



ASX Limited
Market Announcements Office

Phosphagenics 2014 Financial Reports

26 February 2015, Melbourne

(A) Financial Reports

Attached for release to the market in respect of the financial year ended 31 December 2014 are:

- (1) Consolidated Appendix 4E Report (*Preliminary Final Report*); and
- (2) Consolidated Financial Report

(B) Annual General Meeting

The 2015 Annual General Meeting of the members of Phosphagenics Limited is to be held on Monday 18 May 2015 in the City Club Rooms of the RACV, 501 Bourke Street, Melbourne starting at 3.00 p.m.

Ends

Enquiries

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About Phosphagenics

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

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

www.phosphagenics.com
www.bioelixia.com

Phosphagenics Limited

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Appendix 4E

Preliminary final report Period ending on or after 31 December 2014

Introduced 1/1/2003. Origin: Appendix 4B

Name of entity

Phosphagenics Limited

The following information must be given to ASX under listing rule 4.3.

1.

ABN or equivalent company
reference

Year ended:
current period

previous corresponding period

32 056 482 403

31 December 2014

31 December 2013

Results for announcement to the market

\$A'000

2.1 Revenues from continuing operations	Up	85%	to	2,505
2.2 Loss from continuing operations after tax attributable to members	Down (decrease)	30%	to	7,434
2.3 Loss for the period attributable to members	Down (decrease)	29%	to	8,935
2.4 Dividends (distributions)	Amount per security	Franked amount per security		
Final dividend				
Interim dividend	-¢			-¢
In Specie Dividend	-¢			-¢
Previous corresponding period:				
Final dividend				
Interim dividend	-¢			-¢
In Specie Dividend				
2.5 Record date for determining entitlements to the dividend	N/A			

Revenues from continuing operations for the reporting year total \$2,505,000 (2013: \$1,357,000). The overwhelming contributor was the sales of Vital ET by the Company's partner Ashland, which amounted to approximately \$1,500,000 (compared to less than \$300,000 in 2013). Interest revenue on cash invested of \$452,000 (2013: \$553,000) was also received.

Revenues from BioElixia® of \$356,000 (2013: \$801,000) are reported in the results for discontinued operations. The reasons for the fall in revenues are in the main due to decreased marketing expenditure and the loss of TVSN promotion of the Company's products. While the revenue was lower, so too was the loss incurred due predominantly to the reduction in marketing costs. As announced the Company has decided to place the BioElixia® brand up for sale.

On the expenses side the variation in costs from the previous year were mainly due to a reduction in consultancy fees which fell from \$2,439,000 to \$841,000, reflecting both the drop in legal costs associated the recoveries of misappropriated money and the finalisation of the project undertaken by Neura. The write back of a provision for Le Metier royalties and minimal provisions for obsolete stock contributed to the approximately \$800,000 reduction in other expenses.

The reported net loss after tax for the period was \$8,935,000 (2013: 12,607,000).

For further details, refer to the Annual Financial Report which follows this announcement.

3. A statement of financial performance together with notes to the statement, prepared in compliance with AASB 1018 or the equivalent foreign accounting standard:

See attached Consolidated Income Statement

4. A statement of financial position together with notes to the statement. The statement may be condensed but must report as line items each significant class of asset, liability, and equity element with appropriate sub-totals:

See attached Consolidated Balance Sheet

5. A statement of cash flows together with notes to the statement. The statement of cash flows may be condensed but must report as line items each significant form of cash flow and comply with the disclosure requirements of AASB 1026 Statement of Cash Flows, or for foreign entities, the equivalent foreign accounting standard:

See attached Consolidated Statement of Cash Flow

+ See chapter 19 for defined terms.

6. Details of individual and total dividends or distributions and dividend or distribution payments. The details must include the date on which each dividend or distribution is payable, and (if known) the amount per security of foreign sourced dividend or distribution:

N/A

7. Details of any dividend or distribution reinvestment plans in operation and the last date for the receipt of an election notice for participation in any dividend or distribution reinvestment plan:

N/A

8. A statement of retained earnings showing movements:

	Current period \$A'000	Previous corresponding period \$A'000
Retained profits (accumulated losses) at the beginning of the financial period	(200,308)	(187,701)
Net profit (loss) attributable to members	(8,935)	(12,607)
Net transfers from (to) reserves	-	-
Net effect of changes in accounting policies	-	-
Dividends and other equity distributions paid or payable	-	-
Retained profits (accumulated losses) at end of financial period	(209,243)	(200,308)

9. Net tangible assets per security with the comparative figure for the previous corresponding period.

	Current period	Previous corresponding Period
Net tangible assets per security	2.0cents	1.3 cents

10. Details of entities over which control has been gained or lost during the period:

10.1 Name of the entity.

N/A

10.2 The date of the gain or loss of control.

N/A

10.3 Where material to an understanding of the report – the contribution of such entities to the reporting entity's profit from ordinary activities during the period and the profit or loss of such entities during the whole of the previous corresponding period.

	Current period	Previous corresponding period
N/A	N/A	N/A

11. Details of associates and joint venture entities including the name of the associate or joint venture entity and details of the reporting entity's percentage holding in each of these entities and – where material to an understanding of the report - aggregate share of profits (losses) of these entities, details of contributions to net profit for each of these entities, and with comparative figures for each of these disclosures for the previous corresponding period.

Name of entity	% Holding	Aggregate Share of profit (losses)		Contribution to net profit	
		Current period \$'000	Previous corresponding Period \$'000	Current period \$'000	Previous corresponding Period \$'000
Vital Health Sciences Pty Ltd	100	N/A	N/A	(2,522)	(3,642)
Phosphagenics Inc	100	N/A	N/A	(122)	(50)
Phusion Laboratories LLC	50	N/A	N/A	-	-

12. Any other significant information needed by an investor to make an informed assessment of the entity's financial performance and financial position:

N/A

13. For foreign entities, which set of accounting standards is used in compiling the report (e.g. International Accounting Standards).

International Financial Reporting Standards

14. A commentary on the results for the period. The commentary must be sufficient for the user to be able to compare the information presented with equivalent information for previous periods. The commentary must include any significant information needed by an investor to make an informed assessment of the entity's activities and results, which would include but not be limited to discussion of the following:

- 14.1 The earnings per security and the nature of any dilution aspects:

See attached Consolidated Income Statement

- 14.2 Returns to shareholders including distributions and buy backs:

N/A

- 14.3 Significant features of operating performance:

N/A

- 14.4 The results of segments that are significant to an understanding of the business as a whole:

See note 17 in attached Annual Financial Report

14.5 A discussion of trends in performance:

N/A

14.6 Any other factors which have affected the results in the period or which are likely to affect results in the future, including those where the effect could not be quantified:

N/A

15. A statement as to whether the report is based on accounts which have been audited or subject to review, are in the process of being audited or reviewed, or have not yet been audited or reviewed.

The accounts of the Company have been audited.

Note: If the *accounts have been audited or subject to review, the audit report should be provided with the report.

16. If the accounts have not yet been audited or subject to review and are likely to be subject to dispute or qualification, a description of the likely dispute or qualification:

N/A

17. For all entities, if the accounts are subject to audit dispute or qualification, a description of the dispute or qualification.

N/A

Note: The audit report or review must be provided as part of the report.

Signed by Company Secretary:



Name: Mourice Garbutt
Date: 26 February 2015

+ See chapter 19 for defined terms.

Phosphagenics Limited

ABN 32 056 482 403

Annual Financial Report
for the year ended 31 December 2014

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Directors' Report

Your directors are pleased to submit this report on Phosphagenics Limited and its controlled entities for the year ended 31 December 2014.

Directors

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

Information on Directors

Currently in Office

LAWRENCE GOZLAN BSc (Hons)

Independent non-executive director (appointed 28 February 2014)
Chairman
Chairman of remuneration committee
Member of nomination and audit and risk committee

Mr Gozlan has been a leading fund manager and analyst in the Australian biotech sector over the past decade. He 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. Prior to this Mr Gozlan was the biotech analyst for QIC, the largest Australian institutional investor in life sciences at the time.

In 2013 Mr Gozlan was appointed to the Board of AusBiotech Ltd, Australia's main life sciences industry body.

Other current directorships of listed entities:
Oncosil Medical Limited, Prana Biotechnology Limited

Former directorships of listed entities in last 3 years:
Teleso Technologies Limited

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

HARRY ROSEN BA, LLB

Executive Director
Appointed Managing Director December 2005*

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, where he worked for a number of years in the USA 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.

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

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
2,000,000 performance rights in Phosphagenics Limited

NATHAN DRONA MBA

Independent non-executive director (appointed 28 February 2014)
Chairman of audit and risk committee
Member of remuneration and nomination committees

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

Directors' Report

DR GEERT CAUWENBERGH PhD

Independent non-executive director (appointed 28 February 2014)

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

Former Directors:

JONATHAN LANCELOT ADDISON BEc, ASIC, CFTP (Snr)

Independent non-executive director and Chairman until his resignation on 28 February 2014

Mr Addison has over 30 years in the investment management industry. He holds a number of Board positions with both listed and unlisted companies in Australia, Africa, New Zealand and the UK.

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

Other current directorships of listed entities:
Chairman Global Masters Funds Limited
Former directorships of listed entities in last 3 years:
None.

DON CLARKE LLB (Hon)

Independent non-executive director until his resignation on 28 February 2014

Mr Don Clarke has been a partner of law firm Minter Ellison since 1988. He serves in the Melbourne Private Equity and Capital Markets Group,

predominately advising ASX listed entities across a range of industries with emphasis on technology and manufacturing.

Mr Clarke was Chairman of the Company's Audit, Compliance and Corporate Governance Committee.

Other current directorships: Deputy Chairman of Webjet Limited
Former directorships of listed entities in last 3 years:
Circadian Technologies Limited

DR SANDRA WEBB BPharm, PhD, Dip Law

Independent non-executive director until her resignation on 28 February 2014

Dr Webb is an experienced biopharmaceutical professional and has a strong record of achievements in the commercial world of drug development.

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

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

STUART JAMES BA (Hons)

Independent non-executive director until his resignation on 28 February 2014

Mr James held a number of high profile executive positions during his career and has extensive experience in the oil, health, pharmaceutical and financial services sectors.

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

Other current directorships: Chairman Pulse Health Limited, Chairman Greencross Ltd, Chairman Prime Financial Group Limited
Former directorships of listed entities in last 3 years:
Chairman Progen Limited.

Company Secretary

Mr M Garbutt is the Company Secretary of the Company and its subsidiaries.

Mr Garbutt is a Fellow of Governance Institute of Australia (FGIA) and Chartered Institute of Secretaries (FCIS). He has over 30 years commercial experience and currently, through K R Corporate Compliance Pty Ltd ("KRCC"), conducts a corporate compliance and company secretarial company providing such support services to a number of public and listed companies in Australia including the Phosphagenics Limited group.

Directors' Report

Operating & Financial Review

Principal Activities

The principle activities of the Company are the production, sale and licensing of products incorporating its patented platform technology, TPM[®], for the pharmaceutical, cosmetics and animal health industries.

Result

The financial report for the financial year ended 31 December 2014, and the results herein, have been prepared in accordance with Australian Accounting Standards.

The consolidated loss after income tax attributable to ordinary shareholders for the financial year ended 31 December 2014 was \$8,935,000 (2013: \$12,607,000). The net operating cash outflow for the year was \$6,739,000 (2013: \$8,578,000), with a cash balance at 31 December 2014 of \$20,679,000 (2014: \$8,823,000).

Dividends

No dividends were paid or declared during the period and no dividends are recommended in respect of the financial year ended 31 December 2014.

Review of Operations

At the end of December 2014, the Company held \$20.7 million in cash and cash equivalents (2013: \$8.8 million). The Company expects it will receive a further amount of \$2.5 million from the R & D tax incentive scheme before the end of the second quarter of 2015.

In July 2014, the Company raised \$19.3 million via an institutional and sophisticated investor placement as well as a share placement plan. Those funds are being primarily are earmarked for the opioid patch clinical program.

Revenues from continuing operations for the reporting year total \$2.5 million (2013: \$1.4 million). The overwhelming contributor was the sales of Vital ET by the Company's partner Ashland, which amounted to approximately \$1.5 million (compared to less than \$0.3 million in 2013).

Revenues from BioElixia[®] of \$0.4 million (2013: \$0.8 million) are reported in the results for discontinued operations. The reasons for the fall in revenues are in the main due to decreased marketing expenditure and the loss of TVSN promotion of the Company's products. While the revenue was lower, so too was the loss incurred due predominantly to the reduction in marketing costs. As announced the Company has decided to place the BioElixia[®] brand up for sale.

On the expenses side the variation in costs from the previous year were mainly due to a reduction in consultancy fees which fell from \$2.4 to \$0.8 million,

reflecting both the drop in legal costs associated with the recoveries of misappropriated money and the finalisation of the project undertaken by Neura. The write back of a provision for Le Metier royalties and minimal provisions for obsolete stock contributed to the \$0.8 million reduction in other expenses.

Looking at the continuing operations the revenues were up by over 200%.

Earnings per share

	2014	2013
Basic loss per share	(\$0.0080)	(\$0.0124)
Diluted loss per share	(\$0.0080)	(\$0.0124)

Research & Development

The clinical program in 2014 focussed on the opioid patch programs with the prime undertaking being the technology transfer and scale-up of the patches to a US manufacturer. This was required ahead of engaging with the FDA and/or the start of further clinical trials in 2015.

