2013

Annual Report

PHOSPHAGENICS LIMITED

ABN 32 056 482 403

Highlights

February... Expansion of Pain Portfolio to include Oxycodone patch for topical delivery. Details of successful pre-clinical trial.

March... Phase 1 single dose results for TPM®/ Oxymorphone results meet primary end point.

April... Phosphagenics' partner Themis completes supply agreement with Novartis. TPM® formulated diclofenac gel launched January 2014.

April... GNC launches Phosphagenics formulated Toning Cream under their Total Lean Brand.

May... Phosphagenics signs research agreement with USDA research arm.

July... Pain strategy announced. TPM®/Oxymorphone to investigate systemic delivery, TPM®/Oxycodone to investigate topical delivery.

July... TPM®/Oxycodone Phase 1 results announced.

July... Phosphagenics begins Phase 2 acne trial using TPM®/Tretinoin against market leader Retin A.

July... BioElixia® launches new stretch mark crème supported with results from a consumer trial. This is part of the BodyShaper skincare line.

September... TPM®/Oxymorphone Phase 1 multi-dose begins.

October... Phosphagenics announces major success in results of TPM®/Oxymorphone multi-dose trial.

December... Phosphagenics TPM® in dairy feed inclusion technology shows promising results.

Corporate Directory

Phosphagenics Limited
(ABN 32 056 482 403)

BOARD OF DIRECTORS

Mr Lawrence Gozlan (Chairman and Independent Director)

Mr Harry Rosen (Chief Executive Officer)

Dr Geert Cauwenbergh (Independent Director)

Mr Nathan Drona (Independent Director)

COMPANY SECRETARY

Mr Mourice Garbutt

CHIEF FINANCIAL OFFICER

Ms Anna Legg

INVESTOR RELATIONS

Mr David Segal

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Abbotsford VIC 3067
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AUDITORS

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Melbourne VIC 3000
Australia

AUSTRALIAN SECURITIES EXCHANGE LIMITED

The company's securities are quoted on the official lists of the Australian Securities Exchange Limited (ASX). The company's ASX Code is POH and the home exchange is in Melbourne.

AMERICAN DEPOSITORY RECEIPT

In July 2007, the company upgraded its level 1 American Depository Receipt (ADR) on the US over-the-counter (OTC) securities market to the international OTCQX, a new premium market tier in the US for international exchange-listed companies, operated by OTC Markets Group, Inc. The company's ADR ticker symbol is PPGNY.

contents

Chairman's Report 2013

I was appointed Chairman of Phosphagenics in March 2014 and, as such, will reflect on the attraction for joining the Company after it endured a tumultuous period last year rather than comment on past years.

Principally I joined the Board because of the compelling technology of the Company. In a professional capacity, I have been familiar with the Company for many years, having first met management nearly a decade ago.

At that first introduction Phosphagenics was focussed on producing vitamin E phosphate as an active rather than as the backbone of a platform technology. I have been very interested to watch the progression of the technology to become a transdermal platform delivery system with a suite of pain relief products addressing large markets.

This drug delivery technology is very robust and has shown on several occasions that we can deliver drugs more efficaciously than market leaders. Additionally, the Company has achieved an impressive milestone by successfully undertaking transdermal delivery of oxymorphone, which is

> “I believe our prospects for future success are bright. We have a proven broad based drug delivery technology.”

technically very difficult. To my knowledge, this has never been achieved before despite attempts by large pharmaceutical companies.

Phosphagenics' strategy of a focus on opioids has proven valuable after we announced the results of the Phase 1 multi-dose oxymorphone study in October 2013. The results exceeded our most optimistic expectations. We were able to show that our patch delivered oxymorphone through the skin and into the bloodstream at concentrations equivalent to the oral oxymorphone product Opana®ER.

The plasma concentrations of each patient were above therapeutic levels and, consequently, we are confident we have a patch that is therapeutic. There are still hurdles in front of us but we have overcome the most onerous hurdles; we have a patch that delivers oxymorphone with an excellent delivery profile.

I believe our prospects for future success are bright. We have a proven broad based drug delivery technology. While generally not understood, a biotechnology company developing a drug delivery platform is significantly different to biotechnology companies developing new drugs. Simply put, drug delivery companies create new ways of more effectively administering existing drugs whose efficacy is well known. These companies, therefore, do not have to establish efficacy but need to show they can deliver a drug to achieve a therapeutic dose. Comparatively, biotechnology companies working on new drugs have to establish efficacy. Establishing efficacy for new drugs typically commences during a Phase 2 study. Therefore it should be understood that our successful multi-dose oxymorphone study can be compared to a successful Phase 2.

Opioids are a first line medication for chronic pain. However, they do cause many side effects including respiratory depression, constipation, tolerance, abuse, vomiting and drowsiness. The administration of opioids transdermally will reduce many of these side effects as well as more effectively relieving pain. This will lead to better patient safety and better therapy.

The Company is tackling the extended release chronic pain market with our oxymorphone patch and the peripheral pain market with our oxycodone patch. Each of these markets is large with the sales of opioids in the extended release chronic pain market exceeding US$5 billion per annum in the US and the peripheral pain market exceeding US$6 billion per annum globally. A commercial analysis commissioned by our Company in 2013 indicated that at peak sales our oxymorphone patch could exceed US$1 billion per annum. The unmet need in the treatment of peripheral pain is substantial with many treatments ineffective. If oxycodone administered topically can work for this or other indications such as osteoarthritis, it has substantial market potential.

