PHOSPHAGENICS

ASX Limited
Market Announcements Office

Phosphagenics – Appendix 4D Report and Financial Report for Half-Year ended 30 June 2013

30 August 2013, Melbourne: Australian drug delivery technology company Phosphagenics Limited (ASX: POH, OTCQX: PPGNY) today releases its consolidated Appendix 4D Report and Financial Report for the half-year ended 30 June 2013.

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

Financial Results

For the six months ended 30 June 2013, the Company returned a loss after tax of $6.1 million (2012: $5.9 million). Revenue and other income for the period totalled $3.4 million (2012: $2.4 million), including $0.6m from recoveries of misappropriations (2012: nil) and $1.7 million relating to the R&D tax incentive (2012: $0.8 million).

Revenues from sale of goods for the six months ended 30 June 2013 of $0.5 million were 40% lower than $0.7 million reported for the first half 2012. Although revenue in the current period was boosted by a 26% increase in sales in Australia and sales to GNC, the overall result was affected by the timing of sales for Vital ET, which will be received in the second half.

At 30 June 2013 the Company held $14.1 million in cash (31 December 2012: $16.9 million).

As at 30 June 2013 Shareholders' Equity totalled $47.0 million (31 December 2012: $53.0 million).

Operating Review

A number of R&D advances were achieved in the first half 2013 including:

Opioid Pain Patch Program

The TPM/oxymorphone and TPM/oxycodone patches completed Phase 1 Pharmacokinetic trials in the first half. Both patches were able to deliver the drug into the bloodstream for 72 hours. The data from these trials has enabled Phosphagenics to plan the way forward for the patch program with clinical trials continuing.

Diclofenac

Phosphagenics Indian partner, Themis, announced in April 2013 that it had sub-licensed the Phosphagenics formulated diclofenac gel to Novartis. Novartis is the owner of the market leading diclofenac product Voltaren®. Also in April Phosphagenics extended its agreement with Nippon Zoki to develop a diclofenac product for the US prescription market.

BioElixia

BioElixia® continues to bring out new products with the current launch of the anti-stretch mark crème and a range of complementary BodyShaper® products including body scrub, body wash and body moisturiser. The anti-stretchmark product launch is likely to be the most successful new product launch in the two years since the launch of the original BodyShaper®.

Animal Health

Phosphagenics announced that it had reached agreement with ARS, the research arm of the USDA (United States Department of Agriculture). Phosphagenics and the USDA are investigating the effectiveness of TPM® in combination with various supplements in the treatment of mastitis in dairy cows.

Looking Forward

Phosphagenics' clinical programs will continue in the second half of 2013. The Phase 2 TPM/tretinoin trials have already started with the trial being conducted on 45 patients. The results of the trial to evaluate the effectiveness of TPM/tretinoin in the treatment of acne vulgaris should be available around the end of the year.

The TPM/oxymorphone multi-dose Phase 1 trial is due to start next month and should also have results by year's end. On the assumption that the multi-dose trial is successful, the Company plans a Phase 2 TPM/oxymorphone trial in first half of 2014. A planned TPM/oxycodone Phase 2 trial will look at postherpetic neuralgia (PHN) and/or osteoarthritis as pain indications and will be delivered as a topical formulation using the patch. This trial is also planned for H1 2014. Other products that will be undergoing pre-clinical development include ketoconazole andlidocaine(in preparation for further proposedclinical development in 2014).

In 2014 the Company expects to have sufficient data from the Phase 2 clinical trials referred to aboveto be able to negotiate partnering arrangements on some of our programs.

The BioElixia® brand is expected to show much improved revenue figures in the second half of 2013 boosted by the current sales of the anti-stretch mark cream. New products will continue to be introduced. Phosphagenics is hopeful that its formulated products will be expanded overseas with arrangements similar to its GNC partnership where GNC has branded, marketed and sold its product in the US. There are other interested parties also looking to launch our formulations and products into other regions.

The Phosphagenics formulated TPM/diclofenac product is to be launched by Novartis in India in Quarter 1 2014. TPM® for use in the manufacture of the launch products was sent to Themis in July.

The USDA mastitis trials will continue through the second half of 2013 and into 2014. In the meantime, TPM® based products are being sold into the racehorse industry with expansion into new regions likely.