For the TPM[®]/Oxycodone patch the main steps were finalisation of the clinical trial design and technical transfer of the process to manufacture patches to the Company's GMP manufacturer. The TPM[®]/Oxycodone patch Phase 2 trial began in February 2015 in Australia. It is a proof of concept study examining the use of an oxycodone patch for the relief of local pain in post-herpetic neuralgia (PHN). Topical delivery via the TPM[®]/Oxycodone patch allows oxycodone to interact with opioid receptors in the skin that may be upregulated in response to PHN, enabling effective pain relief.

Previously the Company demonstrated that topical TPM[®]/Oxycodone can provide local pain relief in an animal study that was conducted at the University of Queensland. This work has been submitted for peer review and publication. The TPM[®]/Oxycodone Phase 2a trial being conducted on patients suffering from PHN should be completed early in the 2nd half of 2015.

Considerable progress has also been made with the TPM[®]/Oxymorphone patch in preparation for further studies in Australia, lodgement of a US Investigational New Drug (IND) and a US Phase 2 trial as soon as practical after approval of the IND. In 2014 Phosphagenics completed a Phase 1 human trial demonstrating that the TPM[®]/Oxymorphone patch delivered similar concentrations of oxymorphone into the blood to those reported by Opana[®] ER (Endo Pharmaceuticals), an existing oral oxymorphone product. The result corroborated an earlier study conducted in 2013 and increased the number of subjects exposed to the product (total n=27) while confirming reproducibility of the patch. The

Directors' Report

Operating & Financial Review

TPM[®]/Oxymorphone patch is about to undergo toxicology studies in the US, which will form an integral part of the IND. The data requirements for a US IND are complex and take time to complete, especially for a novel transdermal application.

In October 2014, Phosphagenics also announced the completion of a clinical trial with the TPM[®]/Tretinoin. In this Phase 2a trial TPM[®]/Tretinoin compared favourably with Retin A with respect to acne reduction, with potential advantages of reducing the irritation and the common side effects associated with the use of tretinoin.

Phosphagenics also advanced its animal health products in 2014. In a trial conducted with Integrated Animal Health Pty Ltd (IAH), the Company tested the safety and efficiency of its topical TPM[®]/Oxycodone patch in a small trial of six racehorses suffering from cannon bone injury (shin soreness). All horses demonstrated pain relief within 48 hours of application with five of the six achieving it within 24 hours. This trial demonstrated the attractiveness of the topical product for the animal health market and also provided another trial demonstrating the efficacy of TPM[®]/Oxycodone in reducing localised pain with little systemic exposure.

Commercial Developments

January 2014 saw the launch in India of two Phosphagenics formulated diclofenac gel products, Instanac[®] TPM manufactured and sold by Themis, and Voveran[®] TPM sold by Novartis. This was a major commercial milestone for Phosphagenics as this marked the first sales of pharmaceutical products formulated with Phosphagenics TPM[®] and provided market validation of TPM[®] in the eyes of potential partners and consumers. Multiple reorders of TPM[®] occurred throughout the year indicating product growth although royalty income remains modest due to the low price point of products in the Indian market. Feedback from physicians and consumers has been positive and underpins an expectation of increased sales in 2015. Voveran[®] TPM packaging includes an insert indicating that TPM[®] had been compared to other diclofenac gels (including Novartis' own product) and provided superior delivery. The Company remains confident that the diclofenac gel will be expanded into regions beyond India.

Sales of animal health products containing TPM[®] got a boost in Australia and New Zealand in 2014 with expansion of partner's marketing capabilities. Interest remains high and sales are increasing, in particular into the dairy industry. Total revenues from this source remain small but are growing.

Phosphagenics continued its business development efforts in 2014 to find regional or global partners to commercialise the various products which have been supported by proof of concept studies.

Phosphagenics was pleased to see stronger than expected revenue from Ashland, its distributor of Vital ET[®], a raw ingredient used in many consumer skin care products. Whilst the revenues from this source have been somewhat volatile the Company believes that last year's record levels will be maintained in 2015. During the year over 22 tonnes of the product was sold to the Company's distributor.

In February, Phosphagenics announced the decision to sell its branded cosmetics division. Phosphagenics has received a number of expressions of interest. The sale only relates to Phosphagenics own brand and associated products. The Company's ongoing strategy for consumer skin care is to retain the rights to licence TPM[®] for use in cosmetics/cosmeceuticals under certain conditions. The arrangements with GNC have been terminated and the Company will likely change its arrangements with Korean Drug Company as it no longer intends to manufacture products for third parties. Licencing arrangements with Le Metiér de Beauté remain unchanged.

Subsequent events

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

Business Strategy and Future Developments

Phosphagenics remains focussed on optimising the value of its primary projects, the opioid patch programs. The process of developing a novel formulation platform is never easy or straight forward and ensuring that no preliminary steps are missed can take longer than expected. The Company believes that it will reach a significant milestone in 2015 with the lodgement of a US IND for TPM[®]/Oxymorphone patch allowing it to move forward with a US Phase 2 trial soon after.

Although the pain patch products will receive most of the Company's attention in 2015, it is important to note that Phosphagenics has a number of other TPM[®] formulation products showing impressive preliminary results. These include formulations for dermal application, formulated diclofenac products, injectables and animal health application. These are not only potential licensing candidates in their own right but also provide potential partners with validation that the TPM[®] platform can be applied to a variety of existing and development stage products. There are numerous discussions across a range of these opportunities ongoing and we have a high expectation that some of these may result in partnership deals in 2015.

Directors' Report

Operating & Financial Review

Material Business Risks

Phosphagenics is in the biotechnology and pharmaceutical sectors. It undertakes both research and development, which by its nature is high-risk. The group is subject to normal business risks, including but not limited to government policies, exchange rate fluctuations, labour market conditions and other factors which are outside the control of the Board and management. Material risks specific to the group include, but are not limited to:

- Technical and clinical – product development requires a high level of scientific investigation, the outcomes of which cannot be known beforehand. Activities are experimental in nature so risk of failure or delay is a real possibility. Key activities, such as product manufacture, preclinical testing and clinical trials, are outsourced to specialist contract organisations, where there are risks in managing performance, costs, timelines and quality outcomes.
- Regulatory – products and their safety data may not be approved by the regulatory agency (FDA) to proceed to next stage of clinical development.
- Financial – the group does not receive sufficient income to cover its operating expenses. Although there are sufficient current cash reserves, there is no certainty that additional capital funding will not be required and there is no certainty that capital funding will be available.
- Intellectual Property – the group needs to ensure it operates without infringing other patents and also ensure it adequately protects its own existing patents and new experimental outcomes.
- Commercialisation – the company's strategy is to partner with large and medium sized pharmaceutical and/or specialty pain companies to finalise and market its products. There are risks in establishing and maintaining these relationships and in the manner in which the partners execute the agreements.
- Key personnel – the execution of the company's development plan relies on key personnel of its scientific teams. The ability to retain and attract these personnel is critical.
- R&D Incentives – the company is eligible for cash rebates of its research and development programs, which are subject to changes in government policy.

Legal

The company is in an arbitration process with a commercial partner relating to a dispute regarding claims for breach of the operative agreements. The commercial partner is seeking unspecified damages. The company is also seeking unspecified damages. Both parties are defending the claims. The matter is proceeding through a formal arbitration process which is expected to last several months.

Health and Safety

The Board, CEO and senior management team are committed to creating a positive environment for the health and wellbeing of our employees and anyone affected by our operations, including contractors and visitors. The company has adopted a Health and Safety Policy and has established a Health and Safety Steering (HSS) committee structure as part of its overall framework. The HSS committee, which includes representatives of management and employees from each operational area, is a forum for management and employees to consult and monitor health and safety matters. The HSS committee meets regularly throughout the year.

Environmental Regulations

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

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

Directors Meetings

The number of meetings of the Company's board of directors and of each committee held during the year and the number of meetings attended by each director were:

	Board	Audit and Risk	Nomination	Remuneration
J Addison	1 of 1	1 of 1	-	-
D Clarke	1 of 1	1 of 1	-	-
S James	1 of 1	0 of 1	-	-
S Webb	1 of 1	1 of 1	-	-
L Gozlan	11 of 11	4 of 4	2 of 2	1 of 1
N Drona	11 of 11	4 of 4	2 of 2	1 of 1
G Cauwenbergh	11 of 11	4 of 4	2 of 2	1 of 1
H Rosen	12 of 12	-	-	-

The table above illustrates the number of meetings attended compared with the number of meetings held during the period that the director was in office or was a member of the committee.

On 11 March 2014 the board resolved to establish separate committees for remuneration and nomination. Prior to this time these functions were performed by the full board.

Mr Gozlan undertook the role of acting chairman of the nomination committee for the May 2014 meeting.

Directors' Report

Remuneration Report

The remuneration report sets out remuneration information for non-executive directors, executive directors and other key management personnel of the group.

The report contains the following sections:

- a) Key management personnel disclosed in this report
- b) Remuneration governance
- c) Use of remuneration consultants
- d) Executive remuneration policy and framework
- e) Relationship between remuneration and Phosphagenics Limited's performance
- f) Performance review and development
- g) Non-executive director remuneration policy
- h) Voting and comments made at the company's 2014 Annual General Meeting
- i) Details of remuneration
- j) Service agreements
- k) Details of share-based compensation and bonuses
- l) Equity instruments held by key management personnel

a) Details of Key Management Personnel

Non-executive and executive directors (see pages 1 to 2 for details about each director)

L Gozlan	(from 28 February 2014)
N Drona	(from 28 February 2014)
G Cauwenbergh	(from 28 February 2014)
H Rosen	
J Addison	(until 28 February 2014)
D Clarke	(until 28 February 2014)
S Webb	(until 28 February 2014)

Other Key Management Personnel

Name	Position
J Amon	VP, Product Development (from 17 November 2014)
P Gavin	Chief Scientific Officer
A Legg	Chief Financial Officer
J Rosen	General Counsel
A Stojanovic	VP, Business Development and Commercial Operations (from 14 February 2014)

Changes since the end of reporting period

R Murdoch was appointed Chief Executive Officer on 14 January 2015.

b) Remuneration Governance

The remuneration committee, currently consisting of three independent non-executive directors, advises the Board on remuneration policies and practices generally, including key management personnel, and makes specific recommendations on remuneration packages and other terms of employment for non-executive directors and executive directors. The objective of the company's remuneration policies is to attract and retain the highest calibre of employee whilst promoting and rewarding workplace culture and contributions to company performance. The framework balances employee reward with achievement of strategic objectives and the creation of value for shareholders.

c) Use of remuneration consultants

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

d) Executive remuneration policy and framework

In determining executive remuneration, the board aims to ensure that the remuneration practices are:

- Competitive and reasonable, enabling the company to attract and retain key talent
- Aligned to the company's strategic and business operatives and creation of shareholder value
- Transparent and easily understood
- Acceptable to shareholders.

The executive remuneration framework has three components:

- Base pay and benefits
- Short-term incentives (including equity component)
- Long-term incentives through participation in Phosphagenics Employee Conditional Rights Scheme

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

(i) Base pay and benefits

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

US based executives receive their base pay and in addition non-financial benefits of health and dental insurance. Phosphagenics has also established a defined contributions pension plan (401(k)) for all its US employees and contributes under Safe Harbour

Directors' Report

Remuneration Report

matching contributions to a maximum of 4% or US\$8,500 per annum.

(ii) Short term incentives

In December 2014 the board approved the Short Term Incentive Program for all employees to reward for achievement of defined company and agreed individual performance expectations for 12 months ending 31 December each year.

In its first year, the incentive will be applied on a pro-rata basis for the period 1 July 2014 to 31 December 2014.

The available bonus will comprise:

- 33.3% corporate component based on organisational targets set and assessed annually by the board. In 2014 this component was not set. In 2015 this component will be set by the Board in March 2015 and align with the overall strategic goals primarily related to milestones of the pain patch projects.
- 33.3% individual key performance targets set at beginning of each year, aligning with corporate with organisational targets as well as team and personal targets, the achievement of which will be assessed by the employee's immediate manager.
- 33.3% individual constructive behaviours as assessed by the employee's immediate manager.

The bonus outcomes are discretionary and will be based on performance criteria outlined above, the overall health of the business and other factors which may arise.

Eligible executives can receive up to 10% of their fixed base salary, as at June each year, as a bonus should they meet expected KPIs and up to 20% if KPI targets are exceeded. In 2014 eligible executives are eligible for a maximum of 6.6% of their base salary.

The bonus will be paid in March of each year, following the financial year end, in the form of 50% cash and 50% shares.

A Stojanovic and J Rosen are under separate contracts and are entitled to a discretionary annual cash bonus of up to 20% of base pay or other agreed amount based on achieving KPI targets set by February of each year.

No bonuses were paid in 2014. The total bonus pool provided for 2014 performance is \$72,000, however the individual allocation to eligible executives has not yet been determined.

(iii) Long term incentives

Long-term incentives are provided via the Phosphagenics' Employee Conditional Rights Scheme (ECRS), which was approved by shareholders at the 2011 Annual General Meeting.

The Phosphagenics' ECRS is designed to reward staff in a manner that aligns remuneration with the

creation of shareholder wealth and to ensure that all staff, including executives, views their relationship with the Group as a long-term one. As such the long term incentive plan has been offered to all staff who met the minimum service criteria.

There are no guaranteed base pay increases in any executives' contracts.

The ECRS allows eligible employees to be granted Performance Rights to acquire Shares at no cost. 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 will be administered by the board, with all objectives, determinations, approvals or opinions made or given by the board in its absolute discretion.

