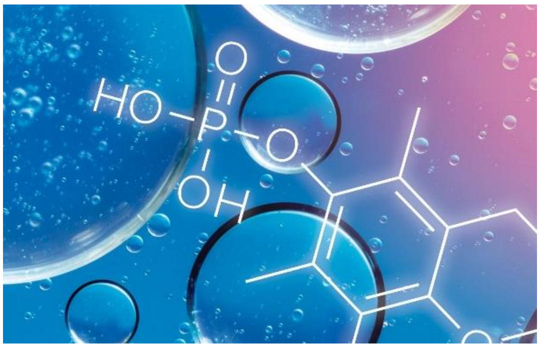
ABN 32 056 482 403

2018 **ANNUAL REPORT**



Directors	Dr Greg Collier (Non-Executive Chairman) Dr Ross Murdoch (Chief Executive Officer and Managing Director) Mr David Segal (Non-Executive Director)
Company Secretary	Ms Melanie Leydin Mr Michael Sapountzis
Registered office	Unit A8, 2A Westall Road Clayton VIC 3168 Australia
Principal place of business	Unit A8, 2A Westall Road Clayton VIC 3168 Australia Telephone: +61 3 9002 5000 Email: info@phosphagenics.com
Share register	Computershare Investor Services Pty Limited Yarra Falls, 452 Johnston Street Abbotsford VIC 3067 Australia Telephone: +61 3 9415 5000 Fax: +61 3 9473 2500
Auditor	PricewaterhouseCoopers 2 Riverside Quay Southbank VIC 3006 Australia
Stock exchange listing	Phosphagenics Limited securities are listed on the Australian Securities Exchange. (ASX code: POH)
Website	www.phosphagenics.com

POH Chairman Review

Dear Shareholders,

I am pleased to present Phosphagenics' Annual Report for the year ended 31 December 2018.

The past 12 months have been particularly significant for Phosphagenics, with the settlement of the lengthy Mylan arbitration and the achievement of several other development milestones across Phosphagenics' core TPM® technology portfolio.

Despite the formal arbitration hearing being completed in late October/ early November 2017, and the potential for an arbitral award to be handed down three months after the end of the hearing, the Mylan arbitration remained a substantial focus for Phosphagenics for most of 2018.

While the outcome was disappointing, following this decision, Phosphagenics' Board and Management team worked quickly and extensively to negotiate an outcome that eliminated the potential for a substantial cost being borne by the Company. To reach a successful outcome, Phosphagenics needed to reach an agreement with both Mylan and Strides Pharma Asia PTE Limited (the company from which Mylan originally acquired the rights to TPM®/daptomycin as part of the acquisition of Agila).

Within the final settlement agreements, Mylan agreed to forego all claims, including arbitration costs, in return for terminating the original agreements and any ongoing obligations and rights. Phosphagenics regained rights to develop TPM®/daptomycin, and Strides agreed to forego all claims against Phosphagenics, including arbitration costs, in exchange for a cash payment of £100,000. The costs claim by Mylan / Strides could have been significantly greater.

In the settlement, it also was agreed that Strides would be granted the following:

i) first right of refusal to "all POH human TPM® assets existing and not otherwise encumbered" at signing of the agreement, the terms of which will be negotiated in good faith at a later time; and
ii) a discount on the upfront, milestone and/or royalty payments associated with any/all deals which Strides completed with POH to a total accumulated value of the lesser of £5 million; or the costs claimed and submitted to SIAC as part of the SIAC Arbitration No. 001 of 2016 and SIAC Arbitration No. 002 of 2016.

This was an extremely positive outcome for Phosphagenics and creates the means by which we could potentially partner with Strides to fund the development of one or more assets. Discussions around suitable assets for partnership has commenced between Phosphagenics and Strides, with the intent to negotiate a deal in 2019. Strides was the original group that recognised the value in TPM® and continued to remain supportive of TPM® and its potential. We believe Strides has the entrepreneurial capability and finances to accelerate development of any selected project or project(s).

The successful resolution has also cleared the way for management to return their focus to the operating activities of the business and advancing the commercialisation of the core TPM® technology.

Business Performance and Outlook

With the Mylan arbitration behind us, our focus is now firmly on developing our key assets and securing licensing or partnership agreements that will allow us to continue to focus on advance development with reputable commercial partners, and financed by non-dilutive funding generated via these deals. Progress is occurring on this front, and we will be updating investors when we are in a position to do so.

Human Health portfolio

The Company's key Human Health focus is on TPM®'s application in enhancing injectable formulations and the development of its two TPM® enhanced opioid patch products. The significant progress made during 2018 in TPM® injectables is expected to lead to candidates with the potential to enter the clinic in 2019/20. Injectables offer significant value potential for Phosphagenics shareholders, given they are faster to commercialise and become profitable.

The return of TPM®/daptomycin, combined with the focused formulation development work, has resulted in Phosphagenics now having eight commercially attractive TPM® injectable formulations in different stages of active development in its portfolio.

Our partnership with Terumo has evolved over 2018. While we are no longer working together on the opioid patches, our R&D alliance has continued to focus on the TPM®-enhanced propofol injectable formulation, with formal toxicology studies initiated. Also, during 2018 Phosphagenics has continued to explore with Terumo the possible expansion of its TPM® injectable partnership beyond TPM®/propofol, and these discussions remain on-going.

Significant developments also occurred with respect to our TPM®/oxymorphone patch over 2018, with a Pre-IND meeting in December between Phosphagenics and the US Food and Drug Administration (FDA). The purpose of this meeting was to obtain regulatory guidance and agreement on the preclinical, CMC and regulatory information to be included in an IND for Phosphagenics' three-day TPM®/oxymorphone patch as part of an eventual NDA filing in the US.

This meeting marked a crucial point in the development of the TPM®/oxymorphone patch, helping us understand potential FDA concerns around a transdermal oxymorphone patch. It was pleasing that the 505(b)(2) regulatory pathway, which is typically less expensive and faster to file, remains a feasible path for approval.

Animal Health portfolio

Animal Health remains a significant opportunity for Phosphagenics. In 2018, the Company has focused on progressing regulatory applications for TPM® in animal feed, following strong trial data obtained during 2017.

Phosphagenics is in ongoing talks with potential partners, several of which have completed their in-house due-diligence activities, allowing us to focus on the active partnering discussions.

Production portfolio

Phosphagenics' production business is generating revenue as a result of multiple partnerships with Ashland, Themis, Rodan & Fields and Pure Beauty Australia.

Following a product relaunch by Ashland in 2018, sales of Vital ET® increased strongly over the year.

Rodan & Fields continues to progress towards new products incorporating TPM®, and the first product has been formulated.

Financial review

Total revenue increased by 21% in 2018 to $1.4 million (2017: $1.2 million), driven by strong growth in the sale of goods, particularly Vital ET® to global distributor Ashland Industries Europe GMBH to $1.1 million in 2018 (2017: $Nil). Revenue growth occurred despite a decline in royalties and licence fees in 2018 to $0.1 million (2017: $0.7 million) arising from the payment of signing fees in the prior period and the subsequent termination of these contracts in 2018.

Other income increased by 13% to $1.3 million (2017: $1.2 million), primarily due to termination and completion fees received by Phosphagenics from Terumo Corporation in respect of the TPM®/oxymorphone and TPM®/ropivacaine projects (previously under joint development). R&D tax incentive credit also contributed to other income, although declined to $0.7 million in 2018 (2017: $1.0 million) due to lower eligible R&D expenditure over the year.

Phosphagenics' operating cost base significantly reduced in 2018 to $6.2 million (2017: $10.9 million). Costs were lower because of significantly lower legal fees, continuing cost containment efforts, reductions in employment expenses and, in line with our strategic direction, our focus where possible on external partners funding ongoing product development.

Cash on hand as at 31 December 2018 was $2.1 million, which, in conjunction with forecasted production revenues, satisfies the Company's working capital requirements for the next 12 months.

Conclusion

By now, you will also be aware of the recent leadership changes. I wish to reinforce our thanks to Dr Ross Murdoch for all he has contributed during his tenure as CEO and for his decision to remain on the Board and resolve to continue to work closely with myself, Dr Gavin and Dr Libinaki (the new Executive Management Team) to advance and complete the multiple discussions that are currently underway. The transition to the new Executive Management Team has already started.

We remain confident that Phosphagenics has a portfolio of assets which are commercially attractive, and we have the support of a highly skilled, knowledgeable and committed Executive Management Team and Board of Directors. We are focused on securing agreements that will expedite the development of the assets in our portfolio, avoid the need to raise further capital and ultimately align with the interest of our shareholders.

To our investors, I thank you all for your ongoing support of Phosphagenics.

Dr Greg Collier

2018 Highlights

Corporate

- A further $1.37 million raised in 2018, completing a successful capital raise of $4.73 million initiated in 2017, via an Entitlement Offer and Share Placement, strongly supported by existing and new shareholders.
- Despite a disappointing Mylan arbitration decision, the negotiated outcome eliminates the potential for a substantial cost order and Phosphagenics regains rights to develop and market TPM®/Daptomycin.

Human Health

- TPM®/daptomycin rights returned to Phosphagenics, and an initial development plan for rapid filing has been identified.
- Collaboration with our partner, Japanese pharmaceutical company Terumo, continued with formal Toxicology testing of TPM® Propofol.
- Over $0.7million income & revenue attributable to Human Health.
- $1.3 million invested in Human Health R&D.
- Increased sales of TPM®/Diclofenac gel via partner Themis.
- Primary focus moved to injectables.
- Internal R&D program successfully advancing additional TPM® injectables.
- Positive FDA meeting for TPM®/Oxymorphone.

Animal Health

- Results from poultry and dairy cattle trials encourage multiple companies to embark on due diligence trials.
- A feed additive application was made to the European Commission along with the submission of a technical dossier to the European Food Safety Authority (EFSA) for TPM®.

Production

- Sales of Vital ET® and TPM® exceeded $1.3 million (compared to $0.13 million in previous year).
- 14 tonnes of Vital ET® sold to partner Ashland. Highest volume in several years.
- TPM® supplied to Terumo, Themis Medicare (to support Novartis product), Rodan + Fields and Pure Beauty.

Licensing/Partnerships

- Sales volume and revenue from sale of Vital ET® to Ashland up.
- TPM® volume sold to Themis Medicare up 6%.
- Pure Beauty Australia continues to redesign BioElixia brand.
- International skin care company Rodan + Fields (R+F) continues to develop TPM® based proprietary personal care products for USA, Canada, Australia, Japan and South Korea.
- Negotiations continue for global licensing opportunities for TPM® livestock feed applications.

Portfolio Overview

Human Health

TPM®-Gel	Diclofenac (Pain Treatment)	20 markets licensed through Themis/Novartis. Sales volume growing
TPM®-Patches	Oxycodone (Pain Treatment)	Patch has Ph2 clinical trial results –indicating pain relief in subset of PHN patients. Focus on business development.
	Oxymorphone (Pain Treatment)	Prototype has Ph1 clinical results. Focus on business development. FDA Pre-IND meeting held Dec'18, positive feedback received Jan'19.
TPM®-Injectables	Daptomycin (Antibiotic)	Arbitration outcome received in Oct'18 – development and commercialisation rights regained. Rapid pathway to file determined.
	Propofol (Anaesthetic)	Partnered formulation passed 6mth accelerated & 2yr room-temp stability. Formal toxicology ongoing.
	Vitamin K (Pro-coagulant)	3rd Generation formulation progressing: 6mth accelerated & room-temp stability complete.
	Clopidogrel (Anti-coagulant)	1st Generation formulation developed - passed 6mth room-temp stability
	Azithromycin (Antibiotic)	1st Generation formulation developed - passed 6mth 2-8°C stability.
	Melphalan (Cancer (myeloma)	1st Generation formulation developed - passed 6mth room-temp stability
	Tacrolimus (Immunosuppressant)	2nd Generation formulation developed - passed 3mth accelerated and room-temp stability.
	Cyclosporine (Immunosuppressant)	Initial formulation developed. 2nd Generation formulation development underway.
	"Yet to be disclosed"	1st Generation formulation preparation.

Animal Health & Nutrition

Non-Registered	Poultry	Improved FCR proven in broilers in normal and heat stressed conditions. Multiple companies entered active due diligence testing
	Pigs	Improved FCR proven in newly weaned pigs.
	Dairy	1 year trial complete; Primary endpoint not proven – TPM® decrease in clinical mastitis events demonstrated
Registered	"Yet to be disclosed"	1st Generation formulation preparation.

Production

Non-GMP Manufacturing	Vital ET®	Relaunch by Ashland has increased demand, with 2018 sales volume exceeding combined orders for 2016 and 2017.
	TPM®	Product development continues with Rodan + Fields and Pure Beauty Australia. Launch dates yet to be confirmed. Demand from Themis for Diclofenac gel remains strong.

Review of Operations

Phosphagenics' continues to execute on its strategy of developing and commercialising its TPM® technology to translate this into value opportunities for its shareholders.

During the financial year, advancements were made across all three business units with increased sales revenues and royalties and advancement and expansion of the pipeline further validating the technology.

Mylan Arbitration

On 6 January 2016, Phosphagenics announced that it had commenced confidential arbitration proceedings against Mylan, a wholly owned subsidiary of Mylan Incorporated, by filing notices of arbitration at the Singapore International Arbitration Centre (SIAC). Despite the formal arbitration hearing being completed in late October/ early November 2017, and the potential for an arbitral award to be handed down three months after the end of the hearing, the Mylan arbitration remained a substantial focus for Phosphagenics for most of 2018. The award announced on 12 November 2018 was disappointing and included findings against Phosphagenics' claims to intellectual property rights relating to a lyophilised TPM®/Daptomycin formulation, and its claim that Mylan had not used commercially reasonable efforts to develop TPM®/Daptomycin.

Notwithstanding the award, the Licensing Agreement remained in force including clauses requiring Mylan to continue to take commercially reasonable efforts to develop TPM®/Daptomycin, not to sell a generic daptomycin (with limited exceptions) and to pay royalties to Phosphagenics on commercial sales of TPM®/Daptomycin.

