Vierge Anti-Aging Complex and runner-up with their Ultimate Hydrator product.

The sale of the BioElixia® product line remains on hold until the ProPhase arbitration is resolved. It is expected that this sale process will recommence as soon as a decision is received.

Business Strategy and Future Developments

The restructure of the business along three distinct commercial lines, implemented in 2015, has enabled the company to apply greater commercial focus and discipline to assessing the opportunities to add value within in each respective area. This has also allowed existing and potential partners to have more clarity around opportunities within specific business areas.

The Company has made significant progress in its partnerships and validation of its technology, particularly in the human health area. It has also significantly advanced its scientific publication strategy, with five manuscripts submitted for publication in various scientific journals.
In the coming months, the progression of the various partnership agreements with Terumo are an important area of focus, as the company continues to advance development of its lead products TPM®/Oxycodone and TPM®/Oxymorphone patches and the injectable programs. The Company continues to focus on finding partners to drive and further accelerate the development of all of its TPM®-based assets.

The Board also continues to assess opportunities for external "non-organic" growth opportunities via licensing or merger and acquisition. There is a clear criteria in place to evaluate outside opportunities that can deliver improved and sustainable growth for Phosphagenics.

The Company will continue to use its cash resources to invest in research and development activities and in legal costs to support its contractual rights.

The Company has omitted certain information in respect of its business strategy and its future prospects as disclosure is likely to result in unreasonable prejudice to the Company. The Company will disclose these matters as required under its continuous disclosure obligations.

Rounding of Amounts

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable and where noted ($'000)), under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the Class Order applies.

Auditor's independence declaration

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

Subsequent events

There have not been any matter or circumstances, other than those referred to in the financial statements or notes thereto, that have arisen since the end of the half-year, that have 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.

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

Peter Lankau

Chairman

Melbourne, 25 August 2016

Auditor's Independence Declaration

As lead auditor for the review of Phosphagenics Limited for the half-year ended 30 June 2016, I declare that to the best of my knowledge and belief, there have been:

1. no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

2. 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
25 August 2016

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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 2015 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 2016

	Notes	30 June 2016 $'000	Restated* 30 June 2015 $'000
Revenue from continuing operations			
Sale of goods		870	881
Royalties and licence fees		436	97
Total revenue		1,306	978
Cost of sales		(274)	(315)
Gross profit		1,032	663
Income from government grants		865	989
Finance revenue		129	293
Other income		48	6
Recoveries	4a	-	160
Employee and directors benefits expenses	4b	(1,658)	(3,179)
Research expenses		(1,009)	(742)
Consulting and professional expenses		(814)	(394)
Legal expenses	4c	(1,486)	(448)
Amortisation and depreciation		(1,458)	(1,926)
Impairment losses	6	-	(2,637)
Other expenses		(1,056)	(990)
Loss before income tax		(5,407)	(8,205)
Income tax benefit		-	-
Loss from continuing operations		(5,407)	(8,205)
Loss from discontinued operations	9	(61)	(495)
Loss for period		(5,468)	(8,700)

Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the Company:		
Basic profit / (loss) per share	(0.43) cents	(0.65) cents
Diluted profit / (loss) per share	(0.43) cents	(0.65) cents
Earnings per share for loss attributable to the ordinary equity holders of the Company:		
Basic profit / (loss) per share	(0.43) cents	(0.70) cents
Diluted profit / (loss) per share	(0.43) cents	(0.70) cents

* See note 2 for details of restatement as a result of error

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 2016

	Notes	30 June 2016 $'000	Restated* 30 June 2015 $'000
Loss for the period		(5,468)	(8,700)
Other Comprehensive Income			
Items that may be classified to profit or loss			
Exchange differences on translation of foreign operations		(11)	14
Income tax/(expense) on items of other comprehensive income		-	-
Other comprehensive income for the period, net of tax		(11)	14
Total comprehensive income for the period		(5,479)	(8,686)
Total comprehensive income for the period attributable to:			
owners of Phosphagenics Ltd arises from:			
Continuing operations		(5,418)	(8,191)
Discontinued operations		(61)	(495)
		(5,479)	(8,686)