Employee Conditional Rights Scheme approved 31 May 2011 (ECRS Scheme 1)

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 (VWAP) is not less than \$0.35 at any time prior to 31 December 2014, then 100% of the Performance Rights will vest. The VWAP price was not met and all shares remain unvested.

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. Rights relating to Milestone 1 remain unvested as this milestone was not achieved.

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 \$1 million, and gross revenues from global sales of all non-prescription products of the company of not less than \$20 million. Rights relating to Milestone 2 remain unvested as this milestone was not achieved.

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[®]

Directors' Report

Remuneration Report

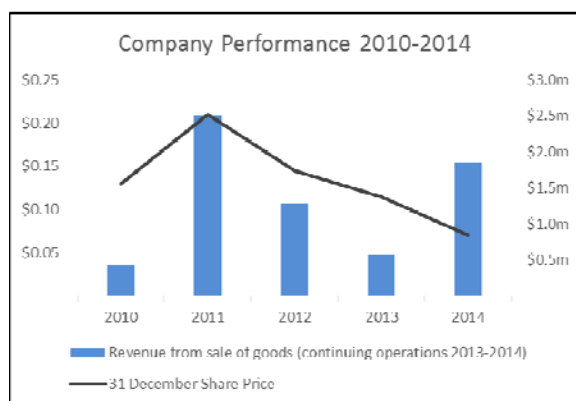
technology for use in or in connection with the dermatology products of not less than \$2 million, and gross revenues from global sales of all non-prescription products of the company of not less than \$30 million. Rights relating to Milestone 3 remain unvested as this milestone was not achieved.

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.

e) Relationship between remuneration and Phosphagenics Limited's performance

The company's remuneration policies align executive reward with the interests of shareholders. The main focus is on growth in shareholder value through achievement of research and development milestones as well as commercial milestones. Typical of companies in this biotech sector, performance goals are not necessarily linked to commercial performance measures. Remuneration is set based on both short term and long term key performance indicators (KPIs) as outlined in sections (ii) and (iii) as well as other factors such as benchmarking, overall performance, behaviours and the company's ability to pay.

The following chart shows the Company's annual revenues (2013 and 2014 from continuing operations) and year end share price over the five-year period from 1 January 2010 to 31 December 2014.



f) Performance review and development

All staff, including executives, participate in a formal bi-annual performance review and development process. Establishment of objectives, setting KPIs and planning relevant staff development are documented and agreed at the beginning of the year. All staff have monthly one-on-one sessions to monitor progress toward objectives. A formal half-year review occurs, the outcome of which contributes to the annual salary review. The full-year review contributes to the award of short-term incentives.

g) Non-executive director remuneration policy

On appointment to the Board, all non-executive directors were given a letter of offer that summarised the proposed remuneration, relevant to the office of director. Non-executive directors receive a Board fee and fees for chairing Board committees, see table below.

	From 1 March 2014	Until 1 March 2014
Annual Director's Fees	(\$)	(\$)
Board Chair	110,000	61,365
Base fee non-executive directors	55,000	42,945
Chair of audit and risk committee (per meeting)	5,000	-
Chair of remuneration committee (per meeting)	2,500	-
Chair of nomination committee (per meeting)	2,500	-

Non-executive director's fees are reviewed annually by the board. Non-executive fees were increased from 1 March 2014, with the previous increase occurring from 1 March 2013. Fees and payments are determined within an aggregate non-executive director's pool limit approved by shareholders. The aggregate currently stands at \$400,000 and was approved by shareholders at 2014 Annual General Meeting. This amount, or part thereof, is divided among non-executive directors as determined by the board and reflecting time and responsibility related to the board and committees. The aggregate paid to non-executive directors was \$316,596 (2013 \$189,084). Directors fees include statutory superannuation contributions as required under Australian superannuation guarantee legislation.

Dr Cauwenbergh elected not to receive any fees for his role as chairman of the nomination committee in 2014.

A special fee of \$2,500 per day was awarded by the remuneration committee to Mr Gozlan to compensate him for his time committed during the 2014 capital raising. Mr Gozlan received a total of \$80,000 (inclusive of superannuation). Under the company's constitution this amount forms part of the director pool limit and has been included in cash salary and fees component in i) Detail of remuneration table.

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

Non-executive directors were each awarded 1,000,000 non-quoted share options with a strike price of \$0.17 which was approved by shareholders at the 2014 Annual General Meeting. The options have an expiry date of five years.

Directors' Report

Remuneration Report

h) Voting and comments made at the Company's 2014 Annual General Meeting

Phosphagenics received more than 92% of "yes" votes on its remuneration report for the 2013 financial year. The company did not receive any specific feedback at the Annual General Meeting or throughout the year on its remuneration policies.

i) Details of remuneration

The following tables show details of the remuneration received by the group's key management personnel for the current and previous financial year.

2014	Short-term employee benefits		Post-employment benefits	Long-term benefits	Share based payment			
	Cash salary & fees	Cash Bonus***	Non-monetary benefits	Super-annuation	Annual and long service leave	Options	Performance rights**	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Non executive directors								
J Addison ¹	9,383	-	-	868	-	-	(38,197)	(27,946)
D Clarke ¹	6,567	-	-	607	-	-	(17,819)	(10,645)
S James ¹	7,000	-	-	-	-	-	(17,819)	(10,819)
S Webb ¹	6,567	-	-	607	-	-	(17,819)	(10,645)
L Gozlan ²	164,955	-	-	11,713	-	30,000	-	206,668
N Drona ²	62,500	-	-	-	-	30,000	-	92,500
G Cauwenbergh ²	45,830	-	-	-	-	30,000	-	75,830
Sub-total non-executive directors	302,801	-	-	13,795	-	90,000	(91,654)	314,942
Executive directors								
H Rosen	285,182	-	1,490	26,558	28,798	-	38,179	380,207
Other key management personnel								
J Amon ³	24,470	-	-	2,325	1,904	-	-	28,699
P Gavin	200,013	-	-	18,751	24,764	-	21,539	265,067
A Legg ⁵	166,179	-	-	15,574	13,671	-	12,923	208,347
J Rosen	244,746	-	9,627	1,719	20,198	-	35,635	311,925
A Stojanovic ⁴	229,561	-	17,991	7,018	17,708	-	-	272,278
Total	1,452,952	-	29,108	85,740	107,043	90,000	16,622	1,781,465

¹ Resigned 28 February 2014

² Appointed 28 February 2014

³ Appointed 17 November 2014

⁴ Appointed 14 February 2014

⁵ Remuneration in the form of performance rights includes negative amounts for rights forfeited during the year.

*** Bonus allocation is yet to be determined. See note dii) of the Remuneration Report

Directors' Report

Remuneration Report

2013	Short-term employee benefits		Post-employment benefits	Long-term benefits	Share based payment			
	Cash salary & fees	Cash Bonus	Non-monetary benefits	Super-annuation	Annual and long service leave	Options	Performance rights**	Total
	\$	\$	\$	\$	\$	\$	\$	\$
Non executive directors								
J Addison	56,091	-	-	5,119	-	-	14,304	75,514
D Clarke	39,255	-	-	3,582	-	-	6,682	49,519
S James	42,200	-	-	-	-	-	6,682	48,882
S Webb	39,255	-	-	3,582	-	-	6,682	49,919
Sub-total non-executive directors	176,801	-	-	12,283	-	-	34,350	223,434
Executive directors								
H Rosen ^{1#}	412,562	-	15,127	-	2,896	-	38,184	482,030
E Ogru ²	137,615	-	-	12,385	(12,306)	-	(63,636)	72,999
Other key management personnel								
H Alsop ³	50,203	-	-	4,518	2,933	-	-	29,018
D Butala	150,646	5,000	-	14,202	17,114	-	21,538	208,500
M El-Tamimy	135,000	10,000	-	13,225	23,396	-	21,538	203,159
P Gavin	157,584	10,000	-	15,287	26,966	-	21,538	231,375
S Kinrade ⁴	80,166	-	-	7,363	5,059	-	-	92,588
A Legg ⁵	130,175	15,000	-	13,311	9,854	-	1,077	169,417
G Moses	150,997	-	-	13,780	11,871	-	769	177,417
J Rosen [#]	204,228	-	6,850	-	15,709	-	35,635	262,422
Total	1,785,977	40,000	21,977	106,354	103,492	-	82,357	2,140,157

¹ H Rosen was based in the US from 1 January 2013.

² E Ogru resigned on 18 July 2013. The amount for forfeiture of performance rights has been restated.

³ H Alsop resigned on 8 March 2013.

⁴ S Kinrade commenced on 21 May 2013 and was made redundant on 8 October 2013.

⁵ A Legg commenced part time on 22 January 2013 and became full time on 1 July 2013

[#] Health care benefits were not previously disclosed in 2013. US employer taxes were incorrectly reported as superannuation and have been removed.

** Remuneration in the form of performance rights includes negative amounts for rights forfeited during the year.

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

Name	Fixed remuneration		At risk – STI		At risk - LTI	
	2014	2013	2014	2013	2014	2013
	%	%	%	%	%	%
Non executive directors						
J Addison	100%	42%	-	-	*	*
D Clarke	100%	87%	-	-	*	*
S James	100%	86%	-	-	*	*
S Webb	100%	87%	-	-	*	*
L Gozlan	85%	-	-	-	15%	-
N Drona	68%	-	-	-	32%	-
G Cauwenbergh	60%	-	-	-	40%	-
Executive directors						
H Rosen ¹	90%	92%	-	-	10%	8%
Other key management personnel						
J Amon	100%	-	-	-	-	-
P Gavin	92%	87%	-	4%	8%	9%
A Legg ⁵	93%	90%	-	9%	7%	1%
J Rosen	89%	86%	-	-	11%	14%
A Stojanovic	100%	-	-	-	-	-

* Percentage not disclosed as the total amount of LTI remuneration expense was negative for the relevant period

Directors' Report

Remuneration Report

j) Service agreements

Remuneration and other terms of employment for the executives are formalised in service agreements, apart from H Rosen who does not have a written agreement, which include a position description and sets out duties, rights and responsibilities as well as entitlements on termination. The entitlement to participate in Phosphagenics Ltd Employee Conditional Rights Scheme is governed by the Scheme document and may not be specifically detailed in the service agreement.

Other major provisions of the agreement relating to remuneration are set out below for executives who are employed at the date of this report.

J Amon, VP Product Development

- (from 17 November 2014)
- No fixed term of agreement.
- Base salary, inclusive of superannuation, per annum as at 31 December 2014 of \$220,000, to be reviewed annually in line with company policies.
- Right to participate in the Short Term Incentive program at 20% of base salary.
- Right to participate in Phosphagenics Ltd Employee Conditional Rights Scheme with a grant of minimum 1,000,000 rights.
- Subject to termination at any time by
 - o The executive giving 3 months' notice in writing;
 - o The company giving 3 months' notice in writing;
 - o The company at any time without notice if the executive is guilty of serious misconduct, becomes unable to pay his debts as they become due or is found guilty by court of a criminal offence.

P Gavin, Chief Scientific Officer

- No fixed term of agreement.
- Base salary, inclusive of superannuation, per annum as at 31 December 2014 of \$219,000.
- Subject to termination at any time by
 - o The executive giving 1 months' notice in writing;
 - o The company giving 1 months' notice in writing;
 - o The company at any time without notice if the executive is guilty of serious misconduct, becomes unable to pay his debts as they become due or is found guilty by court of a criminal offence.

A Legg, Chief Financial Officer

- No fixed term of agreement.
- Base salary, inclusive of superannuation, per annum as at 31 December 2014 of \$186,250.
- Subject to termination at any time by
 - o The executive giving 1 months' notice in writing;
 - o The company giving 1 months' notice in writing;

- o The company at any time without notice if the executive is guilty of serious misconduct, becomes unable to pay her debts as they become due or is found guilty by court of a criminal offence.

J Rosen, General Counsel

- No fixed term of agreement.
- Base salary per annum as at 31 December 2014 of US\$237,500.
- Right to negotiate a short term incentive bonus after 12 months service.
- Right to participate in Phosphagenics Ltd Employee Conditional Rights Scheme with a minimum grant of 500,000 rights.
- Provision of health and dental insurance for employee.
- Subject to termination at any time by
 - o The executive giving 30 days' notice in writing;
 - o The company giving 30 days' notice in writing;
 - o The company at any time without notice if the executive is guilty of serious misconduct, becomes unable to pay his debts as they become due or is found guilty by court of a criminal offence.

A Stojanovic, VP Business Development and Commercial Operations

- (from 14 February 2014)
- No fixed term of agreement.
- Base salary per annum as at 31 December 2014 of US\$237,500.
- A discretionary cash bonus up to 20% of base salary or other amount as agreed between the parties subject to fulfilment of performance criteria set by February each year.
- Right to participate in Phosphagenics Ltd Employee Conditional Rights Scheme with a minimum grant of 1,000,000 rights.
- Provision of health and dental insurance for employee and 50% contribution towards costs of family cover.
- Matched contributions to company retirement plan to maximum value of US\$8,500.
- Entitlement to severance pay of 33.3% of base pay if the company terminates employment due to sale or other disposition of all or substantially all of the company's assets or business by way of merger, consolidation or spin-off.
- Subject to termination at any time by
 - o The executive giving 14 days' notice in writing;
 - o The company giving 30 days' notice in writing;
 - o The company at any time without notice if the executive is guilty of serious misconduct, becomes unable to pay his debts as they become due or is found guilty by court of a criminal offence.