My fellow Directors and I joined Phosphagenics primarily because we see great potential for the Company to become a leading Australian biotechnology company. While our primary focus remains on pain, TPM® is a technology with wide applications into many fields. The successful commercialisation of the pain portfolio will not be the end of the growth of this Company but merely the beginning of our real growth.

Our Directors are veterans in the biotechnology industry. It is not a coincidence that two are US based. As we continue with our development, more of our focus will turn to the US as it is the global centre of pharmaceutical industries and markets.

As a Board we will work closely with management to assist in reaching our targets and goals for 2014 and beyond. We have a strong management team with qualified executives joining our Company over the past few months. I am confident we have the right elements in place for success.

While our focus is on executing our strategic vision, on behalf of the Board I can also assure our shareholders that the Board will ensure that we have the highest standard of corporate governance and financial control systems in place to avoid any future issues related to financial impropriety.

The new Directors and I are honoured to join the Phosphagenics Board. We look forward to serving our shareholders and making our Company very successful.

Lawrence Gozlan
Chairman

CEO's Report

Dear shareholders

For Phosphagenics 2013 was a year highlighted by substantial progress. We evolved from a company developing a platform delivery technology in various directions to a company that became almost exclusively focused on pain.

A platform technology reduces shareholders risks by providing multiple "shots at goal". However, if one of those projects provides sufficient data suggesting a likelihood of success, it is incumbent on the Company to focus its resources on commercialising that project. This is particularly true when that project is targeting substantial markets. The pain portfolio is such a project.

Two events during the year convinced us that our risk minimisation strategy was no longer necessary. First and foremost was the incredible result achieved in our oxymorphone multi-dose study. In a world first we delivered oxymorphone in therapeutic dose through the skin. The second event was the agreement reached by our partner Themis Medicare with Novartis India Limited to manufacture a TPM®/Diclofenac product on its behalf. This was the first validation of the commercial utility of our technology by a global company.

The year commenced with an announcement in January that we were starting a Phase 1 single dose study on our TPM®/Oxymorphone patch. This followed an announcement a month earlier reporting that we had expanded our opioid development program to include an oxymorphone patch to our opioid portfolio. This prototype patch was developed internally in only three months.

The expansion of our pain portfolio continued into February when we informed the market of the results of a preclinical topical pain study undertaken on our behalf by the University of Queensland with our TPM®/Oxycodone gel. The study demonstrated that this product was able to reduce localised pain by topical application without delivering the oxycodone into the systemic circulation. This study provided the impetus for a modification to our opioid strategy that matured during 2013 and doubled the potential market of our pain portfolio.

We returned to the clinic in April with a TPM®/Oxycodone patch that had been optimised by our European contract patch developer, tesa Labtec GmbH. The oxycodone Phase 1 study and the oxymorphone study conducted earlier in the year both produced good results. Each drug successfully met its primary endpoints of safety and delivery into the bloodstream for the 72-hour duration of the studies.

In May we announced a mastitis treatment research collaboration with Agricultural Research Service (ARS), the research arm of the US Department of Agriculture (USDA). This is a long-term project with results not expected until 2015. Under the arrangement we will formulate and ARS will evaluate products containing active ingredients with TPM® enabling superior absorption and efficacy. During 2013 only preparatory research was conducted under this arrangement.

The first half of the year was an extremely busy and productive period for our research team. Not only were they involved in preparing for the oxymorphone and oxycodone Phase 1 clinical studies, but had also been busy optimising our retinoic acid gel formula in readiness of a Phase 2 study. Additionally, as a consequence of the successful Phase 1 study, our team was also optimising the TPM®/Oxymorphone patch for a multiple dose study scheduled for the second half of the year and that was critical to the short-term success of our Company.

In July we commenced a TPM®/Tretinoin Phase 2 study for the treatment of acne. The study was scheduled for completion at the end of the fourth quarter but, due to recruitment difficulties, it is now due for completion at the end of the second quarter 2014 with results

Harry Rosen
Chief Executive Officer

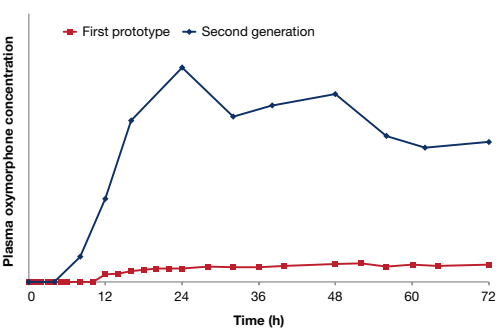
expected soon thereafter. This study is double-blinded and compares our formulation with one of the leading marketed products, Retin-A, and a placebo. It will be used to power a future Phase 3 study and is not designed to attain statistical significance. The study follows a series of human studies several years ago demonstrating that our formulation was superior to Retin-A, both in terms of the delivery profile of tretinoin and reduction of irritation caused by the drug.