* See note 2 for details of restatement as a result of error

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

Consolidated Balance Sheet

As at 30 June 2016

	Notes	30 June 2016 $'000	31 December 2015 $'000
ASSETS			
Current Assets			
Cash and cash equivalents		9,915	12,395
Trade and other receivables	5	3,527	4,724
Inventories		302	278
Other current assets		136	542
Assets classified as held for sale		10	17
Total Current Assets		13,890	17,956
Non-Current Assets			
Plant and equipment		416	519
Intangible assets	6	10,914	12,269
Total Non-Current Assets		11,330	12,788
Total Assets		25,220	30,744
LIABILITIES			
Current Liabilities			
Trade and other payables		1,270	1,212
Provisions		453	569
Total Current Liabilities		1,723	1,781
Non-Current Liabilities			
Provisions		46	35
Total Non-Current Liabilities		46	35
Total Liabilities		1,769	1,816
Net Assets		23,451	28,928
EQUITY			
Issued Capital	7	228,100	228,100
Reserves		30,182	30,191
Accumulated Losses		(234,831)	(229,363)
Total Equity		23,451	28,928

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 2016

	Contributed capital $'000	Reserves $'000	Accumulated losses $'000	Total equity $'000
Balance at 1 January 2016	228,100	30,191	(229,363)	28,928
Loss for the year	-	-	(5,468)	(5,468)
Other comprehensive income (loss)	-	(11)	-	(11)
Total comprehensive income (loss) for the year	-	(11)	(5,468)	(5,479)
Transactions with owners in their capacity as owners:				
Employee equity settlement benefits	-	2	-	2
Total transactions with owners	-	2	-	2
Balance at 30 June 2016	228,100	30,182	(234,831)	23,451
Balance at 1 January 2015	228,100	30,171	(209,243)	49,028
Loss for the year – restated*	-	-	(8,700)	(8,700)
Other comprehensive income (loss)	-	14	-	14
Total comprehensive income (loss) for the period	-	14	(8,700)	(8,686)
Transactions with owners in their capacity as owners:				
Employee equity settlement benefits	-	1	-	1
Total transactions with owners	-	1	-	1
Balance at 30 June 2015	**228,100**	**30,186**	**(217,943)**	**40,343**

* See note 2 for details of restatement as a result of error

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 2016

	30 June 2016 $'000	30 June 2015 $'000
OPERATING ACTIVITIES		
Receipts from customers	1,002	679
Receipt of recoveries	-	160
Receipt of government grants	2,442	-
Payments to suppliers and employees	(6,056)	(5,955)
Net cash used in operating activities	(2,612)	(5,116)
INVESTING ACTIVITIES		
Interest received	129	291
Purchase of plant and equipment	3	(22)
Net cash from investing activities	132	269
FINANCING ACTIVITIES		
Proceeds from issues of shares	-	-
Net cash from financing activities	-	-
Net (decrease)/ increase in cash and cash equivalents	(2,480)	(4,847)
Cash and cash equivalents at the beginning of period	12,395	20,679
Cash and cash equivalents at the end of period	9,915	15,832

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 2016

1. CORPORATE INFORMATION

The half-year consolidated financial statements of Phosphagenics Limited for the six months ended 30 June 2016 were authorized for issue in accordance with a resolution of the directors on 25 August 2016.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation
The condensed consolidated interim financial report for the half-year ended 30 June 2016 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.

During the preparation of the 31 December 2015 financial statements, a discrepancy was noted in the valuation used to calculate the impairment of the intangible assets at 30 June 2015. This was updated in the 31 December 2015 Financial Statements and has been corrected for the comparative information in this Interim Financial Report. This impacted the Consolidated Statement of Changes in Equity, Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the period ended 30 June 2015. The adjustment was a reduction of $5,200,000 to the impairment loss charge and total comprehensive loss for the period.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 31 December 2015 and be considered together with any public announcements made by Phosphagenics Limited during the half-year ended 30 June 2016 in accordance with the continuous disclosure obligations of the ASX Listing rules.

Changes in Accounting Policy
The accounting policies and methods of computation are the same as those adopted in the most recent Annual Financial Report, unless otherwise stated, and this Half Year Financial Report has been prepared on historical cost basis.