Directors' Report

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H Rosen, President and Founder

- No service agreement.
- Base salary, inclusive of 9.5% superannuation, per annum as at 31 December 2014 of \$312,252.

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

R Murdoch, Chief Executive Officer

- (from 14 January 2015)
- No fixed term of agreement.
- Base salary, inclusive of 9.5% superannuation, per annum as at 14 January 2015 of \$382,250, to be reviewed annually in line with company policies.
- Relocation allowance.
- Contribution towards closing out expenses of selling principal place of residence.
- Right to participate in the Short Term Incentive program, with bonus rate of up to 40% of base salary.
- Right to participate in Phosphagenics Ltd Employee Conditional Rights Scheme with a grant of 15,000,000 rights. If eligibility to convert occurs under the share price crystallising at \$0.25 prior to 31 December 2017 then vesting will occur in three equal tranches, with each portion vesting at each December providing the executive is still an employee at that time. If eligibility to convert occurs by achieving the established milestones then vesting will occur in line equally with other employees.
- Subject to termination at any time by
 - o The executive giving 3 months' notice in writing within the first six months of employment, and six months' notice thereafter;
 - o The company giving 3 months' notice in writing within the first six months of employment, and six months' notice thereafter;
 - o The company at any time without notice if the executive is guilty of serious misconduct, becomes unable to pay his debts as they become due or is found guilty by court of a criminal offence.

k) Details of share-based compensation and bonuses

Options Granted During the Year to Key Management Personnel

On 23 May 2014, 3,000,000 (2013: Nil) options were awarded to the three non-executive directors at the annual general meeting. The issued options were valued at \$0.03 each, are non-quoted, have a strike price of \$0.17 and expiry date of five years. No options vested during the year.

Performance Rights Granted During the Year to Key Management Personnel

Nil (2013: 1,200,000) ECRS Rights were awarded to key management personnel during the year, of which nil vested.

l) Equity instruments held by key management personnel

The tables on the following page show the number of:

- Options over ordinary shares in the company
- Performance rights holdings granted under the Employee Conditional Rights Scheme
- Shares in the company

that were held during the financial year by key management personnel of the group, including their close family members and entities related to them.

There were no shares granted during the reporting period as compensation.

Directors' Report

Remuneration Report

i) Option holdings

2014 Name	Balance at start of year.	Granted as compensation	Expired	Balance at end of year	Vested
J Addison ¹	-	-	-	-	-
D Clarke ¹	-	-	-	-	-
S James ¹	-	-	-	-	-
S Webb ¹	-	-	-	-	-
L Gozlan ²	-	1,000,000	-	1,000,000	1,000,000
N Drona ²	-	1,000,000	-	1,000,000	1,000,000
G Cauwenbergh ²	-	1,000,000	-	1,000,000	1,000,000
J Amon	-	-	-	-	-
H Rosen	-	-	-	-	-
P Gavin	300,000	-	(300,000)	-	-
A Legg	-	-	-	-	-
J Rosen	-	-	-	-	-
A Stojanovic	-	-	-	-	-
Totals	300,000	3,000,000	(300,000)	3,000,000	3,000,000

1 Resigned 28 February 2014

2 Appointed 28 February 2014

ii) Performance rights holdings

2014	Balance at start of year No.	Award date	Awarded during the year No.	Fair value per option at award date	Other changes No.	Balance at end of year No.	Not vested No.
J Addison ¹	750,000	31 May 2011	-	\$0.07	(750,000)	-	-
D Clarke ¹	350,000	31 May 2011	-	\$0.07	(350,000)	-	-
S James ¹	350,000	31 May 2011	-	\$0.07	(350,000)	-	-
S Webb ¹	350,000	31 May 2011	-	\$0.07	(350,000)	-	-
L Gozlan ²	-	-	-	-	-	-	-
N Drona ²	-	-	-	-	-	-	-
G Cauwenbergh	-	-	-	-	-	-	-
H Rosen	2,000,000	31 May 2011	-	\$0.07	-	2,000,000	2,000,000
J Amon	-	-	-	-	-	-	-
P Gavin	1,000,000	3 Oct 2011	-	\$0.07	-	1,000,000	1,000,000
A Legg	700,000	20 Dec 2013	-	\$0.02	-	700,000	700,000
J Rosen	700,000	1 Apr 2012	-	\$0.14	-	700,000	700,000
A Stojanovic	-	-	-	-	-	-	-
Totals	6,200,000		-		(1,800,000)	4,400,000	4,400,000

1 Resigned 28 February 2014

2 Appointed 28 February 2014

All performance rights granted to key management personnel have been issued in accordance with the provisions of the Employee Conditional Rights Scheme (ECRS). All performance rights expire on 30 June 2016. No performance rights have lapsed during the year. No performance rights vested or were exercised during the year. No performance rights were issued prior to 1 January 2011.

2,800,000 (2013: 4,200,000) performance rights were cancelled during the year in line with scheme terms in which rights are forfeited when personnel cease employment.

Directors' Report

Remuneration Report

iii) Share holdings

2014 Name	Balance at start of year	Received during year on exercise of option	Received vesting of rights to deferred shares	Other changes during the year	Balance at end of year
J Addison ¹	22,473	-	-	(22,473)	-
D Clarke ¹	35,484	-	-	(35,484)	-
S James ¹	-	-	-	-	-
S Webb ¹	-	-	-	-	-
L Gozlan ²	-	-	-	-	-
N Drona ²	-	-	-	-	-
G Cauwenbergh ²	-	-	-	20,000	20,000
H Rosen	64,391,436	-	-	-	64,391,436
J Amon	-	-	-	-	-
P Gavin	99,000	-	-	-	99,000
A Legg	135,000	-	-	131,500	266,500
J Rosen	2,000,068	-	-	-	2,000,068
A Stojanovic	-	-	-	64,000	64,000
Totals	66,683,461	-	-	157,543	66,841,004

¹ Resigned 28 February 2014

² Appointed 28 February 2014

Directors' Report

Share Options

Share options convertible to ordinary shares on issue at the date of this report. All options are unquoted on the Australian Securities Exchange.

Issuing entity	Shares under option No.	Exercise price \$	Expiry date
Phosphagenics	3,000,000	\$0.17	22 May 2019
Total	3,000,000		

Rounding of Amounts

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable and where noted (\$'000)), under the option available to the company under ASIC Class Order 98/100. The company is an entity to which the Class Order applies.

Indemnification of Officers & Auditors

During the financial year, the Company paid a premium in respect of a contract insuring its Directors and Officers against a liability, other than a wilful breach of duty, of a nature that is required to be disclosed under section 300(8) of the Corporations Act 2001 (the Act). In accordance with section 300(9) of the Act, further details have not been disclosed due to confidentiality provisions contained in the insurance contract.

Non-audit services

The Directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 6 to the financial statements.

Auditor's independence declaration

The auditor's independence declaration is included on page 16 of the financial report.

Changes in State of Affairs

During the financial year there was no significant change in the state of affairs of the Consolidated Entity other than that referred to in the financial statements or notes thereto.

Signed in accordance with a resolution of the Directors made pursuant to s.298(2) of the *Corporations Act 2001*.



Lawrence Gozlan
Chairman

26 February 2015
Melbourne



Auditor's Independence Declaration

As lead auditor for the audit of Phosphagenics Limited for the year ended 31 December 2014, I declare that to the best of my knowledge and belief, there have been:

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

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

A handwritten signature in blue ink, appearing to read 'A. Linschoten', written over a horizontal line.

Anton Linschoten
Partner
PricewaterhouseCoopers

Melbourne
26 February 2015

Corporate Governance Statement

This statement summarises the corporate governance policies and procedures adopted by the Phosphagenics' board of directors ("Board") and discloses the extent to which the Company has followed the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations ("ASX Principles") during and since the reporting period. The Board aims to ensure the Company operates with a corporate governance framework and culture that is relevant, practical and cost effective for the current size and stage of development of the business.

Principle 1: Lay solid foundations for management and oversight

Relationship between Board and Management

The relationship between the Board and senior management is critical to the group's long term success. The board acts in the best interests of the Company as a whole and is accountable to shareholders for the overall direction, management and corporate governance of the Company and the Group.

Responsibilities of the Board

The responsibilities of the Board are outlined in the Board Charter. The responsibilities of the Board include:

- (a) Strategic Issues
 - Approving management's corporate strategy and performance objectives;
 - Providing strategic advice to management;
 - Monitoring performance and implementation of strategy and ensuring appropriate resources are available.
- (b) Shareholding items
 - Issuing shares, options or conditional rights;
 - Determining the amount of dividend.
- (c) Financial items
 - Approving and monitoring financial and other reporting;
 - Approving and monitoring the progress of major capital expenditure, capital management, acquisitions and divestitures;
 - Reporting to shareholders.
- (d) Risk and control
 - Overseeing groups control and accountability system;
 - Reviewing and ratifying systems of risk management, internal compliance and control, and legal compliance to ensure appropriate compliance frameworks are in place.
- (e) Board and senior management
 - Appointment, performance assessment and, if necessary, removal of CEO;
 - Ratifying appointment and, where appropriate, removal of CFO and Company Secretary;
 - Ratifying other senior executive appointments, organisational changes and senior management remuneration policies and practices;
 - Approving succession plans for management;
 - Monitoring performance of the board both collectively and individually;
 - Recommending directors for nomination and removal.
- (f) Other Board responsibilities
 - Monitoring and ensuring compliance with best practice corporate governance requirements;
 - Approving board committee charters;

Responsibilities of the CEO

Responsibility for day to day management and administration of the Group is delegated by the board to the chief executive officer and the executive team. The Chief Executive Officer ("CEO") manages the Group in accordance with the strategy, plans and policies approved by the board.

CEO and Senior Executive Performance

A new performance management system was introduced from July 2014, prior to this annual assessments were undertaken at December each year. The first performance assessment under this new system was undertaken in February 2015. The full process for performance management is described in the Remuneration Report under f) Performance review and development on page 8 of this report.

Corporate Governance Statement continued

Principle 2: Structure the Board to add value

The Board seeks to achieve a mix of skills and diversity that it enables it to most effectively carry out its functions and responsibilities. The Board has four members, as set out in the table below. Details of the relevant skills, experience and expertise of each Board member are set out on page 1 of this report.

	Appointed	Role	Independent	Committees
L Gozlan	28 February 2014	Chairman	Yes	Audit and Risk, Remuneration, Nomination
G Cauwenbergh	28 February 2014	Non-executive director	Yes	Audit and Risk, Remuneration, Nomination
N Drona	28 February 2014	Non-executive director	Yes	Audit and Risk, Remuneration, Nomination
H Rosen	June 1999	Managing Director	No	

Board composition

The company's Constitution provides for the appointment of a minimum of three directors and a maximum of eight. In accordance with current practice, the Board Charter requires a majority of directors to be independent.

The company aims to ensure that the board has a mix of characteristics, skills, diversity, and experience relevant to the business and associated business risks of Phosphagenics. The Company is also keenly aware of the role diversity plays in the success of our society and intends to strive in the years ahead to develop the Board composition to be a reflection of that diversity. Similar to any other biotechnology growth company, our ideal board is not dictated by a formula but is driven by the particular and current and medium-term needs of our organization. We continue to strive for a board that has a balanced membership encompassing strategic, financial, commercial, operational, and governance competencies that can help guide the company to build shareholder value going forward.

Directors' independence

An independent director must be independent of management, be free of any business or other relationship and otherwise meet the criteria for independence set out in the ASX Principles.

Under these criteria the Board has determined that all non-executive directors, which form a majority of the board, were independent at the date of this report.

The Board assesses the independence of directors as and when required.

Term in office

The company's Constitution specifies that all non-executive directors must retire from office no later than the third annual general meeting following their last election, and that one third of non-executive directors (or nearest to one third) retire at every annual general meeting and be eligible for re-election.

Chairman and Chief Executive Officer (CEO)

The Chairman is responsible for leading the Board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the company's senior executives. The Board has set out its reserved functions, as detailed in Principal 1, and delegated to the CEO the day to day business operations in accordance with the strategic objectives as approved by the Board.

The current Chairman, Mr Gozlan, is an independent non-executive director appointed in 2014. The CEO, Mr Rosen, was appointed as director in 1999 and as CEO in 2005. Mr Rosen announced his intention to step-down as CEO at the 2014 AGM and on 14 January 2015 Dr Murdoch was appointed CEO.

In accordance with current practice, the Board Charter requires the role of Chairman and CEO to be separate.

Independent professional advice

Directors and Board committees have the right to seek any independent professional advice they consider necessary to fulfil their responsibilities and in order to exercise independent judgement. Subject to consent by the Chairman, which will not be unreasonable withheld, the company will pay the director's costs.

Nomination committee

The Board established the nomination committee in March 2014 and is composed of three directors, the majority independent, and is chaired by an independent director. Previously the function of the nomination committee was undertaken by the full Board. At the date of this report the committee consisted of the following members:

Dr G Cauwenbergh (Chairman)
Mr L Gozlan
Mr N Drona

Details of these directors' attendance at committee meetings are set out in the directors' report on page 5.

A charter for the nomination committee was approved by the Board in February 2015. The charter of the nomination committee is to:

- develop criteria for board membership and identify specific individuals for nomination;
- establish processes for review of performance of individual directors and the board as a whole;
- setting and reviewing on an annual basis measurable objectives for diversity and monitoring implementation plans;
- reviewing company's succession planning of the board, CEO and senior management.

