Phosphagenics Limited
Appendix 4D
Half Year Report

Company details

Name of entity:	Phosphagenics Limited
ABN:	32 056 482 403
Reporting period:	For the half year ended 30 June 2018
Previous period:	For the half year ended 30 June 2017

Results for announcement to the market

				$'000
Revenues from ordinary activities	up	1%	to	820
(Loss) from ordinary activities after tax attributable to owners of Phosphagenics Limited	down (decreased loss)	56%	to	(1,844)
(Loss) for the year attributable to the owners of Phosphagenics Limited	down (decreased loss)	56%	to	(1,844)

Dividends
There were no dividends paid, recommended or declared during the current financial period.

Comments
Loss for the Group was $1,844,097 (2017: $4,180,229).

Refer to Review of Financials and Operations included in the Directors' Report.

Net tangible assets

	Reporting period cents	Previous period cents
Net tangible assets per ordinary security	0.27	0.40

Audit qualification or review

Details of audit/review dispute qualification (if any):

The financial statements have been reviewed and the Company's auditor has included an "emphasis of matter" paragraph in the Audit Review Report relating to the Company's ability to continue as a going concern.

ASX Limited
Market Announcements Office

Phosphagenics Half-Year Financial Results

13 August 2018, Melbourne: Australian drug delivery company Phosphagenics Limited (ASX: POH; OTCQX: PPGNY) today reported its financial results for the six months ended 30 June 2018.

Highlights:

- Corporate focus on injectables pipeline
- Reported net loss after tax $1,844,097 (2017: $4,180,229)
- Reported revenue of $819,892 (2017: $812,629)
- Net operating cash flow reduced further to $1,016,144 (2017: $2,029,482)
- Expenses decreased to $3,206,026 reflective reduction of legal fees following conclusion of the Mylan arbitration (2017: $5,517,434)
- Cash position at 30 June $3,266,332
- Mylan arbitration outcome: still to come

Phosphagenics has narrowed its net loss for the first half of its financial year, as it executes on its business strategy, and advances its collaborations with existing and potential partners to advance commercialisation of its proprietary drug delivery system TPM (Tocopheryl Phosphate Mixture) to generate value opportunities for shareholders.

Phosphagenics is developing patches, gels and injectables using TPM, which combines multiple forms of Vitamin E to improve drug and nutrient absorption, for the pharmaceutical, skin care, animal health and nutrition sectors.

Financial figures

Phosphagenics today reported a net loss after tax from continuing operations for the six months to June 30 of about $1.84 million, compared to a net loss of about $4.18 million a year earlier.

Total revenue from continuing operations rose slightly to $819,892, from $812,629 in the prior corresponding period.

First-half revenue largely comprised sales of skin care product Vital ET to global distribution partner Ashland. In the first half of 2017 sales of Vital ET were put on hold due to inventory overstocking by Ashland in prior periods, but the product has since been relaunched.

The Research & Development tax incentive of $319,494 was less than the prior corresponding period's $475,000, reflecting the impact lower R&D expense and complete reimbursement of some R&D by Japanese research partner and pharmaceutical firm Terumo Corporation.

Phosphagenics expects to receive about another $795,000 from the R&D tax incentive scheme before the end of 2018.

Expenses from continuing operations in the first half fell to about $3.2 million from about $5.5 million in the prior corresponding period, reflecting lower legal fees after the conclusion of the Mylan arbitration in November 2017.

Phosphagenics held about $3.27 million in cash and cash equivalents at the end of June 2018, up from about $2.9 million at 31 December 2017, with the cash base boosted by a capital raising that netted about $1.36 million.

Mylan Laboratories

Phosphagenics had originally expected the outcome of the Mylan arbitration within six months of the conclusion of the hearing, and in May 2018, the Singapore International Arbitration Centre (SIAC) advised Phosphagenics that it would provide an update of the arbitration early in June.

However, the SIAC has not yet issued the update, and Phosphagenics cannot predict when the decision will be handed down.

Business segments:

Human Health

Phosphagenics said its Human Health business generated revenues of $941,916 in the first half, up from $651,825, primarily from Terumo.

Phosphagenics announced in March that Terumo had ended a development agreement for a one-day TPM/Oxymorphone patch program designed for the Japanese market.