In late 2018, the parties initiated the process of "submissions on costs". As Phosphagenics had spent approximately $5.6 million on arbitration and legal fees to that point, the Phosphagenics Board recognised the potential for a significant adverse costs order against Phosphagenics. In parallel therefore, Phosphagenics entered into negotiation with Mylan Laboratories Ltd (Mylan) and Strides Pharma Asia PTE Limited (the company from which Mylan originally acquired the rights to TPM®/Daptomycin as part of the acquisition of Agila) (Strides) focused on achieving an alternative resolution with an improved outcome. It was necessary for Phosphagenics to reach a settlement with both companies to conclude all parts of the formal arbitration.

On 19 December 2018 the Board announced that a full and final settlement of all claims associated with the arbitration had been successfully negotiated between Phosphagenics (POH), Mylan Laboratories Ltd (Mylan) and Strides Pharma Asia PTE Limited.

In the settlement, Mylan and Phosphagenics mutually agreed to forego all claims including arbitration costs, and terminate the original Master Research Agreement (MRA) and Licensing Agreement (LA) including any ongoing obligations and rights. The Settlement Agreement included:

i) Mylan has full rights and discretion to license, market and/or sell TPM®/daptomycin as it sees fit;

ii) If Mylan decides to license, market and/or sell TPM®/daptomycin pursuant to i) above,

   a. POH will be entitled to a royalty of 5% of the net sales, and

   b. Mylan will source TPM® exclusively from POH, subject to POH being able to supply the TPM®

iii) POH is granted a non-exclusive license to develop, license, market and/or sell TPM®/Daptomycin and in consideration POH agrees to develop a TPM® supply agreement with Mylan specifically for TPM®/Daptomycin and sell to Mylan TPM® for that purpose at no greater than cost +25%;

iv) If POH decides to license, market and/or sell TPM®/Daptomycin, pursuant to iii) above, Mylan will receive a royalty of 5% of the net sales; and

v) Specific TPM®/Daptomycin-related intellectual property pursuant to and previously defined in the MRA and LA shall be the exclusive property of Mylan, with POH retaining all rights and intellectual property in TPM®.

Within the settlement, Strides also agreed to forego all claims against POH, including arbitration costs, in consideration of a one-off cash payment of £100,000. In addition, Strides was granted:

iii) first right of refusal to “all POH human TPM® assets existing and not otherwise encumbered” at signing of the agreement, the terms of which will be negotiated in good faith at a later time; and

iv) a discount on the upfront, milestone and/or royalty payments associated with any/all deals which Strides completed with POH to a total accumulated value of the lesser of £5 million; or the costs claimed and submitted to SIAC as part of the SIAC Arbitration No. 001 of 2016 and SIAC Arbitration No. 002 of 2016.

This agreement with Strides opens an important opportunity for partnerships. Discussions around suitable assets to form the basis of a potential partnership has commenced with the intent to explore deal opportunities in 2019.

Human Health

The Human Health business contributed income and revenues of $702,226 in the year (2017: $918,485) primarily from the Terumo partnership.

In line with Phosphagenics' strategic plan, throughout 2018 the Company's internal R&D program and partnerships continued to increase focus on the development and production of TPM®-enhanced injectables. These provide the opportunity to produce multiple valuable assets in a relatively short period and for a relatively low cost when compared to patch and even oral drugs. The return of TPM®/Daptomycin, combined with the focused formulation development work has resulted in Phosphagenics now having eight TPM® injectable formulations in different stages of active development in its portfolio (outlined in the table above). The formulations were chosen not only because of the potential commercial attractiveness of a successful product but also because they demonstrate that TPM® can provide a real alternative to some widely used more toxic and allogeneic excipients. An initial plan for advancing TPM®/Daptomycin as rapidly as possible towards filing has been developed and will form the basis for work on the asset in 2019. TPM®/Daptomycin has strong commercial potential and is Phosphagenics' most advanced injectable asset. Its progression will be prioritised in 2019.

Phosphagenics signed a term sheet with Terumo, allowing joint development of a number of TPM®-based products in 2017. The initial focus was on the TPM®-based opioid patches. Under the partnership, Terumo would hold rights to any developed products in Japan, Phosphagenics would hold rights in Australia and New Zealand, and licensing partners would be sought for the rest of the world.

Since signing, the partnership has investigated a number of potential products suitable for the Japanese market and beyond, including patches, gels and injectable products. In 2018, the principal focus was a TPM®-enhanced version of the injectable Propofol (an anaesthetic). Existing commercial formulations of Propofol are not ideal, being opaque and containing egg lecithin and soybean oil, which can evoke serious allergic reactions. In 2018, a lead TPM®-based Propofol formulation progressed into formal toxicology testing. The lead formulation is transparent, does not contain any excipients known to cause allergic reactions and has passed the key milestone of 6 months accelerated (40°C) and 24 months real time (room temperature) stability, indicating at least two-year commercial shelf life. The formulation is compatible with several common diluents used during routine Propofol sedation - a technical requirement described by the FDA for any new Propofol products.

The jointly developed formulation is now included in two separate patent applications which are being progressed in all key territories.

The two companies continue to discuss the potential partnership of other TPM®-injectables already under development within Phosphagenics' internal R&D program. However, as of the end of 2018 no decision beyond TPM®/Propofol had been made.

Sales of TPM®/Diclofenac gel continued to grow in 2018, and Phosphagenics' licence with Themis now allows sales in over 15 countries. The TPM®/Diclofenac gel is sold in India through Themis under the trade names Instanac® TPM® and Aquadol® TPM®, and through Novartis under the trade name Voveran® TPM®. It is also sold in Georgia through Humanity under the trade name Diclofenac-HUMANITY, and in Sri Lanka as Instanac® TPM®. There are additional regulatory packages submitted for approval in several more countries under the licence, which are expected to give additional approvals in the near future. While sales continue to grow, revenues remain relatively small at this stage. Expansion of sales through this existing channel is being explored as an opportunity to increase revenue without further development risk.

In September 2017, Phosphagenics signed a term sheet with Sichuan Credit Pharma Co. Ltd (known as Credit Pharma) for a development and licensing agreement which would grant Credit Pharma exclusive rights to develop, market and sell the TPM®/ Diclofenac gel in China, Hong Kong, Macau and Taiwan. A non-refundable payment of USD$100,000 was received upon signing of this term sheet. Credit Pharma was obligated to pay a further USD $300,000 to Phosphagenics on the signing of any definitive agreement. It was announced in March 2018, that after considerable negotiation, a full agreement that satisfies both parties' interests could not be reached. Although no definitive agreement will be signed, Phosphagenics retained the USD$100,000 and is now free to pursue other partners for the TPM®/Diclofenac gel in China.

Animal Health and Nutrition

Animal Health and Nutrition is a large and attractive opportunity for Phosphagenics and currently a focus of active partnering discussions.

Since 2016 Phosphagenics has consistently developed data indicating that TPM® can be used as a feed additive to improve feed efficiency, particularly in poultry and pigs. TPM® may also potentially carry benefit for cattle.

i) Trial results in poultry demonstrate that TPM® added to broiler feed at 10ppm significantly improves performance (i.e. growth rate, feed efficiency) while also negating the impact of heat stress. These positive results demonstrate the commercial viability of TPM® as a feed additive in poultry, specifically in stressed livestock.

ii) Trial results in weaner pigs show similar beneficial results (i.e. significantly improved growth rate and feed efficiency) where TPM® was added to feed at 40ppm.

iii) Early studies with TPM® delivered as an oral drench to dairy cattle also indicated potential benefits, particularly in cows with mastitis. Despite a large, blinded, placebo-controlled study in dairy cattle failing to show statistically significant improvements in key endpoints (milk quality and fertility ($p<0.05$)), encouraging results were seen in cattle treated with TPM® - with that group showing a numerically lower number of clinical mastitis cases requiring treatment. More work may be required to optimise the dose and delivery of TPM® in ruminant species.

Additionally, a feed additive application was made to the European Commission along with the submission of a technical dossier to the European Food Safety Authority (EFSA) for TPM®, which is currently under review.

This work has encouraged multiple multinational feed companies to embark on formal due diligence trials and is facilitating ongoing partnership discussions.

Production

The Production business generated revenues of $1,157,965 from the sales of VitalET® and $94,508 from sales of TPM®, a significant increase compared to the prior comparable period (2017: $131,478). Sales of Vital ET® to global distributor, Ashland, reached 14,000kgs in 2018, which is in line with forecasts and growth expectations from prior years. Enthusiasm for the product in Ashland and the market place remains strong. A product relaunch/refresh in the second half of 2017 appears to encouraged existing customers and developed new customer partnerships. Strong market sales in 2018 bode well for strong Ashland orders into 2019. Orders for 7,000kgs have already been received and delivered for the first half of 2019.

Licensing – within Personal Care

The purchaser of the BioElixia® brand in 2017, PureBeauty Australia, is a Melbourne-based company with a portfolio of Australian skincare brands. Phosphagenics received an upfront payment of AUD$200,000 and will receive ongoing royalties of 5% of net sales made by PureBeauty of products incorporating TPM®. The two parties also have a ten-year supply agreement for Phosphagenics to supply TPM®. PureBeauty Australia has indicated that it intends to relaunch the BioElixia® brand and is undertaking formulation work.

In 2017, Phosphagenics signed a non-exclusive licence agreement with international skin care company Rodan + Fields (R+F) for the use of TPM® in proprietary personal care products in USA, Canada, Australia, Japan and South Korea. R+F continues development with TPM®, and Phosphagenics is the exclusive provider of TPM® derived from natural or synthetic Vitamin E for R+F.

Subsequent events

On 27 March 2019, Phosphagenics announced that Dr Ross Murdoch will step down from his role as Chief Executive Officer, and becoming a Non-Executive Director effective 1 April 2019. The Board had agreed to the early release from his six-month notice period, in exchange for Dr Murdoch releasing Phosphagenics from paying any outstanding contractual entitlements.

Dr Greg Collier will assume the role of Executive Chairman, and will be closely supported by Dr Paul Gavin (Chief Scientific Officer) and Dr Roksan Libinaki (GM Animal Health & Production) who will make up the Executive Management team.

The directors present their report, together with the financial statements, on the consolidated entity consisting of Phosphagenics Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 31 December 2018.

Directors
The following persons were directors of Phosphagenics Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Dr Greg Collier (Non-Executive Chairman) (becoming Executive Chairman effective 1 April 2019)
Dr Ross Murdoch (Chief Executive Officer and Managing Director) (resigned as CEO and Managing Director, and remaining as Non-Executive Director effective 1 April 2019)
Mr David Segal (Non-Executive Director)
Mr Peter Lankau (Non-Executive Director - retired on 25 May 2018)

Company secretaries
Melanie Leydin and Michael Sapountzis are joint company secretaries for Phosphagenics Limited (effective 28 December 2018).

Ms Leydin has 25 years' experience in the accounting profession including 13 years in the Corporate Secretarial professions and is a company secretary and finance officer for a number of entities listed on the Australian Securities Exchange. She is a Chartered Accountant and a Registered Company Auditor. Since February 2000, she has been the principal of Leydin Freyer, specialising in outsourced company secretarial and financial duties.
Ms Leydin is also the Chief Finance Officer of Phosphagenics Limited.

Mr Sapountzis is a governance professional with extensive experience in providing executive support and managing the regulatory requirements for a variety of ASX listed companies. He holds degrees in Law and Commerce and a Graduate Diploma or Applied Corporate Governance.

Anna Legg (Company Secretary) (resigned 28 December 2018).

Ms Legg was the Company Secretary and Chief Financial Officer until her resignation on 28 December 2018. She holds a Bachelor of Economics from Macquarie University, a Diploma of Law from the Legal Practitioners Board (NSW) and Graduate Diploma in Coprorate Governance with the Governance Institute of Australia.

Principal activities
The principal activities of the consolidated entity 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.

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

Review of operations
The loss for the consolidated entity after providing for income tax amounted to $3,991,020 (31 December 2017: $8,545,358).

Total revenue increased by 21% for the year to $1,394,275 (2017: $1,150,356), with significantly increased sale of goods and services of $1,252,316 (2017: $469,288) offset by lower royalties and licence fees of $141,959 (2017: $681,068). Sales of Vital ET to global distributor, Ashland Industries Europe GMBH, were the main contributor to the increased revenues. Licence revenue decreased due to payment of signing fees in the prior year and termination of such contracts subsequently in the 2018 financial year.

Other income increased by 13% to $1,349,425 (2017: $1,194,475), primarily from $566,830 (2017: nil) termination and completion fees received from Terumo Corporation relating to TPM®/Oxymorphone and TPM®/Ropivacaine projects, offset by a decrease in the R&D tax incentive credit to $685,412 (2017: $1,007,684) reflecting lower spend on R&D for the year.

Expenses from continuing operations were considerably lower at $6,181,398 (2017: $10,869,104), with lower legal fees to support arbitration of $138,705 (2017: $3,439,377).

At the end of December 2018, the consolidated entity held $2,111,171 in cash and cash equivalents (2017: $2,898,596). The net assets of the consolidated entity decreased by $2,503,556 to $3,899,806 as at 31 December 2018. (2017: $6,403,362). Working capital, being current assets less current liabilities, was $2,374,763 (2017: $4,088,953).

The net operating cash outflow for the year decreased by $4,233,491 to $2,187,471 (2017: $6,420,962). This is mainly due to decrease in payments to suppliers and employees, which amounted to $6,374,014 for the year (2017: $10,048,943).

Refer to 2018 Highlights and detailed Review of Operations preceding this Director's report.

Significant changes in the state of affairs
On 17 January 2018, the Company received a refund of $1,252,095 for the R&D tax incentive for the tax year ended 30 June 2017.

On 8 November 2018, the Company received a refund of $832,964 related to prior period R&D tax incentive for the tax year ended 30 June 2018, including amendments.