The committee is developing a skills matrix, setting out the mix of skills and diversity the Board is looking to achieve in its membership. The nomination committee will use this matrix to identify a list of candidates with appropriate skills and experience. The committee will make recommendations to the Board on candidates it considers appropriate for appointment. A candidate may be interviewed by all Board members. In 2014, three new directors were appointed to the Board in February and approved by the shareholders at the May annual general meeting. In 2014 the committee continued its search for new potential candidates whilst the Board focused on the recruitment of the CEO.

When an existing director is required to stand for re-election, the nomination committee also reviews the range of skills, experience and expertise on the Board.

Performance assessment

The Board undertakes an annual self-assessment of its performance using a questionnaire. Each director is asked to consider matters such as strategies, reporting and control, management, board meetings and the composition and functioning of the board. The questionnaires are collated by the company secretary and reviewed by Chairman of the Board. The outcomes and recommendations are discussed by the Board.

The Board undertook its performance assessment in February 2015 conducted in accordance with these procedures.

Principle 3: Promote ethical and responsible decision making

Code of Conduct

The directors are committed to making positive economic, social and environmental contributions, while complying with all applicable laws and regulations and acting in a manner that is consistent with the principals of honesty, integrity, fairness and respect. The company has established a code of conduct to establish clear standards against which to guide decision making and hold itself accountable. The code provides a set of guiding principles covering employment practices, responsibility to shareholders and financial markets, equal opportunity, harassment and bullying, conflicts of interest, use of company resources and disclosure of confidential information. The code of conduct is available on the company's website.

Diversity Policy

The company recognises the value contributed to the organisation by employing people with varying skills, cultural backgrounds, ethnicity and experience. The company believes its diverse workforce is the key to continued growth and improved productivity and performance. The company actively values and embraces

Corporate Governance Statement continued

diversity of its employees and is committed to creating an inclusive workplace where everyone is treated equally and fairly, and where discrimination, harassment and inequality are not tolerated. While the company is committed to fostering diversity at all levels, gender diversity continues to be a priority for the group.

In May 2011 the Board approved a Diversity Policy which outlined the measurable objectives for achieving diversity. This policy was updated in February 2015 and is available on the company's website.

In 2014 the objectives for diversity were measurement of gender diversity and continuation of promotion of flexibility in working hours. The table below outlines gender diversity within Phosphagenics:

	Whole organisation	Senior Management	Senior Executive	Board
Total	41	8	5	4
Female	20	2	1	0
% Female	49%	25%	20%	0%

Principle 4: Safeguard integrity in financial reporting

Audit and risk committee

The Company has established an audit and risk committee comprising three independent non-executive directors. The chairman of the committee must be an independent director who is not chairman of the board. At least one director should have relevant financial qualifications or financial experience. At the date of this report the committee consisted of the following members:

Mr N Drona (Chairman)
Dr G Cauwenbergh
Mr L Gozlan

Details of these directors' qualifications and attendance at committee meetings are set out in the director's reports on pages 1 to 2. The audit and risk committee members are financially literate and have an appropriate understanding of the industry in which the group operates. The committee meets at least two times per year and has direct access to the Company's auditors.

The charter of the committee is to:

- exercise oversight of the compliance of the Company's financial statements with the requirements of the Corporations Act and any other mandatory professional or statutory reporting requirements;
- oversee effectiveness of the company's risk management and internal control systems including the Company's risk profile;
- recommend to the Board the appointment, removal and remuneration of external auditors, and review their terms of engagement, the scope and quality of their audit and assess performance;
- consider the independence of the external auditor on an on-going basis;
- report to the Board on matters relevant to the committee's role and responsibilities.

In March 2014 the audit and risk committee recommended to change the Company's external auditor and consequently undertook a tender process with a number of leading audit firms. The selection process involved written proposals and panel interviews, after which PricewaterhouseCoopers was recommended to the Board, and subsequently to the shareholders at the May 2014 annual general meeting. The current audit partner will be rotated by the audit firm every five years as governed by audit standards.

The audit and risk committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party.

Principle 5: Make timely and balanced disclosure

Continuous disclosure

The Company has a continuous disclosure policy to ensure compliance with ASX Listing Rules. A copy of this policy is available on the company's website. This policy:

- gives guidance on the information that may need to be disclosed;
- allocates responsibility for approving public disclosures;

Corporate Governance Statement continued

- establishes procedures to ensure compliance;
- gives guidance for dealing with the media, public and analysts.

Principle 6: Respect the right of shareholders

Communication with shareholders

The Board has approved a Shareholder Communication Policy to ensure the shareholders and the wider community are informed of all major developments affecting the company in a timely and effective manner. In addition to its disclosure obligations under the ASX Listing Rules, the Company communicates with its shareholders in a number of ways, including:

- annual and half-yearly reports;
- updates on operation and developments;
- announcements on the company's website;
- market briefings; and
- presentations at general meetings.

All the above are posted on the company's website (www.phosphagenics.com). Shareholders are encouraged to receive shareholder material electronically, which can be established by registering on the company website.

In addition the Company is committed to using general meetings of the Company to effectively communicate with shareholders and to allow reasonable opportunity for informed shareholder participation at general meetings. The external auditor is requested to attend the annual general meeting and be available to answer questions on the conduct of the audit of the Company and preparation of the auditor's report. The Company is committed to further developing its communications strategies to optimise shareholder communication.

Principle 7: Recognise and manage risk

Risk management

The Board considers risk management fundamental to maintaining efficient and effective operations and generating and protecting shareholder value. The management and oversight of risk is an ongoing process integral to the management and corporate governance of the Company's business.

The Board, through its audit and risk committee, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal controls. The Company has established a risk management system which aligns with the vision, strategy, processes, technology and governance and provides for:

- appropriate levels of risk taking and acceptance;
- an effective system for management of risk across the Company;
- informed and effective strategy setting, decision making, planning and performance oversight; and
- reliable and efficient execution of operations, programs and projects.

The Company has a Risk Management Policy, a summary of which is available on the Company's website, which sets out the objectives and key principals of risk management, along with responsibilities and authorities of the Board, the audit and risk committee, the CEO, CFO, Executive Management and management. The Company has adopted a risk management strategy that aims to identify and minimise the potential for loss, while also maximising strategic opportunities for growth and development. The Board sets risk appetite and tolerance levels for the Company and reviews this annually.

The CEO, CFO and Executive Management are responsible to the Board through the audit and risk committee for the overall implementation of the risk management system. During the year management has reported to the Board as to the effectiveness of the group's management of its material business risks.

CEO and CFO certification

In accordance with section 295A of the Corporations Act 2001, the chief executive officer and chief financial officer have provided a written statement to the Board that:

- that the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the company and group and are in accordance with relevant accounting standards;

- that the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Company's risk management framework and internal compliance and control is operating efficiently and effectively in all material respects in relation to financial reporting risks.

Principle 8: Remunerate fairly and responsibly

The Company believes having highly skilled and motivated people will align employees to the Company's strategic and business objectives and the creation of shareholder value. The ability to attract and retain the best people is critical to the Company's future success. The Board considers remuneration policies are instrumental in ensuring success.

Remuneration committee

The Board established the remuneration committee in March 2014 and is composed of three directors, the majority independent, and is chaired by an independent director. Previously the function of the remuneration committee was undertaken by the full Board. At the date of this report the committee consisted of the following members:

Mr L Gozlan (Chairman)
Dr G Cauwenbergh
Mr N Drona

Details of these directors' attendance at committee meetings are set out in the directors' report on page 5.

A charter for the remuneration committee was approved by the Board in February 2015, a summary of which is available on the Company's website. The charter of the remuneration committee is to:

- review and make recommendations to the Board on remuneration packages and policies applicable to Senior Management and Directors such that they ensure remuneration packages and policies attract, retain and motivate high calibre executives and ensure they demonstrate a clear relationship between performance and remuneration;
- review Senior Management packages after application of the remuneration policies;
- review currently industry best practice;
- review superannuation arrangements;
- review existing and proposed incentive schemes.

Non-executive and executive remuneration

Non-executive director fees are determined by the Board within the aggregate limit for directors' fees approved by shareholders. Non-executive directors do not receive any retirement allowances.

Executive directors and senior executives receive a mix between fixed and incentive pay, comprising both cash and eligibility to participate in equity incentive schemes. Full details of remuneration paid to non-executive and executive directors, and senior executives, are set out in the remuneration report on pages 6 to 14 of this report.

Prohibition on hedging unvested entitlements

Employees are prohibited from entering into transactions in products which limit the economic risk of participating in unvested entitlements under equity-based remuneration schemes. Details in relation to this policy are contained in the Share Trading Policy which is available on the company's website.

Signed in accordance with a resolution of the Directors.

Lawrence Gozlan
Chairman
26 February 2015
Melbourne

Annual Financial Report for the year ended 31 December 2014

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These financial statements are consolidated financial statements for the group consisting of Phosphagenics Limited and its subsidiaries. A list of subsidiaries is included in note 20.

The financial statements are presented in the Australian currency.

Phosphagenics Limited is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Phosphagenics Limited
11 Duerdin Street
Clayton Victoria 3168

The financial statements were authorised for issue by the directors on 26 February 2015. The directors have the power to amend and reissue the financial statements.

All press releases, financial reports and other information are available on our website: www.phosphagenics.com.

Consolidated Income Statement

	Note	2014 \$'000	2013 \$'000
Revenue from continuing operations			
Sale of goods	2	1,847	575
Licences	2	206	229
Finance revenue	2	452	553
Total revenue		2,505	1,357
Cost of sales		(461)	(334)
Gross profit		2,044	1,023
Income from government grants	2	2,456	2,994
Other income		135	35
Recoveries	2	2,095	1,690
Employee and directors benefits expenses		(4,792)	(4,157)
Research expenses		(3,383)	(3,777)
Consulting and professional expenses	3a	(841)	(2,439)
Occupancy and communications expenses		(547)	(565)
Amortisation and depreciation		(3,783)	(3,817)
Costs under investigation		-	(584)
Other expenses	3b	(818)	(1,074)
Loss before income tax		(7,434)	(10,671)
Income tax benefit	4	-	-
Loss from continuing operations		(7,434)	(10,671)
Loss from discontinued operations	18	(1,501)	(1,936)
Loss for period		(8,935)	(12,607)

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

Basic profit / (loss) per share	15	(0.66) cents	(1.05) cents
Diluted profit / (loss) per share	15	(0.66) cents	(1.05) cents

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

Basic profit / (loss) per share	15	(0.80) cents	(1.24) cents
Diluted profit / (loss) per share	15	(0.80) cents	(1.24) cents

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

Consolidated Statement of Comprehensive Income

	Note	2014 \$'000	2013 \$'000
Loss for the period		(8,935)	(12,607)
Other Comprehensive Income			
<i>Items that may be classified to profit or loss</i>			
Exchange differences on translation of foreign operations	14	(9)	(12)
Income tax/(expense) on items of other comprehensive income		-	-
Other comprehensive income for the period, net of tax	14	(9)	(12)
Total comprehensive income for the period		(8,944)	(12,619)

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

Continuing operations	(7,443)	(10,683)
Discontinued operations	(1,501)	(1,936)
	(8,944)	(12,619)

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

Consolidated Balance Sheet

	Notes	31 December 2014 \$'000	Restated* 31 December 2013 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents	22a	20,679	8,823
Trade and other receivables	7	5,213	4,421
Inventories	8	220	699
Other current assets		562	212
Assets classified as held for sale	18	382	-
Total Current Assets		27,056	14,155
Non-Current Assets			
Plant and equipment	9	814	926
Intangible assets	10	23,031	26,607
Total Non-Current Assets		23,845	27,533
Total Assets		50,901	41,688
LIABILITIES			
Current Liabilities			
Trade and other payables	11	1,026	1,688
Provisions	12	752	432
Total Current Liabilities		1,778	2,120
Non-Current Liabilities			
Provisions	12	95	67
Total Non-Current Liabilities		95	67
Total Liabilities		1,873	2,187
Net Assets		49,028	39,501
EQUITY			
Issued Capital	13	228,100	209,895
Reserves	14	30,171	29,914
Accumulated Losses		(209,243)	(200,308)
Total Equity		49,028	39,501

* See note 10 for details as a result of restatement as a result of error.

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

Consolidated Statement of Changes in Equity

	Contributed capital \$'000	Reserves \$'000	Accumulated Losses \$'000	Total equity \$'000
Restated* Balance at 1 January 2013	209,861	29,724	(187,701)	51,884
Loss for the period	-	-	(12,607)	(12,607)
Other comprehensive income	-	(12)	-	(12)
Total comprehensive income for the period	-	(12)	(12,607)	(12,619)
Transactions with owners in their capacity as owners:				
Issue of share capital	36	-	-	36
Transaction costs	(2)	-	-	(2)
Employee equity settlement benefits	-	202	-	202
Total transactions with owners	34	202	-	236
Balance at 31 December 2013	209,895	29,914	(200,308)	39,501
Loss for the period	-	-	(8,935)	(8,935)
Other comprehensive income	-	(9)	-	(9)
Total comprehensive income for the period	-	(9)	(8,935)	(8,944)
Transactions with owners in their capacity as owners:				
Issue of share capital	19,320	-	-	19,320
Transaction costs	(1,115)	-	-	(1,115)
Employee equity settlement benefits	-	176	-	176
Directors equity settlement benefits	-	90	-	90
Total transactions with owners	18,205	266	-	18,471
Balance at 31 December 2014	228,100	30,171	(209,243)	49,028

* See note 10 for details as a result of restatement as a result of error.