In September we commenced a Phase 1 multi-dose TPM®/Oxymorphone patch study that turned out to be the most important clinical study in our corporate history. Towards the end of October we announced the results of the multi-dose study. We were able to show that the patch delivered oxymorphone through the skin and into the bloodstream at concentrations equivalent to the oral oxymorphone product Opana® ER for all 12 subjects included in the study. The plasma concentrations achieved by oral Opana® ER are therapeutic and therefore, by extension, the concentrations we obtained in our study are therapeutic whether delivered via a patch or any other manner. As addressed by our Chairman, to call this a Phase 1 study, while technically correct, understates how far advanced we are in demonstrating that the patch is efficacious.

The chart below clearly demonstrates the exceptional results achieved by our research team. The red line is the average oxymorphone plasma concentration attained in our single dose study. By comparison the blue line represents the average oxymorphone plasma concentration attained in the first rotation of the multi-dose study. Our team achieved an incredible 9-fold increase in flux and did so in about four months of development from the time of completing the first Phase 1 study.

I would like to put our research team's astonishing efforts into perspective. It would normally take a year for a global patch developer, skilled and experienced in the art of patch development, to produce a prototype. It would then ordinarily take a further 12 months to optimise. In a period of approximately 12 months our team of dedicated scientists was able to take a concept, develop and optimise it and conduct two successful clinical studies. Those versed in drug development will appreciate the magnitude of this achievement.

Most importantly, the multi-dose study was a major technical and commercial success. In a world first our patch delivered therapeutic levels of oxymorphone to each of the 12 subjects in the study. What should be appreciated is that accomplishing these results in such a short period was possible only because of the experiences we gained during the long gestation period of developing our TPM® technology and the unique characteristics of our TPM® technology. This all bodes exceptionally well for future projects.



COMMERCIAL DEVELOPMENTS

In late 2012 Phosphagenics announced a global license with Agila Specialties Private Limited granting it the right to develop, manufacture and sell an antibiotic product incorporating our TPM® technology.

In February the US generic giant Mylan Inc announced that it had signed a definitive agreement to acquire Agila, a developer, manufacturer and marketer of high-quality generic injectable products, from Strides Arcolab Limited for $1.6 billion. In December Mylan completed the acquisition. We were informed by Mylan that it is committed to the project and will continue product development with a view of registering the product with the FDA as soon as the development program has been completed.

> “In September we commenced a Phase 1 multi-dose TPM®/Oxymorphone patch study that turned out to be the most important clinical study in our corporate history.”

In April the licensee of our TPM®/Diclofenac gel, Themis Medicare Limited, announced that it had sub-licensed our product to Novartis India Limited. Themis further announced it would manufacture the product under our license for Novartis. In January 2014 Themis launched the product under its own brand Instanac TPM® gel with Novartis launching its product under the brand Vovaren® TPM® gel.

In our skincare division, General Nutrition Corporation (GNC) launched a skin firming and toning cream in over 5,000 retail stores, principally in the US. The finished products are produced by us in Australia and shipped to GNC in the US. Additionally, we launched a line extension involving four new products in our BioElixia® BodyShaper skincare line, principally in Australia and the US. Towards the end of 2013 we received the first bulk order from our South Korean partners. Throughout 2013 we continued to sell products to Ashland Inc (formerly ISP) and Metier Tribeca LLC.

During 2013 we completed a comprehensive strategic plan for our TPM®/Oxymorphone patch incorporating qualitative and quantitative market research studies. The strategic plan includes a financial model with revenue projections that estimated peak sales in excess of US$1 billion per annum conditional on future clinical studies substantiating our targeted product profile.

As part of the financial model, we conducted a survey of 100 health care practitioners with practices in pain medicine to determine demand for the patch. The results of the quantitative research showed that approximately 4 out of 5 practitioners expressed a very high likelihood of prescribing the TPM®/Oxymorphone patch.

CORPORATE DEVELOPMENT

At the end of December 2013 the Company held $8.8 million in cash and cash equivalents. With the federal R&D tax rebates and the continuing recovery of misappropriated funds, Phosphagenics expects to receive over $8 million in 2014 from these sources. Of this amount, in mid March 2014, we received $1.3 million from the sale of the former CEO’s home. In all, we have now recovered $2.9 million and expect to receive about $2 million more, although this is contingent on several factors.

In addition, Phosphagenics will derive cash flow from its normal business operations, which for the first time will include royalties from the sale of pharmaceutical products. Additionally, the Company expects to increase sales of TPM® products to the animal industry.

Since the positive multi-dose results we have been actively strengthening our internal capabilities with the appointment of a Regulatory Affairs Manager in Australia and a Vice President of Business Development and Commercial Operations in the US. Additional appointments will follow. We are developing an optimal approach to open an IND to conduct mid-stage clinical trials in the US for a number of our products under development.

In February 2014 we announced the resignation of four directors and the appointment of three new directors. Board renewal is part of our strategy to establish fresh and highly skilled leadership. The new Board members are well credentialed, experienced and skilled operators in the life sciences industry and bring fresh insight to our commercialisation strategy as we get closer to our first major pharmaceutical deal. Our Board will focus on building the Company’s reputation, moving toward a significant licensing deal and growing cash flow by focusing resources on revenue generation.

I am grateful for the support I have received from many shareholders as we worked through the events thrust upon us in the middle of last year. I am especially grateful to our staff, not only for their devotion to our Company, but also for the way they maintained their focus during a difficult year. We have all emerged from 2013 with a stronger resolve to succeed and with a firm belief in our technology. Without exception, we all want to deliver.