On 18 January 2018, the Company completed a placement to sophisticated investors of 91,445,867 ordinary shares raising $1,371,688 before costs.

On 12 November 2018, the Company announced that the SIAC Tribunal had determined that Phosphagenics was unsuccessful in all of its claims and that the Board must therefore take into account a significant adverse costs order. The Company had spent approximately $5.6m on arbitration and legal fees to that date.

After the determination both parties prepared submissions on costs. During that time both parties agreed to settle the arbitration and Phosphagenics also agreed to an additional agreement with Strides, the company from which Mylan originally acquired the rights to TPM®-daptomycin as part of the acquisition of Agila. It was necessary for Phosphagenics to reach a settlement with both companies.

On 19 December 2018, The Company announced that a full and final settlement of all claims associated with the arbitration had been successfully negotiated with Phosphagenics (POH), Mylan Laboratories Ltd (Mylan) and Strides Pharma Asia PTE Limited (Strides). This concludes all parts of the formal arbitration. Refer to Note 3 Commercial Arrangement for settlement details.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

Matters subsequent to the end of the financial year
On 27 March 2019, Phosphagenics announced that Dr Ross Murdoch will step down from his role as Chief Executive Officer, and becoming a Non-Executive Director effective 1 April 2019. The Board had agreed to the early release from his six month notice period, in exchange for releasing Phosphagenics from paying any outstanding contractual entitlements.

Dr Greg Collier will assume the role of Executive Chairman, and will be closely supported by Dr Paul Gavin (Chief Scientific Officer) and Dr Roksan Libinaki (GM Animal Health & Production) who will make up the Executive Management team.

No other matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Business Strategy and Future Developments
The Company will continue to use its cash resources to invest in research and development activities and licensing activities.

The Company continues to pursue commercialisation of all its development pipeline via licensing agreements appropriate for the stage of each product's development and continues to look at new opportunities to build value for shareholders. In line with the company's strategic intent, Phosphagenics will continue to pursue opportunities to monetise certain assets to extend its financial runway and free up resources for prioritised assets and activities.

The underlying business strategy of developing and commercialising TPM® within the three relevant business areas (Human Health, Animal Health and Nutrition, and Production) remains unchanged from the previous year.

For the year ended 31 December 2018, the consolidated entity has incurred losses of $3,991,020 (2017: $8,545,358), experienced net cash outflows from operations of $2,187,471 (2017:$6,420,962) and at 31 December 2018 has cash and cash equivalents of $2,111,171 (2017: $2,898,596). The existence of these conditions indicates a material uncertainty that may cast significant doubt on the consolidated entity's ability to continue as a going concern. Please refer to note 1. iii) and the Auditor's Report for further details.

Human Health

The underlying business strategy of developing and commercialising TPM® for dermal and injectable application remains unchanged from the previous year. The Company's key Human Health focus is on TPM®'s application in enhancing injectable formulations and the development of its two TPM®-enhanced opioid patch products. The significant progress made during 2018 in TPM® injectables is expected to lead to candidates with the potential to enter the clinic in 2019/20. The settlement agreement reached with Strides provides first right of refusal to "all Phosphagenics human TPM® assets existing and not otherwise encumbered" at signing of the agreement. This agreement is a key development for Phosphagenics and provides momentum for both companies to enter discussions and develop an alliance. Preliminary discussions have already started.

Animal Health and Nutrition

The underlying business strategy of developing and commercialising TPM® as a feed additive for animal livestock remains unchanged from the previous year. The Company's key Animal Health and Nutrition focus is the out-licensing of the technology to suitable animal health partner/s.

Production

Phosphagenics continues to produce TPM® products such as TPM® and Vital ET® for commercial sale. The key focus into 2019-20 is improved profit through increased top line revenue, predominantly via improved sales volume and improved overall margin generated by increased efficiencies.

Licensing

It is anticipated that a range of licensing opportunities for pharmaceutical products containing TPM® will be announced in the coming months. As mentioned above, Strides continues to conduct due diligence on which TPM® products will be the first under co-development.

Phosphagenics continues to support both Pure Beauty Australia and Rodan + Fields in the launch of their first product containing TPM®.

Environmental regulation
The Company is registered with relevant authorities to use certain compounds in the manufacture of goods. All waste chemicals are disposed of using accredited service providers with notification to the relevant authorities.

The Company is not aware of any material breaches of any environmental regulations.

Information on directors

Name:	Dr Greg Collier
Title:	Non-Executive Chairman (becoming Executive Chairman effective 1 April 2019)
Qualifications:	PhD
Experience and expertise:	Dr Collier has more than 20 years' experience spanning operational, clinical and scientific aspects of pharmaceutical research, development and commercialisation. He has led the planning and execution of multiple commercial transactions including in and out licensing deals and major M&A activities, and he has successfully taken a drug from discovery through to regulatory approval. Notably, Dr Collier steered ChemGenex Pharmaceuticals Limited from a research-based Company with a market capitalisation of $10 million to a Company with completed clinical trials and regulatory dossiers submitted to the FDA and EMA. In 2011, ChemGenex was sold to Cephalon Inc. (now subsidiary of Teva Pharmaceuticals Industries Limited) for $230 million. Prior to his commercial pharmaceutical career, Dr Collier had an outstanding academic career resulting in over 150 peer reviewed publications, and senior authorship on 33 patents. Dr Collier was the inaugural Alfred Deakin Professor at Deakin University, and also held positions at Melbourne University, Monash University and the University of Toronto. In 2010, Dr Collier was awarded the Roche Award of Excellence for his contribution to the biotechnology industry. Dr Collier is currently Managing Director and CEO of listed drug development Company, Invion Limited.
Other current directorships:	Invion Limited
Former directorships (last 3 years):	None
Special responsibilities:	Member Audit and Risk Committee. Member of Nomination Committee.
Interests in shares:	2,000,000 ordinary shares
Interests in options:	2,250,000 options

Name:	Ross Murdoch
Title:	Chief Executive Officer and Managing Director (resigned as CEO and Managing Director, and remaining as Non-Executive Director effective 1 April 2019)
Qualifications:	PhD GAICD
Experience and expertise:	Dr Murdoch joined Phosphagenics as CEO in January 2015 and was appointed as director in April 2015. He has more than 25 years' experience as a leader within the global healthcare, pharmaceutical and biotechnology industries. He has held senior management and executive positions in Australia, the USA and Europe, with responsibility for the strategy, development and commercialisation of products, product portfolios and the building and rebuilding of new and existing businesses. Highlights of his career include Senior Vice President at Shire Pharmaceuticals (one of the world's leading specialty pharmaceutical companies), based in the USA and Switzerland, where he founded and grew both the Emerging Products Business and Haematology Business, and President and COO of Prana Biotechnology Limited based in Australia. Dr Murdoch has a BSc degree with honours from Monash University, a PhD in Clinical Pharmacology from the University of Melbourne and additional postgraduate training in Health Economics from Monash University Business School. He is also a Graduate of the Australian Institute of Company Directors.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Attends Board committee meetings by invitation
Interests in shares:	1,666,667 ordinary shares
Interests in options:	5,000,000 options

Name:	Mr David Segal
Title:	Non-Executive Director
Qualifications:	B.Com B.Law
Experience and expertise:	Mr Segal was the Investor Relations Manager at Phosphagenics from 2011 to 2015. Prior to this he worked for over 30 years in stockbroking, including setting up, raising capital for and running Trent Securities which was absorbed into Shaw Stockbroking in 1992. Mr Segal has been a shareholder of Phosphagenics since 1999. Mr Segal has a law/commerce degree from Melbourne University and is a graduate of the Australian Institute of Company Directors.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Chairman of Nomination Committee Member of Audit and Risk Committee
Interests in shares:	18,491,281 ordinary shares
Interests in options:	1,500,000 options

Name:	Peter Lankau
Title:	Non-Executive Director (retired on 25 May 2018)
Qualifications:	BS
Experience and expertise:	Mr Lankau served as President and CEO and Director of US based pain management Company, Endo Pharmaceuticals Inc. from 2005 to 2008. He previously served as the Company's President and Chief Operating Officer and as Senior Vice President, US Commercial Business. While CEO, he led the Company to become an industry leader in specialty pharma, as well as developing its pipeline which included 12 product acquisitions and/or licensing transactions. More recently, Mr Lankau was Executive Chairman of Nautilus Neurosciences Inc., a commercial stage, private equity-backed, neurology-focused specialty pharmaceutical Company, which sold its business to Depomed Inc. in December 2013. Mr Lankau was Chairman and CEO of Logical Therapeutics Inc., a development stage Company which developed novel compounds for inflammatory disease. Currently Mr Lankau is a Principal in the consulting firm, Lankau Consulting LLC. Mr Lankau is a director of Cipla Limited (India) and InvaGen Pharmaceuticals Inc.

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 31 December 2018, and the number of meetings attended by each director were:

	Full Board		Nomination Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Greg Collier	11	11	2	2	5	5
Ross Murdoch	11	11	-	-	-	-
David Segal	11	11	2	2	5	5
Peter Lankau*	5	5	2	2	5	5

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

* Mr Lankau retired from the Board on 25 May 2018.

Remuneration report (audited)
The remuneration report details the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:
- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Relationship between remuneration and the Group's performance
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration
The objective of the consolidated entity's executive remuneration framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:
- Competitive and reasonable, enabling the Company to attract and retain key talent
- Aligned to the Company's strategic and business objectives and creation of shareholder value
- Transparent and easily understood
- Acceptable to shareholders

The Board is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the consolidated entity depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The Board has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the consolidated entity.

The executive remuneration framework has three components:
- Base pay and benefits
- Short-term incentives
- Long-term incentives through participation in Phosphagenics Equity Incentive Plan (EIP)

A combination of these components comprises an executive's total remuneration, with base pay and benefits at an appropriate level to competitive market benchmarks.

Base pay and benefits

Australian based executives receive their base pay and benefits structured as a Total Remuneration Package (TRP) which may be delivered as a combination of cash and prescribed non-financial benefits at the executive's discretion. Superannuation is included in the TRP.

US based executives receive their base pay and health and dental insurance. Phosphagenics has also established a defined contributions pension plan (401(k)) for all its US employees and contributes under Safe Harbour matching contributions to a maximum of 4% or US$8,500 per annum. There are no guaranteed base pay increases in any executives' contracts.

Salaries are subject to annual review effective 1 July each year. Due to concerns regarding cash availability pay rises were last awarded to some KMP on 1 July 2016.

Short term incentives

The Company has in place a Short Term Incentive Program for all employees to reward for achievement of defined Company and agreed individual performance expectations for 12 months ending 31 December each year.

The available bonus would comprise:
- 33.3% corporate component set by the Board based on organisational targets which align with the Company's overall strategic goals
- 33.3% individual key performance targets set at beginning of each period, aligning with corporate with organisational targets as well as team and personal targets, the achievement of which will be assessed by the employee's immediate manager
- 33.3% individual constructive behaviours as assessed by the employee's immediate manager

Eligible executives, apart from the CEO, can receive up to 10% of their fixed base salary as a bonus should they meet expected KPIs and up to 20% if KPI targets are exceeded. The CEO is eligible to receive up to 40% of his fixed base salary as a bonus. The bonus is set to be paid in March of each year (unless modified) in the form of cash.

Any US employee is under a separate contract and is entitled to a discretionary annual cash bonus of up to 20% of base pay or other agreed amount based on achieving KPI targets set each year.

The bonus outcomes are discretionary and are based on performance criteria outlined above, the overall health of the business and other factors which may arise. The Board approves the total bonus pool, the corporate component as well as the total awarded to each KMP.

Long term incentives

The long-term incentive remuneration scheme was replaced during 2016 with an Equity Incentive Plan (EIP). It was the view of the Board that the milestones set in the previous Phosphagenics' Employee Conditional Rights Scheme (ECRS) could not be achieved and therefore did not provide the requisite incentive.

The Phosphagenics' EIP is designed to reward staff in a manner that aligns remuneration with the creation of shareholder value and to ensure that all staff, including executives, views their relationship with the Group as a long-term one. As such the EIP has been offered to all staff who meet the minimum service criteria, with vesting requiring continuation of service.

During 2016 the Board approved the issue of options (EIP 2016 Option) to employees. In May 2017 shareholders approved the issue of EIP 2016 Options to the CEO. Any outstanding ECRS were forfeited by employees on the issue of EIP 2016 Options.

Equity Incentive Plan 2016 Option (EIP 2016 Option)

The EIP 2016 Option allows eligible employees to acquire shares at a price of $0.023, which was set at 10% over the 5-day VWAP at the invitation date, subject to certain vesting conditions being achieved. The options will vest and become exercisable in tranches as follows:
- one-third of the Options would vest on 11 September 2017 (Tranche 1 Vesting Date), subject to the volume weighted average of the prices of shares traded on ASX in any 5 consecutive trading days (5 Day VWAP) during the period commencing 3-months immediately prior to and extending to 3-months post the Tranche 1 Vesting Date being greater than 50% above the Invitation VWAP ($0.021), calculated to be $0.032. This tranche lapsed on 11 December 2017;
- one-third of the Options will vest on 10 September 2018 (Tranche 2 Vesting Date), subject to any 5 Day VWAP during the period commencing 3-months immediately prior to and extending to 3-months post the Tranche 2 Vesting Date being greater than 100% above the Invitation VWAP ($0.021), calculated to be $0.042. This tranche lapsed on 10 December 2018;
- one-third of the Options will vest on 9 September 2019 (Tranche 3 Vesting Date), subject to any 5 Day VWAP during the period commencing 3-months immediately prior to and extending to 3-months post the Tranche 3 Vesting Date being greater than 150% above the Invitation VWAP ($0.021), calculated to be $0.053.

All current and prospective employees, including executive and non-executive directors, are eligible to participate in the scheme.

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

The Company's remuneration strategy for non-executive directors is to remunerate them appropriately for their time and expertise, which has been determined to involve a combination of fixed fees and a non-performance based equity component.

