

Appendix 4D

PHOSPHAGENICS LIMITED

ABN 32 056 482 403

Half Year Report Period Ended 30 June 2015

(Previous Corresponding Period: Half year ended 30 June 2014)

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 2015 | 6 months 30 June 2014 |
| Revenues from ordinary activities | (Up 113%) | 978 | 459 |
| (Loss) from ordinary activities after tax attributable to members | (Up 399%) | (13,900) | (2,785) |
| Net (Loss) for the period attributable to members | (Up 399%) | (13,900) | (2,785) |

Brief explanation of any figures reported above:

Refer Directors' Report for explanations

Dividends per ordinary share paid or to be paid:

| | Amount per security | Franked amount per security |
|--|---------------------|-----------------------------|
| 6 months ended 30 June 2015 | - | N/A ¢ |
| 6 months ended 30 June 2014 | - | N/A ¢ |
| Record date for determining entitlements to the dividend | N/A | |

Net Tangible Assets Per Security:

| 30 June 2015 | 30 June 2014 |
|--------------|--------------|
| 1.72 Cents | 1.18 Cents |



PHOSPHAGENICS LIMITED

ABN 32 056 482 403

FINANCIAL REPORT

FOR THE HALF YEAR ENDED 30 JUNE 2015

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Directors' Report

Your directors have pleasure in submitting this report on Phosphagenics Limited and its controlled entities for the half-year ended 30 June 2015.

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:

PETER LANKAU BS

**Independent non-executive director
(appointed 13 April 2015)**

**Chairman of the Board
(appointed 12 May 2015)**

**Member of nomination and remuneration
committees**

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.

In recent years 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 2014 for over US\$50 million. Mr Lankau was Chairman and CEO of Logical Therapeutics Inc., a development stage company which developed novel compounds for inflammatory disease. Currently he is a Principal in the consulting firm, Lankau Consulting LLC.

Other current directorships of listed entities: None
Former directorships of listed entities in last 3 years: None

Nil ordinary shares in Phosphagenics Limited

ROSS MURDOCH PhD

**Managing director
(appointed 13 April 2015)**

Member of nomination committee

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 Industry. He has held senior management and executive positions in Australia,

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.

Nil ordinary shares in Phosphagenics Limited
15,000,000 performance rights in Phosphagenics Limited

NATHAN DRONA MBA

Independent non-executive director

Chairman of audit and risk committee

Member of remuneration committee

Mr Drona has had a 15 year career in international investment banking, most recently as Managing Director of Challiss in New York and Sydney.

Mr Drona has a strong background in corporate finance and has executed over 25 global banking and M&A engagements in biotech, medical devices and healthcare, leading to the award of "Pharmaceutical Buy-Side M&A Advisor of the Year" by Frost & Sullivan in 2005.

Other current directorships of listed entities: Alchemia Ltd
Former directorships of listed entities in last 3 years: None

Nil ordinary shares in Phosphagenics Limited
1,000,000 options in Phosphagenics Limited

DR GEERT CAUWENBERGH PhD

Independent non-executive director

Chairman of nomination committee

Member of remuneration and audit and risk committees

Dr Cauwenbergh is very experienced in the life sciences sector, having started his career with Janssen Research Foundation in Belgium in 1979. He moved to the USA in 1994 to take up the role of Vice President Product Development for Johnson & Johnson. Subsequently he was appointed Global Vice President of R&D for Johnson & Johnson Consumer companies worldwide.

In 2001 Dr Cauwenbergh left Johnson & Johnson and founded Barrier Therapeutics, a company developing drugs to treat skin diseases. In 2008 Barrier Therapeutics was acquired by Stiefel Laboratories. At the time of acquisition the company's annual revenues had reached approximately US\$45 million.

Dr Cauwenbergh is currently President and CEO of NASDAQ listed company RXi Pharmaceuticals. In this role he has guided RXi Pharmaceuticals through its initial public offering and helped it successfully prepare and submit its first US FDA Investigational New Drug Application.

Other current directorships of listed entities: RXi Pharmaceuticals Inc., Moberg Pharma AB
Former directorships of listed entities in last 3 years: Ablynx NV

20,000 ordinary shares in Phosphagenics Limited
1,000,000 options in Phosphagenics Limited

DR GREG COLLIER PhD

**Independent non-executive director
(appointed 13 April 2015)**

Chairman of remuneration committee

Member of nomination and audit and risk committees

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 \$10M 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 \$230M.

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 CEO and Managing Director of listed drug development company, Invion Limited.