Harry Rosen
Chief Executive Officer

New Directors

In March 2014 Phosphagenics announced the appointment of three new Board Directors. They are extremely well credentialed and have in the past been associated with a number of successful biotechnology companies. Two of these directors are resident in the US which emphasises our new focus on our future commercialisation strategy and our investor relations outreach.

The three directors are Mr Lawrence Gozlan, Mr Nathan Drona and Dr Geert Cauwenbergh. They join Mr Harry Rosen (CEO) who has remained on the board as an executive director. They replace the Board members Dr Sandra Webb, Mr Stuart James, Mr Jonathan Addison and Mr Don Clarke.

LAWRENCE GOZLAN

Independent Director and Interim Chairman

Mr Lawrence 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.

Mr Gozlan is currently a Director of Oncosil Medical Ltd (ASX: OSL) and Prana Biotechnology Ltd (ASX:PBT). Last year Mr Gozlan was appointed to the Board of AusBiotech Ltd, Australia's main life sciences industry body.

NATHAN DRONA

Independent Director

Mr Nathan Drona joins the Board following 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.

Mr Drona is currently a non-executive Director of Alchemia Limited (ASX: ACL) which he joined in March 2013 (he previously served as Alchemia's interim Chairman from July 2013 to March 2014). He has also been a board member of other public and private companies in Australia and North America. He is Chairman of the Phosphagenics Audit Committee.

GEERT CAUWENBERGH

Independent Director

Dr Geert Cauwenbergh is very experienced in the life sciences sector, having started his career with Janssen Research Foundation in 1979 in Belgium. He moved to the USA in 1994 to take up the role of Vice President of 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. Barrier Therapeutics was acquired by Stiefel Laboratories in 2008. At the time of the 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 (OTC: RXII). In this role he has guided RXII through its initial public offering and helped it successfully prepare and submit its first US FDA Investigational New Drug Application.

Phosphagenics Pain Portfolio

TOTAL PAIN MANAGEMENT

Providing novel solutions for effective pain management is the focus of Phosphagenics' pharmaceutical program.

Pain has been described by the International Association for the Study of Pain as "an unpleasant sensory and emotional experience associated with actual or potential tissue damage." While pain is as old as mankind, there remains substantial unmet therapeutic needs.

The difficulty in providing pain solutions is that often pain persists well after the physical injury has healed or the pain stimulus removed. Pain is also often associated with non-physical factors such as neuroses and other mental issues.

Pain can be chronic or acute. Chronic pain, the Company's primary focus, is pain that persists for more than three months and is a global problem of pandemic proportion. In the US alone over 75 million US adults (about 20% of the population) suffer chronic pain. The estimated US economic loss from pain in lost production and medical costs exceeds US$635 billion annually.

The lack of adequate treatment for many pain indications offers Phosphagenics a great opportunity to become a globally significant biotechnology company. We will achieve this by developing new routes of administration for existing drugs such as oxymorphone and oxycodone or increasing the efficacy of drugs currently administered topically such as diclofenac and lidocaine.

The development of lidocaine and diclofenac is straight forward. We compare the delivery of our formulated products with the leading marketed products to determine if we can increase the delivery of the drug and its efficacy. Additionally, as these drugs have previously been delivered through the skin, the approval process is easier than for products not previously delivered through this route of administration.

Oxymorphone and oxycodone have never before been adequately delivered through the skin, although many companies have tried. As such the approval process is longer than for our other pain products. However, being products that are registered and used for pain indications enables us to obtain registration through the truncated FDA 505(b)(2) route.

Phosphagenics has five products at different stages of development in our pain portfolio:

- A transdermal oxymorphone patch to treat chronic pain that requires around-the-clock opioids. Proceeding to a Phase 2 study.
- An oxycodone patch for local pain indications. Proceeding to a Phase 2 study.
- A topical diclofenac gel and patch. Diclofenac gel commercialised by Thermis Medicare and Novartis India. Patch under development.

- A topical lidocaine gel and patch. Lidocaine gel completed Phase 1, patch development completed.

- An injectable propofol used as a general anaesthetic. Product formulated as a clear solution.

OPIOIDS

Transdermal delivery of opioids provides advantages over oral administration. It avoids the peaks and troughs in blood drug concentrations that can exacerbate side effects such as sedation, nausea, constipation, euphoria and respiratory depression. Replacing the burden of multiple oral tablets with the convenience of a topically applied patch improves patient compliance. Topical delivery has the potential over oral delivery and transdermal delivery by substantially reducing side effects.

Opioids are the gold standard for pain management and account for about a third of the revenue generated from pain products.

TPM®/OXYMORPHONE

The TPM®/Oxymorphone patch has become our lead product for the management of chronic pain. Like oxycodone, the extended release oral form of oxymorphone is prescribed extensively in the US for moderate-to-severe chronic pain. No transdermal form of oxymorphone exists as the drug's chemical make-up mitigates against passing through the skin in therapeutic amounts.

The TPM®/Oxymorphone patch completed both a single and multi-dose Phase 1 trial in 2013. The highlights of the multi-dose trial in September were:

- The patch delivered at a sustained rate for the 72-hour duration of application.

- Oxymorphone blood concentrations were therapeutic for all subjects.

- The delivery profile was reproducible with sequential applications, a key safety feature.