All non-executive directors receive a fixed fee and the chair of the audit and risk committee receives an additional fee for chairing that committee, see table below.

Annual Directors Fees	2018 and 2017
Chair	$110,000
Other non-executive directors	$55,000
Audit and risk committee - Chair	$10,000

Fees are determined within an aggregate non-executive director's pool limit approved by shareholders. The aggregate currently stands at $400,000 and was approved by shareholders at 2014 Annual General Meeting. This amount, or part thereof, is divided among non-executive directors as determined by the Board and reflecting time and responsibility related to the Board and committees. The aggregate paid to non-executive directors was $194,087 (2017: $248,595). Directors fees include statutory superannuation contributions as required under Australian superannuation guarantee legislation.

Non-executive director's fees are reviewed annually by the Board and there have been no changes to fees in either 2017 or 2018.

The non-executive directors do not receive retirement benefits nor do they participate in any short-term incentive programs. Non-executive directors are entitled to participate in the long-term incentive scheme as detailed in the Executive remuneration section.

In May 2017 shareholders approved the award of non-performance based options (EIP 2017 Options) to directors, where under the terms of the EIP, the strike price is the same as the employee options at $0.023 and further one-third of the options vest each September of 2017, 2018 and 2019, with the sole vesting condition that the director remains in office at that vesting date.

On 25 March 2018, 1,500,000 non-performance based options previously issued to Mr. Lankau were forfeited upon his retirement from the Board. As at 31 December 2018, $3,750,000 non-performance based options remains on issue, including 2,500,000 vested options.

Use of remuneration consultants
If remuneration consultants are to be engaged to provide remuneration recommendations as defined in section 9B of the Corporations Act 2001, then they are engaged by, and report directly to, the Board. No remuneration consultants were engaged to provide remuneration services during the financial year.

Voting and comments made at the company's 2018 Annual General Meeting ('AGM')
At the Company's AGM held on 25 May 2018, 83.06% of the votes received supported the adoption of the remuneration report for the year ended 31 December 2017. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration
The key management personnel of the consolidated entity consisted of the following directors of Phosphagenics Limited:
- Greg Collier (Non-Executive Chairman) (becoming Executive Chairman effective 1 April 2019)
- Ross Murdoch (Chief Executive Officer and Managing Director) (resigned as CEO and Managing Director, and remaining as Non-Executive Director effective 1 April 2019)
- David Segal (Non-Executive Director)
- Peter Lankau (Non-Executive Director - retired on 25 May 2018)

Other key management personnel
- Paul Gavin (Chief Scientific Officer)
- Anna Legg (Chief Financial Officer - resigned on 28 December 2018)
- Roksan Libinaki (General Manager, Animal Health and Nutrition)
- Alex Stojanovic (VP, Business Development and Commercial Operations - made redundant on 30 September 2018)

Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables.

2018	Short-term benefits Cash salary and fees $	 Cash bonus $	 Non-monetary $	Post-employment benefits Super-annuation $	Long-term benefits Long service leave $	Share-based payments Performance rights $	 Options $	 Total $
Non-Executive Directors:								
Greg Collier	100,457	-	-	8,014	-	-	2,661	111,132
David Segal	50,228	-	-	4,772	-	-	1,774	56,774
Peter Lankau*	26,181	-	-	-	-	-	-	26,181
Chief Executive Officer / Managing Director:								
Ross Murdoch****	351,084	-	-	33,889	6,388	-	12,918	404,279
Other Key Management Personnel:								
Paul Gavin	200,000	-	-	19,000	3,650	-	8,298	230,948
Anna Legg**	175,409	-	-	18,050	3,468	-	(3,619)	193,308
Roksan Libinaki	173,455	-	-	16,435	3,157	-	8,298	201,345
Alex Stojanovic***	264,984	-	31,372	27,193	-	-	(1,810)	321,739
	1,341,798	-	31,372	127,353	16,663	-	28,520	1,545,706

* Peter Lankau retired from the Board on 25 May 2018.
** Anna Legg resigned on 28 December 2018.
*** Alex Stojanovic was made redundant on 30 September 2018.
**** Dr Ross Murdoch resigned as CEO and Managing Director, and remaining as Non-Executive Director effective 1 April 2019.

2017	Short-term benefits Cash salary and fees $	Cash bonus $	Non-monetary $	Post-employment benefits Super-annuation $	Long-term benefits Long service leave $	Share-based payments Performance rights $	Options $	Total $
Non-Executive Directors:								
Greg Collier	84,361	-	-	8,014	-	-	2,316	94,691
Peter Lankau	72,903	-	-	-	-	-	1,544	74,447
Geert Cauwenbergh*	22,917	-	-	-	-	-	-	22,917
David Segal	50,228	-	-	4,772	-	-	1,544	56,544
Chief Executive Officer / Managing Director:								
Ross Murdoch	357,404	-	-	33,889	3,431	(3,810)	11,316	402,230
Other Key Management Personnel:								
Paul Gavin	199,616	-	-	19,000	3,333	-	15,808	237,757
Anna Legg	186,711	-	-	18,050	4,822	-	31,617	241,200
Roksan Libinaki	177,658	-	-	16,435	2,883	-	15,808	212,784
Greg Moses **	78,037	-	-	7,290	-	-	(3,842)	81,485
Alex Stojanovic	320,236	-	34,054	29,176	-	-	15,808	399,274
	1,550,071	-	34,054	136,626	14,469	(3,810)	91,919	1,823,329

* Geert Cauwenbergh retired 30 May 2017
** Greg Moses resigned 9 June 2017

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration 2018	Fixed remuneration 2017	At risk - STI 2018	At risk - STI 2017	At risk - LTI 2018	At risk - LTI 2017
Non-Executive Directors:						
Greg Collier	98%	98%	-	-	2%	2%
David Segal	97%	98%	-	-	3%	2%
Peter Lankau	100%	100%	-	-	-	-
Geert Cauwenbergh	-	97%	-	-	-	3%
Chief Executive Officer / Managing Director:						
Ross Murdoch	97%	98%	-	-	3%	2%
Other Key Management Personnel:						
Paul Gavin	96%	93%	-	-	4%	7%
Anna Legg	100%	87%	-	-	-	13%
Roksan Libinaki	96%	93%	-	-	4%	7%
Greg Moses	-	100%	-	-	-	-
Alex Stojanovic	100%	96%	-	-	-	4%

Service agreements
Remuneration and other terms of employment for the executives are formalised in service agreements which include a position description that sets out duties, rights and responsibilities as well as entitlements on termination. All service agreements include provision that the Company can dismiss the employee at any time without notice if the employee is guilty of serious misconduct, becomes unable to pay debts or is found guilty by court of a criminal offence.

The entitlement to participate in Phosphagenics Employee Incentive Schemes is governed by the Scheme document and may not be specifically detailed in the service agreement.

Where termination with cause occurs the executive is only entitled to that portion of remuneration that is fixed, and only up to the date of termination. On termination with cause, any unvested options or rights will immediately be forfeited.

Name (Title)	Term of agreement and notice period	Base salary including superannuation*	Termination payments**
Ross Murdoch (Chief Executive Officer)	No fixed term 6 months	$383,250	6 months^
Paul Gavin (Chief Scientific Officer)	No fixed term 1 month	$219,000	1 month
Roksan Libinaki (General Manager, Animal Health and Nutrition)	No fixed term 3 month	$189,435	3 months
Alex Stojanovic (VP, Business Development and Commercial Operations)^^	No fixed term 14 days	US$241,065	30 days^^
Anna Legg (Chief Financial Officer)^^^	No fixed term 1 month	$208,050	1 month

* Base salary quoted as at 31 December 2018, reviewed annually by the Board.
** Base salary payable if the Company terminates employee with notice and without cause.
^ Dr Murdoch resigned as CEO and Managing Director, effective 1 April 2019. The Board has agreed to the early release from his six month notice period, in exchange for releasing Phosphagenics from paying any outstanding contractual entitlements.
^^ Mr Stojanovic was made redundant on 30 September 2018. He received a severance pay of USD$7,578.
^^^ Ms Legg resigned on 28 December 2018.

Share-based compensation

Issue of shares
There were no shares issued to directors and other key management personnel as part of compensation during the year ended 31 December 2018.

Options
The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

Name	Number of options granted	Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
Greg Collier	750,000	31 May 2017	9 September 2017	9 September 2021	$0.023	$0.001
Greg Collier	750,000	31 May 2017	9 September 2018	9 September 2021	$0.023	$0.003
Greg Collier	750,000	31 May 2017	9 September 2019	9 September 2021	$0.023	$0.005
David Segal	500,000	31 May 2017	9 September 2017	9 September 2021	$0.023	$0.001
David Segal	500,000	31 May 2017	9 September 2018	9 September 2021	$0.023	$0.003
David Segal	500,000	31 May 2017	9 September 2019	9 September 2021	$0.023	$0.005
Ross Murdoch	5,000,000	31 May 2017	9 December 2019	9 September 2021	$0.023	$0.003
Paul Gavin	1,250,000	6 October 2016	9 December 2019	9 September 2021	$0.023	$0.053
Roksan Libinaki	1,250,000	6 October 2016	9 December 2019	9 September 2021	$0.023	$0.053

Options granted carry no dividend or voting rights.

The number of options over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 31 December 2018 are set out below:

Name	Number of options granted during the year 2018	Number of options granted during the year 2017	Number of options vested during the year 2018	Number of options vested during the year 2017
Greg Collier	-	2,250,000	1,250,000	1,250,000
David Segal	-	1,500,000	500,000	500,000
Peter Lankau*	-	1,500,000	-	500,000
Ross Murdoch	-	15,000,000	-	-
Paul Gavin	-	1,250,000	-	-
Roksan Libinaki	-	1,250,000	-	-

* Peter Lankau retired on 25 May 2018.

Relationship between remuneration and the Group's performance
Typical of companies in the biotech sector at the company’s stage of development, performance metrics, such as total revenues or profitability, are not an appropriate measure of executive performance. The following table shows the Company’s total revenues over the five-year period from 2014 to 2018.

	2018 $	2017 $	2016 $	2015 $	2014 $
Total revenue from continuing operations	1,394,275	1,150,356	1,588,294	2,190,000	2,053,000
Loss from continuing operations	(3,991,020)	(8,618,028)	(17,245,000)	(19,577,000)	(7,434,000)

The main focus is on growth in shareholder value through achievement of development and commercial milestones. The Board, however, recognises that share price performance is relevant and has linked share price performance to the vesting of executive long term equity incentives.

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2018	2017	2016	2015	2014
Share price at financial year end ($)	0.01	0.02	0.03	0.01	0.07
Basic earnings per share (cents per share)	(0.25)	(0.66)	(1.37)	(1.55)	(0.66)
Diluted earnings per share (cents per share)	(0.25)	(0.66)	(1.37)	(1.55)	(0.66)

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Other	Balance at the end of the year
Ordinary shares					
Greg Collier	2,000,000	-	-	-	2,000,000
Ross Murdoch	1,666,667	-	-	-	1,666,667
David Segal	18,491,281	-	-	-	18,491,281
Paul Gavin	99,000	-	-	-	99,000
Anna Legg*	1,266,500	-	-	(1,266,500)	-
Roksan Libinaki	338,951	-	-	-	338,951
Alex Stojanovic**	64,000	-	-	(64,000)	-
	23,926,399	-	-	(1,330,500)	22,595,899

* Anna Legg resigned as Chief Financial Officer and Company Secretary on 28 December 2018. The balance shown in "Other" column represents her shareholding on the date of resignation.

** Alex Stojanovic was made redundant on 30 September 2018. The balance shown in "Other" column represents his shareholding on the date of termination.

Option holding

The number of options over ordinary shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other*	Balance at the end of the year
Options over ordinary shares					
Greg Collier	2,250,000	-	-	-	2,250,000
Ross Murdoch	10,000,000	-	-	(5,000,000)	5,000,000
David Segal	1,500,000	-	-	-	1,500,000
Peter Lankau	1,500,000	-	-	(1,500,000)	-
Paul Gavin	2,500,000	-	-	(1,250,000)	1,250,000
Anna Legg	5,000,000	-	-	(5,000,000)	-
Roksan Libinaki	2,500,000	-	-	(1,250,000)	1,250,000
Alex Stojanovic	2,500,000	-	-	(2,500,000)	-
	27,750,000	-	-	(16,500,000)	11,250,000

* 5,250,000 options were cancelled during the year in line with scheme terms in which options are forfeited when personnel cease employment. A further 11,250,000 option were lapsed on 10 December 2018 when the vesting condition was not satisfied.

	Vested and exercisable	Unvested	Balance at the end of the year
Options over ordinary shares			
Greg Collier	1,500,000	750,000	2,250,000
Ross Murdoch	-	5,000,000	5,000,000
David Segal	1,000,000	500,000	1,500,000
Paul Gavin	-	1,250,000	1,250,000
Roksan Libinaki	-	1,250,000	1,250,000
	2,500,000	8,750,000	11,250,000

This concludes the remuneration report, which has been audited.

Shares under option
Unissued ordinary shares of Phosphagenics Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
23 April 2014	22 May 2019	$0.171	3,000,000
6 October 2016	9 September 2021	$0.023	4,968,750
31 May 2017	9 September 2021	$0.023	5,000,000
31 May 2017	9 September 2021	$0.023	3,750,000
			16,718,750

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the company or of any other body corporate.

Shares issued on the exercise of options
There were no ordinary shares of Phosphagenics Limited issued on the exercise of options during the year ended 31 December 2018 and up to the date of this report.

Indemnity and insurance of officers
The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor
The company has agreed to indemnify its auditors, PricewaterhouseCoopers, to the extent permitted by law, against any claim by a third party arising from the company's breach of their agreement, The indemnity stipulates that the company will meet the full amount of any such liabilities including a reasonable amount of legal costs.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Proceedings on behalf of the company
No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

Non-audit services
Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 24 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 24 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:
- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Officers of the company who are former partners of PricewaterhouseCoopers
There are no officers of the company who are former partners of PricewaterhouseCoopers.