Terumo said at the time that the technical hurdles for commercial success of an opioid patch in Japan were very high, but Terumo remained committed to the TPM technology and its R&D Alliance with Phosphagenics.

Following termination of the TPM/Oxymorphone patch development agreement, Terumo reimbursed outstanding program costs of $316,830.

Phosphagenics has completed the formulation of a TPM/Oxymorphone patch with Germany-based drug delivery firm tesa Labtec which is believed suitable for its target market (the US) and other global markets.

Phosphagenics continues to work with Terumo to develop a TPM-enhanced Propofol injectable formulation, with formal toxicology studies initiated.

Also, Phosphagenics has started talks with Terumo to expand its early-stage TPM-injectable partnership beyond TPM/Propofol.

Phosphagenics' internal R&D program continues to focus on the development of TPM-enhanced injectables, which the Company believes can produce valuable assets in a short time and at a low cost.

Animal Health

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

In 2018, the Company has focused on progressing regulatory applications for TPM in animal feed and is in ongoing talks with potential partners, several of which have initiated due-diligence activities.

Production and Personal Care

Revenue from the Production and Personal Care business rose to $219,465 in the six months to 30 June 2018, from $160,804.

Sales of Vital ET to global distributor Ashland restarted, with over 50 per cent of 2018 orders delivered in the first half.

“Phosphagenics continues to work closely with Ashland, and enthusiasm for the product remains strong,” Phosphagenics said.

Phosphagenics said internationally renowned skincare brand Rodan & Fields has made significant progress towards new products incorporating TPM, and the first product has been formulated.

Dr Ross Murdoch, CEO of Phosphagenics says the company continues to make progress towards achieving its business plan.

“In the first half, each of the business divisions – Human Health, Animal Health and Nutrition, and Production and Personal Care – from both a development and commercial standpoint. One of our main areas of focus to extract value is to engage business partners who can assist with the commercialization of our technology, across the three areas of the business. We have strong partnerships in place, with the likes of Ashland and Terumo, and continue to progress discussions with multiple potential partners to advance other assets across our portfolio.

“Concurrently, we continue to advance the R&D on our injectables portfolio and regulatory applications for our animal health portfolio. This has been achieved while continuing to remain very focused, keeping a tight containment on costs.”

Ends

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About Phosphagenics

Phosphagenics Limited is focused on developing and commercialising innovative Human Health, Animal Health and Personal Care products using its proprietary drug delivery system called TPM® (Targeted Penetration Matrix). TPM® is derived from Vitamin E using a unique, proprietary and patented process and has been proven to enhance the solubility and oral, dermal and transdermal absorption of drugs and nutrients

.

Amongst its major projects, Phosphagenics' is developing TPM® enhanced patches, gels and injectable products for the human health market and is also developing TPM® to enhance the feed efficiency and health of livestock.

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.

www.phosphagenics.com

PHOSPHAGENICS LIMITED

ABN 32 056 482 403

FINANCIAL REPORT

FOR THE HALF YEAR ENDED 30 JUNE 2018

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 2018.

Directors

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

Dr Greg Collier (Chairman)
Dr Ross Murdoch (Managing Director)
Mr David Segal
Mr Peter Lankau (to 25 May 2018)

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 2018 the Company returned a loss from continuing operations after tax of $1,844,097 (1H 2017: $4,180,229). The net operating cash outflow for the period was $1,016,144 (1H 2017: $2,029,482), with a cash balance at 30 June 2018 of $3,266,332 (31 December 2017 $2,898,596).

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 2018.

Review of Financials

Income statement

The reported net loss after tax from continuing operations for the 6 months ended 30 June 2018 was $1,844,097 (H1 2017: $4,180,229).

Total revenue from continuing operations for the 6 months ended 30 June 2018 was $819,892, up slightly from $812,629 in the prior comparable period (H1 2017). The revenue for the current period was largely made up sales of Vital ET® to Ashland.

The R&D tax incentive of $319,494 for the six months to 30 June 2018 was less than in the prior comparable period (H1 2017: $475,000), continuing to reflect the impact of lower R&D expense and complete reimbursement of some R&D by Terumo. This reinforces Phosphagenics' strategy to move towards partner supplemented R&D and to focus on new product areas that require less R&D expense to advance to the Proof of Concept stage, such as the injectables portfolio.