In late June the Company discovered supplier invoicing irregularities of approximately $5.7 million. Subsequently, a further misappropriation of $0.5 million has been identified. The Company has retained independent legal advisors and forensic accountants to undertake an investigation. The Company suspended the CEO,Dr Esra Ogru, on 1st July and Harry Rosen returned from the New York office to assume the role of sole CEO. The forensic investigation found that six parties (including the former CEO and another staff member) were involved in the misappropriation of the Company's funds, which misappropriations occurred over a period from 2005 to 2013.

The financial position of the Company will be improved through the recovery of misappropriated funds which the Company believes will be in excess of $4.0 million (which includes the $0.6 million already recovered). The Company is actively pursuing full restitution.

ENDS

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About Phosphagenics

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

The lead products advancing through clinical trials are an oxycodone and oxymorphone matrix system for the relief of chronic pain.

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

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

Appendix 4D

PHOSPHAGENICS LIMITED

ABN 32 056 482 403

Half Year Report

Period Ended 30 June 2013

(Previous Corresponding Period: Half year ended 30 June 2012)

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

Results for announcement to the market

		$A'000	$A'000
		6 months 30 June 2013	**6 months 30 June 2012**
Revenues from ordinary activities	(Down39%)	929	1,530
(Loss) from ordinary activities after tax attributable to members	(Up20%)	(6,072)	(5,953)
Net (Loss) for the period attributable to members	(Up 20%)	(6,072)	(5,953)

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

Net Tangible Assets Per Security

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

	30 June 2013	30 June 2012
Net tangible assets per security	1.69 Cents	2.35 Cents

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

For the six months ended 30 June 2013, the Company returned a loss after tax of $6.072 million (2012: $5.953 million). Revenue from ordinary activities for the period totalled $0.929 million (2012: $1.530 million), including revenues from sale of goods of $0.485 million, which were 40% lower than $0.729million reported for the first half 2012. Although Revenue in the current period was boosted by a 26% increase in sales in Australia and sales to GNC, the overall result was affected by sales for Vital ET which will be received in the second half.

Other income received included $0.565m from recoveries of misappropriations (2012: nil) and $1.653 million relating to the R&D tax incentive (2012: $0.759 million).

In late June the Company discovered supplier invoicing irregularities of approximately $5.7 million. Subsequently a further $0.5m has been identified. The Company has retained independent legal advisors and forensic accountants to undertake an investigation. The Company suspended the CEO, Dr Esra Ogru, on 1st July and Harry Rosen returned from the New York office to assume the role of sole CEO. The forensic investigation found that six parties were involved, including the former CEO and another staff member, who were both dismissed. The misappropriations had occurred over a period from 2005 to 2013.

As a result of the misappropriations the Company identified two adjustments to its past financial reports which it has adjusted as prior period errors.

In addition the Company has made a voluntary change in accounting policy to amortise its intangible assets from their acquisition date. This adjustment is reflected in the half year report on a retrospective basis as required by Accounting Standards.

Cash at 30 June 2013 totalled $14.095 million (2012: $21.562 million); refer to the Statement of Cash Flow.

The financial position of the Company will be improved through the recovery of misappropriated funds which the Company believes will be in excess of $4.0m (which includes the $0.565m already recovered). The Company is actively pursuing full restitution.

For further explanation of the results please refer to the accompanying announcement, including the Financial Report for the Half Year ended 30 June 2013.

Phosphagenics Limited

ABN 32 056 482 403

Financial Report

for the half year ended 30 June 2013

Contents

Directors' Report

The Directors of Phosphagenics Limited submit their report for the half-year ended 30 June 2013.