Other current directorships of listed entities: Invion Limited

Former directorships of listed entities in last 3 years: None

Nil ordinary shares in Phosphagenics Limited

Former Directors:

LAWRENCE GOZLAN BSc (Hons)

Independent non-executive director and chairman, chairman of remuneration committee, member of nomination and audit and risk committees until his resignation on 12 May 2015

Mr Gozlan is the Chief Investment Officer and founder of global investment fund Scientia Capital, which specialises in managing investments for domestic and international institutional investors in the life science sector.

Other current directorships of listed entities: Prana Biotechnology Limited
Former directorships of listed entities in last 3 years: Teleso Technologies Limited; Oncosil Medical Limited

Nil ordinary shares in Phosphagenics Limited
1,000,000 options in Phosphagenics Limited

HARRY ROSEN BA, LLB

Executive Director until his resignation on 7 July 2015.

Mr Rosen was the founding director of Phosphagenics Limited and was instrumental in the corporate and commercial development of the Company's portfolio of patents based upon the patented TPM[®] drug delivery system.

Other current directorships of listed entities: None
Former directorships of listed entities in last 3 years: None

64,226,436 ordinary shares in Phosphagenics Limited

Operating and Financial Review

Principal Activities

The principal activities of the company are the production, sale and licensing of products incorporating its patented platform technology TPM[®] for the pharmaceutical, skin care and animal health industries.

Result

For the six months ended 30 June 2015, the company returned a loss from continuing operations after tax of \$13.4 million (2014: \$2.1 million loss). The net operating cash outflow for the period was \$4.8 million (2014: \$1.2 million) with a cash balance at 30 June 2015 of \$15.8 million (31 December 2015: \$20.7 million).

Dividends

The directors have not recommended the payment of any dividends and no dividends were declared, paid or reinvested in the period to 30 June 2015.

Review of Operations

For the six months ended 30 June 2015, revenue from continuing operations was up 113% to \$1.0 million (2014: \$0.5 million) with strong first half sales from Vital ET[®]. Total other income was \$1.5m (2014: \$3.4m), including \$0.1 million (2014: \$2.1 million) from recovery of misappropriations and \$1.0 million (2014: \$1.1 million) relating to the R&D tax incentive.

Expenses for the period include non-cash impairment losses of \$7.8 million (2014: nil) as a result of an independent valuation of the acquired patent portfolio. From 2005, under its accounting policy, the company has not capitalised the value of six patents developed from internal research and consequently no book value for these is shown within the Balance Sheet.

Cash at 30 June 2015 totalled \$15.8 million (31 December 2015: \$20.7 million). Other receivables includes approximately \$5.0 million relating to the R&D Incentive rebate for 2014 and 2015 which will be received in the second half.

In the first six months of 2015 the company underwent a major transition with the appointment in January of Dr Ross Murdoch as CEO followed in April by the appointment of new directors Mr Peter Lankau and Dr Greg Collier. In May, the Company's chairman, Lawrence Gozlan resigned followed by the Company's founder, Harry Rosen, in July.

Research and Development

Human Health

TPM[®]/Oxycodone Patch

The TPM[®]/Oxycodone patch is progressing through a "proof of concept" Phase 2a post-herpetic neuralgia (PHN) trial. Patient screening for the trial began early in 2015 and is continuing. First dose was announced in April and, to date, 75% of candidates have been recruited. Assuming the planned enrolment rate continues, the trial is on track to complete and provide top-line results by the end of the year.

TPM[®]/Oxymorphone Patch

Phosphagenics is in the process of assessing and appointing an external specialist company to refine the formulation of the TPM[®]/Oxymorphone patch. This formulation process is required before any further clinical and non-clinical trials can be undertaken. The ultimate aim of this formulation activity will be to produce a commercially applicable, stable patch that can be used in IND enabling preclinical and clinical studies to support a Phase 2 trial in the US.

In order to obtain an IND for the planned US Phase 2 trial, Phosphagenics will need to successfully complete several key development tasks including:

- technical transfer and scale-up of the GMP TPM[®]/Oxymorphone patch manufacturing process to a US patch manufacturer;
- successful manufacture of clinical and preclinical patch supplies;
- dermal toxicity studies on the US manufactured patch in a non-rodent animal model;
- TPM[®]/Oxymorphone patch stability study;
- Pre IND meeting with the FDA;
- collation of all available applicable data in an IND application; and
- further human PK characterisation clinical studies in Australia.

Some of these tasks have already been undertaken with previous patch formulations and therefore may not need to be repeated. The magnitude of any changes made in the reformulation process will ultimately determine the relevance of any previous data.

Diclofenac

Phosphagenics is investigating the development of a new TPM[®] formulation for a diclofenac gel. The timeframe for this development has not yet been determined as commercial success will rely on achieving a high level of competitive differentiation due to the increasingly competitive nature of the market in regions outside of India. Sales of TPM[®]/diclofenac products in India continues at a rate comparable with last year.