Expenses from continuing operations decreased to $3,206,026 down from $5,517,434 in H1 2017 reflecting reduction in legal fees following conclusion of the Mylan arbitration in November 2017.

Balance sheet

At the end of June 2018, the Company held $3,266,332 in cash and cash equivalents (31 December 2017 $2,898,596), with a capital raise netting $1,358,197 increasing the cash base. The Company expects to receive a further approximately $795,000 from the R&D tax incentive scheme before the end of 2018.

Statement of cash flows

The net operating cash outflow for the period was $1,016,144 (1H 2017: $2,029,482), with receipts from customers higher at $1,297,536 (1H 2017: $539,349). The Company also received $1,252,095 (1H 2017: $2,293,919) from the R&D tax incentive. Payments to suppliers and employees of $3,565,775 were lower than the prior period (1H 2017: $4,939,289).

Net cash inflow from financing activities was $1,358,197 (1H 2017: nil) from a placement to sophisticated investors in January 2018.

Auditor's Review Report

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

Earnings per share

	2018	2017
Basic loss per share	($0.0012)	($0.0033)
Diluted loss per share	($0.0012)	($0.0033)

Review of Operations

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

During the six months to 30 June 2018, Phosphagenics continued to make progress towards achieving its business plan. Each of the business divisions – Human Health, Animal Health and Nutrition, and Production and Personal Care – have progressed multiple discussions with potential partners with the common goal of advancing commercialisation of the Company's TPM® technology.

Human Health

The Human Health business contributed revenues of $941,916 in the six months to 30 June 2018 (H1 2017: $651,825) primarily from Terumo Corporation, Phosphagenics' Japanese research partner.

Phosphagenics announced in March 2018 that Terumo had terminated the development agreement associated with the development of a 1-day TPM®/Oxymorphone patch program, and as part of the contract reimbursed outstanding program costs of $316,830.

The Company has completed formulation of a TPM®/Oxymorphone patch with tesa Labtec which it

believes suitable for both its target market (USA) and multiple other major global markets. The Company's next step is a pre-IND meeting with the FDA, which has been set for mid-December 2018.

TPM®/Propofol continues to progress with formal toxicology studies initiating in 2018. The formulation developed in conjunction with Terumo has given rise to new IP and clarified the direction for other new TPM based injectables.

Negotiations with Terumo to expand its early-stage TPM®- injectable partnership beyond TPM®/Propofol have initiated, although Terumo have not as yet selected additional candidates.

The Company's internal R&D program has continued to focus on the development and production of TPM® enhanced injectables. This area remains attractive with the promise of producing multiple valuable assets in a relatively short period of time and for a relatively low cost. Work has commenced on a number of formulations based on their commercial attractiveness; clear unmet market need and ability to guide Phosphagenics' scientists towards other improved formulations. Present focus is on TPM® enhanced formulations with clinically meaningful improvements in stability, ease-of-use and/or tolerability. Initial targets include, Antibiotics including Azithromycin, Melphalan, Tacrolimus, Cyclosporin, Vitamin K and Clopidogrel.

As part of the existing Terumo R&D agreement, an enhanced TPM®/Ropivacaine gel project was initiated with a number candidates developed. Terumo will not progress this project further and returned all rights to Phosphagenics together with a cancelation fee of $250,000.

TPM®/Diclofenac gel is now licensed in 17 countries and additional partners are being pursued. Interest from potential Chinese partners continues but has yet to progress to a commercial agreement.

Mylan Arbitration
The arbitration against Mylan Laboratories Ltd (Mylan) was concluded in November 2017 and formally closed in mid-December 2017. The Company originally expected the arbitral award within 6 months from the conclusion of the hearing.

During May 2018, the Singapore International Arbitration Centre (SIAC) advised the Company that it would provide an update of the arbitration in early June. SIAC has not issued this update.

At the date of this report the arbitral award has not been issued and the Company cannot predict when the award will be issued.

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

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

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

Animal Health and Nutrition
Animal Health and Nutrition remains a large and attractive opportunity for Phosphagenics. Work in 2018 has focussed on moving forward regulatory applications for TPM® in Animal Feed and servicing the business development activities needed to optimise the potential for partnerships. Discussions with a number of potential partners are ongoing and several have initiated due diligence activities, including small feed trials.