DIRECTORS

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

Currently in Office

JONATHAN LANCELOT ADDISON (AGED 60 YEARS) BEC (TAS), ASIC, CFTP (SNR)
INDEPENDENT DIRECTOR SINCE NOVEMBER 2002, CHAIRMAN SINCE MAY 2010
LAST RE-ELECTED MAY 2013

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

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

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

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

HARRY ROSEN (AGED 66 YEARS) BA, LLB
EXECUTIVE DIRECTOR APPOINTED TO THE BOARD IN JUNE 1999
APPOINTED MANAGING DIRECTOR - PRESIDENT DECEMBER 2005
LAST RE-ELECTED MAY 2004*

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

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

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

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

DON CLARKE (AGED 59 YEARS) LLB (HONS)
INDEPENDENT DIRECTOR APPOINTED AUGUST 2010
ELECTED MAY 2013

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

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

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

STUART JAMES (AGED 64 YEARS) BA (HONS)
INDEPENDENT DIRECTOR APPOINTED AUGUST 2010
ELECTED MAY 2011

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

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

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

DR SANDRA WEBB (AGED 67 YEARS) BPHARM, PHD, DIP LAW
INDEPENDENT DIRECTOR APPOINTED AUGUST 2010
ELECTED MAY 2011

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

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

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

DR ESRA OGRU (AGED 38 YEARS) BSC (HONS) PHD
EXECUTIVE DIRECTOR SINCE OCTOBER 2005
CHIEF EXECUTIVE OFFICER SINCE MAY 2010
LAST RE-ELECTED MAY 2012
RESIGNED 18 JULY 2013

Dr Ogru was appointed CEO of Phosphagenics in April 2010. Her responsibilities included involvement in setting strategic direction and managing the Melbourne office.

FORMER DIRECTORS:

Dr Esra Ogru resigned 18 July 2013.

PRINCIPAL ACTIVITIES

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

RESULTS

For the six months ended 30 June 2013, the Company returned a loss after tax of $6.1 million (2012: $5.9 million). Revenue and other income for the period totalled $3.4 million (2012: $2.4 million), including $0.6m from recoveries of misappropriations (2012: nil) and $1.7 million relating to the R&D tax incentive (2012: $0.8 million).

Cash at 30 June 2013 totalled $14.1 million (31 December 2012: $16.9 million). As at 30 June 2013 Shareholders' Equity totalled $47.0 million (31 December 2012: $53.0 million).

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

DIVIDENDS

The Directors have not recommended the payment of any dividends and no dividends were declared, paid or reinvested in the period to 30 June 2013.

OPERATING AND FINANCIAL REVIEW

At the end of June 2013 the company held $14.1 million (31 December 2012: $16.9 million) in cash and cash equivalents.

Revenues from operations for the six months ended 30 June 2013 of $0.5 million were 40% lower than $0.7 million reported for the first half 2012. Although Revenue in the current period was boosted by a 26% increase in sales in Australia and sales to GNC, the overall result was affected sales for Vital ET which will be received in the second half.

The operating loss after tax was $6.1 million, compared to $5.9 million in 2012. For further details refer to the attached Financial Statements and notes.

A number of R&D Advances were achieved in the first half 2013 including:

Opioid Pain Patch Program

The TPM/Oxymorphone and TPM/ Oxycodone patches completed Phase 1 Pharmacokinetic trials in the first half. Both patches were able to deliver the drug into the bloodstream for 72 hours. The data from these trials has enabled Phosphagenics to plan the way forward for the patch program with clinical trials continuing.

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Looking Forward

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The Oxymorphone/TPM multi dose Phase 1 trial is due to start next month and should also have results by year's end. On the assumption that the multi dose trial is successful the Company plans a Phase 2 oxymorphone/TPM trial in first half of 2014. A planned oxycodone /TPM Phase 2 trial will look at Postherpetic neuralgia (PHN) and/or osteoarthritis as pain indications and will be delivered as a topical formulation using the patch. This trial is also planned for H1 2014. Other products that will be undergoing pre-clinical development include ketoconazole, lidocaine in preparation for them to enter the clinic in 2014.

In 2014 the Company expects to have data from the Phase 2 clinical trials, referred to above, which could be used to negotiate partnering arrangements on some of our programs.

The BioElixia brand is expected to show much improved revenue figures in the second half of 2013 boosted by the current sales of the anti-stretch mark cream. New products will continue to be introduced. Phosphagenics is hopeful that its formulated products will be expanded overseas with arrangements similar to its GNC partnership where GNC has branded, marketed and sold its product in the US. There are other interested parties are also looking to launch our formulations and products into other regions.