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

Consolidated Statement of Cash Flows

	Note	2014 \$'000	2013 \$'000
OPERATING ACTIVITIES			
Receipts from customers		2,248	1,466
Receipt of recoveries		2,430	1,356
Receipt of government grants		1,982	3,376
Payments to suppliers and employees		(13,399)	(14,776)
Net cash used in operating activities	22(b)	(6,739)	(8,578)
INVESTING ACTIVITIES			
Interest received		485	588
Purchase of plant and equipment		(95)	(133)
Net cash from investing activities		390	455
FINANCING ACTIVITIES			
Proceeds from issues of shares	13	19,320	-
Proceeds from exercise of options	13	-	36
Costs of issue of shares	13	(1,115)	(2)
Net cash from financing activities		18,205	34
Net increase/(decrease) in cash and cash equivalents		11,856	(8,089)
Cash and cash equivalents at the beginning of period		8,823	16,912
Cash and cash equivalents at the end of period	22(a)	20,679	8,823

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

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Notes to the consolidated financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of preparation

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

i) Compliance with IFRS

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

ii) Historical cost convention

These financial statements have been prepared on a historical cost basis except for available-for-sale financial assets, financial assets and liabilities (including derivative instruments), certain classes of property, plant and equipment and investment property, which have been measured at fair value.

iii) Going concern

For the year ended 31 December 2014, the consolidated entity has incurred losses of \$8,935,000 (2013: \$12,607,000) and experienced net cash outflows of \$6,739,000 from operations (2013: \$8,578,000). As at year end the cash position was \$20,679,000 (2013: \$8,823,000). The Company is in development phase and as such expects to be utilising cash until its research becomes commercial. The directors are satisfied that there is sufficient working capital and the Company has the ability to realise its assets and pay its liabilities and commitments in the normal course of business. Accordingly the directors have prepared the financial report on a going concern basis and that no asset will be realised for an amount less than the amount it is recorded in the Consolidated Balance Sheet.

iv) New and amended standards adopted by the group

The group has applied the following standards and amendments for the first time for the annual reporting period commencing 1 January 2014:

AASB 2011-4 and revised Corporations Regulations 2M.3.03 – Transfer of individual KMP disclosures to the remuneration report

As a result of adopting the above, disclosures relating to individual key management personnel (KMP) equity holdings, loans and other transactions have been

moved from the financial statements to the remuneration report.

None of the new and amended standards that are mandatory for the first time for the financial year beginning 1 January 2014 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

v) New standards and interpretations not yet adopted

The group has elected not to apply any pronouncements before their operative date in the annual reporting period beginning 1 January 2014.

There are no other standards that are not yet effective and that are expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

vi) Critical accounting estimates and judgements

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

(1) R&D Tax Incentives

From 1 July 2011 the Australian Government has provided a tax incentive, in the form of a refundable tax offset of 45%, for eligible research and development expenditure. Management has assessed its research and development activities and expenditure to determine which are likely to be eligible under the scheme. For the period ended 31 December 2014 the Company has recorded an item in other income of \$2,456,000 (2013: \$2,994,000) to recognise this amount which relates to this period.

(2) Share-based payment transactions

The group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the binomial method taking into account the terms and conditions upon which the instruments were granted, as discussed in note 5. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact expenses and equity.

(3) Development costs

An intangible asset arising from development expenditure on an internal project is recognised only when Phosphagenics can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development

Notes to the consolidated financial statements

and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Any expenditure capitalised is amortised over the period of expected future benefit from the related project on a straight line basis.

The group had previously capitalised development costs to June 2010, which had been subsequently amortised. The methodology of this capitalisation was reviewed and subsequently reassessed as not satisfying the requirements of certainty around future economic benefits. The net book value of these development costs was adjusted through opening retained earnings. See note 10 for further information.

b) Principles of consolidation

i) Subsidiaries

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

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

ii) Associates

Associates are all entities over which the group has significant influence but not control or joint control. This is generally the case where the group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting (see (iv) below), after initially being recognized at cost.

iii) Joint arrangements

Under AASB 11 Joint Arrangement investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangements. Phosphagenics Ltd has a joint venture.

Joint venture

Interests in joint venture are accounted for using the equity method (see (iv) below), after initially being measured at cost in the consolidated balance sheet.

iv) Equity method

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses of the investee in

profit or loss, and the group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

When the group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the group and its associates and joint ventures are eliminated to the extent of the group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the group.

The group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Phosphagenics Limited.

v) Changes in ownership interests

When the group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker.

Notes to the consolidated financial statements

The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer.

d) Foreign currency translation

i) Functional and presentation currency

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

ii) Transactions and balances

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

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

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

iii) Group Companies

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

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

translated at the dates of the transactions), and

- all resulting exchange differences are recognised in other comprehensive income.

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

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances, rebates and amounts collected on behalf of third parties.

The group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the group's activities as described below. The group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Interest income is recognised using the effective interest method. When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

f) Government grants

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

Notes to the consolidated financial statements

g) Income tax

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

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

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

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

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

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

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

h) Investment allowances and similar tax incentives

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

i) Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases (note 20). Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

j) Impairment of assets

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

k) Cash and cash equivalents

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

Notes to the consolidated financial statements

shown within borrowings in current liabilities in the balance sheet.

l) Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See note 7 for further information about the group's accounting for trade receivables and note 7 for a description of the group's impairment policies.

m) Inventories

Raw materials and stores, work in progress and finished goods

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

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

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

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

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

disposal group classified as held for sale continue to be recognised.

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

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

o) Investments and other financial assets

i) Classification

The group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and, in the case of assets classified as held-to-maturity, re-evaluates this designation at the end of each reporting period.

ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except those with maturities greater than 12 months after the reporting date which are classified as non-current assets. Loans and receivables are included in trade and other receivables (note 7) in the balance sheet.

p) Plant and equipment

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

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

Notes to the consolidated financial statements

The depreciation is calculated using the diminishing-line method to allocate their cost or revalued amounts, net of the residual values, over their estimated useful lives. The expected net useful lives are 3 to 5 years. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i))

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

q) Intangible assets

i) Intellectual Property

Intellectual property acquired separately or in a business combination are initially measured at cost, which is its fair value as at the date of acquisition. Following initial recognition, intellectual property is carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful life of the intellectual property is referenced to its expiry date. The intellectual property purchased, primarily registered patents, had remaining lives of 15 to 19 years at purchase date. Intellectual property is amortised over its useful life and tested for impairment whenever there is an indication that the intellectual property may be impaired.

Internally generated intellectual property is not capitalised and expenditure is recognised as an expense as incurred.

ii) Trademarks and licences

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

r) Trade and other payables

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

s) Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement

is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

t) Employee benefits

i) Short-term obligations

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

ii) Other long-term employee benefit obligations

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

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

iii) Share-based payments

Share-based compensation benefits are provided to employees via the Phosphagenics Employee Option Plan and an employee share scheme. Information relating to these schemes is set out in note 5

The fair value of options granted under the Phosphagenics Employee Option Plan is recognized as an employee benefits expense with a

Notes to the consolidated financial statements

corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions.

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

The fair value of deferred shares granted to employees for nil consideration under the short-term incentive scheme is recognised as an expense over the relevant service period, being the year to which the bonus relates and the vesting period of the shares. The fair value is measured at the grant date of the shares and is recognised in equity in the share-based payment reserve. The number of shares expected to vest is estimated based on the non-market vesting conditions. The estimates are revised at the end of each reporting period and adjustments are recognised in profit or loss and the share-based payment reserve.

iv) Bonus plans

The group recognises a liability and an expense for bonuses and profit-sharing based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

v) Termination benefits

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

u) Contributed equity

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

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

v) Dividends

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

w) Basic loss per share

Basic loss per share is calculated by dividing:

- the loss attributable to owners of the company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

i) Diluted loss per share

Diluted loss per share adjusts the figures used in the determination of basic loss per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential
- ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

x) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet.

Notes to the consolidated financial statements

2. REVENUE AND OTHER INCOME

	2014 \$'000	2013 \$'000
Revenue from continuing operations		
Sale of goods	1,847	575
Royalty and licence revenue	206	229
Interest revenue	452	553
Total	2,505	1,357
Revenue from discontinued operations (note 18)		
Sale of goods	356	801
Income from Government Grants		
Export market development grant	-	155
R&D tax incentive credit	2,456	2,839
Total	2,456	2,994
Recoveries		
Recoveries received	2,095	1,356
Recoveries receivable	-	334
Total	2,095	1,690

Recoveries are recognised where they are virtually certain. See further details at note 16

3. EXPENSES

(a) Consulting and profession expenses

Legal costs associated with investigation and recovery of misappropriations	(134)	(749)
Other consulting and professional expenses	(707)	(1,690)
Total	(841)	(2,439)

(b) Other Expenses

Net foreign exchange gain / (loss)	127	(12)
Marketing	(24)	(47)
Travel	(438)	(181)
Doubtful debts ¹	243	(263)
Insurance	(219)	(193)
Shareholder and listing expenses	(185)	(172)
Other	(322)	(206)
Total	(818)	(1,074)

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

Notes to the consolidated financial statements

4. INCOME TAXES

	2014 \$'000's	2013 \$'000's
Major components of income tax expense are:		
<i>Current income tax</i>	-	-
<i>Deferred income tax</i>	-	-
The prima facie income tax expense/(benefit) on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:		
Accounting (loss) before income tax	(8,935)	(12,607)
Income tax expense calculated at 30% (2013: 30%)	(2,681)	(3,782)
Non-assessable income	(629)	(507)
Non-deductible expenses	1,417	465
Unused tax losses and tax offsets not recognised as deferred tax assets	1,893	3,824
Income tax benefit reported in income statement	-	-
Deferred tax liabilities comprise:		
Intellectual property	-	-
Unrecognised deferred tax balances		
The following items have not been brought to account as deferred tax assets:		
Tax losses not recognised (at current tax rate of 30%)	27,561	25,669
Temporary differences not recognised	-	-
Total	27,561	25,669

Tax Losses

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

Tax consolidation

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

Phosphagenics Limited and its 100% owned Australian resident subsidiaries formed a tax consolidated group with effect from 1 July 2009. Phosphagenics Limited is the head entity of the tax consolidated group. As a result the tax base of intangible assets was reset such that the deferred tax liability of \$13,830,498 was reversed during 2011.

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

Measurement method adopted under AASB Interpretation 1052 Tax Consolidation Accounting

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

Notes to the consolidated financial statements

5. 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).

- The ESOP is designed to align participants' interests with those of shareholders by increasing the value of the Company's shares. Share options carry no rights to dividends and no voting rights. For options granted under the terms of the ESOP a service period was determined as the most appropriate criteria to attach to the options given Phosphagenics is still commercialising its products. There are no other services or performance criteria attached to share based payment options issued under the terms of the ESOP.
- The ECRS allows eligible employees to be granted Rights to acquire Shares at no cost. The purpose of the Scheme 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.

Options held by directors of the parent and its subsidiaries were acquired as part of the original subscriptions for shares in Phosphagenics Limited in 1999. Subsequently, all options granted to key management personnel have been issued in accordance with the provisions of the Employee Share Option Plan (ESOP). All rights granted to key management personnel have been issued in accordance with the provisions of the Employee Conditional Rights Scheme (ECRS).

Summary of options granted as share based payments

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, share options issued during the year.

Item	2014	2014	2013	2013
	Options No.	WAEP \$	Options No.	WAEP \$
Outstanding at beginning of the year	2,750,000	\$0.15	9,400,000	\$0.15
Granted during the year	3,000,000	\$0.17	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	(250,000)	\$0.13
Expired during the year	(2,750,000)	\$0.15	(6,400,000)	\$0.26
Outstanding at end of the year	3,000,000	\$0.17	2,750,000	\$0.15
Exercisable at end of the year	3,000,000	\$0.17	2,750,000	\$0.15

When a participant in the employee share option plan 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.

A service period was determined as the most appropriate criteria to attach to the options given Phosphagenics is still developing its products for commercialisation. There is no other service or performance criteria attached to share based payment options.

The outstanding balance as at 31 December 2014 is represented by:

Issuing entity	Shares under	Class of shares	Exercise price \$	Expiry date
	option No.			
Phosphagenics Ltd	3,000,000	Ordinary	\$0.17	22 May 2019
Total	3,000,000			

Notes to the consolidated financial statements

Summary of performance rights granted as share based payments

The following table illustrates the number (No.) and weighted average exercise prices (WAEP) of, and movements in, performance rights issued during the year.

Item	2014 Performance Rights No.	2014 WAEP \$	2013 Performance Rights No.	2013 WAEP \$
Outstanding at beginning of the year	16,000,000	-	18,100,000	-
Granted during the year	-	-	2,100,000	0.00
Forfeited during the year	(2,800,000)	-	(4,200,000)	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at end of the year	13,200,000	0.00	16,000,000	0.00
Exercisable at end of the year	Nil	-	Nil	-

When a participant in the ECRS ceases employment prior to the vesting of their performance rights, the performance rights are forfeited unless cessation of employment is due to retirement or death. At 31 December 2014 \$126,029 was reversed as a result of forfeited unvested performance rights. The amount recognised from equity settled share based performance transactions during the year is \$304,119. The net expense from equity settled share transactions was \$178,080.

The outstanding balance as at 31 December 2014 is represented by:

Issuing entity	Performance Rights No.	Class of shares	Exercise price \$	Expiry date
Phosphagenics Ltd	13,200,000	Ordinary	\$0.00	30 June 2016
Total	13,200,000			

There were no cancellations or modifications to the awards in 2014 or 2013.