Production and Personal Care
The Production and Personal Care business generated revenues of $219,465 in the six months to 30 June 2018, an improvement compared to the prior comparable period (H1 2017: $160,804).

Sales of Vital ET® to global distributer, Ashland, have reinitiated with just over 50% of 2018 orders delivered in the first half. Phosphagenics' continues to work closely with Ashland and enthusiasm for the product remains strong.

Rodan & Fields continue to make significant progress towards new products incorporating TPM®. Considerable investment and progress has already been made, with the first product formulated.

PureBeauty Australia has reinforced its desire to re-launch the BioElixia brand as soon as possible. No firm date has been provided.

Le Metier recently advised that it had stopped selling products containing TPM®. The Company has provided for doubtful debts of $103,803 and recognised an impairment loss of $157,000 relating to patents associated with Le Metier products. The Company continues to work with Le Metier to obtain a commercial outcome.

Directors' Report

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 financial 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.

Greg Collier
Chairman
Melbourne, 13 August 2018

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Auditor's Independence Declaration

As lead auditor for the review of Phosphagenics Limited for the half-year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

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

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

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

Anton Linschoten
Partner
PricewaterhouseCoopers

Melbourne
13 August 2018

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 2017 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 2018

	Notes	30 June 2018 $	30 June 2017 $
Revenue from continuing operations			
Sale of goods and services		683,334	311,864
Royalties and licence fees		136,558	500,765
Total revenue		819,892	812,629
Cost of sales		(369,313)	(48,858)
Gross profit		450,579	763,771
Income from government grants		319,494	475,000
Finance revenue		25,026	21,271
Other income	3a	566,830	624
Recoveries	3b	-	76,539
Employee and directors benefits expenses	3c	(1,438,224)	(1,683,869)
Research expenses		(262,050)	(487,711)
Consulting and professional expenses		(360,524)	(392,250)
Legal expenses	3e	(133,947)	(1,711,445)
Amortisation and depreciation		(348,294)	(402,230)
Impairment losses	4	(157,000)	-
Other expenses	3f	(505,987)	(839,929)
Loss before income tax		(1,844,097)	(4,180,229)
Income tax benefit		-	-
Loss from continuing operations		(1,844,097)	(4,180,229)
Loss from discontinued operations		-	-
Loss for period attributable to the ordinary equity holders of the Company		(1,844,097)	(4,180,229)

Loss per share from continuing operations attributable to the ordinary equity holders of the Company:		
Basic profit / (loss) per share	(0.12) cents	(0.33) cents
Diluted profit / (loss) per share	(0.12) cents	(0.33) cents

Loss per share attributable to the ordinary equity holders of the Company:		
Basic profit / (loss) per share	(0.12) cents	(0.33) cents
Diluted profit / (loss) per share	(0.12) cents	(0.33) cents

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

Consolidated Statement of Comprehensive Income
for the half-year ended 30 June 2018

	Notes	30 June 2018 $	30 June 2017 $
Loss for the period		(1,844,097)	(4,180,229)
Other Comprehensive Income			
Items that may be classified to profit or loss			
Exchange differences on translation of foreign operations		2,134	(4,232)
Income tax/(expense) on items of other comprehensive income		-	-
Other comprehensive income (loss) for the period, net of tax		2,134	(4,232)
Total comprehensive income for the period		(1,841,963)	(4,184,461)
Total comprehensive income for the period attributable to:			
Owners of Phosphagenics Ltd arises from:			
Continuing operations		(1,841,963)	(4,184,461)
Discontinued operations		-	-
		(1,841,963)	(4,184,461)