Animal Health and Nutrition

Phosphagenics is planning a number of proof-of-concept studies with TPM[®] to assess improved performance in livestock. These studies are

expected to commence in fourth quarter 2015 and continue through 2016.

Commercial Developments

Bulk Production and Personal Care

Vital ET[®]

Based on orders from the Company's distributor, Ashland Inc., up to June 2015, total sales of Vital ET[®] will exceed those for 2014 (\$1.5 million).

Licensing

Le Métier de Beauté (LMDB), which was acquired by a private US investor in 2014, continues to provide modest royalty income for Phosphagenics.

Animal Health and Nutrition

In the first half of this year Phosphagenics signed an agreement with Integrated Animal Health Pty Ltd (IAH) to sell feedstock (Feed-Mate[™]) which included TPM[®] for distribution in the UK and Ireland by distributor, Denis Brincombe Group. The agreement specified minimums equating to \$550,000 approx. at the beginning potentially growing to \$1.8 million per annum. Distribution will begin once the product has been registered and approved in the EU. Requirements for the EU registration are being assessed and registration is targeted for 2016.

During the first half of 2015, Phosphagenics continued to receive earnings from other animal health arrangements with IAH and from product recently launched in New Zealand.

Mass market licensing

The company announced in June the appointment of Dr Steve Meller as a consultant to facilitate commercialising our technology into mass market opportunities.

BioElixia

Phosphagenics is in the process of winding back funds and support for BioElixia[®]. This is in line with the decision made earlier this year to shut down and sell the branded personal care range. The activities required to sell the brand either as a single entity or as part of a wider negotiation involving cosmetics are being actively pursued.

Looking Forward

Phosphagenics continues to look for ways to maximise the value from its proprietary TPM[®] technology across all of its business areas. As opportunities emerge each are being weighed against the present portfolio and allowed to compete equally for prioritisation. Phosphagenics will continue to assess ways to optimize quality, speed and cost including the balance of internal and external activities. It is expected that further decisions to improve quality and efficiency will be made through the second half of 2015.

The TPM[®] Oxycodone patch program will reach a key milestone at the end of the ongoing Phase 2a clinical trial which is targeted to complete by the end of 2015. Plans to progress beyond a successful Phase 2a trial towards an FDA IND have been developed although the exact scope and nature of the future program will be shaped by the strength of the results obtained.

The reformulation process for the TPM[®]/ Oxymorphone patch will continue into 2016. Once a successful formulation candidate is available Phosphagenics will look to progress it as expeditiously as possible though the necessary steps required towards the lodgement of an IND in the US.

Recent interactions with key experts have reinforced our long held belief in the potential of TPM[®] in animal health and nutrition industry. Phosphagenics intends to actively pursue options to extract short to mid-term value in the animal health and nutrition market, including the undertaking animal studies during 2015-16. Trial activity outcomes would be used to facilitate commercialisation as well as partnering opportunities.

Phosphagenics continues to look for ways to exploit the concept that TPM[®] may be able to enhance the stability or solubility of some injectable drugs. The partnership with Mylan N.V., to develop an injectable antibiotic formulated with TPM[®], continues to progress and is the most advanced example of this. It is Phosphagenics' intent to look to expand this relationship if possible, and to look to explore this area through additional partnerships.

Phosphagenics business development strategy will continue with 2 key aims: (i) find and develop new partnerships and (ii) find ways to grow the value of existing key business relationships.

Activities to identify how Phosphagenics can enhance sales of Vital ET[®] with Ashland Inc. (its global distributor of Vital ET[®]) are underway. To ensure it can take advantage of any growth in the demand for Vital ET[®] and TPM[®] from its Personal Care and Animal Health partners, the company has also begun an assessment of the requirements for expansion of its manufacturing capacity. Such an expansion should not only enhance Phosphagenics' manufacturing capability but also provide the opportunity to improve the profit margin through volume related savings.

Legal

Phosphagenics is currently involved in a formal arbitration process with ProPhase Labs Inc., its joint venture partner. The arbitration relates to a license granted by Phosphagenics to the joint venture entity, Phusion Laboratories LLC, for the use of TPM[®] in OTC pharmaceutical products. Prophase Labs is seeking unspecified damages. The company is also seeking unspecified damages. Both parties are defending the claims. The arbitration hearing has been set down for December 2015

Likely Developments and Future Results

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

Significant Changes in State of Affairs

During the period to 30 June 2015 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

There has not been any matter or circumstance, other than those referred to in the half-year report or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

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.