Option pricing model

Fair values for both instruments 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 year ended 31 December 2014 3,000,000 share options were granted at a fair value of \$0.03 under the ESOP (2013: nil). An expense of \$90,000 was recognized in the period (2013: nil).

During the year ended 31 December 2014 nil (2013: 2,100,000) share rights were granted at a fair value of nil (2013: \$0.02) under the ECRS which will vest based upon achievement of certain performance objectives.

During the year ended 31 December 2014 no options were granted to non-employees (2013: nil).

Notes to the consolidated financial statements

Model Inputs	2014 Options	2013 Rights
Dividend yield %	0.0%	0.0%
Expected volatility %	60%	60%
Risk-free interest rate %	3.20%	2.50%
Option life (years)	5 years	1.1 years
Option Exercise price \$	\$0.17	Nil
Weighted Average Share price at measurement date	\$0.08	\$0.11

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 the historical volatility is indicative of future trends, which may not necessarily be the actual outcome.

6. REMUNERATION OF AUDITORS

The auditor of Phosphagenics Ltd (the parent), and the Group for the period ended 31 December 2014 is PricewaterhouseCoopers (2013: Ernst & Young).

	2014	2013
Amounts received or due and receivable by auditor	\$	\$
PricewaterhouseCoopers		
Audit or review of the financial report	100,000	-
Other non-audit services	15,000	-
Taxation services	-	-
Total PricewaterhouseCoopers	115,000	-
Ernst & Young		
Audit or review of the financial report	7,968	106,523
Other non-audit services	-	-
Taxation services	7,000	39,677
Total Ernst & Young	14,968	146,200

Notes to the consolidated financial statements

7. TRADE AND OTHER RECEIVABLES

Current	31 December 2014 \$'000	31 December 2013 \$'000
Trade receivables	758	589
Allowance for impairment loss	-	(262)
	758	327
R&D tax incentive credit receivable	4,039	3,499
Recoveries receivable	-	334
Other receivables	416	261
Total	5,213	4,421

Trade receivables are non-interest bearing and are generally 45 day terms or as specified in contracts or agreements. An amount of \$2,586,000 is expected to be received from the R&D tax incentive scheme before June 2015. A further amount of \$1,387,000 will form part of the R&D tax incentive claimed for the tax year ended 30 June 2015 and is expected to be received before December 2015.

Allowance for impairment loss

A provision for impairment is recognised when there is objective evidence (such as the probability of insolvency or significant financial difficulty of the debtor) that the Group may not be able to collect all the amounts due under the original terms of the invoice. Impaired debts are derecognised when they are assessed as uncollectible. Debts totalling \$nil (2013: \$262,299) were deemed impaired at 31 December 2014. No debts were written-off during the year (2013: \$100,104).

At 31 December, the ageing analysis of trade receivables is as follows:

	Total	Neither past due or impaired	Past due but not impaired		
			31-60 days	61-90 days	90+ days
	\$'000	\$'000	\$'000	\$'000	\$'000
31 December 2014	758	620	57	30	51
31 December 2013	327	75	18	206	28

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

Fair value and credit risk

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

8. INVENTORIES

	2014 \$'000	2013 \$'000
Raw materials (at cost or net realisable value)	146	375
Finished goods (at cost or net realisable value)	74	324
Total inventories at the lower of cost and net realisable value	220	699

During 2014, \$18,249 (2013: \$369,580) was recognised as an expense for inventories written off or a provision raised for inventories adjusted to their net realisable value. This is recognised in other expenses.

Notes to the consolidated financial statements

9. PLANT AND EQUIPMENT

	Plant and equipment at cost	Total
Year ended 31 December 2014	\$'000	\$'000
At 1 January 2014 net of accumulated depreciation and impairment	926	926
Additions	95	95
Disposals	-	-
Depreciation charge for the year	(207)	(207)
At 31 December 2014, net of accumulated depreciation and impairment	814	814
At 31 December 2014		
Cost	3,058	3,058
Accumulated depreciation and impairment	(2,244)	(2,244)
Net carrying value	814	814

	Plant and equipment at cost	Total
Year ended 31 December 2013	\$'000	\$'000
At 1 January 2013 net of accumulated depreciation and impairment	1,034	1,034
Additions	133	133
Disposals	-	-
Depreciation charge for the year	(241)	(241)
At 31 December 2013, net of accumulated depreciation and impairment	926	926
At 31 December 2013		
Cost	2,963	2,963
Accumulated depreciation and impairment	(2,037)	(2,037)
Net carrying value	926	926

Notes to the consolidated financial statements

10. INTANGIBLE ASSETS

	Intellectual Property	Total
Year ended 31 December 2014	\$'000	\$'000
At 1 January 2013 net of accumulated amortisation and impairment	26,607	26,607
Amortisation	(3,576)	(3,576)
At 31 December 2014, net of accumulated amortisation and impairment	23,031	23,031
At 31 December 2014		
Cost (gross carrying amount)	121,362	121,362
Accumulated amortisation and impairment	(98,331)	(98,331)
Net carrying amount	23,031	23,031

	Development Costs	Intellectual Property	Total
Year ended 31 December 2013	\$'000	\$'000	\$'000
At 1 January 2013 net of accumulated amortisation and impairment	1,336	30,183	31,519
Correction of error	(1,336)	-	(1,336)
Adjusted as at 1 January 2013	-	30,183	30,183
Amortisation	-	(3,576)	(3,576)
At 31 December 2013, net of accumulated amortisation and impairment	-	26,607	26,607
At 31 December 2013			
Cost (gross carrying amount)	-	121,362	121,362
Accumulated amortisation and impairment	-	(94,755)	(94,755)
Net carrying amount	-	26,607	26,607

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 \$1,336,000 as at 31 December 2012 has been reversed through accumulated losses, and the previously recognised amortisation of \$66,000 has been deducted from amortisation expense in the Consolidated Income Statement for the period ended 31 December 2013.

Impairment Testing

Intellectual Property

Intellectual property assets cost represents the fair value of patents acquired by the Company at 31 December 2004. Intangible assets with finite lives are amortised over the useful life and tested for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for prospectively by changing the amortisation period or method, as appropriate, which is a change in accounting estimate. The amortisation expense on intangible assets with finite lives is recognised in the statement of comprehensive income in the expense category consistent with the function of the intangible asset.

Notes to the consolidated financial statements

11. CURRENT TRADE AND OTHER PAYABLES

	2014	2013
	\$'000	\$'000
Trade payables	582	311
Accrued expenses	274	810
Goods and services tax (GST) payable	-	469
Other payables	170	98
Total	1,026	1,688

Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value. Trade payables are non-interest bearing and are generally settled on 30 day terms. Other payables are non-trade payables and non-interest bearing.

12. PROVISIONS

	2014	2013
	\$'000	\$'000
Current		
Annual leave benefits	372	262
Bonus	72	-
Redundancy	109	-
Long service leave benefits	199	170
Total Current	752	432
Non-Current		
Long service leave benefits	95	67
Total Non-Current	95	67
Total	847	499

a) Movement in provisions

2014	Annual leave	Bonus	Redundancy	Long service leave	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount at start of year	262	-	-	237	499
Charged to profit or loss					
- Additional provisions recognised	332	72	109	57	570
Amounts used during the year	(222)	-	-	-	(222)
Carrying amount at end of year	372	72	109	294	847

b) Amounts not expected to be settled in the next 12 months

The provision for annual leave represents the employee's statutory entitlements and the entire amount of \$372,000 (2013: \$262,000) is presented as current since the group does not have the right to defer such settlements. The provision for long service leave shown in current includes all unconditional entitlements where employees have completed the required period of service. The amount of \$199,000 (2013: \$170,000) is presented as current as the group does not have the unconditional right to defer settlement.

Notes to the consolidated financial statements

However, based on past experience, the group does not expect all employees to take the full amount of accrued leave or require payment in the next 12 months. The following amount reflect leave that is not expected to be taken or paid in the next 12 months.

	2014	2013
	\$'000	\$'000
Annual leave obligations expected to be settled after 12 months	122	192
Long service leave obligations expected to be settled after 12 months	129	170
Total	251	362

13. ISSUED CAPITAL

Fully paid ordinary shares	2014 No. '000's	2014 \$'000	2013 No. '000's	2013 \$'000
Balance at beginning of year	1,020,465	209,895	1,020,215	209,861
Issue of shares	241,500	19,320	-	-
Exercise of options	-	-	250	36
Capital raising costs	-	(1,115)	-	(2)
Balance at end of year	1,261,965	228,100	1,020,465	209,895

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

Share options

As at close of business on 31 December 2014 there were a total of 3,000,000 unexercised unquoted options issued as share based payments, of which 3,000,000 options are fully vested and can be exercised at any time up to the date of expiry.

As at close of business on 31 December 2014 there were a total of 13,200,000 unexercised unquoted rights issued as share based payments, of which nil are fully vested, and therefore cannot yet be exercised.

Share options and share rights carry no rights to dividends and no voting rights. For further details of share based payments refer to note 5.

Notes to the consolidated financial statements

14. RESERVES

	2014	2013
	\$'000	\$'000
Reserves		
Business combination	27,812	27,812
Employee equity-settled benefits	2,056	1,790
Other equity-settled benefits	306	306
Foreign Currency Translation Reserve	(3)	6
	30,171	29,914

Business combination reserve

Balance at beginning of year	27,812	27,812
Balance at end of year	27,812	27,812

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

Employee equity-settled benefits reserve

Balance at beginning of year	1,790	1,588
Share based payment expense	266	202
Balance at end of year	2,056	1,790

The employee share option and share plan reserve is used to record the value of equity benefits provided to employees and Directors as part of their remuneration. For further details refer to note 5 in the Financial Statements.

Other equity-settled benefits reserve

Balance at beginning of year	306	306
Share based payments	-	-
Balance at end of year	306	306

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

Foreign Currency Translation Reserve

Balance at beginning of year	6	18
Foreign Currency Translation	(9)	(12)
Balance at end of year	(3)	6

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

Notes to the consolidated financial statements

15. EARNINGS PER SHARE

a) Basic earnings per share

Basic earnings per share is calculated by dividing the net profit / (loss), from continuing operations attributable to ordinary equity holders of the parent for the year, by the weighted average number of ordinary shares outstanding during the year.

	2014	2013
	cents	cents
From continuing operations attributable to the ordinary equity holders of the company	(0.66)	(1.05)
From discontinued operations	(0.14)	(0.19)
Total basic earnings per share attributable to the ordinary equity holders of the company	(0.80)	(1.24)

b) Diluted earnings per share

Diluted earnings per share is calculated by dividing the net profit / (loss) attributable to ordinary shareholders by the weighted average number of ordinary shares on issue during the year (adjusted for the effects of dilutive options).

From continuing operations attributable to the ordinary equity holders of the company	(0.66)	(1.05)
From discontinued operations	(0.14)	(0.19)
Total diluted earnings per share attributable to the ordinary equity holders of the company	(0.80)	(1.24)

There are no instruments (e.g., share options) excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future.

There have been no transactions involving ordinary shares or potential ordinary shares that would significantly change the number of ordinary shares or potential ordinary shares outstanding between the reporting date and the date of completion of these financial statements.

c) Reconciliation of earnings used in calculating earnings per share

	2014	2013
	\$'000's	\$'000's
Net Profit / (loss) attributable to ordinary equity holders for the calculation of basic and diluted earnings per share		
From continuing operations	(7,434)	(10,671)
From discontinued operations	(1,501)	(1,936)
	(8,935)	(12,607)

Notes to the consolidated financial statements

d) Weighted average number of shares used as the denominator

	2014 No. '000's	2013 No. '000's
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,122,059	1,020,402
Effect of dilution:		
Share options	3,067	4,948
Performance rights	14,815	16,937
Weighted average number of ordinary shares adjusted for the effect of dilution	1,139,941	1,042,287

Share options and performance rights are anti-dilutive and are not included in earnings per share dilutive calculation.

Information on the classification of securities

Options quoted on the ASX and options granted to employees and other service providers are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent they are dilutive. These options have not been included in the determination of basic earnings per share.

16. COMMITMENTS AND CONTINGENCIES

a) Lease Commitments

Non-cancellable operating leases relate to the rent of commercial property used for business operations.

Non-cancellable operating lease payments	2014 \$'000's	2013 \$'000's
Within 1 year	145	54
After 1 year but not more than 5 years	81	-
After more than 5 years	-	-
Total minimum lease payments	226	54

b) Contingent Assets

On 30 October 2013 the Company entered into a Deed of Settlement with its former CEO, Dr Ogru, her husband, Vedat Isikgel and her mother, Esin Ogru, for the misappropriated funds of \$6,331,396 plus interest and costs. As at reporting date \$2,628,083 had been repaid. Further recoveries may eventuate from the sale of one additional property and a portion of Dr Ogru's future total income. The Company holds caveats over the real property.

On 7 November 2013 the Company entered into a Deed of Settlement with Dr Jiang, his wife and associated companies, for misappropriated funds of \$4,392,035 plus interest and costs. These amounts are joint and severally liable with Dr Ogru's debt. As at reporting date \$1,158,195 had been repaid by these parties. Further recoveries may eventuate from the repayment from a portion of all parties' future total income.