3. SEGMENT INFORMATION

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

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

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

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

Human Health
Phosphagenics' Human Health portfolio covers delivery of 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.

The division intends to 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. Information about this discontinued division is provided in note 9.

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

b) Segment results
The segment information provided to the chief executive officer for the reportable segments for the half-year ended 30 June 2016 is as follows:

2016	Production and Personal Care $'000's	Human Health $'000's	Total all Segments $'000s	Unallocated $'000's	Total Group $'000's
Sales, royalties and licences	1,059	189	1,248	58	1,306
Total segment revenue	**1,059**	**189**	**1,248**	**58**	**1,306**
Cost of sales	(274)	-	(274)	-	(274)
Other income	-	44	44	4	48
Interest revenue	-	-	-	129	129
Income from government grants	-	-	-	865	865
Recoveries	-	-	-	-	-
Depreciation and amortisation	(6)	-	(6)	(1,452)	(1,458)
Impairment losses on intangible assets	-	-	-	-	-
Employee and directors benefits expenses	-	-	-	(1,658)	(1,658)
Other operating expenses from continuing operations	(175)	(755)	(930)	(3,435)	(4,365)
Net operating profit/(loss) after tax	**604**	**(522)**	**82**	**(5,489)**	**(5,407)**
Segment assets	**1,406**	**121**	**1,527**	**23,693**	**25,220**

2015	Production and Personal Care $'000's	Human Health $'000's	Total all Segments $'000s	Unallocated $'000's	Total Group $'000's
Sales, royalties and licences	869	69	938	40	978
Total segment revenue	**869**	**69**	**938**	**40**	**978**
Cost of sales	(300)	-	(300)	(15)	(315)
Other revenue	-	6	6	-	6
Interest revenue	-	-	-	293	293
Income from government grants	-	-	-	989	989
Recoveries	-	-	-	160	160
Depreciation and amortisation	(127)	-	(127)	(1,799)	(1,926)
Impairment losses	-	-	-	(2,637)	(2,637)
Employee and directors benefits expenses	-	-	-	(3,179)	(3,179)
Other operating expenses from continuing operations	(84)	(932)	(1,016)	(1,558)	(2,574)
Net operating profit/(loss) after tax	**358**	**(857)**	**(499)**	**(7,706)**	**(8,205)**
Segment assets	**1,221**	**310**	**1,531**	**40,455**	**41,986**

	30 June 2016 $'000	30 June 2015 $'000

4. REVENUES AND EXPENSES

(a) Recoveries

Recoveries received	-	160
Total	-	160

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	(139)	(131)
Research and development employee expenses[1]	(414)	(1,293)
Redundancy costs	-	(269)
Recruitment and relocation expenses[2]	-	(179)
ESOP expenses	(2)	(1)
Other employee expenses[1]	(1,103)	(1,306)
Total	**(1,658)**	**(3,179)**

(c) Legal expenses[3]

Legal expenses associated with arbitrations	(1,288)	(401)
Other legal expenses	(198)	(47)
Total	**(1,486)**	**(448)**

1 Research and development employee expenses of $1,293,000 were shown within Other employee expenses in 2015.

2 Recruitment fees of $74,000 and relocation expense of $105,000 were shown separately in 2015.

3 Legal fees of $289,000 were shown within Consulting and professional fees in 2015.

5. TRADE AND OTHER RECEIVABLES

	30 June 2016 $'000	31 December 2015 $'000
Trade receivables	1,271	803
R&D tax incentive credit receivable	2,046	3,623
Other receivables	210	298
Total	3,527	4,724

6. INTANGIBLE ASSETS

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

Half-year ended 30 June 2015	Intellectual Property $'000	Total $'000
At 1 January 2015 net of accumulated amortisation and impairment	23,031	23,031
Impairment losses – restated*	(2,637)	(2,637)
Amortisation	(1,788)	(1,788)
At 30 June 2015, net of accumulated amortisation and impairment	18,606	18,606
At 30 June 2015		
Cost (gross carrying amount)	121,362	121,362
Accumulated amortisation and impairment	(102,756)	(102,756)
Net carrying amount	18,606	18,606

* See note 2 for details of restatement as a result of error

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

At 30 June 2015, due to the Company's net asset value totalling more than its market capitalisation, it was assessed that an impairment trigger had occurred and an independent valuer was engaged to calculate the fair value of the entire acquired patent portfolio. The independent valuer used a discounted cash flow model. For products still in development, probability weightings were applied to clinical trials and regulatory approval. Discount rates of between 13-18% were applied to risk adjusted forecasted cash flows over the remaining economic life of the patents. At 30 June an impairment of $2,637,000 was recognised.