Peter Lankau
Chairman
Melbourne, 31 August 2015



Auditor's Independence Declaration

As lead auditor for the review of Phosphagenics Limited for the half-year ended 30 June 2015, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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


Anton Linschoten
Partner
PricewaterhouseCoopers

Melbourne
31 August 2015

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au

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Interim Financial Report

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This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 31 December 2014 and any public announcements made by Phosphagenics Limited during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Consolidated Income Statement

For the half-year ended 30 June 2015

| | Notes | 30 June 2015 \$'000 | 30 June 2014 \$'000 |
|--|-------|------------------------|------------------------|
| Revenue | | | |
| Sale of goods | | 881 | 345 |
| Royalties | | 97 | 114 |
| Total Revenue | | 978 | 459 |
| Cost of sales | | (315) | (132) |
| Gross Profit | | 663 | 327 |
| Income from government grants | | 989 | 1,069 |
| Finance revenue | | 293 | 120 |
| Recoveries | 4a | 160 | 2,088 |
| Other income | | 6 | 135 |
| Employee and Directors benefits expenses | 4b | (3,179) | (2,130) |
| Research expenses | | (1,040) | (933) |
| Consulting and professional expenses | | (842) | (374) |
| Occupancy and communications expenses | | (303) | (253) |
| Amortisation and depreciation | | (1,926) | (1,923) |
| Impairment losses | 9 | (7,837) | - |
| Other expenses | 4c | (389) | (244) |
| Loss before income tax | | (13,405) | (2,118) |
| Income tax benefit | | - | - |
| Loss from continuing operations | | (13,405) | (2,118) |
| Loss from discontinued operations | 12b | (495) | (667) |
| Loss after income tax | | (13,900) | (2,785) |

Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the company:

| | | |
|----------------------------------|--------------|--------------|
| Basic profit/(loss) per share | (1.06 cents) | (0.20 cents) |
| Diluted profit/ (loss) per share | (1.06 cents) | (0.20 cents) |

Earnings per share for loss attributable to the ordinary equity holders of the company:

| | | |
|----------------------------------|--------------|--------------|
| Basic profit/(loss) per share | (1.10 cents) | (0.27 cents) |
| Diluted profit/ (loss) per share | (1.10 cents) | (0.27 cents) |

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

Consolidated Statement of Comprehensive Income

For the half-year ended 30 June 2015

| | Note | 30 June 2015 \$'000 | 30 June 2014 \$'000 |
|---|------|------------------------|------------------------|
| Loss for the period | | (13,900) | (2,785) |
| Other comprehensive income (loss) | | | |
| Foreign currency translation | | 14 | - |
| Income tax/(expense) on items of other comprehensive income | | - | - |
| Other comprehensive loss for the period, net of tax | | 14 | - |
| Total comprehensive loss for the period | | (13,886) | (2,785) |

Total comprehensive income (loss) for the period attributable to owners of Phosphagenics Ltd arises from:

| | | |
|-------------------------|----------|---------|
| Continuing operations | (13,391) | (2,118) |
| Discontinued operations | (495) | (667) |
| | (13,886) | (2,785) |

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

Consolidated Balance Sheet

As at 30 June 2015

| | Notes | 30 June 2015 \$'000 | 31 December 2014 \$'000 |
|--------------------------------------|-------|------------------------|----------------------------|
| ASSETS | | | |
| Current Assets | | | |
| Cash and cash equivalents | 6 | 15,832 | 20,679 |
| Trade and other receivables | | 6,096 | 5,213 |
| Inventories | 8 | 201 | 220 |
| Other current assets | | 593 | 562 |
| Assets classified as held for sale | 12c | 33 | 382 |
| Total Current Assets | | 22,755 | 27,056 |
| Non-current assets | | | |
| Intangible assets | 9 | 13,406 | 23,031 |
| Plant and equipment | | 625 | 814 |
| Total Non-Current Assets | | 14,031 | 23,845 |
| TOTAL ASSETS | | 36,786 | 50,901 |
| LIABILITIES | | | |
| Current liabilities | | | |
| Trade and other payables | | 647 | 1,026 |
| Provisions | | 899 | 752 |
| Total Current Liabilities | | 1,546 | 1,778 |
| Non-current liabilities | | | |
| Provisions | | 97 | 95 |
| Total Non-Current Liabilities | | 97 | 95 |
| TOTAL LIABILITIES | | 1,643 | 1,873 |
| NET ASSETS | | 35,143 | 49,028 |
| EQUITY | | | |
| Contributed equity | 11 | 228,100 | 228,100 |
| Accumulated losses | | (223,143) | (209,243) |
| Reserves | | 30,186 | 30,171 |
| TOTAL EQUITY | | 35,143 | 49,028 |