The Phosphagenics formulated diclofenac/TPM product is to be launched by Novartis in India in Quarter 1 2014. TPM for use in the manufacture of the launch products was sent to Themis in July.

The USDA Mastitis trials will continue through the second half of 2013 and into 2014. In the meantime, TPM based products are being sold into the racehorse industry with expansion into new regions likely.

In late June the Company discovered supplier invoicing irregularities of approximately $6.2 million and retained independent legal advisors and forensic accountants to undertake an investigation. The Company suspended the CEO, Dr Esra Ogru, on 1st July and Harry Rosen returned from the New York office to assume the role of sole CEO. The forensic investigation found that six parties were involved, including the former CEO and another staff member, who were both dismissed. The misappropriations had occurred over a period from 2005 to 2013.

The financial position of the company will be improved through the recovery of misappropriated funds. The company is actively pursuing full restitution.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the period to 30 June 2013 there was no significant change in the state of affairs of the consolidated entity other than that referred to in the half-year report or notes thereto.

SIGNIFICANT EVENTS AFTER BALANCE DATE

A forensic investigation was conducted during July in response to the discovery of supplier invoicing irregularities. This audit's findings indicated that over a period of years from 2005 to 2013 approximately $6.2 million was allegedly misappropriated from Phosphagenics by its former CEO Dr Esra Ogru and five other persons including one other staff member whose services have been terminated. Dr Ogru was suspended as CEO on 1st July 2013, resigned as a director on 18 July 2013 and dismissed as an employee on 22 July 2013

The company expects to recover a substantial proportion of the misappropriated funds and recently received its first repayment of approximately $565,000 from the sale of Dr Ogru's Phosphagenics shares. The Company has incurred legal and forensic costs to date of approximately $540,000. These costs will be added to and form part of any restitution claims against Dr Ogru and other parties involved.

LIKELY DEVELOPMENTS AND FUTURE RESULTS

Information regarding likely developments is included in the Looking Forward section of the Director's Report.

ROUNDING

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

REGISTERED OFFICE

11 Duerdin Street, Clayton, Victoria 3168

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

Jonathon Lancelot Addison
Chairman and Independent Director

Dated this 29th day of August 2013

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Auditor's Independence Declaration to the Directors of Phosphagenics Ltd

In relation to our review of the financial report of Phosphagenics Ltd for the half-year ended 30 June 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

David Petersen
Partner
29 August 2013

Consolidated Statement of Comprehensive Income

for the half-year ended 30 June 2013

		Consolidated	
	Notes	30 June 2013 $'000	30 June 2012 $'000
Revenue			
Sale of goods	4a	476	733
Licences	4a	108	133
Finance revenue	4a	345	664
Total Revenue		929	1,530
Cost of sales		(249)	(330)
Gross Profit		680	1,200
Income from government grants	4a	1,809	786
Other income	4a	615	66
Employee and Directors benefits expenses	4b	(2,480)	(2,281)
Occupancy and communications expenses		(326)	(307)
Consulting and professional expenses		(1,012)	(430)
Share of loss of associate		(21)	-
Research expenses		(1,797)	(1,172)
Marketing		(282)	(640)
Amortisation and depreciation	4c	(1,945)	(1,932)
Costs under investigation	4d	(465)	(620)
Other expenses	4e	(848)	(623)
Loss before income tax		(6,072)	(5,953)
Income tax/(expense)		-	-
Loss after income tax		(6,072)	(5,953)
Other Comprehensive Income			
Foreign currency translation		(47)	10
Income tax/(expense) on items of other comprehensive income		-	-
Other comprehensive loss for the period, net of tax		(47)	10
Total comprehensive loss for the period		(6,119)	(5,943)

Loss per share from continuing operations attributable to the ordinary equity holders of the parent:

Basic loss per share	(0.59 cents)	(0.58 cents)
Diluted loss per share	(0.59 cents)	(0.58 cents)