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

Consolidated Balance Sheet
as at 30 June 2018

	Notes	30 June 2018 $	31 December 2017 $
ASSETS			
Current Assets			
Cash and cash equivalents		3,266,332	2,898,596
Trade and other receivables		1,227,193	2,394,732
Inventories		310,337	291,642
Other current assets		77,142	217,512
Total Current Assets		4,881,004	5,802,482
Non-Current Assets			
Plant and equipment		202,848	251,032
Intangible assets	4	1,729,000	2,186,000
Total Non-Current Assets		1,931,848	2,437,032
Total Assets		6,812,852	8,239,514
LIABILITIES			
Current Liabilities			
Trade and other payables		387,333	1,238,838
Deferred income		-	108,262
Provisions		346,075	366,429
Total Current Liabilities		733,408	1,713,529
Non-Current Liabilities			
Deferred income		-	76,078
Provisions		56,262	46,545
Total Non-Current Liabilities		56,262	122,623
Total Liabilities		789,670	1,836,152
Net Assets		6,023,182	6,403,362
EQUITY			
Issued Capital	5	232,632,424	231,274,227
Reserves		30,392,376	30,351,533
Accumulated Losses		(257,001,618)	(255,222,398)
Total Equity attributable to the ordinary equity holders of the Company		6,023,182	6,403,362

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 2018

	Contributed capital	Reserves	Accumulated losses	Total equity
	$	$	$	$
Balance at 1 January 2018	231,274,227	30,351,533	(255,222,398)	6,403,362
Adjustment to opening accumulated losses for change in accounting standard			64,877	64,877
Adjusted Balance at 1 January 2018	231,274,227	30,351,533	(255,157,521)	6,468,239
Loss for the half-year	-	-	(1,844,097)	(1,844,097)
Other comprehensive income (loss)	-	2,134	-	2,134
Total comprehensive income (loss) for the year	-	2,134	(1,844,097)	(1,841,963)
Transactions with owners in their capacity as owners:				
Issue of share capital	1,371,688	-	-	1,371,688
Transaction costs	(13,491)	-	-	(13,491)
Employee equity settlement benefits	-	38,709	-	38,709
Total transactions with owners	1,358,197	38,709	-	1,396,906
Balance at 30 June 2018	**232,632,424**	**30,392,376**	**(257,001,618)**	**6,023,182**
Balance at 1 January 2017	228,099,705	30,223,857	(246,677,040)	11,646,522
Loss for the half-year	-	-	(4,180,229)	(4,180,229)
Other comprehensive income (loss)	-	(4,232)	-	(4,232)
Total comprehensive income (loss) for the year	-	(4,232)	(4,180,229)	(4,180,229)
Transactions with owners in their capacity as owners:				
Employee equity settlement benefits	-	70,302	-	70,302
Total transactions with owners	-	70,302	-	70,302
Balance at 30 June 2017	**228,099,705**	**30,289,927**	**(250,857,269)**	**7,532,363**

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 2018

	30 June 2018 $	30 June 2017 $
OPERATING ACTIVITIES		
Receipts from customers (inclusive of goods and services tax)	1,297,536	539,349
Receipt of recoveries	-	76,539
Receipt of government grants	1,252,095	2,293,919
Payments to suppliers and employees (inclusive of goods and services tax)	(3,565,775)	(4,939,289)
Net cash used in operating activities	(1,016,144)	(2,029,482)
INVESTING ACTIVITIES		
Interest received	25,683	21,255
Sale / (purchase) of plant and equipment	-	(51,976)
Net cash from investing activities	25,683	(30,721)
FINANCING ACTIVITIES		
Proceeds from issue of shares	1,371,688	-
Costs of issue of shares	(13,491)	-
Net cash from financing activities	1,358,197	-
Net (decrease)/ increase in cash and cash equivalents	367,736	(2,060,203)
Cash and cash equivalents at the beginning of period	2,898,596	6,091,508
Cash and cash equivalents at the end of period	3,266,332	4,031,305

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of Preparation

The condensed consolidated interim financial report for the half-year ended 30 June 2018 has been prepared in accordance with *AASB 134 Interim Financial Reporting* and *Corporation Act, 2001*.

The interim 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 2017 and any public announcements made by Phosphagenics and its subsidiaries (the Company or Group) during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

i) Going concern

For the half year ended 30 June 2018, the consolidated entity has incurred losses of $1,844,097 (2017: $4,180,229) and experienced net cash outflows of $1,016,144 from operations (2017: $2,029,482). As at year end the cash position was $3,266,332 (31 December 2017: $2,898,596).

The Company expects increased revenues, primarily from successful development and/or commercialisation of the company's technology, sale of products and licensing arrangements in conjunction with cost containment strategies. However the Company is at various stages of development and there is not sufficient certainty in the timing and quantum of revenue to be relied upon in cash flow planning.