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the half-year ended 30 June 2015

| | Contributed Equity \$'000 | Reserves \$'000 | Accumulated Losses \$'000 | Total \$'000 |
|---|---------------------------------|--------------------|---------------------------------|-----------------|
| Balance at 1 January 2015 | 228,100 | 30,171 | (209,243) | 49,028 |
| Loss for the period | - | - | (13,900) | (13,900) |
| Other comprehensive income | - | 14 | - | 14 |
| Total comprehensive income (loss) for the half year | - | 14 | (13,900) | (13,886) |
| Transactions with owners in their capacity as owners | | | | |
| Employee equity settlement benefits | - | 1 | - | 1 |
| Balance at 30 June 2015 | 228,100 | 30,186 | (223,143) | 35,143 |

| Restated * | | | | |
|---|----------------|---------------|------------------|---------------|
| | | | | |
| Balance at 1 January 2014 | 209,895 | 29,914 | (200,308) | 39,501 |
| Loss for the period | - | - | (2,785) | (2,785) |
| Other comprehensive income | - | - | - | - |
| Total comprehensive income (loss) for the half year | - | - | (2,785) | (2,785) |
| Transactions with owners in their capacity as owners | | | | |
| Employee equity settlement benefits | - | 114 | - | 114 |
| Balance at 30 June 2014 | 209,895 | 30,028 | (203,093) | 36,830 |

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

* See note 9 for details of restatement as a result of error.

Consolidated Statement of Cash Flows

For the half-year ended 30 June 2015

| | Notes | 30 June 2015 \$'000 | 30 June 2014 \$'000 |
|---|-------|------------------------|------------------------|
| Cash flows from operating activities | | | |
| Receipts from customers and related parties | | 679 | 865 |
| Receipts from recoveries | | 160 | 2,422 |
| Receipts of government grants | | - | 1,982 |
| Interest received | | 291 | 133 |
| Payments to suppliers and employees | | (5,955) | (6,572) |
| Net cash (outflow) from operating activities | | (4,825) | (1,170) |
| Cash flows from investing activities | | | |
| Purchase of plant and equipment | | (22) | (13) |
| Net cash (outflow) from investing activities | | (22) | (13) |
| Cash flows from financing activities | | | |
| Proceeds from share issues | | - | - |
| Net cash inflow from financing activities | | - | - |
| Net (decrease) in cash and cash equivalents | | (4,847) | (1,183) |
| Cash and cash equivalents at beginning of the period | | 20,679 | 8,823 |
| Cash and cash equivalents at the end of the period | 6 | 15,832 | 7,640 |

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

Notes to the Financial Statements

For the half-year ended 30 June 2015

1. CORPORATE INFORMATION

The half-year consolidated financial statements of Phosphagenics Limited for the six months ended 30 June 2015 were authorised for issue in accordance with a resolution of the directors on 31 August 2015.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

This condensed consolidated interim financial report for the half-year ended 30 June 2015 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act, 2001.

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

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 31 December 2014 and be considered together with any public announcements made by Phosphagenics Limited during the half-year ended 30 June 2015 in accordance with the continuous disclosure obligations of the ASX Listing rules.

CHANGES IN ACCOUNTING POLICY

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

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 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.

The Animal Health and Nutrition segment did not meet materiality levels and its results have been included within the Unallocated segment.

TYPES OF PRODUCTS AND SERVICES

BULK

Bulk Division manufactures and sells TPM and Vital ET for the use in drug delivery and cosmetic formulations.

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

HUMAN HEALTH

Phosphagenics' human health portfolio covers delivery of drugs through gels, injectables and patches.

The divisions continues to prioritise development work on the two existing patch assets: TPM[®]/Oxymorphone and TPM[®]/Oxycodone.

The division intends to continue to assess commercial opportunities for TPM[®] enhanced products in gels and injectables.

Revenue is derived from royalty streams and contract research.

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 financial statements 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 2015 and 30 June 2014.

3. OPERATING SEGMENTS (continued)

| Half-year ended 30 June 2015 | Bulk \$'000's | Human Health \$'000's | Total all Segments \$'000s | Unallocated \$'000's | Total Group \$'000's |
|---|------------------|--------------------------|----------------------------------|-------------------------|-------------------------|
| Sales and Royalties | 869 | 69 | 938 | 40 | 978 |
| Total segment revenue | 869 | 75 | 944 | 40 | 984 |
| Cost of sales | (300) | - | (300) | (15) | (315) |
| Interest revenue | - | - | - | 293 | 293 |
| Income from government grants | - | - | - | 989 | 989 |
| Recoveries | - | - | - | 160 | 160 |
| Depreciation and amortisation | (127) | - | (127) | (1,799) | (1,926) |
| Impairment losses | - | - | - | (7,837) | (7,837) |
| Employee and directors benefit expense | - | - | - | (3,179) | (3,179) |
| Other operating expenses from continuing operations | (84) | (932) | (1,016) | (1,558) | (2,574) |
| Net operating profit/(loss) after tax | 358 | (857) | (499) | (12,906) | (13,405) |
| Segment assets | 1,221 | 310 | 1,531 | 43,092 | 44,623 |