On 18 December 2013 the Company, and its subsidiary Vital Health Sciences Pty Ltd, was awarded judgement in the Supreme Court of Victoria against its former employee Dr Gianello, his wife and an associated company. An amount of \$6,053,772 was awarded for damages, \$44,587 for interest and \$23,106 for costs. The damages awarded are joint and several with the debts of the two Deeds described above. On 6 February 2014 Dr Gianello and his wife filed for bankruptcy. The Company is the largest creditor and is awaiting payment of dividend by the bankruptcy trustee which is expected before June 2015. Due to uncertainty regarding the timing and the amount of dividend no revenue has been recognised in the accounts.

c) Contingent Liabilities

The company is in an arbitration process with a commercial partner relating to a dispute regarding claims for breach of the operative agreements. The commercial partner is seeking unspecified damages. The company is also seeking unspecified damages. Both parties are defending the claims. The matter is proceeding through a formal arbitration process which is expected to last several months.

Notes to the consolidated financial statements

17. SEGMENT INFORMATION

a) Description of segments

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

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

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. TPM[®] is also able to increase the penetration of molecules formulated in the same cream.

Phosphagenics manufactures Vital-ET[®], a raw ingredient used in cosmetic formulation. Currently this is exclusively sold to Ashland ISP. Phosphagenics also undertakes contract manufacturing for offshore retailers supplying skin care products in bulk or as finished goods.

The Company is also conducting research into dermatological products and recently completed a Phase 2 clinical study for the reduction of acne.

Pain Portfolio

Phosphagenics' pain portfolio is focused on enhancing the delivery of existing drugs used for pain treatment. Its focus is primarily on delivering opioids, previously administered orally, through the skin utilising Phosphagenics' delivery technology TPM[®].

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

The company has licenced TPM[®] to Themis for inclusion in a diclofenac product for Novartis (Vovaren[®]). Phosphagenics derives revenue from the sale of raw ingredients and royalties.

All other segments

The BioElixia[®] division, which previously formed part of the Skin Care segment, was put up for sale at the end of 2014. Information about this discontinued division is provided in note 18.

Sales to the Animal Health segment did not meet materiality levels and is included in the unallocated segment.

b) Segment results

The segment information provided to the chief executive officer for the reportable segments for the year ended 31 December 2014 is as follows:

Notes to the consolidated financial statements

2014	Skin Care \$'000's	Pain Portfolio \$'000's	Total all Segments \$'000s	Unallocated \$'000's	Total Group \$'000's
Sales and Royalties	1,796	117	1,913	140	2,053
Total segment revenue	1,796	117	1,913	140	2,053
Interest revenue	-	-	-	452	452
Income from government grants	-	-	-	2,456	2,456
Recoveries	-	-	-	2,095	2,095
Depreciation and amortisation	(52)	-	(52)	(3,731)	(3,783)
Employee and directors benefit expense	-	-	-	(4,792)	(4,792)
Other operating expenses from continuing operations	(736)	(2,645)	(3,381)	(2,534)	(5,915)
Net operating profit/(loss) after tax	1,008	(2,528)	(1,520)	(5,914)	(7,434)
Segment assets	1,115	70	1,185	49,716	50,901

2013	Skin Care \$'000's	Pain Portfolio \$'000's	Total all Segments \$'000s	Unallocated \$'000's	Total Group \$'000's
Sales and Royalties	702	87	789	15	804
Total segment revenue	702	87	789	15	804
Interest revenue	-	-	-	553	553
Income from government grants	-	-	-	2,994	2,994
Recoveries	-	-	-	1,690	1,690
Depreciation and amortisation	(65)	-	(65)	(3,752)	(3,817)
Employee and directors benefit expense	-	-	-	(4,157)	(4,157)
Other operating expenses from continuing operations	(594)	(3,673)	(4,267)	(4,471)	(8,738)
Net operating profit/(loss) after tax	43	(3,586)	(3,543)	(7,128)	(10,671)
Segment assets	744	-	744	40,944	41,688

There was no impairment charge or other significant non-cash item recognised in 2013 or 2014.

c) Understanding segment results

i) Segment revenue

Revenues from external customers comes from the sale of TPM® products on a wholesale basis as well as royalties.

Revenues of approximately \$1,498,000 (2013: \$205,000) are derived from a single external customer group. These revenues are attributed to the skin care segment.

Notes to the consolidated financial statements

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

	2014	2013
	\$'000	\$'000
Australia	34	-
Switzerland	607	205
United States	569	497
India	117	87
Brazil	548	-
Other	38	-
Total revenue	1,913	789

Segment revenue reconciles to total revenue from continuing operations as follows:

Total segment revenue	1,913	789
Other revenue	140	15
Interest revenue	452	553
Total revenue from continuing operations (note 2)	2,505	1,357

ii) Segment assets

Segment assets are measured in the same way as the financial statements. These assets are allocated based on the operations of the segments and physical location of the asset.

The total of non-current assets broken down by location of assets is as follows:

Australia	23,838	27,531
United States	7	2
Total assets	23,845	27,533

Reportable segments' assets are reconciled to total assets as follows:

Segment operating assets	1,185	744
Discontinued operation (BioElixia® - see note 18)	382	-
Unallocated		
• Intangibles	23,031	26,607
• Cash & cash equivalents	20,679	8,823
• All other operating assets from continuing activities	5,624	5,514
Total assets per the balance sheet	50,901	41,688

iii) Segment liabilities

Segment liabilities are measured in the same way as the financial statements. These liabilities are allocated based on the operations of the segment.

Reportable segments' liabilities are reconciled to total liabilities as follows:

Segment operating liabilities	-	-
Unallocated:		
• Deferred tax liabilities	-	-
• Other operating liabilities from continuing activities	1,873	2,187
Total liabilities per the balance sheet	1,873	2,187

Notes to the consolidated financial statements

18. DISCONTINUED OPERATION

(a) Description

The Company has made the strategic decision to focus resources on core business opportunities and has put its branded cosmetics division, BioElixia® up for sale. Accordingly this division has been treated as a discontinued operation for the period ended 31 December 2014.

(b) Financial performance and cash flow information

The financial performance and cash flow information presented is for the years ended 31 December 2013 and 2014.

	2014	2013
	\$'000	\$'000
Revenue (note 2)	356	801
Expenses	(1,857)	(2,737)
Loss before income tax	(1,501)	(1,936)
Income tax expense	-	-
Loss from discontinued operation	(1,501)	(1,936)

(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 31 December 2014.

	2014	2013
	\$'000	\$'000
Assets classified as held for sale		
Inventories	382	-
Total assets of group held for sale	382	-

19. RELATED PARTY TRANSACTIONS

a) Subsidiaries

Interests in subsidiaries are set out in note 20(a)

b) Key management personnel compensation

	2014	2013
	\$'000	\$'000
Short-term employee benefits	1,482,060	1,847,954
Post-employment benefits	85,740	106,354
Long-term benefits	107,043	103,492
Share-based payments	106,622	82,357
	1,781,465	2,140,157

Detailed remuneration disclosures are provided in the remuneration report on pages 6 to 14.

Notes to the consolidated financial statements

c) Transactions with other related parties

The loss from operations includes no items of revenue and expense that resulted from transactions other than remuneration or equity holdings, with specified directors or their personally-related entities.

Don Clarke is a partner of law firm Minter Ellison. Minter Ellison provided professional services to the Group totalling \$nil (2013: \$9,182) during the year. These services were provided on normal commercial terms.

20. INTEREST IN OTHER ENTITIES

a) Subsidiaries

The consolidated financial statements include the financial statements of Phosphagenics Limited and the subsidiaries listed in the following table.

Entity	Country of Incorporation	2014 Equity Interest	2013 Equity Interest	2014 Investment \$'000	2013 Investment \$'000
Vital Health Sciences Pty Ltd	Australia	100%	100%	27,111	27,111
Preform Technologies Pty Ltd ¹	Australia	100%	100%	-	-
Adoil Pty Ltd ¹	Australia	100%	100%	-	-
Phosphagenics Inc.	USA	100%	100%	-	-

¹Non-operating subsidiaries

b) Interests in associates and joint ventures

Entity	Country of Incorporation	2014 Equity Interest	2013 Equity Interest	2014 Investment \$'000	2013 Investment \$'000
Phusion Laboratories LLC	USA	50%	50%	-	-

Phusion Laboratories is a jointly controlled entity formed in March 2010 with ProPhase Labs Inc. Under the Operating Agreement Phosphagenics is not required to contribute funding. Phusion currently has accumulated losses which management has assessed that Phosphagenics does not have an obligation to make good. Accordingly Phosphagenics' share of losses remains unrecorded in both the Consolidated Income Statement and Balance Sheet.

21. EVENTS AFTER BALANCE SHEET DATE

There has not been any matter or circumstance, other than those referred to in the financial statements 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.

Notes to the consolidated financial statements

22. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial year, as shown in the statement of cash flows, is reconciled to the related items in the statement of financial position as follows:

	2014	2013
	\$'000	\$'000
Cash at Bank	707	1,637
Short Term Deposits	19,972	7,186
	20,679	8,823

(b) Reconciliation of net loss after tax to net cash flows from operations

Net Profit / (loss) after tax	(8,935)	(12,607)
<i>Adjustments for:</i>		
Depreciation, disposal and amortisation of non-current assets	3,783	3,817
Share based payment expense (ECSRS)	266	202
Foreign currency translation reserve	(9)	(12)
Interest received	(485)	(588)
<i>Changes in assets and liabilities:</i>		
(Increase)/decrease in trade receivables and other receivables	(792)	134
(Increase)/decrease in inventories	479	155
(Increase)/decrease in other current assets	(350)	6
(Increase)/decrease in assets classified as held for sale	(382)	-
(Decrease)/increase in trade payables and other payables	(662)	224
(Decrease)/increase in provisions	348	91
Net cash (used in) operating activities	(6,739)	(8,578)

23. FINANCIAL RISK MANAGEMENT

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

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

Notes to the consolidated financial statements

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

(a) Market risk

i) Interest rate risk

The group holds interest bearing assets and therefore the income and operating cash flows are exposed to market interest rates. At the end of the reporting period, the group had the following term and at call deposits. Refer to note 22 for additional information.

	2013 \$'000	2013 \$'000
Financial Assets		
Cash and cash equivalents	20,679	8,823

Sensitivity

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

	Impact on post tax profit		Impact on other components of equity	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Judgements of reasonably possible movements:				
+1% (100 basis points)	207	88	-	-
-0.5% (50 basis points)	(103)	(44)	-	-

ii) Foreign Currency Risk

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

The group does not use derivative financial instruments to hedge its exposures but maintains cash deposits in both Australian and US dollars. The Chief Executive Officer and Chief Financial Officer regularly monitor the potential impact of movements in foreign exchange exposure.

Approximately 78% of sales and royalties (2013: 45%) are denominated in currencies other than the presentation currency of the Group (Australian dollars), whilst approximately 78% (2013: 76%) of costs are denominated in the Groups presentation currency.

At 31 December 2014 the Group had the following exposure to US dollar foreign currency not designated in cash flow hedges:

Notes to the consolidated financial statements

	2014	2013
	\$'000	\$'000
Financial Assets		
Cash and cash equivalents	61	25
Trade and other receivables	568	205
	629	230
Financial Liabilities		
Trade and other payables	(407)	(420)
Net Exposure	222	(190)

Sensitivity

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

	Impact on post tax profit		Impact on other components of equity	
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Judgements of reasonably possible movements:				
Consolidated				
AUD/USD +10%	(20)	23	-	-
AUD/USD -10%	25	-11	-	-

(b) Credit risk

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

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

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

(c) Liquidity risk

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

(d) Fair value

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

Notes to the consolidated financial statements

24. PARENT ENTITY FINANCIAL INFORMATION

	31 December 2014 \$'000	31 December 2013 \$'000
Balance Sheet		
Current assets	26,102	13,705
Total assets	79,530	67,504
Current liabilities	1,750	2,090
Total liabilities	1,806	2,146
<i>Shareholders' equity</i>		
Issued capital	228,100	209,895
Reserves		
Employee equity benefits reserve	2,056	1,790
Foreign Currency Translation Reserve	146	(31)
Other equity-settled benefits reserve	306	306
Accumulated losses	(152,884)	(146,602)
	77,724	64,358
Loss of the parent entity	(6,282)	(8,866)
Total comprehensive income of the parent entity	(6,282)	(8,866)
Guarantees entered into by the parent entity in relation to the debts of its subsidiaries	-	-
Contingent liabilities of the parent entity	-	-
Contractual commitments by the parent equity for the acquisition of property, plant or equipment.	-	-

Directors' Declaration

In the directors' opinion:

- (a) the financial statements and notes of Phosphagenics Limited for the financial year ended 31 December 2014 are in accordance with the *Corporations Act 2001*, including:
 - (i) complying with Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
 - (ii) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 1(a) confirms that the financial statements and notes also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

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



Lawrence Gozlan
Chairman

26 February 2015
Melbourne



Independent auditor's report to the members of Phosphagenics Limited

Report on the financial report

We have audited the accompanying financial report of Phosphagenics Limited (the company), which comprises the consolidated balance sheet as at 31 December 2014, the consolidated income statement and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Phosphagenics Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the consolidated entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

PricewaterhouseCoopers, ABN 52 780 433 757

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Auditor's opinion

In our opinion:

- (a) the financial report of Phosphagenics Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the remuneration report included in pages 6 to 13 of the directors' report for the year ended 31 December 2014. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Phosphagenics Limited for the year ended 31 December 2014 complies with section 300A of the *Corporations Act 2001*.

A handwritten signature in blue ink, appearing to read 'PricewaterhouseCoopers', written over the printed name.

PricewaterhouseCoopers

A handwritten signature in blue ink, appearing to read 'Anton Linschoten', written over the printed name.

Anton Linschoten
Partner

Melbourne
26 February 2015