In addition to this, in 2016 the Company entered an arbitration with Mylan Laboratories Ltd (India) which concluded with a hearing in early November 2017 with an award initially expected to be rendered within six months from its conclusion. The outcome is reliant on the arbitrator who has yet to issue the award and a positive award is not assured. If unsuccessful costs could be awarded against the company.

If unsuccessful in the above matters, the Company is likely to need to find additional sources of funding.
Both the insufficient certainty around the timing and quantum of revenue and the outcome of the arbitration each result in a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business. However, the directors have confidence that the Company will be successful in obtaining appropriate funding, if required, and accordingly have prepared the financial report on a going concern basis. As such no adjustments have been made to the financial statements relating to the recoverability and classification of the asset carrying amounts or classification of liabilities that might be necessary should the Company not be able to continue as a going concern.

ii) Changes in accounting policies – new standards

This note explains the impact of the adoption of AASB 9 Financial Instruments and AASB 15 Revenue from Contracts with Customers on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

1. AASB 15 Revenue from Contracts with Customers – Impact of adoption

The Group has adopted AASB 15 Revenue from Contracts with Customers from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognized in the financial statements. In accordance with the transition provisions in AASB 15, the Group has adopted the new standard with the modified retrospective method and hence recognized the cumulative effect at the date of initial application by recognizing the impact as an opening adjustment. In summary, the following immaterial adjustments were made to the amounts recognized in the balance sheet at the date of initial application (1 January 2018):

	Balance as at 31 December 2017 under IAS 18	Adjusted opening balance as at 1 January 2018 under AASB 15
Deferred income	184,340	119,463
Accumulated losses	(255,222,398)	(255,157,521)

The immaterial adjustment was necessary due to the new rules of license accounting under AASB 15. The license fee received in 2017 was accounted for over license period however under the new standards it was assessed as a 'right to use' license therefore should be recognized when the contractual obligation were met in 2017. Hence, an additional $64,877 should have been recognized, under the new accounting standard, as a revenue in the prior year comparative information, and has been correctly adjusted for in the 2018 opening balance.

AASB 15 Revenue from Contracts with Customers – Accounting policies changes

i) Accounting for licenses

From time to time the Group enters into development and license agreements. The revenue recognition can vary agreement by agreement, and the services provided (assistance in development, license of IP) can form a single performance obligation or can be distinct and in that case the transaction price is to be allocated accordingly. When

license fee is a distinct performance obligation, the Company assesses whether the license is either a right to access (and hence transfers over time) or a right to use (and therefore transfers at a point in time).

According to AASB 15, the license should be accounted for as a right to access if all of the following criteria are met:

1. The contract requires, or the customer reasonably expects, that the entity will undertake activities that significantly affect the intellectual property to which the customer has rights;
2. The rights granted by the license directly expose the customer to any positive or negative effects of the entity's activities identified in paragraph B58(a); and
3. Those activities do not result in the transfer of a good or a service to the customer as those activities occur.

If these are not met, it is a right to use a license, and it is recognised when the license is granted to the customer.

ii) Accounting for royalty fees

Some of the contracts include a royalty fee. In compliance with AASB 15, the revenue in the form of a sales-based or usage-based royalty, in exchange for a license of intellectual property, is recognised only when the later of the following events occurs:

1. The subsequent sale or usage occurs; and
2. The performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).

2. AASB 9 Financial Instruments – Impact of adoption

AASB 9 replaces the provisions of AASB 139 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. Most of the changes are not relevant to the Group, however there was a new impairment model introduced in AASB 9 which requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under AASB 139. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income, contract assets under AASB 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. The adoption of AASB 9 Financial Instruments from 1 January 2018 resulted in changes to the Group's accounting policies. No opening adjustment was necessary as a result of the adoption of AASB 9.

Impairment of financial assets

The Group has two types of financial assets that are subject to AASB 9's new expected credit loss model:

- trade receivables for sales of inventory and from the provision of license / royalty fee
- accrued R&D incentive

The Group was required to review its impairment methodology under AASB 9 for each of these classes of assets and no adjustment was required.

The Group applies the AASB 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on credit risk characteristics and the days past due. There was no material difference between the expected credit loss calculated under AASB 9 and AASB 139.