| Half-year ended 30 June 2014 | Bulk \$'000's | Human Health \$'000's | Total all Segments \$'000s | Unallocated \$'000's | Total Group \$'000's |
|---|------------------|--------------------------|----------------------------------|-------------------------|-------------------------|
| Sales and Royalties | 424 | 18 | 442 | 17 | 459 |
| Total segment revenue | 424 | 10 | 434 | 160 | 594 |
| Cost of sales | (125) | - | (125) | (7) | (132) |
| Interest revenue | - | - | - | 120 | 120 |
| Income from government grants | - | - | - | 1,069 | 1,069 |
| Recoveries | - | - | - | 2,088 | 2,088 |
| Depreciation and amortisation | (57) | - | (57) | (1,866) | (1,923) |
| Employee and directors benefit expense | - | - | - | (2,130) | (2,130) |
| Other operating expenses from continuing operations | (2) | (732) | (734) | (1,071) | (1,805) |
| Net operating profit/(loss) after tax | 240 | (722) | (482) | (1,636) | (2,118) |
| Segment assets | 563 | 731 | 1,294 | 36,953 | 38,247 |

4. REVENUES AND EXPENSES

| | 30 June 2015 \$'000 | 30 June 2014 \$'000 |
|---|------------------------|------------------------|
| (a) Recoveries | | |
| Recoveries | 160 | 2,088 |
| (b) Employee and directors' benefits expense | | |
| Non-executive directors' fees | (131) | (109) |
| Recruitment fees | (74) | - |
| Relocation allowances | (105) | - |
| ESOP amortisation | (1) | (116) |
| Redundancy costs | (269) | (21) |
| Other employee expenses | (2,599) | (1,884) |
| Total employee and directors' benefits expense | (3,179) | (2,130) |
| (c) Other expenses | | |
| Net foreign exchange gains/(losses) | 56 | 7 |
| Travel and entertainment expenses | (242) | (146) |
| Insurance expenses | (102) | (107) |
| Doubtful debts ¹ | - | 242 |
| Inventory write downs | - | (18) |
| Asset write downs | (41) | - |
| Allocation of salary and overheads to inventory | 194 | 13 |
| Corporate expenses | (93) | (102) |
| Information technology expenses | (13) | (34) |
| Other | (148) | (99) |
| Total other expenses | (389) | (244) |

¹ Provision for doubtful debts of \$263,000 provided for in 2013 was written back in 2014 when the debt was paid in full.

(d) 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 2015 (2014: nil).

6. CASH AND CASH EQUIVALENTS

| | 30 June 2015 \$'000 | 31 December 2014 \$'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 | 2,075 | 707 |
| Short-term deposits | 13,757 | 19,972 |
| Total Cash and Cash Equivalents | 15,832 | 20,679 |

Short-term deposits are at terms less than three months.

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).

SHARE OPTIONS

Share options can be issued at any time on approval by the Board as a form of share based payment.

In 2014 options were issued to three Non-Executive Directors in order to bring their remuneration into line with the Company's peers in the biotechnology sector. These options were approved by the shareholders at the 2014 Annual General Meeting on 23 May 2014. The options had an exercise price of \$0.17 and expiry date of 5 years.

EMPLOYEE CONDITIONAL RIGHTS SCHEME (ECRS)

The ECRS allows eligible employees to be granted Performance Rights to acquire Shares at no cost. The purpose of a 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 a Scheme.

The Schemes are administered by the Board, with all objectives, determinations, approvals or opinions made or given by the Board in its absolute discretion. There are currently three Schemes in operation.

ECRS Scheme 1

Under the terms of the ECRS Scheme 1, approved by the shareholders at the Annual General Meeting on 31 May 2011, 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 2015, 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 2014) - 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 \$1 million, and gross revenues from global sales of all non-prescription products of the Company of not less than \$20 million.

Milestone 3 (34% of Rights awarded if any two of the following achieved by 31 Dec 2015) - 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 \$30 million.

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\$40 million.

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.

ECRS Scheme 2

Under the terms of the ECRS Scheme 2, approved by the Board for employees in January 2015, 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 \$0.25 at any time prior to 31 December 2017, then 100% of the Performance Rights will vest.