Consolidated Statement of Financial Position

as at 30 June 2013

	Notes	Consolidated 30 June 2013 $'000	Consolidated 31 December 2012 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	6	14,095	16,912
Trade and other receivables		2,851	4,415
Inventories		761	854
Other current assets		974	358
Total Current Assets		**18,681**	**22,539**
Non-current assets			
Intangible assets		29,698	31,519
Investment in an associate		(21)	-
Plant and equipment		942	1,034
Total Non-Current Assets		**30,619**	**32,553**
TOTAL ASSETS		**49,300**	**55,092**
LIABILITIES			
Current liabilities			
Trade and other payables		1,809	1,667
Provisions		426	352
Total Current Liabilities		**2,235**	**2,019**
Non-current liabilities			
Provisions		79	56
Total Non-Current Liabilities		**79**	**56**
TOTAL LIABILITIES		**2,314**	**2,075**
NET ASSETS		**46,986**	**53,017**
EQUITY			
Contributed equity	11	209,895	209,861
Accumulated losses		(192,640)	(186,568)
Reserves		29,731	29,724
TOTAL EQUITY		**46,986**	**53,017**

Consolidated Statement of Cash Flow

for the half-year ended 30 June 2013

	Notes	Consolidated 30 June 2013 $'000	Consolidated 30 June 2012 $'000
Cash flows from operating activities			
Receipts from customers and related parties		559	1,391
Receipts of government grants		3,376	27
Payments to suppliers and employees		(7,089)	(7,888)
Net cash used in operating activities		**(3,154)**	**(6,470)**
Cash flows from investing activities			
Interest received		334	687
Purchase of plant and equipment		(31)	(166)
Net cash from investing activities		**303**	**521**
Cash flows from financing activities			
Proceeds from share issues		-	-
Costs of issue of shares	11	(2)	(41)
Proceeds from exercise of options	11	36	356
Net cash from financing activities		**34**	**315**
Net increase/(decrease) in cash and cash equivalents		(2,817)	(5,634)
Cash and cash equivalents at beginning of the period		16,912	27,196
Cash and cash equivalents at the end of the period	**6**	**14,095**	**21,562**

Consolidated Statement of Changes in Equity

for the half-year ended 30 June 2013

	Consolidated					
	Contributed Equity	**Employee Benefits Reserve**	**Other Benefits Reserve**	**Business Combination & Foreign Currency Translation Reserve**	**Accumulated Losses**	**Total**
	$'000	**$'000**	**$'000**	**$'000**	**$'000**	**$'000**
Balance at 1 January 2013	209,861	1,588	306	27,830	(186,568)	53,017
Loss for the period	-	-		-	(6,072)	(6,072)
Other comprehensive income	-	-	-	(47)	-	(47)
Total comprehensive income for the half year	-	-	-	(47)	(6,072)	(6,119)
Transactions with owners in their capacity as owners						
Issue of shares	36	-	-	-	-	36
Transaction costs on share issue	(2)	-	-	-	-	(2)
Employee equity settlement benefits	-	54	-	-	-	54
Balance at 30 June 2013	**209,895**	**1,642**	**306**	**27,783**	**(192,640)**	**46,986**
Balance at 1 January 2012	209,546	1,193	306	27,819	(176,059)	62,805
Loss for the period	-	-		-	(5,953)	(5,953)
Other comprehensive income	-	-	-	10	-	10
Total comprehensive income for the half year	-	-	-	10	(5,953)	(5,943)
Transactions with owners in their capacity as owners						
Issue of shares	356	-	-	-	-	356
Transaction costs on share issue	(41)	-	-	-	-	(41)
Share based payments	-	202	-	-	-	202
Balance at 30 June 2012	**209,861**	**1,395**	**306**	**27,829**	**(182,012)**	**57,379**

Notes to the Financial Statements

for the half-year ended 30 June 2013

1. CORPORATE INFORMATION

The half-year consolidated financial statements of Phosphagenics Limited for the six months ended 30 June 2013 were authorised for issue in accordance with a resolution of the directors on 29 August 2013.

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

This general purpose financial report for the half year ended 30 June 2013 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act, 2001*.

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 31 December 2012 and be considered together with any public announcements made by Phosphagenics Limited during the half-year ended 30 June 2013 in accordance with the continuous disclosure obligations of the ASX Listing rules.

Restatement of Comparatives

Comparative amounts have been restated as a result of the correction of prior period errors as described in Note 12 and for changes in accounting policies as described in Note 13.

In addition, the presentation of expense categories has been reassessed in the current period and comparative amounts have been adjusted between categories to be consistent with the current period presentation.