AASB 9 Financial Instruments - Accounting policy changes

From 1 January 2018, for the trade receivables, the Group applies the simplified approach permitted by AASB 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables.

2. SEGMENT INFORMATION

(a) Description of segments

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

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

Production and Personal Care

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

Human Health

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

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

All other segments
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 2018 is as follows:

2018	Production and Personal Care $	Human Health $	Total all Segments $	Unallocated $	Total Group $
Sales, royalties and licences	689,963	129,929	819,892	-	819,892
Total segment revenue	**689,963**	**129,929**	**819,892**	**-**	**819,892**
Cost of sales	(369,313)	-	(369,313)	-	(369,313)
Other income	-	566,830	566,830	-	566,830
Interest revenue	-	-	-	25,026	25,026
Income from government grants	-	245,157	245,157	74,337	319,494
Depreciation and amortisation	(1,714)	-	(1,714)	(346,580)	(348,294)
Impairment losses	-	-	-	(157,000)	(157,000)
Employee and directors benefits expenses	(162,356)	(394,126)	(556,482)	(881,742)	(1,438,224)
Research expenses	(10,738)	(184,798)	(195,536)	(66,514)	(262,050)
Expenses allocated to inventory	128,071	-	128,071	-	128,071
Other operating expenses from continuing operations	(54,448)	(55,539)	(109,987)	(1,018,542)	(1,128,529)
Net operating profit/(loss) after tax	**219,465**	**307,453**	**526,918**	**(2,371,015)**	**(1,844,097)**
Segment assets	**479,722**	**108,325**	**588,047**	**6,224,805**	**6,812,852**

2017	Production and Personal Care $	Human Health $	Total all Segments $	Unallocated $	Total Group $
Sales, royalties and licences	160,804	651,825	812,629	-	812,629
Total segment revenue	**160,804**	**651,825**	**812,629**	**-**	**812,629**
Cost of sales	(48,858)	-	(48,858)	-	(48,858)
Other income	-	-	-	624	624
Interest revenue	-	-	-	21,271	21,271
Income from government grants	-	323,000	323,000	152,000	475,000
Recoveries	-	-	-	76,539	76,539
Depreciation and amortisation	(4,175)	-	(4,175)	(398,055)	(402,230)
Employee and directors benefits expenses	(254,107)	(415,368)	(669,475)	(1,014,394)	(1,683,869)
Research expenses	(6,763)	(334,172)	(340,935)	(146,776)	(487,711)
Expenses allocated to inventory	26,659	-	26,659	-	26,659
Other operating expenses from continuing operations	(97,081)	(150,126)	(248,207)	(2,723,076)	(2,970,283)
Net operating profit/(loss) after tax	**(223,521)**	**75,159**	**(148,362)**	**(4,031,867)**	**(4,180,229)**
Segment assets	**222,932**	**138,511**	**361,443**	**8,679,142**	**9,040,585**

3. REVENUES AND EXPENSES

	30 June 2018	30 June 2017
	$	$
(a) Other income		
Termination and completion fees	566,830	-
Miscellaneous income	-	624
Total	**566,830**	**624**

Termination and completion fees received from Terumo Corporation relating to TPM®/Oxymorphone and TPM®/Ropivacaine projects.

(b) Recoveries		
Recoveries received	-	76,539
Total	**-**	**76,539**

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

(c) Employee and directors benefit expenses		
Directors fees	(101,524)	(126,621)
Research and development employee expenses	(523,016)	(544,213)
ESOP expenses	(38,709)	(70,302)
Other employee expenses	(774,975)	(942,733)
Total	**(1,438,224)**	**(1,683,869)**

(d) Legal expenses		
Legal expenses associated with arbitration	(103,329)	(1,574,418)
Other legal expenses	(30,618)	(137,027)
Total	**(133,947)**	**(1,711,445)**

Legal expenses are associated with the Mylan arbitration which concluded in early November 2017. Expenses in 2018 represent ongoing support on the matter as well as late invoices received relating to the hearing.