Alternatively, vesting of the Rights is conditional on Phosphagenics achieving the following conditions:

Milestone 1 (33% of Rights awarded if four of five conditions achieved by 31 December 2015) - completion of recruitment for the clinical trial of the TPM/Oxycodone patch, submission of an IND for the TPM/Oxymorphone patch, completion of clinical trial for TPM/Oxymorphone patch providing pain efficacy, selection of new priority molecule and demonstration of its transdermal delivery and gross revenues from global sales or licencing of not less than \$6 million.

Milestone 2 (34% of Rights awarded if any three of the following achieved by 31 Dec 2016) - submission of an IND for the TPM/Oxycodone patch, completion of Phase 2 clinical trial for TPM/Oxycodone patch, completion of clinical trial under US IND for TPM/Oxymorphone patch, completion of Phase 1 clinical trial for new product, completion of licencing deal with total value not less than \$20 million and gross revenues from global sales TPM during 2016 of not less than \$10 million.

Milestone 3 (33% of Rights awarded if any of the following achieved by 31 Dec 2017) - completion of Phase 3 clinical trial for TPM/Oxycodone patch or TPM/Oxymorphone patch, executing commercial agreements with total value not less than \$100 million of which \$10 million in up-front payments, spinning off a portfolio of assets by way of IPO in Australia, US or other territory and gross revenues of TPM during 2017 of not less than \$15 million.

ECRS Scheme 3

Under the terms of the ECRS Scheme 3, approved by the shareholders at the Annual General Meeting held on 18 May 2015 for the Chief Executive Officer (CEO), 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 \$0.25 at any time prior to 31 December 2017, and provided the CEO remains an employee, 33% of the Performance Rights will vest on or after 31 December 2015, 33% will vest on or after 31 December 2016 and the remainder unvested on or after 31 December 2017. All other terms of the scheme are the same as for ECRS Scheme 2.

Valuation

Fair values 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 2015, 40,010,000 (2014 nil) Rights were granted under the ECRS.

During the six months ended 30 June 2015 nil (2014: 3,000,000) Options were granted.

| Model Inputs | 18 May 2015 ECRS | 30 April 2015 ECRS | 2014 Options |
|--|---------------------|-----------------------|-----------------|
| Dividend yield (%) | 0.00% | 0.00% | 0.00% |
| Expected volatility (%) | 60% | 60% | 60% |
| Risk-free interest rate (%) | 2.07% | 1.8% | 3.2% |
| Option life (years) | 2.62 years | 2.67 years | 5 years |
| Exercise price (\$) | Nil | Nil | \$0.17 |
| Weighted Average Share price at measurement date | \$0.02 | \$0.03 | \$0.08 |

The expected life of the rights is based on historical data and is not necessarily indicative of exercise patterns that may occur.

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

8. INVENTORIES

During the half-year ended 30 June 2015, there was a total write down for the period of \$nil (2014: \$18,249).

9. INTANGIBLE ASSETS

| Half-year ended 30 June 2015 | Intellectual Property \$'000 | Total \$'000 |
|--|---|-------------------------|
| At 1 January 2015 net of accumulated amortisation and impairment | 23,031 | 23,031 |
| Impairment losses | (7,837) | (7,837) |
| Amortisation | (1,788) | (1,788) |
| At 30 June 2015, net of accumulated amortisation and impairment | 13,406 | 13,406 |
| At 30 June 2015 | | |
| Cost (gross carrying amount) | 121,362 | 121,362 |
| Accumulated amortisation and impairment | (107,956) | (107,956) |
| Net carrying amount | 13,406 | 13,406 |

| Half-year ended 30 June 2014 | Development Costs \$'000 | Intellectual Property \$'000 | Total \$'000 |
|--|---|---|-------------------------|
| At 1 January 2014 net of accumulated amortisation and impairment | 1,270 | 26,607 | 27,877 |
| Correction of error | (1,270) | - | (1,270) |
| Restated as at 1 January 2014 | - | 26,607 | 26,607 |
| Amortisation | | (1,821) | (1,821) |
| At 30 June 2014, net of accumulated amortisation and impairment | | 24,786 | 24,786 |
| At 30 June 2014 | | | |
| Cost (gross carrying amount) | | 121,362 | 121,362 |
| Accumulated amortisation and impairment | | (96,576) | (96,576) |
| Net carrying amount | | 24,786 | 24,786 |

Correction of prior year balances

A review of the prior treatment of capitalisation of development costs was undertaken and it has been subsequently reassessed as not satisfying the requirements for certainty of future economic benefits. The net book value of \$1,270,000 as at 31 December 2013 was reversed through accumulated losses.

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, and tested for indicators of impairment at each reporting date. In 2010 one of the purchased patents was abandoned.