Auditor's independence declaration
A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Auditor
PricewaterhouseCoopers continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

Greg Collier
Chairman

27 March 2019

Auditor's Independence Declaration

As lead auditor for the audit of Phosphagenics Limited for the year ended 31 December 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 audit; and

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

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

Anton Linschoten
Partner
PricewaterhouseCoopers

Melbourne
27 March 2019

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Phosphagenics Limited
Consolidated statement of profit or loss and other comprehensive income
For the year ended 31 December 2018

	Note	Consolidated 2018 $	Consolidated 2017 $
Revenue from contracts with customers	5	1,394,275	1,150,356
Cost of sales		(553,322)	(93,755)
Gross profit		840,953	1,056,601
Other income	6	1,349,425	1,194,475
Employee and directors benefits expenses	7	(2,564,288)	(3,157,699)
Legal expenses	8	(446,555)	(3,584,140)
Research expenses		(353,546)	(1,191,231)
Consultancy and professional fees		(877,652)	(824,983)
Amortisation and depreciation		(725,639)	(776,468)
Impairment losses	16	(157,000)	-
Other expenses	9	(1,056,718)	(1,334,583)
Loss before income tax expense from continuing operations		(3,991,020)	(8,618,028)
Income tax expense	10	-	-
Loss after income tax expense from continuing operations		(3,991,020)	(8,618,028)
Profit after income tax expense from discontinued operations	11	-	72,670
Loss after income tax expense for the year attributable to the owners of Phosphagenics Limited		(3,991,020)	(8,545,358)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		16,547	(5,859)
Other comprehensive income for the year, net of tax		16,547	(5,859)
Total comprehensive income for the year attributable to the owners of Phosphagenics Limited		(3,974,473)	(8,551,217)
Total comprehensive income for the year is attributable to:			
Continuing operations		(3,974,473)	(8,623,887)
Discontinued operations		-	72,670
		(3,974,473)	(8,551,217)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

	Note	Consolidated 2018 $	2017 $
		Cents	**Cents**
Earnings per share for loss from continuing operations attributable to the owners of Phosphagenics Limited			
Basic earnings per share	32	(0.25)	(0.66)
Diluted earnings per share	32	(0.25)	(0.66)
Earnings per share for profit from discontinued operations attributable to the owners of Phosphagenics Limited			
Basic earnings per share	32	-	0.01
Diluted earnings per share	32	-	0.01
Earnings per share for loss attributable to the owners of Phosphagenics Limited			
Basic earnings per share	32	(0.25)	(0.66)
Diluted earnings per share	32	(0.25)	(0.66)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Phosphagenics Limited
Consolidated statement of financial position
As at 31 December 2018

	Note	Consolidated 2018 $	Consolidated 2017 $
Assets			
Current assets			
Cash and cash equivalents	12	2,111,171	2,898,596
Trade and other financial assets at amortised cost	13	677,031	2,394,732
Inventories	14	99,849	291,642
Other current assets		359,214	217,512
Total current assets		3,247,265	5,802,482
Non-current assets			
Plant and equipment	15	159,582	251,032
Intangibles	16	1,395,000	2,186,000
Total non-current assets		1,554,582	2,437,032
Total assets		4,801,847	8,239,514
Liabilities			
Current liabilities			
Trade and other payables	17	571,961	1,238,838
Deferred income		-	108,262
Provisions	18	300,541	366,429
Total current liabilities		872,502	1,713,529
Non-current liabilities			
Deferred income		-	76,078
Provisions	19	29,539	46,545
Total non-current liabilities		29,539	122,623
Total liabilities		902,041	1,836,152
Net assets		3,899,806	6,403,362
Equity			
Issued capital	20	232,632,424	231,274,227
Reserves	21	30,415,923	30,351,533
Accumulated losses		(259,148,541)	(255,222,398)
Total equity		3,899,806	6,403,362

The above consolidated statement of financial position should be read in conjunction with the accompanying notes

Consolidated	Issued capital $	Reserves $	Accumulated losses $	Total equity $
Balance at 1 January 2017	228,099,705	30,223,857	(246,677,040)	11,646,522
Loss after income tax expense for the year	-	-	(8,545,358)	(8,545,358)
Other comprehensive income for the year, net of tax	-	(5,859)	-	(5,859)
Total comprehensive income for the year	-	(5,859)	(8,545,358)	(8,551,217)
Transactions with owners in their capacity as owners:				
Issue of share capital	3,360,685	-	-	3,360,685
Transaction costs	(186,163)	-	-	(186,163)
Employee equity settlement benefits	-	133,535	-	133,535
Balance at 31 December 2017	231,274,227	30,351,533	(255,222,398)	6,403,362

Consolidated	Issued 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
Balance at 1 January 2018 - restated	231,274,227	30,351,533	(255,157,521)	6,468,239
Loss after income tax expense for the year	-	-	(3,991,020)	(3,991,020)
Other comprehensive income for the year, net of tax	-	16,547	-	16,547
Total comprehensive income for the year	-	16,547	(3,991,020)	(3,974,473)
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	-	47,843	-	47,843
Balance at 31 December 2018	232,632,424	30,415,923	(259,148,541)	3,899,806

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

	Note	Consolidated 2018 $	2017 $
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		1,527,990	1,257,523
Receipt of recoveries		6,664	76,539
Receipt of government grants		2,085,059	2,293,919
Other receipts - termination and completion fees	6	566,830	-
Payments to suppliers and employees (inclusive of GST)		(6,374,014)	(10,048,943)
Net cash used in operating activities	31	(2,187,471)	(6,420,962)
Cash flows from investing activities			
Interest received		42,273	33,816
Payments for plant and equipment	15	(424)	(55,588)
Proceeds from sale of plant and equipment		-	75,300
Net cash from investing activities		41,849	53,528
Cash flows from financing activities			
Proceeds from issue of shares	20	1,371,688	3,360,685
Cost of issue of shares		(13,491)	(186,163)
Net cash from financing activities		1,358,197	3,174,522
Net decrease in cash and cash equivalents		(787,425)	(3,192,912)
Cash and cash equivalents at the beginning of the financial year		2,898,596	6,091,508
Cash and cash equivalents at the end of the financial year	12	2,111,171	2,898,596

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

Note 1. Significant accounting policies

This note provides a list of all significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the group consisting of Phosphagenics Limited and its subsidiaries (the Group).

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the Corporations Act 2001. Phosphagenics Limited is a for-profit entity for the purposes of preparing the financial statements.

i) Compliance with IFRS

The consolidated financial statements of the Phosphagenics Limited group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

ii) Historical cost convention

These financial statements have been prepared on a historical cost basis except for financial instruments and intangible assets, which have been measured at fair value.

iii) Going concern

For the year ended 31 December 2018, the consolidated entity has incurred losses of $3,991,020 (2017: $8,545,358), experienced net cash outflows from operations of $2,187,471 (2017:$6,420,962) and at 31 December 2018 has cash and cash equivalents of $2,111,171 (2017: $2,898,596).

During and since the end of the financial year, the directors continue to pursue a number of actions to ensure the consolidated entity can continue to fund its operations including meeting with potential business partners on licencing, joint venture and partnering opportunities.

The consolidated entity may need to raise additional capital in order to execute its near term and medium term plans for development and commercialisation of its technology, in the event that sufficient revenue is not generated in the normal course of business.

The existence of these conditions indicates a material uncertainty that may cast significant doubt on the consolidated entity's ability to continue as a going concern.

Notwithstanding the above, the financial statements have been prepared on a going concern basis, which contemplates the continuity of normal business activity, the realisation of assets, settlement of liabilities through the normal course of business including the presumption that sufficient funds will be available to finance the operations of the consolidated entity. In adopting this position, the directors have had regard to the consolidated entities successful track record in raising capital. The directors believe the consolidated entity has the ability to raise additional capital from existing and new investors should it be required.

The directors plan to continue the consolidated entity's operations on the basis as outlined above, and believe sufficient plans are in place to ensure the consolidated entity can meet its obligations and liabilities for at least twelve months from the date of this report.

If the consolidated entity is unable to continue as a going concern, it may be required to realise its assets and extinguish its liabilities other than in the normal course of business and at amounts different to those stated in the financial statements. The financial statements do not include any adjustments relating to the recoverability and classification of asset carrying amounts or the amount of liabilities that might result should the consolidated entity be unable to continue as a going concern and meet its debts as and when they become due and payable.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 28.

Note 1. Significant accounting policies (continued)

Principles of consolidation
The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Phosphagenics Limited ('company' or 'parent entity') as at 31 December 2018 and the results of all subsidiaries for the year then ended. Phosphagenics Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

Foreign currency translation
Items included in the financial statements of each of the group’s entities are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The consolidated financial statements are presented in Australian dollars, which is Phosphagenics Limited’s functional and presentation currency.

Foreign currency transactions and balances
Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement, within finance costs. All other foreign exchange gains and losses are presented in the income statement on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as available-for-sale financial assets are recognised in other comprehensive income.

Group companies
The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
– income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
– all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.
Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Note 1. Significant accounting policies (continued)

Leases
Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases (note 26). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Impairment of assets
Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.
Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet

New Accounting Standards and Interpretations not yet mandatory or early adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 31 December 2018. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 16 Leases
This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases.
The consolidated entity will adopt this standard from 1 January 2019. As at reporting date, the Group has assessed the impact of the standard and the expected impacts are as follows:
1. Increase in assets and liabilities amounting to $91,626 and $95,958 respectively.
2. Increase in the loss position on the consolidated statement of comprehensive income in the amount of $4,332.
3. It is not expected that there will be any net impact on the consolidated statement of cash flows.

New and amended standards adopted by the group

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.

Note 1. Significant accounting policies (continued)

AASB 15 Revenue from Contracts with Customers

a) 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 recognised 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 recognised the cumulative effect at the date of initial application by recognising the impact as an opening adjustment. In summary, the following immaterial adjustments were made to the amounts recognised in the consolidated statement of financial position 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 AASB15
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 revenue 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 recognised when the contractual performance obligation were met in 2017. Hence, an additional $64,877 should have been recognised, 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.

b) 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).

c) Sale of goods and services

The revenue for sale of goods are recognised at a point in time when the good has been transferred or delivered to the customer.

Note 1. Significant accounting policies (continued)

AASB 9 Financial Instruments
a) 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.

b) 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.

Refer to note 13 for analysis of expected credit loss.

c) 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 recognised from initial recognition of the receivables.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas of assumptions and estimates are:

(1) R&D Tax Incentives
From 1 July 2011 the Australian Government has provided a tax incentive, in the form of a refundable tax offset of 43.5%, for eligible research and development expenditure. Management has assessed its research and development activities and expenditure to determine which are likely to be eligible under the scheme. For the period ended 31 December 2018 the Company has recorded an item in other income of $685,412 (2017: $1,007,684) to recognise this amount which relates to this period.

(2) Share-based payment transactions
The group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the binomial and Black-Scholes methods taking into account the terms and conditions upon which the instruments were granted, as discussed in note 33. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

Note 2. Critical accounting judgements, estimates and assumptions (continued)

(3) Estimated impairment of intangibles
The group tests whether intangible assets have suffered any impairment at each reporting date. The recoverable amount of intangible assets is assessed at its value in use. This calculation requires the use of assumptions. (Refer to Note 16 for details of these assumptions).

Note 3. Commercial arrangement

On 6 January 2016, Phosphagenics announced that it had commenced confidential arbitration proceedings against Mylan, a wholly owned subsidiary of Mylan Incorporated, by filing notices of arbitration at the Singapore International Arbitration Centre (SIAC).

On 12 November 2018 the Company announced that the SIAC Tribunal had determined that Phosphagenics was unsuccessful in all of its claims and that the Board must therefore take into account a significant adverse costs order. The Company had spent approximately $5.6m on arbitration and legal fees to that date.

After the determination both parties prepared submissions on costs. During that time both parties agreed to settle the arbitration and Phosphagenics also agreed to an additional agreement with Strides, the company from which Mylan originally acquired the rights to TPM®-daptomycin as part of the acquisition of Agila. It was necessary for Phosphagenics to reach a settlement with both companies.

Both Mylan and Phosphagenics mutually agreed to forego all claims including arbitration costs, and to terminate the original Master Research Agreement (MRA) and Licensing Agreement (LA) including any ongoing obligations and rights. The Settlement Agreement includes various terms, including the following:

i) Mylan has full rights and discretion to license, market and/or sell TPM®-daptomycin as it sees fit,

ii) If Mylan decides to license, market and/or sell TPM®-daptomycin pursuant to i) above,
  a) POH will be entitled to a royalty of 5% of the net sales, and
  b) Mylan will source TPM® exclusively from POH, subject to POH being able to supply the TPM®

iii) POH is granted a non-exclusive license to develop, license, market and/or sell TPM®-daptomycin and in consideration POH agrees to develop a TPM® supply agreement with Mylan specifically for TPM®-daptomycin and sell to Mylan TPM® for that purpose at no greater than cost +25%.

iv) If POH decides to license, market and/or sell TPM®-daptomycin, pursuant to iii) above, Mylan will receive a royalty of 5% of the net sales.

v) Specific TPM®-daptomycin related intellectual property pursuant to and previously defined in the MRA and LA shall be the exclusive property of Mylan, with POH retaining all rights and intellectual property in TPM®, and

vi) The parties will exercise best efforts to, within six (6) months to execute any agreement reflecting the above arrangements.

Strides agreed to forego all claims against Phosphagenics including arbitration costs, in consideration of a one-off cash payment of 100,000 GBP (AUD $184,877), that was accrued at 31 December 2018.

In addition Strides was granted:

i) first right of refusal to “all POH human TPM® assets existing and not otherwise encumbered” at signing of the agreement, the terms of which will be negotiated in good faith at a later time, and

ii) a discount on the upfront, milestone and/or royalty payments associated with any/all deals which Strides completed with POH to a total accumulated value of the lesser of:
  i) 5 million GBP; or
  ii) the costs claimed and submitted to SIAC as part of the SIAC Arbitration No. 001 of 2016 and SIAC Arbitration No. 002 of 2016.