- The oxymorphone blood concentrations achieved in some subjects were as high as values for a single dose of the strongest available oral tablet (40mg). For these subjects, the amount of oxymorphone contained in the patch was up to 75% less than would be used for an equivalent 72-hour duration of an oral tablet.

- The efficiency of this oxymorphone delivery minimises potential for abuse and diversion.

These results exceeded our expectations and are a world-first for transdermal delivery of oxymorphone. For known drugs such as oxymorphone the plasma concentrations can be directly linked to an expected pharmacodynamic effect. Consequently, we know the patch is therapeutic even before testing the product in Phase 2 clinical trials. This is also true for potential licensees who are in discussions in respect to the TPM®/Oxymorphone product. Feedback from these discussions will be used to determine the short term direction of the oxymorphone clinical studies. In the meantime we are proceeding to an IND submission to move the clinical program to the United States.

TPM®/OXYCODONE

At the time we commenced the oxymorphone development it was envisaged this would be a companion product for the oxycodone patch. However, the emphatic multi-dose Phase 1 results changed this as it became evident that the oxymorphone patch had superior analgesic potential than oxycodone. Additionally, it became

apparent that two similar opioids competing for the same therapeutic endpoint in the chronic pain market would cannibalise each other. Consequently, the development of the oxycodone patch was re-focussed to target a new indication with significant unmet needs; local pain using topical application.

The oxycodone patch has completed single and multi-dose trials and has been able to deliver oxycodone safely at levels that could be modulated to suit topical delivery. Candidate pain indications for a topical oxycodone patch are post herpetic neuralgia (PHN) and osteoarthritis.

While these therapeutic indications represent new applications for a topical opioid, independent studies using a topical TPM®/Oxycodone formulation successfully demonstrated proof-of-principle in an animal model. The topical TPM®/Oxycodone formulation provided full pain relief without systemic exposure; a result that impressed our independent researchers. This experiment is being written up for publication.

In the US many pain experts have begun exploring the use of topical opioids to manage local pain. Currently there are no opioid gels or patches approved by the FDA for topical delivery.

Emboldened by the performance of the topical oxycodone in pre-clinical studies and with bullish expert opinion, Phosphagenics will further test the use of the TPM®/Oxycodone patch in Phase 2 clinical studies. The clinical program planned for the TPM®/Oxycodone patch is two Phase 2 trials for different pain indications. The main purpose of the trials is to prove that the patch will provide pain relief for those patients.

The theory behind topical opioids is that inflammation and injury causes up-regulation of opioid receptors on the surface of cells in the affected tissue. These receptors are able to bind the opioid to produce analgesia directly within the inflamed tissue. Historically opioid therapy relied on drug transport via blood to the central nervous system where the opioids act to exert an analgesic response. The ability to use an opioid directly on injured tissue without requiring therapeutic blood concentrations would diminish the entire range of adverse side effects associated with this drug class to increase patient safety and quality of life.

TPM®/DICLOFENAC GEL

In January this year Phosphagenics achieved a further major milestone; the launch of its first pharmaceutical product. This topical diclofenac product was launched by Themis Medicare Limited and Novartis (India) Limited.

Novartis' new product, Voveran® TPM®, not only contains TPM® in the product name, but prominently advertises the many advantages of TPM® on the product packaging.

Themis also launched a diclofenac product onto the Indian market based on the TPM® technology. Instanac TPM® again emphasises the superior dermal absorption of the diclofenac due to the TPM® technology.

Diclofenac is a non-steroidal, anti-inflammatory drug that can be administered orally or topically with a gel. Total diclofenac sales are around $1.6 billion per annum of which about half are by market leader, Novartis' Voltaren®.

TPM®/LIDOCAINE

Our topical lidocaine program aims to mirror the approach of the successful diclofenac licensing deal. Phosphagenics has conducted trials demonstrating the superior absorption of a TPM®/Lidocaine formulation compared to the market leading Xylocaine. This product is ready for licensing and discussions with interested parties are ongoing.

Lidocaine is a leading local anaesthetic approved for itching, burning, pain from skin inflammations and Post herpetic Neuralgia (PHN). The market leader is the Lidoderm® patch with annual sales over $600 million. This product has recently become generic.

COMMERCIAL IMPLICATIONS

Despite the size of the commercial chronic pain market, many of the products used to control pain have major deficiencies that limit effectiveness. The TPM®/Oxymorphone patch will take advantage of these deficiencies.

A transdermal oxymorphone patch will reduce deficiencies of the oral dosage forms for products such as oxymorphone (Opana® ER), oxycodone (Oxycontin®) and generics. A patch increases patient compliance by reducing the burden of multiple oral doses. It has a longer duration of effect providing analgesia for days without incidences of break-through pain that impact quality of life. A patch reduces a range of adverse effects that result from rapid absorption in the gut including nausea, constipation and euphoria. It is also expected to reduce abuse and minimise overdose compared to oral dosage forms.

Animal Health

For some time we have considered the animal health market to potentially be a very lucrative one for our Company. TPM® is produced from vitamin E and as such is not only a platform delivery system but being a derivative of vitamin E can be sold as a supplement. Synthetic vitamin E is one of the key ingredients in animal feeds with approximately 70% of all synthetic vitamin E produced globally sold into the animal health market. TPM® will be of significant benefit in the animal health industry.