As at 30 June 2016, 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 largely dependent on the valuation assigned to the TPM®/Daptomycin product relating to acquired patents expiring in 2020 and 2021. This product is currently under development by a commercialisation partner. The Company has commenced arbitration proceedings against the commercialisation partner in relation to breaches of several provisions of the relevant Agreements. The arbitration hearing is expected to take place in late 2017. The outcome of this arbitration may have an impact on the timing of the commercialisation of the TPM®/Daptomycin product and resulting cash flows, which may lead to further material impairments of this asset.

7. ISSUED CAPITAL

Fully paid ordinary shares	2016 No. '000's	2016 $'000	2015 No. '000's	2015 $'000
Balance at 1 January	1,261,965	228,100	1,261,965	228,100
Issue of shares	-	-	-	-
Exercise of options	-	-	-	-
Capital raising costs	-	-	-	-
Balance at 30 June	1,261,965	228,100	1,261,965	228,100

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

Share options
As at close of business on 30 June 2016 there were a total of 3,000,000 unexercised unquoted options issued as share based payments, of which 3,000,000 options are fully vested and can be exercised at any time up to the date of expiry. During the six months ended 30 June 2016 nil (2015: nil) options were granted.

As at close of business on 30 June 2016 there were a total of 30,960,000 unexercised unquoted rights issued as share based payments, of which nil are fully vested, and therefore cannot yet be exercised. During the six months ended 30 June 2016 nil (2015: 40,010,000) options were granted and nil (2015: nil) options expired or were forfeited.

Share options and share rights carry no rights to dividends and no voting rights.

8. CONTINGENCIES

Contingent Liabilities
The Company is in an arbitration process with Prophase Labs Inc, its joint venture partner. The arbitration relates to a dispute regarding claims for breach of the licence granted by Phosphagenics to the joint venture entity, Phusion Laboratories LLC, for the use of TPM® in OTC pharmaceutical products. Prophase Labs is seeking unspecified damages. The Company is also seeking unspecified damages. Both parties have defended the claims in arbitration which commenced in December 2015. The decision by the arbitrator is expected to be handed down by October 2016.

9. DISCONTINUED OPERATION

a) Description

In December 2014 the Company made the strategic decision to sell its branded cosmetics division, BioElixia®. The sale was put on hold pending the outcome of the Prophase arbitration. Accordingly this division has been treated as a discontinued operation for the half-year ended 30 June 2016 and 2015.

b) Financial performance

The financial performance is for the half-year ended 30 June 2016 and 2015.

	2016 $'000	2015 $'000
Total sales	35	91
Less retailer discounts applied	(5)	(69)
Revenue	30	22
Cost of sales	(24)	(68)
Stock obsolescence expense	-	(236)
Marketing	(8)	(23)
Other expenses	(59)	(190)
Loss before income tax	(61)	(495)
Income tax expense	-	-
Loss from discontinued operation	(61)	(495)

10. EVENTS AFTER BALANCE SHEET DATE

There has not been any matter or circumstance, other than those referred to in the financial statements or 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.

Directors' Declaration

In the directors' opinion:

(a) the financial statements and notes of Phosphagenics Limited for the half-year ended 30 June 2016 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 2016 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.

Peter Lankau
Chairman

25 August 2016
Melbourne

Independent auditor's report to the members of Phosphagenics Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying financial report of Phosphagenics Limited (the company), which comprises the consolidated balance sheet as at 30 June 2016, 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, a summary of significant accounting policies, other 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 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 (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the 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 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 2016 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 audit, 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:

a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 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*.

PricewaterhouseCoopers

Anton Linschoten
Partner

Melbourne
25 August 2016