As at 30 June 2015, due to the company's net asset value totalling more than the market capitalisation, it was assessed that an impairment trigger had occurred and an independent valuer was engaged to calculate the fair value of the acquired patents. The independent valuer used fair value less cost to sell. For products still in development, probability weightings were applied to clinical trials and regulatory approval. Discount rates of

between 13-18% were applied to risk adjusted forecasted cash flows over the remaining economic life of the patents. The fair value of the acquired patents has been assessed at \$13,406,000, which has resulted in a recognition of impairment losses of \$7,837,000.

10. COMMITMENTS AND CONTINGENCIES

LEASE COMMITMENTS

At 30 June 2015 the Group has commitments of \$132,223 (2014:\$189,900) relating to non-cancellable operating leases over the manufacturing facilities, which expire in 2017. The lease on the registered office is on a month-to-month basis with the Company actively seeking new premises. The lease on the New York office is under notice and effectively terminates 31 August 2015.

CONTINGENT LIABILITIES

Phosphagenics is currently involved in a formal arbitration process with ProPhase Labs Inc., its joint venture partner. The arbitration relates to a license granted by Phosphagenics to the joint venture entity, Phusion Laboratories LLC, for the use of TPM in OTC pharmaceutical products. ProPhase Labs is seeking unspecified damages. The company is also seeking unspecified damages. Both parties are defending the claims. The arbitration hearing has been set down for December 2015.

11. CONTRIBUTED EQUITY

| | (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 2015 | 1,261,965 | 228,100 |
| Issue of shares | - | - |
| Exercise of options | - | - |
| Transaction costs on share issue | - | - |
| At 30 June 2015 | 1,261,965 | 228,100 |
| At 1 January 2014 | 1,020,465 | 209,895 |
| Issue of shares | - | - |
| Exercise of options | - | - |
| Transaction costs on share issue | - | - |
| At 30 June 2014 | 1,020,465 | 209,895 |

12. DISCONTINUED OPERATION

(a) Description

In early 2015 the Company made the strategic decision to focus resources on core business opportunities and put its branded cosmetics division, BioElixia[®] up for sale. Accordingly this division has been treated as a discontinued operation for the half-year ended 30 June 2015.

(b) Financial performance

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

| | 30 June 2015 | 30 June 2014 |
|----------------------------------|--------------|--------------|
| | \$'000 | \$'000 |
| Revenue ¹ | 22 | 133 |
| Cost of sales | (68) | (93) |
| Obsolete stock provision | (236) | - |
| Obsolete stock destruction | (57) | (4) |
| Provision for asset impairment | (34) | - |
| Employee benefits expense | (72) | (319) |
| Marketing | (23) | (208) |
| Other expenses | (27) | (274) |
| Loss before income tax | (495) | (667) |
| Income tax expense | - | - |
| Loss from discontinued operation | (495) | (667) |

¹ Revenue includes provision for discount rebate expense of \$50,000 (2014 nil).

(c) Assets and liabilities of disposal group classified as held for sale

The following assets and liabilities were reclassified as held for sale in relation to the discontinued operation as at 30 June 2015.

| | 2015 | 2014 |
|-------------------------------------|--------|--------|
| | \$'000 | \$'000 |
| Assets classified as held for sale | | |
| Inventories ¹ | 33 | 382 |
| Total assets of group held for sale | 33 | 382 |

¹ Amount for inventories includes provision for obsolete stock of \$235,604 (2014 nil), as it is expected that a purchaser would rebrand the products at any potential relaunch date.

13. EVENTS AFTER THE BALANCE SHEET DATE

There has not been any matter or circumstance, other than those referred to in the half-year report or notes thereto, that has arisen since the end of the financial year, that has significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in future financial years.

Directors' Declaration

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

In the opinion of the directors:

- (a) The financial statements and notes of Phosphagenics Limited for the half-year ended 30 June 2015 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 2015 and the performance for the half-year ended on that date; and
 - (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



Peter Lankau
Chairman
Melbourne, 31 August 2015



Independent auditor's review report to the members of Phosphagenics Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Phosphagenics Limited (the Company), which comprises the consolidated balance sheet as at 30 June 2015, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, selected explanatory notes and the directors' declaration for Phosphagenics Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled during that half-year.

Directors' responsibility for the 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 (including the Australian Accounting Interpretations) and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the 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 2015 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Phosphagenics Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757
Freshwater Place, 2 Southbank Boulevard, SOUTHBANK VIC 3006, GPO Box 1331, MELBOURNE VIC 3001
T: 61 3 8603 1000, F: 61 3 8603 1999, www.pwc.com.au



Conclusion

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

- a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the half-year ended on that date;
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers
PricewaterhouseCoopers

A. Linschoten
Anton Linschoten
Partner

Melbourne
31 August 2015