Vitamin E is an essential nutrient that functions as an antioxidant. The body cannot produce it and it is, therefore, provided only through diet or by supplementation. Vitamin E is a generic term describing eight isomers that exhibit the biological activity of natural vitamin E. Vitamin E is an important antioxidant that protects cells from free radical attack.

Tests conducted by Phosphagenics have shown that TPM® (vitamin E phosphates) is significantly more potent than vitamin E in inhibiting cell proliferation and regulating gene expression. In vivo studies have also shown that TPM® has greater efficacy in reducing symptoms of atherosclerosis and inflammatory diseases in animals.

Tocopheryl (vitamin E) phosphates are a unique form of vitamin E that are manufactured by Phosphagenics in a reaction of vitamin E with a phosphate molecule. The resulting water soluble phosphate complex protects the antioxidant potential of vitamin E during absorption, transport and storage in the body. The molecule is resistant to both acid and alkaline hydrolysis, thereby improving delivery of the active moiety to the site of action and prolonging its anti-inflammatory and antioxidant effects.

Whether the TPM® technology is applied to supplements or feeds as a more potent form of vitamin E, to orally deliver other nutrients (i.e. vitamins and minerals) more effectively or used in combination with compounds to improve their bioavailability or efficacy, our end game is to improve animal health and welfare on farms by providing natural solutions to serious animal health issues such as mastitis in dairy cattle.

The animal health market is dominated by eight major players, Zoetis, Merck, Merial, Elanco, Bayer, Boehringer, Novartis and Virbac.

The overall animal health market is around $30 billion, with the pharmaceutical and feed additive segments representing the bulk of this market (approximately $22 billiion). Phosphagenics is exploring the utilisation of its TPM® delivery technology directly to these market segments.

Mastitis is a problem that costs farmers in the US alone around $2 billion. With US herds representing less than 5% of the global herd numbers, a natural formulation to treat mastitis would potentially be extremely valuable and reduce the reliance on antibiotics.

During 2013 Phosphagenics through its local partnerships with Equine Nutrition Australia and Mastitis Management Australia continued to develop and sell products to the Horse Racing and Dairy Industries.

In December Phosphagenics announced results of a study examining the potential prophylactic effects of supplementing dairy cows with a combination of vitamin E and A utilising our TPM® delivery system. These had been orally administered, under normal farming conditions, at a commercial dairy farm (over 700 cows) in northern Victoria. Compared to the same period last year, the oral administration of the product enabled the farmer to reduce antibiotic use by 50% in cows whose somatic cell counts were over one million cells/ml. Whilst this was not a controlled scientific trial, the dairy industry has responded well to the results with interest from a number of larger farms translating into demand for TPM® inclusion or supplementation into dairy cattle. This demand is forecast to continue to grow steadily in 2014/2015.

During 2013 Phosphagenics also entered into an agreement with Veterinary Research Australia to investigate and undertake proof-of-concept studies into products incorporating TPM® to assist horses with pain and inflammation as a result of distal limb injuries.

For the Company, the animal health sector represents a substantial opportunity to ramp up sales volumes of TPM® with the expansion of products, target species and the expansion of the technology to other global territories all fuelling future growth possibilities.

Skincare (Dermatology and Personal Care)

> “The difference between a cosmetic and a drug is determined by the product’s intended use. Different laws apply to each type of product. Firms sometimes violate the law by making a cosmetic with a drug claim, or by marketing a drug as if it was a cosmetic without adhering to requirements for drugs”

(U.S. Food and Drug Administration).

While the regulatory distinction between a cosmetic and drug is clear, in practice the distinction is becoming murky as more dermatologists are increasingly stocking cosmetic products for sale in their medical practices. Consequently many of the large dermatological companies are increasing their exposure to cosmetic products primarily by acquisitions. Their rationale for this is simple: their sales forces continually visit dermatologists. The cosmetic industry is significantly larger than dermatology and these companies can substantially increase revenues by promoting cosmetic products as well as drugs via existing sales forces.

In addition to dermatological companies, some of the large pharmaceutical companies have transferred marketing responsibility for their skincare and dermatology assets to their consumer health divisions. This shifts focus from product innovation to marketing and business development.

The skincare industry is increasingly driven by consumer demand for products that deliver visible results. Companies are adopting new advances in biotechnology, biology, nanotechnology and peptide technology to deliver active compounds.

Compared to the other areas of the pharmaceutical industry, not a great deal of product innovation occurs within the dermatology industry. There is, therefore, wide scope to offer more innovative delivery systems.

Phosphagenics is the only company with a delivery technology built from vitamin E, the most common ingredient used globally to improve skin health. Not only can TPM® increase the absorption of actives into the skin but it can do so while reducing irritation and providing vitamin E benefits. Despite promoting increased dermal absorption, TPM® can also prevent exposure to the systemic circulation. This is a key feature in the personal care space: to avoid drug-like claims or when dealing with dermatology drugs possessing toxic side effects. The TPM® technology is, therefore, ideally suited for dermatological (prescription and OTC), cosmetic and personal care products.

With the low cost of product development and straightforward regulatory pathway, TPM® lends itself perfectly to the development of a semi-autonomous skincare division within Phosphagenics. While not an immediate priority, when time and money permits we will develop this division as it is potentially strategic and a profit source to our Company.