(e) Other expenses		
Travel	(113,120)	(166,081)
Patent portfolio expenses	(127,870)	(182,913)
Occupancy expenses	(95,365)	(172,402)
Expenses allocated to inventory	128,071	26,659
Doubtful debts	(103,803)	-
Other	(193,900)	(345,192)
Total	**(505,987)**	**(839,929)**

4. INTANGIBLE ASSETS

Half year ended 30 June 2018	Intellectual Property $
At 1 January 2018 net of accumulated amortisation and impairment	2,186,000
Amortisation	(300,000)
Impairment losses	(157,000)
At 30 June 2018, net of accumulated amortisation and impairment	1,729,000
At 30 June 2018	
Cost (gross carrying amount)	121,362,000
Accumulated amortisation and impairment	(119,633,000)
Net carrying amount	1,729,000

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

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

As at 30 June 2018, it was assessed there the fair value associated with patents related to products containing TPM® sold by Le Metier were fully impaired and $157,000 was recognised as an impairment loss. No other triggers of impairment related to share price or other external factors relevant to other products or patents were recognised.

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

5. ISSUED CAPITAL

(a) Share capital

	2018 No. '000's	2018 $	2017 No. '000's	2017 $
Fully paid ordinary shares	1,577,457	232,632,424	1,486,012	231,274,227

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

(b) Share options

During the six months ended 30 June 2018 nil 2017 Options were granted (2017: 5,250,000) and 1,000,000 2017 Options were forfeited (2017: nil). As at 30 June 2018 there were a total of 4,250,000 2017 Options on issue (2017: 5,250,000), of which 1,750,000 had vested (2017: nil).

During the six months ended 30 June 2018 nil 2016 Options (2017: 15,000,000) were granted and 407,900 options were forfeited (2017: nil). As at 30 June 2018 there were a total of 29,413,400 2016 Options on issue (2017: 48,948,150).

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

As at 30 June 2018 the Company had on issue the following Options:

Class	Grant Date	Vesting Date	Shares under option (No)	Class of shares	Exercise price ($)	Expiry date
2014 Option	30 May 2014	30 May 2014	3,000,000	Ordinary	$0.17	22 May 2019
2016 Option	6 October 2016	10 September 2018	9,910,650	Ordinary	$0.023	10 September 2021
2016 Option	6 October 2016	9 September 2019	9,502,750	Ordinary	$0.023	10 September 2021
2016 Option	31 May 2017	10 September 2018	5,000,000	Ordinary	$0.023	10 September 2021
2016 Option	31 May 2017	9 September 2019	5,000,000	Ordinary	$0.023	10 September 2021
2017 Option	31 May 2017	11 September 2017	1,750,000	Ordinary	$0.023	10 September 2021
2017 Option	31 May 2017	10 September 2018	1,250,000	Ordinary	$0.023	10 September 2021
2017 Option	31 May 2017	9 September 2019	1,250,000	Ordinary	$0.023	10 September 2021
Total			**36,663,400**			

(c) Performance Rights

During the six months ended 30 June 2018, nil performance rights were forfeited. (2017: 15,000,000). As at 30 June 2018 there were a total of nil (2017: nil) performance rights on issue.

6. CONTINGENT LIABILITIES

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

7. EVENTS AFTER BALANCE SHEET DATE

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 financial 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.

Directors' Declaration

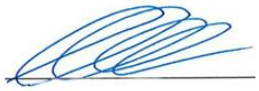
In the directors' opinion:

(a) the financial statements and notes of Phosphagenics Limited for the half-year ended 30 June 2018 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 2018 and of its performance for the half-year ended on that date; and

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

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



Greg Collier
Chairman

13 August 2018
Melbourne

Independent auditor's review 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 (the Company), which comprises the consolidated balance sheet as at 30 June 2018, the consolidated income statement and consolidated statement of comprehensive income, the consolidated statement of changes in equity and the 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 group). The group comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the group's financial position as at 30 June 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Phosphagenics Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

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:

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1. giving a true and fair view of the group's financial position as at 30 June 2018 and of its performance for the half-year ended on that date;

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

Material uncertainty related to going concern

We draw attention to Note 1 in the financial report, which indicates that the group incurred a net loss of $1,844,097 during the half-year ended 30 June 2018 and a net cash outflow from operations of $1,016,144. These conditions, along with other matters set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

PricewaterhouseCoopers

Anton Linschoten
Partner

Melbourne
13 August 2018