Change in Accounting Policy

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

The Company notes the release of Exposure Draft ED/2012/5 Clarification of Acceptable Methods of Depreciation and Amortisation which is anticipated to be approved as an amendment to accounting standards. The Company believes this provides additional guidance as to the standard setter's intentions regarding the application of AASB138 Intangible Assets in respect of amortising intangible assets.

The Company believes the guidance in the Exposure Draft would require its finite life intangible assets to be amortised from their date of acquisition as compared to its current accounting policy of amortising from the date that they are available for use by reference to the first production of significant revenue.

Consequently, the Company has made a voluntary change in accounting policy to amortise its intangible assets from their acquisition date and has reflected this policy change in the half year financial report on a retrospective basis as required by Accounting Standards. The impact of the change in accounting policy is set out in Note 13.

3. OPERATING SEGMENTS

Identification of reportable segments

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

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

Types of products and services

Skin Care

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

Pain Portfolio

Phosphagenics' pain portfolio is focused on enhancing the delivery of existing pain treatment drugs, primarily long acting opioids, through the skin utilising Phosphagenics' delivery technology TPM™.

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

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally is the same as those contained in note 2 to the accounts and in the prior period.

The following table presents revenue and profit information regarding operating segment performance for the half-year periods ended 30 June 2013 and 30 June 2012.

Half-year ended 30 June 2013	Skin Care $'000	Pain $'000	Total Group $'000
Revenue			
Sales and Royalties	581	-	581
Total segment revenue	581	-	581
Finance revenue			345
Total revenue per statement of comprehensive income			926
Result			
Segment result	(709)	(1,916)	(2,625)
Segment assets			
Segment operating assets	1,748	-	1,748
Unallocated assets			3,759
Cash and cash equivalents			14,095
Intangible assets			29,698
Total assets per the statement of financial position			49,300

Unallocated assets includes R&D Incentive accrual of $2.3 million.

Half-year ended 30 June 2012	Skin Care $'000	Pain $'000	Total Group $'000
Revenue			
Sales and Royalties	866	-	866
Total segment revenue	866	-	866
Finance revenue			664
Total revenue per statement of comprehensive income			1,530
Result			
Segment result	(369)	(758)	(1,127)
Segment assets			
Segment operating assets	799	-	799
Unallocated assets			2,011
Cash and cash equivalents			21,562
Intangible assets			31,519
Total assets per the statement of financial position			55,092

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

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

Reconciliation of segment net operating profit before tax to net profit/loss before tax	**2013 $'000**	**2012 $'000**
Segment net operating profit/(loss) before tax	(2,625)	(1,127)
R&D tax incentive credit	1,654	759
Salaries and employee benefits expense	(2,480)	(2,281)
Amortisation and depreciation	(1,874)	(1,843)
Other operating loss from continuing activities	(747)	(1,461)
Total net profit before tax per the statement of comprehensive income	(6,072)	(5,953)

4. REVENUES AND EXPENSES

	Consolidated	
	30 June 2013 $'000	**30 June 2012 $'000**
a) Revenue & Income		
Sales revenue	476	733
Income from Licences - Other	108	133
	584	**866**
Government grants		
Export market development grant	155	27
R&D tax incentive credit	1,654	759
	1,809	**786**
Interest revenue	345	664
Total finance revenue	**345**	**664**
Other income	50	66
Recoveries	565	-
Total revenue and income	**3,353**	**2,382**

Recoveries represent misappropriations recovered or virtually certain to be recovered as at reporting date.

b) Salaries and employee benefits expense

Salaries and wages	(2,266)	(1,927)
Superannuation	(160)	(152)
Employee equity settled benefits	(54)	(202)
Total salaries and employee benefits expense	**(2,480)**	**(2,281)**

c) Amortisation and depreciation

Amortisation of intangible assets	(1,821)	(1,821)
Depreciation	(124)	(111)
Total amortisation and depreciation	**(1,945)**	**(1,932)**

	Consolidated	
	30 June 2013 $'000	30 June 2012 $'000
d) Costs under investigation		
Costs under investigation	(465)	(620)
Costs including GST attributable to misappropriations in the period. These costs are non-recurring and have accordingly been separately disclosed.		
e) Other expenses		
Net foreign exchange gains/(losses)	(22)	24
Travel and entertainment expenses	(127)	(134)
Insurance expenses	(99)	(103)
Doubtful debts	-	(95)
Inventory write down	(304)	(8)
Corporate expenses	(127)	(124)
Information technology expenses	(41)	(108)
Other	(128)	(75)
Total other expenses	**(848)**	**(623)**

f) Seasonality of Operations

Phosphagenics Limited operations are not affected by seasonality.