DERMATOLOGY

TPM®/Tretinoin Gel

According to the American Academy of Dermatology acne is a common skin disorder affecting 40-50 million Americans. Globally the prescription and OTC acne market is about $3 billion per annum with OTC products accounting for the most of this. Despite the size of this global acne segment, no company has domination, opening the way for new entrants. Our strategy is to first develop a prescription product that will allow us to make superiority claims if supported by our clinical studies. This would then be followed by OTC products where superiority will be assumed.

Tretinoin has long been the prescription drug of choice for the topical treatment of clinical acne vulgaris. Erythema (skin redness) and dryness are the prime reasons given by patients for discontinuing tretinoin treatment. In 2008-2009 Phosphagenics conducted a series of Phase 1 trials demonstrating that TPM® increased skin absorption of tretinoin while decreasing erythema and dryness when compared to the market leading tretinoin commercial formulation.

The results demonstrated that TPM®-based formulations could offer much to acne treatment by increasing the effectiveness of acne reduction and increasing patient comfort and compliance through reduced irritation.

Phosphagenics began a proof-of-concept Phase 2 trial in 2013 to examine the efficacy of a TPM®/Tretinoin formulation. Acne vulgaris is a chronic indication requiring patients to remain on treatment for a 3-month period. Recruitment for this study has been slower than predicted as the patient population mainly used for this study (teenagers) have poor compliance in long duration studies. The study is due to conclude at the end of the second quarter with results released to the market as soon as possible thereafter.

TPM®/Ketaconazole Gel

Ketoconazole is a synthetically derived antifungal medication. Topically administered ketoconazole is usually prescribed for fungal infections of the skin and mucous membranes and for seborrheic dermatitis.

Seborrheic dermatitis is a common chronic inflammatory skin disorder generally confined to areas where sebaceous (oil) glands are most prominent. The condition is not harmful or contagious but it can be uncomfortable and unsightly. Estimates indicate that up to 5% of Americans may be affected by this disorder, which can have extended inactive periods followed by flare-ups.

The global market for topically prescribed antifungal products was about $2.6 billion in 2011, making it the biggest market in dermatology. While there are many different products sold in this market, the size of the market makes antifungal products a prospective addition to Phosphagenics' skincare portfolio.

We have completed the development of a TPM®/Ketoconazole formulation. Time permitting we will begin a proof-of-concept Phase 2 study in late 2014 or appropriate time thereafter. We are also examining other dermatological products to develop for our future skincare division.

PERSONAL CARE

The Personal Care segment encompasses three primary areas.

Raw Ingredient

The beneficial use of vitamins in general and specifically vitamin E continues to be an active area in dermatology and cosmetic science. A major skincare challenge for the use of vitamin E has been to keep it stable in formulations. The most common approach has been to use the ester vitamin E acetate. Although it is more stable, it has a different efficacy profile to vitamin E but suffers poor bioavailability.

With our distributor Ashland (formerly ISP) Phosphagenics has taken an entirely different approach in designing Vital ET®, which is derived from our vitamin E phosphate.

Independent studies by Ashland show that vitamin E phosphate when delivered to the outer epidermis through topical formulations, reduces many of the symptoms associated with sensitive skin such as redness, irritation, swelling and itching. This forms the basis of the sale of Vital ET®, a complex form of our vitamin E phosphate, as a raw ingredient for the personal care industry. This is manufactured by Phosphagenics in Melbourne. While sales of this were down in 2013, early indications suggest improving sales in 2014.

Private Labelling/Bulk Manufacture/ Licensing

In May 2013 GNC launched a skin toning and firming cream formulated and manufactured by Phosphagenics in Australia and exported to GNC in the US. This product was launched under GNC's Total Lean™ brand. According to GNC Total Lean™ is "a scientifically designed line of products that provide the tools you need to get leaner while giving your body the healthy levels of nutrients it needs".

Our product is the first topical product ever marketed under a GNC label and was selected by GNC on the basis of the strength of its performance in human efficacy studies. Total Lean™ is the leading brand, by revenue, in GNC's diet category.

GNC has over 6,000 stores in the US, stores in 49 other countries and 41 stores in Brisbane, Sydney and Melbourne.

Phosphagenics has agreed to supply the Korean Drug Company (KDC) with an anti-cellulite bulk formulated product that will soon be shipped to Korea and launched in South Korea as soon as it has been packaged by KDC. Under South Korean regulation there is a need to register the product and consequently KDC was obliged to conduct a 60-subject human study to support the registration. As previously reported, the study further demonstrated the efficacy of Phosphagenics' topical anti-cellulite products. Twice daily application over eight weeks led to significant reduction in cellulite as measured by reduced thickness of subcutaneous fat. Significant increases in skin elasticity and hydration at the application site were also recorded as was overall reduction in the circumference of legs treated with the product.

Our licensing partner Le Metier experienced a difficult 2013. Although it entered into Chapter 11 scheme of arrangement, management is expressing confidence of resuming profitable operations.

BioElixia®

For several years Phosphagenics' best selling product has been our BodyShaper Cellulite Contour Crème. The target market for this product is less crowded than face creams, especially those targeting anti-ageing. Although we believe our products are superior to most, it is difficult to get traction in this market without spending a large amount of money in advertising. We are not prepared to do this.