Note 4. Operating segments

Identification of reportable operating 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.

Operating segment information

Consolidated - 2018	Production and Personal Care $	Human Health $	Unallocated $	Total $
Sales, Licences and Royalties	1,258,879	135,396	-	1,394,275
Other income	-	566,830	54,910	621,740
Interest revenue	-	-	42,273	42,273
Income from government grants	-	557,304	128,108	685,412
Depreciation and amortisation	-	-	(725,639)	(725,639)
Impairment of intangible assets	-	-	(157,000)	(157,000)
Employee and directors benefit expense	(265,957)	(744,587)	(1,553,744)	(2,564,288)
Research expenses	(20,850)	(250,515)	(82,181)	(353,546)
Other operating expenses from continuing operations	(507,152)	(175,946)	(2,251,149)	(2,934,247)
Profit/(loss) before income tax expense	464,920	88,482	(4,544,422)	(3,991,020)
Income tax expense				-
Loss after income tax expense				(3,991,020)
Assets				
Segment assets	476,252	13,677	4,311,918	4,801,847
Total assets				4,801,847
Liabilities				
Segment liabilities	-	-	902,041	902,041
Total liabilities				902,041

Note 4. Operating segments (continued)

Consolidated - 2017	Production and Personal Care $	Human Health $	Unallocated $	Total $
Sales, Licences and Royalties	231,871	918,485	-	1,150,356
Other income	-	-	74,255	74,255
Interest revenue	-	-	35,997	35,997
Income from government grants	-	672,408	335,276	1,007,684
Depreciation and amortisation	(6,183)	-	(770,285)	(776,468)
Employee and directors benefit expense	(426,700)	(816,425)	(1,914,574)	(3,157,699)
Research expenses	-	(914,416)	(276,815)	(1,191,231)
Other operating expenses from continuing operations	(141,914)	(187,960)	(5,358,378)	(5,688,252)
Loss before income tax expense	(342,926)	(327,908)	(7,874,524)	(8,545,358)
Income tax expense				-
Loss after income tax expense				(8,545,358)
Assets				
Segment assets	512,942	207,815	7,518,757	8,239,514
Total assets				8,239,514
Liabilities				
Segment liabilities	-	-	1,836,152	1,836,152
Total liabilities				1,836,152

Understanding segment results

Revenues from external customers comes from the sale of services and TPM® products on a wholesale basis as well as royalties and licences. Revenues of approximately $1,050,802 are derived from a single external customer group. These revenues are attributed to the Production and Personal Care segment.

The entity is domiciled in Australia. The amount of its revenue from external customers broken down by location of customers is shown below.

Geographical information

	Sales, Licences and Royalties		**Geographical non-current assets**	
	2018 $	**2017 $**	**2018 $**	**2017 $**
Australia	36,496	35,891	1,554,582	2,434,564
Switzerland	1,050,802	-	-	-
United States	76,562	121,230	-	2,468
India	116,024	125,872	-	-
Japan	83,151	771,145	-	-
China	29,758	96,218	-	-
Singapore	1,482	-	-	-
	1,394,275	1,150,356	1,554,582	2,437,032

The geographical non-current assets above are measured in the same way as the financial statements. These assets are allocated based on the operations of the segments and physical location of assets.

Note 4. Operating segments (continued)

Accounting policy for operating segments
Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Note 5. Revenue from contracts with customers

	Consolidated	
	2018 $	2017 $
From continuing operations		
Sale of goods and services	1,252,316	469,288
Royalties and licences fees	141,959	681,068
Total revenue from contracts with customers	1,394,275	1,150,356

Disaggregation of revenue
The disaggregation of revenue from contracts with customers is as follows:

	Consolidated	
	2018 $	2017 $
Major product lines		
Production and Personal Care	1,258,879	231,871
Human Health	135,396	918,485
	1,394,275	1,150,356
Geographical regions		
Australia	36,496	35,891
Switzerland	1,050,802	-
United States	76,562	121,230
India	116,024	125,872
Japan	83,151	771,145
China	29,758	96,218
Singapore	1,482	-
	1,394,275	1,150,356
Timing of revenue recognition		
Sale of goods and services transferred at a point in time	1,245,753	131,478
Contract services rendered over time	6,563	337,810
Royalties and licence fees recognised over time	141,959	681,068
	1,394,275	1,150,356

Accounting policy for revenue from contracts with customers

Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

Note 6. Other income

	Consolidated 2018 $	Consolidated 2017 $
Net foreign exchange gain	48,246	-
Income from government grants	685,412	1,007,684
Interest income	42,273	35,997
Profit on sale of fixed assets	-	73,781
Termination and completion fees	566,830	-
Recoveries*	6,664	76,539
Miscellaneous income	-	474
Other income	1,349,425	1,194,475

*The Company recognises the payments received under Deeds of Settlement or from the Bankruptcy Trustee, related to the misappropriations announced in 2014, when they are virtually certain.

Accounting policy for government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the group will comply with all attached conditions. Government grants relating to costs are deferred and recognized in profit or loss over the period necessary to match them with the costs that they are intended to compensate. Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to the income statement on a straight-line basis over the expected lives of the related assets.

Accounting policy for interest income

Interest income is recognised on a time proportion basis using the effective interest rate method. All revenue is stated net of the amount of Goods and Services Tax (GST).

Note 7. Employee and directors benefits expenses

	Consolidated 2018 $	Consolidated 2017 $
Director fees	191,180	243,195
Research and development employee expenses	680,118	1,074,904
Redundancy costs	95,590	-
ESOP expenses	47,843	133,535
Other employee expenses	1,549,557	1,706,065
	2,564,288	3,157,699

Accounting policy for termination benefits

Termination benefits are payable when employment is terminated by the group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits at the earlier of the following dates: (a) when the group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of AASB 137 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

Note 8. Legal expenses

	Consolidated 2018 $	Consolidated 2017 $
Legal expenses associated with arbitrations	138,705	3,439,377
Other legal and settlement expenses	307,850	144,763
	446,555	3,584,140

Note 9. Other expenses

	Consolidated 2018 $	Consolidated 2017 $
Net foreign exchange loss	-	23,788
Travel	197,486	268,887
Doubtful debts	108,700	-
Insurance	164,851	150,543
Shareholder and listing expenses	131,972	127,790
Patent portfolio expenses	299,854	330,508
Occupancy expenses	187,860	282,855
Other	(34,005)	150,212
	1,056,718	1,334,583

Note 10. Income tax expense

	Consolidated 2018 $	Consolidated 2017 $
Numerical reconciliation of income tax expense and tax at the statutory rate		
Loss before income tax expense from continuing operations	(3,991,020)	(8,618,028)
Profit before income tax expense from discontinued operations	-	72,670
	(3,991,020)	(8,545,358)
Tax at the statutory tax rate of 30%	(1,197,306)	(2,563,607)
Non-assessable income	(39,708)	(325,267)
Non-deductible expenses	70,685	1,902,885
Unused tax losses and tax offsets not recognised as deferred tax assets	1,166,329	985,989
Income tax expense	-	-

	Consolidated 2018 $	Consolidated 2017 $
Deferred tax assets not recognised		
The following items have not been brought to account as deferred tax assets:		
Tax losses not recognised (at current tax rate of 30%)	46,872,585	43,984,118
Total deferred tax assets not recognised	46,872,585	43,984,118

Note 10. Income tax expense (continued)

The above potential tax benefit, which excludes tax losses, for deductible temporary differences has not been recognised in the statement of financial position as the recovery of this benefit is uncertain.

Tax Losses

Deferred tax assets have not been recognised in respect of carried forward tax losses.

Tax consolidation

(i) Members of the tax consolidated group and the tax sharing arrangement

Phosphagenics Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2009. Phosphagenics Limited is the head entity of the tax consolidated group.

(ii) Tax effect accounting by members of the tax consolidated group

Measurement method adopted under AASB Interpretation 1052 Tax Consolidation Accounting

The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the Group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 Income Taxes.

Accounting policy for income tax

The income tax expense or revenue for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

Note 10. Income tax expense (continued)

Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Phosphagenics Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation. As a consequence, these entities are taxed as a single entity and the deferred tax assets and liabilities of these entities are set off in the consolidated financial statements.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Accounting policy for Investment allowances and similar tax incentives

Companies within the group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure (eg the Research and Development Tax Incentive regime in Australia or other investment allowances). The group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense. A deferred tax asset is recognised for unclaimed tax credits that are carried forward as deferred tax assets.

Note 11. Discontinued operations

Description
The sale of branded cosmetics division, BioElixia, which was put on hold pending the outcome of the Prophase arbitration in early 2016, was completed in August 2017. Accordingly, this division has been treated as a discontinued operation for the period ended 31 December 2017.

Financial performance information

	Consolidated	
	2018	**2017**
	$	**$**
Profit on sale of BioElixia	-	200,000
Legal expenses	-	(127,330)
Profit before income tax expense	-	72,670
Income tax expense	-	-
Profit after income tax expense from discontinued operations	-	72,670

Accounting policy for discontinued operations
A discontinued operation is a component of the consolidated entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of profit or loss and other comprehensive income.

Note 11. Discontinued operations (continued)

Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the noncurrent asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the income statement.

Note 12. Current assets - cash and cash equivalents

	Consolidated	
	2018	**2017**
	$	**$**
Cash at bank	364,499	1,469,037
Short term deposit	1,746,672	1,429,559
	2,111,171	2,898,596

Accounting policy for cash and cash equivalents
For the purpose of presentation in the statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

Note 13. Current assets - trade and other financial assets at amortised cost

	Consolidated	
	2018	**2017**
	$	**$**
Trade receivables	400,965	212,322
Less: Allowance for expected credit losses	(108,700)	-
	292,265	212,322
R&D tax incentive credit receivable	328,037	1,727,684
Other financial assets at amortised cost	56,729	454,726
	384,766	2,182,410
	677,031	2,394,732

Note 13. Current assets - trade and other financial assets at amortised cost (continued)

Allowance for expected credit losses
An allowance for expected credit loss is recognised when there is objective evidence that the group may not be able to collect all the amounts due under the original terms of the invoice. Impaired debts are derecognised when they are assessed as uncollectable. Debts totalling $108,700 (2017: $nil) were deemed impaired at 31 December 2018. There were no debt written-off during the year (2017: $63,135).

Other balances within trade and other receivables do not contain impaired assets and are not past due. It is expected that these other balances will be received when due.

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	2018	**2017**	**2018**	**2017**	**2018**	**2017**
Consolidated	**%**	**%**	**$**	**$**	**$**	**$**
0 to 3 months overdue	-	-	292,265	111,198	-	-
3 to 6 months overdue	-	-	-	101,124	-	-
Over 6 months overdue	100%	-	108,700	-	108,700	-
R&D tax incentive credit receivable	-	-	328,037	1,727,684	-	-
Other receivables	-	-	56,729	454,726	-	-
			785,731	2,394,732	108,700	-

Accounting policy for trade and other financial assets at amortised cost
Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 45 days.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other financial assets at amortised cost are recognised at amortised cost, less any allowance for expected credit losses.

Fair value and credit risk

Due to the short term nature of these receivables, their carrying value is assumed to approximate their fair value. The maximum exposure to credit risk is the fair value of receivables.

Note 14. Current assets - inventories

	Consolidated	
	2018	**2017**
	$	**$**
Raw materials (at cost)	39,638	74,133
Finished goods (at cost)	60,211	217,509
	99,849	291,642

During 2018 $41,983 (2017: $35,360) was recognised as an expense for inventories written off or a provision raised for inventories adjusted to their net realisable value. This is recognised in other expenses.

Note 14. Current assets - inventories (continued)

Accounting policy for inventories
Raw materials and stores, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost comprises direct materials, direct labour and an appropriate proportion of variable and fixed overhead expenditure, the latter being allocated on the basis of normal operating capacity. Cost includes the reclassification from equity of any gains or losses on qualifying cash flow hedges relating to purchases of raw material but excludes borrowing costs. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale

Note 15. Non-current assets - plant and equipment

	Consolidated	
	2018	**2017**
	$	**$**
Plant and equipment	2,428,756	2,428,332
Less: Accumulated depreciation	(2,269,174)	(2,177,300)
	159,582	251,032

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Plant and equipment $	Total $
Balance at 1 January 2017	384,933	384,933
Additions	55,588	55,588
Disposals	(13,021)	(13,021)
Depreciation expense	(176,468)	(176,468)
Balance at 31 December 2017	251,032	251,032
Additions	424	424
Depreciation expense	(91,874)	(91,874)
Balance at 31 December 2018	159,582	159,582

Accounting policy for plant and equipment
All plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Note 15. Non-current assets - plant and equipment (continued)

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts, net of the residual values, over their estimated useful lives. The expected net useful lives are 3 to 10 years. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

Note 16. Non-current assets - intangibles

	Consolidated 2018 $	Consolidated 2017 $
Intellectual property	121,362,000	121,362,000
Less: Accumulated amortisation and impairment	(119,967,000)	(119,176,000)
	1,395,000	2,186,000

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Intellectual property $	Total $
Balance at 1 January 2017	2,786,000	2,786,000
Amortisation expense	(600,000)	(600,000)
Balance at 31 December 2017	2,186,000	2,186,000
Impairment of assets	(157,000)	(157,000)
Amortisation expense	(634,000)	(634,000)
Balance at 31 December 2018	1,395,000	1,395,000

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.

During 2018 financial year, 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.

Note 16. Non-current assets - intangibles (continued)

Accounting policy for intangible assets
Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Trademarks and licenses
Trademarks and licences have a finite useful life and are carried at cost less accumulated amortisation and impairment losses.

Development costs
An intangible asset arising from development expenditure on an internal project is recognised only when Phosphagenics can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Any expenditure capitalised is amortised over the period of expected future benefit from the related project on a straight line basis.