5. DIVIDENDS PAID AND PROPOSED

There were no dividends declared or paid during the half year ended 30 June 2013 (2012: nil).

6. CASH AND CASH EQUIVALENTS

	Consolidated	
	30 June 2013 $'000	31 December 2012 $'000
For the purposes of the half-year statement of cash flows, cash and cash equivalents are comprised of the following:		
Cash at bank and in hand	2,904	1,254
Short-term deposits	11,191	15,658
Total Cash and Cash Equivalents	14,095	16,912

7. SHARE BASED PAYMENTS

The Group provides benefits to service providers in the form of share-based payments. Employees render services in exchange for rights over shares (equity-settled transactions). There are currently two schemes in place to provide these benefits to employees, being the Employee Share Option Plan (ESOP) and the Employee Conditional Rights Scheme (ECRS).

Employee Share Option Plan

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

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

Employee Conditional Rights Scheme

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

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

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

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

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

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

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

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

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

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

During the six months ended 30 June 2013 nil share options were granted under the ESOP (2012: nil).

During the six months ended 30 June 2013, nil Rights were granted. During the 2012 comparative period 1,650,000 Rights with a fair value of $0.14 each were granted under the ECRS and will vest based upon achievement of certain performance objectives.

During the six months ended 30 June 2013 nil options were granted (2012: nil).

The following table lists the inputs to the model used for the half-year ended 30 June 2013.

	Consolidated 30 June 2012 ECRS	**30 June 2012 Other**
Dividend yield (%)	0.00%	0.00%
Expected volatility (%)	60%	60%
Risk-free interest rate (%)	4.00%	4.00%
Option life (years)	2.8 years	2.3 years
Exercise price ($)	Nil	Nil

8. INVENTORIES

During the half-year ended 30 June 2013, there was a total write down for the period of $303,570 (2012: $8,246).

9. PLANT & EQUIPMENT

Acquisitions and disposals

During the half-year ended 30 June 2013, the Group acquired assets with a cost of $30,749 (2012: $103,189).

10. COMMITMENTS AND CONTINGENCIES

Lease Commitments

At 30 June 2013 the Group has commitments of $124,305 (2012: $519,297) relating to non-cancellable operating leases over the office and manufacturing facilities, which expire in 2013 and 2014.

Contingent Assets

In connection with the events described in Note 13 the Company is pursuing restitution for misappropriated funds and has acquired security documents over real property and shares to secure its interests. In addition to the amount of $565,000 recognised as a Recovery at 30 June 2013 the Company expects to recover amounts in excess of $3.5 million. It is also pursuing other recoveries with the objective of full recovery of all misappropriated funds. No amounts have been recorded at 30 June 2013 in relation to recoveries apart from the $565,000 recognised in the Statement of Comprehensive Income.

11. CONTRIBUTED EQUITY

	Consolidated	
	(No. '000's)	($'000's)
Issued and paid up capital		
Fully paid ordinary shares carry one vote per share and carry the right to receive dividends		
Movement in ordinary shares on issue:		
At 1 January 2013	1,020,215	209,861
Issue of shares	-	-
Exercise of options	250	36
Transaction costs on share issue	-	(2)
At 30 June 2013	**1,020,465**	**209,895**
At 1 January 2012	1,017,565	209,546
Issue of shares	-	-
Exercise of options	2,650	356
Transaction costs on share issue	-	(41)
At 30 June 2012	**1,020,215**	**209,861**

On 31 March 2013, 250,000 options with an exercise price of $0.142 were exercised.

