



*ASX Limited
Market Announcements Office*

Phosphagenics Full Year Financial Results

28 February 2017, Melbourne: Australian drug delivery company, Phosphagenics Limited (ASX: POH; OTCQX: PPGNY), today reported its full year financial results for the year ended 31 December 2016.

Highlights:

- First full year under new operating structure, delivering strategic and cost benefits
- Reported net loss after tax reduced to \$17.31 million (2015: \$20.12 million)
- Cash position as at 31 December 2016 of \$6.09 million (2015: \$12.40 million), with additional \$2.29 million due from R&D tax incentive on 1 March 2017
- Net operating cash outflow reduced to \$6.41 million (2015: \$8.70 million)
- Commercial and development advancements in human health portfolio – multiple partnerships established with Japan's Terumo Corporation for further development of dermal and injectable products
- Positive trial data generated in Animal Health supporting commercial viability of TPM® to improve livestock feed efficiency

Phosphagenics continued to deliver on its strategy of developing and commercialising its core TPM® technology within its three key Business Divisions (Human Health, Animal Health, and Production and Personal Care) to deliver value to shareholders.

Phosphagenics' reported its cash position at the end of 2016 as \$6.41 million with an additional \$2.29 million R&D tax incentive rebate for June 2016 expected on 1 March 2017. Total revenue of \$1.59 million, was down from \$2.19 million in 2015 primarily due to inventory over-stocking of Vital ET® by our global distribution partner Ashland. The company is working closely with Ashland to investigate the potential for a product refresh and relaunch, which should assist in driving sales over the next few years.

Approximately \$200,000 was received in mid-2016 from Terumo Corporation to secure a defined period of exclusive negotiation and due diligence on both the TPM®/Oxymorphone and TPM®/Oxycodone patches and for the sponsorship of a US-based Scientific Advisory Board on opioids. This resulted in Terumo signing a non-binding term sheet relating to the TPM®/Oxymorphone patch in January 2017, providing an additional \$400,000 which was received in early 2017. The exclusivity period granted to Terumo for TPM®/Oxycodone patch concluded in February 2017 without a decision. Phosphagenics' focus on TPM® enhanced injectables increased in the 2nd half of 2016 and is expected to become a greater part of the R&D activity into 2017.

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Expenses from continuing operations were lower at \$20.59 million, down from \$24.058 million in 2015. These total expenses contained an impairment loss of \$7.21 million, (2015 was \$7.84 million), as a result of an impairment to the valuation patents associated with the TPM[®]/Daptomycin product due to continued delays in its commercialisation. Excluding non-cash expenses (impairment losses, amortisation and depreciation), expenses in 2016 were 16% lower at \$10,908,000 (2015: \$12,953,000), with employee and director expenses 41% lower at \$3,428,000 (2015: \$5,852,000).

The primary focus of the Animal Health and Nutrition business in 2016 was trials assessing the commercial potential of TPM[®] as a feed additive to improve feed efficiency. A poultry study assessing Feed Conversion Rate (FCR) conducted in broilers showed that TPM[®] enhanced feed delivered improvements in average live weight and average weight gain.

Legal activities were a major expense for 2016 at \$2.68 million up 31% from 2015. This was due to both the ProPhase arbitration which concluded positively in November 2016 and the Mylan arbitration that initiated in January 2016 and has a formal hearing set for October 2017. The ProPhase arbitration resulted in the return of full ownership rights to the over-the-counter pharmaceutical applications of the TPM[®] technology, and clears the way for a targeted sale of the BioElixia[®] brand in 2017. The Mylan arbitration alleges breaches by Mylan of several provisions of agreements associated with the development of a TPM[®]/Daptomycin injectable. Phosphagenics believes that these breaches are significant and accordingly have lodged multiple individual damages claims, each of which carries a substantial quantum. The exact quantum at present remains preliminary, and while there is no guarantee or certainty of the outcome, Phosphagenics remains convinced of the merits of pursuing this arbitration.

Dr Ross Murdoch, CEO of Phosphagenics, said, “2016 has been a foundational year for Phosphagenics and should set us up for a productive 2017. We have made a number of advancements across all the business. The partnership with Terumo was an important milestone for our Human Health business, and we are pleased to be working closely with Terumo across a number of products in the portfolio. This has the potential to be a significant value driver in the future.

“The positive data delivered by our Animal Health business has not only supported the commercial validity of TPM[®] as a feed additive but has already begun to attract considerable business development interest. Finally, we have and will continue to maintain a rigorous approach to cost management and operational efficiency, and this has delivered significant operational improvements which have flowed through to the bottom line.”

Annual General Meeting

The 2017 Annual General Meeting of the members of Phosphagenics Limited is to be held on Wednesday, 31 May 2017 at the Oliphant Auditorium of the National Centre for Synchrotron Science, 800 Blackburn Road, Clayton, Victoria, starting at 9.30am.

Enquiries

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About Phosphagenics

Phosphagenics Limited is a drug delivery company that is commercialising various products within the pharmaceutical, cosmetics and animal health sectors, using its proprietary drug delivery system called TPM[®] (Targeted Penetration Matrix). TPM[®] is a patient friendly and cost effective system, based on Vitamin E, that enhances the topical or transdermal delivery of active molecules. The lead products advancing through clinical trials are oxymorphone and oxycodone patches 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).

Inherent Risks of Investment in Biotechnology Companies

There are a number of inherent risks associated with the development of pharmaceutical products to a marketable stage. The lengthy clinical trial process is designed to assess the safety and efficacy of a drug prior to commercialisation and a significant proportion of drugs fail one or both of these criteria. Other risks include uncertainty of patent protection and proprietary rights, whether patent applications and issued patents will offer adequate protection to enable product development, the obtaining of necessary drug regulatory authority approvals and difficulties caused by the rapid advancements in technology.

Forward-looking Statements

Certain statements in this announcement may contain forward-looking statements regarding Company business and the therapeutic and commercial potential of its technologies and products in development. Any statement describing Company goals, expectations, intentions or beliefs is a forward-looking statement and should be considered an at-risk statement. Such statements are subject to certain risks and uncertainties, particularly those risks or uncertainties inherent in the process of developing technology and in the process of discovering, developing and commercialising drugs that can be proven to be safe and effective for use as human therapeutics, and in the endeavour of building a business around such products and services.

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