Note 17. Current liabilities - trade and other payables

	Consolidated	
	2018 $	2017 $
Trade payables	132,364	1,079,885
Accrued expenses	379,387	78,160
Other payables	60,210	80,793
	571,961	1,238,838

Refer to note 22 for further information on financial instruments.

Trade payables are non-interest bearing and are generally settled on 30 day terms. Other payables are non-trade payables and non-interest bearing.

Accounting policy for trade and other payables
These amounts represent liabilities for goods and services provided to the group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 30 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period.

The carrying amounts of trade and other payables are considered to be the same as fair values, due to their short term nature.

Note 18. Current liabilities - provisions

	Consolidated 2018 $	2017 $
Annual leave	122,322	195,608
Long service leave	178,219	170,821
	300,541	366,429

Accounting policy for short-term employee benefits
Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for accumulating sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

Note 19. Non-current liabilities - provisions

	Consolidated 2018 $	2017 $
Long service leave	29,539	46,545

Accounting policy for long-term employee benefits
Long term employee benefits includes long service leave that are not expected to be settled wholly within 12 months after the end of the period in which the employees render the related service. They are therefore recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period of government bonds with terms and currencies that match, as closely as possible, the estimated future cash outflows. Remeasurements as a result of experience adjustments and changes in actuarial assumptions are recognised in profit or loss.

The obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

Note 20. Equity - issued capital

	Consolidated			
	2018 Shares	2017 Shares	2018 $	2017 $
Ordinary shares - fully paid	1,577,457,420	1,486,011,553	232,632,424	231,274,227

Note 20. Equity - issued capital (continued)

Movements in ordinary share capital

Details	Date	Shares	Issue price	$
Balance	1 January 2017	1,261,965,957		228,099,705
Issue of shares	27 October 2017	224,045,596	$0.015	3,360,685
Cost of issue		-	$0.000	(186,163)
Balance	31 December 2017	1,486,011,553		231,274,227
Issue of shares	18 January 2018	91,445,867	$0.015	1,371,688
Cost of issue		-	$0.000	(13,491)
Balance	31 December 2018	1,577,457,420		232,632,424

Accounting policy for issued capital
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group Company purchases the Company's equity instruments, for example as the result of a share buy-back or a share-based payment plan, the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to the owners of Phosphagenics Limited as treasury shares until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the owners of Phosphagenics Limited.

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back
There is no current on-market share buy-back.

Accounting policy for dividends
Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the entity, on or before the end of the reporting period but not distributed at the end of the reporting period.

Note 21. Equity - reserves

	Consolidated	
	2018	2017
	$	$
Business combination reserve	27,812,871	27,812,871
Other equity-settled benefits	305,323	305,323
Foreign currency reserve	20,527	3,980
Employee equity-settled benefits reserve	2,277,202	2,229,359
	30,415,923	30,351,533

Foreign currency reserve
The reserve is used to record the translation from Phosphagenics Inc.'s functional currency into Phosphagenics Limited's reporting currency.

Note 21. Equity - reserves (continued)

Business combinations reserve
The reserve is used to record fair value adjustments relating to the business combination.

Other equity-settled benefits reserve
The reserve is used to record the value of equity benefits provided to suppliers as part of their remuneration.

Employee share option and share plan reserve
The reserve is used to record the value of equity benefits provided to employees and Directors as part of their remuneration. For further details refer to note 33 in the Financial Statements.

Note 22. Financial instruments

Financial risk management objectives
This note explains the group's exposure to financial risks and how these risks could affect the group's future financial performance. Current year profit and loss information has been included where relevant to add further context.

The group's overall risk management program recognises the unpredictability of financial markets and seeks to minimise material adverse effects on the financial performance of the group. The Chief Executive Officer, Chief Financial Officer and Executive Management team are responsible to the Board through the audit and risk committee for the risk management program.

Risk	Exposure arising from:	Measurement	Management
Market risk - interest rate	Cash deposits at variable rates	Sensitivity analysis	n/a
Market risk - foreign exchange	Future commercial transactions	Cash flow forecasting	Foreign currency hedges
	Recognised financial assets and assets and liabilities not denominated in AUD	Sensitivity analysis	Foreign currency hedges
Credit risk	Cash and cash equivalents, trade receivables	Aging analysis	Credit limits
Liquidity risk	Other liabilities	Rolling cash flow forecast	Availability of cash

Market risk

Foreign currency risk
Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the group's functional currency. The group operates in the United States as well as sells TPM® products and buys raw materials for their production which are denominated in US dollars. The Company still has outstanding commitments related to the reformulation of the TPM®/Oxymorphone patch which are denominated in Euros. The group is exposed to foreign exchange risk arising from currency exposures of transactions in US dollars and Euros.

The Chief Executive Officer and Chief Financial Officer regularly monitor the potential impact of movements in foreign exchange exposure and from time to time may take out short-term foreign exchange hedges for committed expenditures.

Approximately 83% of total revenue (2017: 71%) is denominated in currencies other than the presentation currency of the Group (Australian dollars), whilst approximately 79% (2017: 89%) of costs are denominated in the Groups presentation currency.

At 31 December 2018 the Group had the following exposure to US dollar foreign currency not designated in cash flow hedges:

	Assets		Liabilities	
	2018	**2017**	**2018**	**2017**
Consolidated	**$**	**$**	**$**	**$**
US dollars	365,638	282,846	(76,677)	(42,426)

Note 22. Financial instruments (continued)

Sensitivity

The group is primarily exposed to changes in US/AUD exchange rates. The sensitivity of profit or loss to changes in the US/AUD exchange rate arises mainly from US-denominated financial assets and liabilities.

	AUD/USD strengthened	AUD strengthened		AUD/USD weakened	AUD weakened	
Consolidated - 2018	**% change**	**Effect on profit before tax**	**Effect on equity**	**% change**	**Effect on profit before tax**	**Effect on equity**
Net USD denominated financial assets	10%	(28,896)	(28,896)	(10%)	28,896	28,896

	AUD/USD strengthened	AUD strengthened		AUD/USD weakened	AUD weakened	
Consolidated - 2017	**% change**	**Effect on profit before tax**	**Effect on equity**	**% change**	**Effect on profit before tax**	**Effect on equity**
Net USD denominated financial assets	10%	(21,847)	(21,847)	(10%)	26,702	26,702

Price risk
The consolidated entity is not exposed to any significant price risk.

Interest rate risk
The group holds interest bearing assets and therefore the income and operating cash flows are exposed to market interest rates. At the end of the reporting period, the group had the following term and at call deposits.

As at the reporting date, the consolidated entity had the following variable rate borrowings and interest rate swap contracts outstanding:

Consolidated	**2018 Balance $**	**2017 Balance $**
Cash and cash equivalents	2,111,171	2,898,596
Net exposure to cash flow interest rate risk	2,111,171	2,898,596

An analysis by remaining contractual maturities in shown in 'liquidity and interest rate risk management' below.

Sensitivity

Profit or loss is sensitive to higher/lower interest income from cash and cash equivalents as a result of changes in interest rates. Equity does not change as a result of increase/decrease in interest rates as the group does not hold financial assets or liabilities designated as cash flow hedges.

	Basis points increase			Basis points decrease		
Consolidated - 2018	**Basis points change**	**Effect on profit before tax**	**Effect on equity**	**Basis points change**	**Effect on profit before tax**	**Effect on equity**
Cash and cash equivalents	100	21,112	21,112	(50)	(10,556)	(10,556)

Note 22. Financial instruments (continued)

	Basis points increase			**Basis points decrease**		
Consolidated - 2017	**Basis points change**	**Effect on profit before tax**	**Effect on equity**	**Basis points change**	**Effect on profit before tax**	**Effect on equity**
Cash and cash equivalents	100	28,986	28,986	(50)	(14,493)	(14,493)

Credit risk
Credit risk arises from the financial assets of the Group comprising cash and cash equivalents and trade and other receivables. Credit risk refers to the risk the counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and setting appropriate credit limits, as a means of mitigating the risk of financial loss from defaults.

Group exposure to counterparties are continuously monitored and the aggregate value of transactions concluded are with approved counterparties. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The Group measures credit risk on a fair value basis.

The carrying value of financial assets recorded in the financial statements, net of any allowances for losses, represents the Groups maximum exposure to credit risk. Maturity analysis of financial assets and liabilities based on management's expectations as follows:

31 December 2018	≤ 6 months $	6-12 months $	1-5 years $	>5 years $	Total $
Financial assets					
Cash and cash equivalents	2,111,171	-	-	-	2,111,171
Trade and other receivables	677,031	-	-	-	677,031
Total financial assets	2,788,202	-	-	-	2,788,202

	≤ 6 months $	6-12 months $	1-5 years $	>5 years $	Total $
Financial liabilities					
Trade and other payables	571,961	-	-	-	571,961

Liquidity risk
Prudent liquidity risk management implies maintain sufficient cash balances. The directors regularly monitor the cash positon of the group, giving consideration to the level of expenditure and future project commitments.

Fair value of financial instruments
Due to the short term nature of the financial instruments, their carrying value is assumed to approximate their fair value.

Note 23. Key management personnel disclosures

Compensation
The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated 2018 $	Consolidated 2017 $
Short-term employee benefits	1,373,170	1,584,125
Post-employment benefits	127,353	136,626
Long-term benefits	16,663	14,469
Share-based payments	28,520	88,109
	1,545,706	1,823,329

Note 24. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by PricewaterhouseCoopers, the auditor of the company:

	Consolidated 2018 $	Consolidated 2017 $
Audit services - PricewaterhouseCoopers		
Audit and review of the financial statements	112,000	112,311

Note 25. Contingent asset and liabilities

Refer to note 3 for details in relation to commercial arrangements. There were no other contingent asset and liabilities for the year ended 31 December 2018.

Note 26. Commitments

	Consolidated 2018 $	Consolidated 2017 $
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	89,439	86,480
One to five years	7,471	100,620
	96,910	187,100

Cash Commitments

The Company holds term deposits totalling $85,730 (2017: $125,730) as security for the corporate credit card facility and lease at its principal place of business.

Note 27. Related party transactions

Parent entity
Phosphagenics Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 29.

Note 27. Related party transactions (continued)

Key management personnel
Disclosures relating to key management personnel are set out in note 23 and the remuneration report included in the directors' report.

Transactions with other related parties
There were no transactions with other related parties during the current and previous financial year.

Receivable from and payable to related parties
There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties
There were no loans to or from related parties at the current and previous reporting date.

Note 28. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	2018	**2017**
	$	**$**
Loss after income tax	(3,868,434)	(7,752,638)
Total comprehensive income	(3,868,434)	(7,752,638)

Statement of financial position

	Parent	
	2018	**2017**
	$	**$**
Total current assets	2,826,549	5,627,453
Total assets	30,731,828	33,927,492
Total current liabilities	873,418	1,671,608
Total liabilities	873,418	1,794,231
Equity		
Issued capital	232,632,425	231,274,227
Other equity-settled benefits	305,323	305,323
Foreign currency reserve	365,721	243,063
Employee equity-settled benefits reserve	2,277,202	2,229,359
Accumulated losses	(205,722,261)	(201,918,711)
Total equity	29,858,410	32,133,261

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries
The parent entity had no guarantees in relation to the debts of its subsidiaries as at 31 December 2018 (2017: Nil).

Contingent liabilities
The parent entity had no contingent liabilities as 31 December 2018 (Refer to note 3).

Capital commitments - plant and equipment
The parent entity had no capital commitments for plant and equipment as at 31 December 2018 (2017: Nil).

Note 28. Parent entity information (continued)

Significant accounting policies
The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:
- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 29. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries:

Name	Principal place of business / Country of incorporation	Ownership interest 2018 %	2017 %
Vital Health Sciences Pty Ltd	Australia	100%	100%
Phosphagencis Inc.	USA	100%	100%
Preform Technologies Pty Ltd*	Australia	100%	100%
Adoil Pty Ltd*	Australia	100%	100%

* Non-operating subsidiaries

Note 30. Events after the reporting period

On 27 March 2019, Phosphagenics announced that Dr Ross Murdoch will step down from his role as Chief Executive Officer, and becoming a Non-Executive Director effective 1 April 2019. The Board had agreed to the early release from his six month notice period, in exchange for releasing Phosphagenics from paying any outstanding contractual entitlements.

Dr Greg Collier will assume the role of Executive Chairman, and will be closely supported by Dr Paul Gavin (Chief Scientific Officer) and Dr Roksan Libinaki (GM Animal Health & Production) who will make up the Executive Management team.