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

12. PRIOR PERIOD ERRORS

As a result of the misappropriations described in Note 13, the Company has identified two adjustments to its past financial reports which it has adjusted as prior period errors:

- R&D Incentive amounts received of $578,000 and recorded as Other income for the periods up to 31 December 2012 have been overstated on a cumulative basis; and
- GST of approximately $566,000 relating to periods up to 31 December 2012 has been incorrectly claimed on fraudulent invoices where there was no supply of goods or services and may be subject to recovery by the Australian Taxation Office. This amount includes an estimate of probable penalties.

Line item affected by error:

Consolidated Statement of Financial Position	**31 December 2011** $'000	**30 June 2012** $'000	**31 December 2012** $'000
Trade and other receivables	Decrease 208	Decrease 430	Decrease 578
Trade and other payables	Increase 438	Increase 500	Increase 566
Accumulated losses	Increase 646	Increase 930	Increase 1,144

Consolidated Statement of Comprehensive Income	**Half Year ended 30 June 2012** $'000
Income from government grants	Decrease 222
Costs under investigation	Increase 62
Loss after income tax	Increase 284
Total comprehensive loss for period	Increase 284
Basic loss per share	(0.03 cents)
Diluted loss per share	(0.03 cents)

Misappropriations of approximately $558,000 (excluding GST) have been identified in R&D expenses in the prior Half Year period to 30 June 2012 and have been reallocated to Costs under investigation expense line in the comparative Statements of Comprehensive Income.

13. CHANGES IN ACCOUNTING POLICIES

As described in Note 2 the Company has made a voluntary change in accounting policy to amortise its intangible assets from their acquisition date (1 February 2005) and has reflected this policy change in the half year financial report on a retrospective basis as required by Accounting Standards.

Line item affected by the change in accounting policy:

Consolidated Statement of Financial Position	**31 December 2011**	**30 June 2012**	**31 December 2012**
	$'000	$'000	$'000
Intangibles	Decrease 9,495	Decrease 8,962	Decrease 8,451
Accumulated losses	Increase 9,495	Increase 8,962	Increase 8,451

Consolidated Statement of Comprehensive Income	**Half Year ended 30 June 2012**
	$'000
Amortisation of intangible assets	Decrease 533
Loss after income tax	Decrease 533
Total comprehensive loss for period	Decrease 533
Basic loss per share	0.05 cents
Diluted loss per share	0.05 cents

14. EVENTS AFTER THE BALANCE SHEET DATE

A forensic investigation was conducted during July in response to the discovery of supplier invoicing irregularities. This investigation's findings indicated that over a period of years from 2005 to 2013 a total of $6.2 million was allegedly misappropriated from Phosphagenics by its former CEO Dr Esra Ogru and five other persons including one other staff member whose services have been terminated. Further amounts are being investigated.

Dr Ogru was suspended as CEO on 1st July 2013, resigned as director on 18 July 2013 and dismissed as an employee on 22 July 2013.

Amounts alleged to be misappropriated had previously been expensed in the Company's financial reports and have been reclassified as Costs Under Investigation in the current Statement of Comprehensive Income and comparatives. In addition the Company has identified two adjustments to its past financial reports which it has assessed as prior period errors and restated its prior period financial reports in accordance with Accounting Standards. The impact of this restatement is described in Note 12.

The company expects to recover a substantial proportion of the funds and recently received its first repayment of $564,878 from the sale of Dr Ogru's Phosphagenics shares. The accounting treatment of Recoveries in the half year financial report is described in Note 10. The Company has incurred legal and forensic costs to date of approximately $540,000 which have not been recognised as a liability at 30 June 2013.

The Company is in discussions with the Australian Taxation Office regarding the tax implications of the misappropriations.

Directors’ Declaration

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

In the opinion of the directors:

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

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

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

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

On behalf of the Board

Chairman and Independent Director

Melbourne
29 August 2013

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To the members of Phosphagenics Ltd

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Phosphagenics Ltd, which comprises the statement of financial position as at 30 June 2013, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2013 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001* . As the auditor of Phosphagenics Ltd and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report. We confirm that the Auditor's Independence Declaration would be in the same terms if given to the directors as at the time of this auditor's report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Phosphagenics is not in accordance with the *Corporations Act 2001*, including:

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

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

Ernst & Young

David Petersen
Partner
Melbourne
29 August 2013