No other matter or circumstance has arisen since 31 December 2018 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 31. Reconciliation of loss after income tax to net cash used in operating activities

	Consolidated 2018 $	Consolidated 2017 $
Loss after income tax expense for the year	(3,991,020)	(8,545,358)
Adjustments for:		
Depreciation and amortisation	725,639	776,468
Impairment of intangibles	157,000	-
Share-based payments	47,843	133,535
Foreign exchange differences	16,781	(5,859)
Interest received	(42,273)	(33,816)
Write down of fixed assets for obsolescence	-	11,502
Profit on sale of plant and equipment	-	(73,781)
Change in operating assets and liabilities:		
Decrease in trade and other financial assets at amortised cost	1,717,701	1,212,797
Decrease/(increase) in inventories	191,793	(54,625)
(Increase)/decrease in other current assets	(141,702)	29,678
Decrease in trade and other payables	(666,877)	(79,322)
(Decrease)/Increase in deferred revenue	(119,463)	184,340
(Decrease)/Increase in provisions	(82,893)	23,479
Net cash used in operating activities	(2,187,471)	(6,420,962)

Note 32. Earnings per share

	Consolidated 2018 $	Consolidated 2017 $
Earnings per share for loss from continuing operations		
Loss after income tax attributable to the owners of Phosphagenics Limited	(3,991,020)	(8,618,028)
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	1,572,947,761	1,301,864,488
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,572,947,761	1,301,864,488
	Cents	**Cents**
Basic earnings per share	(0.25)	(0.66)
Diluted earnings per share	(0.25)	(0.66)

	Consolidated 2018 $	Consolidated 2017 $
Earnings per share for profit from discontinued operations		
Profit after income tax attributable to the owners of Phosphagenics Limited	-	72,670
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	1,572,947,761	1,301,864,488
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,572,947,761	1,301,864,488

Note 32. Earnings per share (continued)

	Cents	Cents
Basic earnings per share	-	0.01
Diluted earnings per share	-	0.01

	Consolidated 2018 $	Consolidated 2017 $
Earnings per share for loss		
Loss after income tax attributable to the owners of Phosphagenics Limited	(3,991,020)	(8,545,358)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	1,572,947,761	1,301,864,488
Weighted average number of ordinary shares used in calculating diluted earnings per share	1,572,947,761	1,301,864,488

	Cents	Cents
Basic earnings per share	(0.25)	(0.66)
Diluted earnings per share	(0.25)	(0.66)

There are no instruments (e.g. share options) excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future. There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

Accounting policy for earnings per share

Basic loss per share
Basic loss per share is calculated by dividing:
– the loss attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
– by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted loss per share
Diluted loss per share adjusts the figures used in the determination of basic loss per share to take into account:
– the after income tax effect of interest and other financing costs associated with dilutive potential
– ordinary shares, and

the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares

Note 33. Share-based payments

The Group provides benefits to service providers in the form of share-based payments. Employees render services in exchange for rights over shares (equity-settled transactions). There is currently one scheme in place to provide these benefits to employees, being the Equity Incentive Plan (EIP), under which there are two variations:

Note 33. Share-based payments (continued)

– The EIP 2016 Option Plan was approved by the Board in September 2017, and also by the shareholders at the May 2017 AGM, and is designed to reward staff in a manner that aligns remuneration with the creation of shareholder wealth and to ensure that all staff, including executives, view their relationship with the Group as a long-term one. As such the EIP has been offered to all staff who met the minimum service criteria, with vesting requiring continuation of service as well as achievement of a predefined share price. The vesting share price condition requires that for a period of 3-months before and after the annual vesting date that the 5-day weighted share price increase from the share price on the offer date ($0.021) by 50% ($0.32) relating to September 2017,100% ($0.042) relating to September 2018 and 150% ($0.053) relating to September 2019. The EIP allows staff to exercise vested options at $0.023
– In May 2017 shareholders approved the award of non-performance based options (EIP 2017 Options) to directors, where under the terms of the EIP, the strike price is the same as the employee options at $0.023 and further one-third of the options vest each September of 2017, 2018 and 2019, with the sole vesting condition that the director remains in office at that vesting date.

All options granted to key management personnel have been issued in accordance with the provisions of the Equity Incentive Plan (EIP).

Set out below are summaries of options granted under the plan:

2018

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
23/05/2014	22/05/2019	$0.171	3,000,000	-	-	-	3,000,000
06/10/2016	09/09/2021	$0.023	19,821,300	-	-	(14,852,550)	4,968,750
31/05/2017	09/09/2021	$0.023	10,000,000	-	-	(5,000,000)	5,000,000
31/05/2017	09/09/2021	$0.023	5,250,000	-	-	(1,500,000)	3,750,000
			38,071,300	-	-	(21,352,550)	16,718,750
Weighted average exercise price			$0.035	$0.000	$0.000	$0.023	$0.049

2017

Grant date	Expiry date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
23/05/2014	22/05/2019	$0.171	3,000,000	-	-	-	3,000,000
06/10/2016	09/09/2017	$0.023	33,948,150	-	-	(14,126,850)	19,821,300
31/05/2017	09/09/2021	$0.023	-	15,000,000	-	(5,000,000)	10,000,000
31/05/2017	09/09/2021	$0.023	-	5,250,000	-	-	5,250,000
			36,948,150	20,250,000	-	(19,126,850)	38,071,300

When a participant in the EIP ceases employment prior to the vesting of their options, the options are forfeited unless cessation of employment is due to retirement or death or otherwise provided by the Board of directors.

During the year ended 31 December 2018 $27,049 (2017: 13,411) was reversed as a result of forfeited unvested options. An amount of $74,892 (2017: $151,066) was recognised as an expense in the period. The net expense recognised in the period relating to options was $47,843 (2017: $137,655).

Note 33. Share-based payments (continued)

Option pricing model

Fair value for the EIP 2016 Option was calculated using a variation of the Black-Scholes model which took account of the share-price hurdle vesting condition. Fair value for the EIP 2017 Option was calculated using the Black-Scholes model. Options will be settled in ordinary shares of Phosphagenics Limited and vested options lapse if unexercised after the expiry date.

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

Model Inputs	2017 Options	2016 Options
Dividend yield %	0.0%	0.0%
Expected volatility %	60%	60%
Risk-free interest rate %	1.76%	1.76%-1.83%
Option life (years)	4.28 years	4.28 years - 4.93 years
Option Exercise price $	$0.023	$0.023
Weighted Average Share price at measurement date	$0.017	$0.017 - $0.026

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

Accounting policy for share-based payments
Share-based compensation benefits are provided to employees via the Phosphagenics Employee Option Plan and an employee share scheme.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The fair value of options granted under the Phosphagenics Employee Option Plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions.

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each period, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

Greg Collier
Chairman

27 March 2019

Independent auditor's report

To the members of Phosphagenics Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Phosphagenics Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its financial performance for the year then ended

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 31 December 2018
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Material uncertainty related to going concern

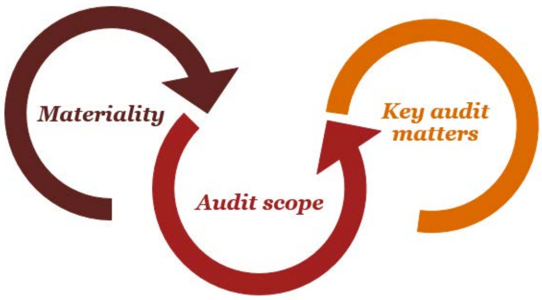
We draw attention to Note 1 in the financial report, which states for the year ended 31 December 2018, the Group has incurred losses of $3,991,020, experienced net cash outflows from operations of $2,187,471 and had cash and cash equivalents of $2,111,171. The directors continue to pursue a number of actions to fund its operations, including licencing, joint venture and partnering opportunities, and may need to raise additional capital. These conditions, along with other matters outlined in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

The Group operates in the biotechnology industry, undertaking development and optimisation of proprietary drug delivery methodology for pharmaceutical, consumer products and animal health sectors. The Group owns a portfolio of proprietary technology with applications in different stages between development and commercialisation. Operations are primarily based in Australia.



Materiality	Audit scope	Key audit matters
• For the purpose of our audit we used overall Group materiality of $196,850, which represents approximately 5% of the Group's loss before tax. • We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the	• Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. • The accounting processes are structured around a Group finance function at the	• Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee: – Material uncertainty related to going concern – Carrying value of intangible assets

Materiality	Audit scope	Key audit matters
nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. • We chose the Group loss before tax because it is the benchmark against which performance of the Group is most commonly measured by users, and is a generally accepted benchmark. • We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.	corporate head office in Melbourne, where we predominantly performed our audit procedures.	– Research and development tax incentive • These are further described in the *Key audit matters* section of our report, except for one matter which is described in the *material uncertainty related to going concern* section.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Key audit matter	How our audit addressed the key audit matter
Carrying value of intangible assets *(Refer to Note 16, Non-current assets - intangibles)* *$1.4 million* The Group holds amortising intangible assets which relate to patents that were purchased by the Group at 31 December 2004. Other intellectual property developed by the Group is not capitalised on the balance sheet. At 30 June 2018 an impairment expense of $157,000 was recognised as a future revenue stream relating to a specific patient portfolio could no longer be identified.	For the impairment recognised during 2018, we performed the following procedures: • Obtained evidence that the Group's impairment assessment on the particular patent portfolio was appropriate. • Compared the impairment amount with the related patent portfolio's carrying value as of 30 June 2018 to check the patent portfolio had been fully impaired and no balance remained. For the remaining intangibles, we performed the following procedures, amongst others, to evaluate the Group's assessment that there were no indicators of impairment:

Key audit matter	How our audit addressed the key audit matter
Subsequently, in accordance with Australian Accounting Standards, the Group considered at year-end if there are any indicators that the remaining intangible assets are impaired. The two main indicators considered were; • market capitalisation; and • the ongoing viability of the capitalised patent portfolio. At 31 December 2018 the Group did not identify any impairment indicators and therefore did not impair any other intangible assets. We considered the carrying value of intangible assets a key audit matter due to their financial significance and the inherent judgement required by the Group in assessing indicators of impairment.	• Compared the Group's market capitalisation to its net assets as at 31 December 2018, noting that its market capitalisation of $7.9m exceeded its net assets of $3.9m by $4m. • Assessed if there were significant changes to the key assumptions (including product market size, patent life, risk factors and discount rate) used in the Group's valuation models from previous periods, by: o Inspecting Board of Directors meeting minutes. o Enquiring of key operational and finance staff and developing an understanding of the current status, ongoing viability and future intentions for each product to which the patents have been allocated and that has a carrying value as at 31 December 2018. o Inspecting evidence of commercial arrangements in place and meeting minutes held with regulatory bodies to support the future viability of the assets. • Inspected the Group's paper on the assessment of impairment indicators that was presented to the Audit and Risk Committee and considered whether there was additional information that might indicate that the patents portfolio may be impaired.
Research and development tax incentive *(Refer to Note 13, Current assets - trade and other financial assets at amortised cost) $0.3 million* Under the research and development (R&D) Tax Incentive scheme, the Group is entitled to receive a 43.5% refundable tax offset of eligible expenditure if its turnover is less than $20 million per annum provided and it is not controlled by income tax exempt entities. An R&D plan is filed with AusIndustry in the following financial year, and based on this filing, the Group receives the incentive in cash. The Group prepared an estimate of its total research and development expenditure to determine the potential claim under the R&D tax incentive legislation.	We considered the Group's R&D tax estimate to assess the amount accrued as at 31 December 2018. Our procedures included: • Agreeing the estimates made in previous years to the amount of cash actually received after lodgement of the R&D tax claim. • Comparing the nature of the R&D expenditure included in the current year estimate to the prior year estimate. • Comparing the amount of eligible expenditure used to calculate the estimate to the expenditure recorded in the general ledger.

Key audit matter	*How our audit addressed the key audit matter*
The receivable at year end for the incentive includes an estimated claim of $0.3m relating to the period from 1 July 2018 to 31 December 2018. Refunds related to the previous period were received in full before the balance sheet date. We considered the R&D tax incentive a key audit matter due to the size of the accrual and because judgement and interpretation of the R&D tax legislation is required by the Group to assess the eligibility of the R&D expenditure under the scheme.	

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 31 December 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the Directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 16 to 24 of the Directors' report for the year ended 31 December 2018.

In our opinion, the remuneration report of Phosphagenics Limited for the year ended 31 December 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The Directors of the Company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with the Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

A Linschoten

Anton Linschoten
Partner

Melbourne
27 March 2019

The shareholder information set out below was applicable as at 19 March 2019.

Distribution of equitable securities
Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares
1 to 1,000	459
1,001 to 5,000	913
5,001 to 10,000	690
10,001 to 100,000	2,165
100,001 and over	1,297
	5,524
Holding less than a marketable parcel	4,518

Equity security holders

Twenty largest quoted equity security holders
The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares	
	Number held	% of total shares issued
1. HSBC Custody Nominees (Australia) Limited	84,810,166	5.38
2. Mr Mark Gregory Kerr (Lindmark Inv Staff S/F A/C)	67,153,797	4.26
3. Mr Mark Gregory Kerr + Mrs Linda Marie Kerr (Lindmark Inv Staff S/F A/C)	59,179,837	3.75
4. BNP Paribas Noms Pty Ltd (DRP)	42,257,490	2.68
5. Paradyce Pty Ltd (The Paradyce A/C)	38,600,000	2.45
6. Rosscope Pty Ltd (Ross Copeland Family A/C)	30,558,184	1.94
7. Mr Ross Copeland + Mrs Gina Copeland	23,018,212	1.46
8. ACK Pty Ltd (Markoff Super No 2 A/C)	20,494,147	1.30
9. Kazakco Pty Ltd (Kent Family A/C)	20,000,000	1.27
10. Citicorp Nominees Pty Limited	19,641,482	1.25
11. Mr Ross Graham Copeland + Mrs Gina Copeland (Publicity Press S/F A/C)	16,868,545	1.07
12. Mr Brandon Armon Batagol	16,005,597	1.01
13. Dr Maurice Arthur Trewhella + Mrs Elizabeth Trewhella (Simpetejen Super Fund A/C)	16,000,000	1.01
14. Citycastle Pty Ltd	15,600,000	0.99
15. BHL Pension Pty Ltd (BHL Pension Fund A/C)	15,000,000	0.95
16. J P Morgan Nominees Australia Pty Limited	13,523,788	0.86
17. Gold Road Orient Holdings Pty Ltd	12,500,000	0.79
18. Mr David Segal	11,000,000	0.70
18. Mr Gary Dean Shaw	11,000,000	0.70
18. SSDG Pty Ltd (SSDG Super Fund A/C)	11,000,000	0.70
	544,211,245	34.52

Unquoted options

	Number on issue	Number of holders
Employee and Director options	13,718,750	10
Options expiring 22 May 2019	3,000,000	3

The following persons hold 20% or more of unquoted options:

Name	Class	Number held
Dr G Cauwenberg	Options expiring 22 May 2019	1,000,000
Mr N Drona	Options expiring 22 May 2019	1,000,000
Montoya Pty Ltd (ATF Buttercup Trust)	Options expiring 22 May 2019	1,000,000

Substantial holders
Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
Mark Gregory Kerr	169,583,634	10.75

Voting rights
The voting rights attached to ordinary shares are set out below:

Ordinary shares
On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Unquoted options
Unquoted options do not have voting rights.