Our strategic approach in 2013 was to expand the BodyShaper product range with four new products including our scientifically validated BodyShaper Stretch Mark Diminishing Crème.

These products were launched mid-2013 and contributed to recording similar sales to 2012 in a soft retail market. As a consequence of the soft market many cosmetic companies discounted products. We had to respond accordingly resulting in greater volume but reduced margins.

The launch of our global e-commerce platform www.bioelixia.com in late 2013 will expand our brand and is helping us grow our database for direct marketing.

BIOELIXIA®

body shaper

body care essentials

For Every Body Every Day

TPM® DERMAL DELIVERY TECHNOLOGY

DELIVERING MORE KEY INGREDIENTS TO WHERE THEY ARE NEEDED MOST

Scientifically Proven
Australian Made and Owned

Available online, David Jones and Myer stores nationally
To become a stockist visit: **www.bioelixia.com** or phone **1300 354 942**

Connect with us

Collaborations

STRATEGIC COLLABORATIONS

Phosphagenics continued to work with a number of global companies in the area of product development and commercialisation during 2013

tesa Labtec GmbH – Contractor for the oxycodone patch development.

INC – Clinical Research Organisation. Clinical trial consultants.

Agila – Development/Licensee now a subsidiary of Mylan Inc for an unnamed liquid antibiotic injectible.

Themis – Licensee diclofenac topical gel product for India.

Novartis (India) – Sub-licensee of Diclofenac gel product for India.

Mastitis Management Australia – Development /Licensee Animal feed incorporating TPM® for mastitis. Australia and New Zealand.

Equine Ergogenic Australia – Development and licensee of limited horseracing feeds globally.

GNC – Retailer of Private Label toning and firming cream.

Le Métier de Beauté – Licensee of TPM® for personal care of high end retailers.

Nippon Zoki – Development collaborator for diclofenac patch for the prescription market in the USA.

Ashland (formerly ISP) – Distributor of Vital ET for use in personal care products.

USDA – Research partner investigating treatment of mastitis in cows.

Korean Drug Company – Distributor of anti-cellulite product in South Korea

Commercialisation and product pipeline

COMMERCIALISATION TIMELINE

Product Category/Project	Partner/Territory	Status
Pain – Oxymorphone patch		Phase 2 scheduled for mid 2014
Pain – Oxycodone patch		Phase 2 scheduled for mid 2014
Pain – Lidocaine patch		Product development continuing
Pain – Diclofenac patch	Nippon Zoki (Collaborative research only)	Product development continuing
Injectable – antibiotic injectable	Mylan (Global)	Product launch expected 2015
Injectable – propofol injectable		Product development completed
Dermatology – Tretinoin gel		Phase 2 commenced July 2013, due to be completed end Q2 2014
Dermatology – Ketoconazole gel		Phase 2 scheduled to commence H2, 2014
Animal health – mastitis treatment		Work with USDA ongoing

COMMERCIALISED PRODUCTS

Product Category/Project	Partner/Territory	Status
Pain – Diclofenac gel	Novartis Themis (India)	Product launch in India occurred in Q1, 2014
Animal health – horse supplements	Equine Ergogenics Australia	Commercialised (Australia/NZ)
Animal health – horse feeds	Equine Nutrition Australia	Commercialised (Australia/NZ)
Animal health – bovine feed supplements	Mastitis Management Australia (Australia/NZ)	Commercialised (Australia/NZ)
Consumer skincare – BioElixia® range of skincare products	Henri Bendel; Fred Segal; Dermstore; Amazon; David Jones; Myer; Priceline etc	Commercialised (USA; Asia; Australia)
Consumer skincare – GNC Total Lean™ Toning Cream	GNC (USA)	Commercialised (USA)
Consumer skincare – Peau Vierge skincare range	Le Métier de Beauté (USA)	Commercialised (USA)
Consumer skincare – Vital ET® active ingredient	Ashland (Global)	Commercialised (Global)
Consumer skincare – KDC BodyShaper cellulite cream	Korean Drug Company (South Korea)	Product launch in Korea expected Q2, 2014

Senior Management

PAUL GAVIN

Chief Scientific Officer

Dr Gavin joined Phosphagenics in 2002 whilst completing his PhD in Biochemistry and Molecular Biology at Monash University. He had previously completed a Bachelor of Science degree (with honours) majoring in Biochemistry.

He has been involved in many of the major research developments at Phosphagenics, including the "eureka" moment in early 2005 when the team created TPM® nanoparticles. These formulations became a very unique and highly valuable delivery system and formed the platform for the subsequent evolution of the TPM® delivery system.

Dr Gavin's current role as Chief Scientific Officer involves overseeing the Company's pre-clinical and clinical research programs, liaising with key opinion leaders and regulatory experts, providing input into strategic decision making and presenting the Company to brokers, institutions and at conferences.

He is experienced in many aspects of academic and commercial research and development and has published in peer journals, as well as being an inventor in multiple patents.

ALEX STOJANOVIC

Vice President, Business Development & Commercial Operations

Dr Stojanovic joined the Company in February 2014 as Vice President of Business Development and Commercial Operations and works out of our New York office. He has ten years of broad commercial experience, during which he has advised, worked for, or partnered with more than 30 pharmaceutical, biotech and medical device companies across business development, commercialisation, marketing, pricing and market access, and corporate strategy. Most recently, he was the Pharma & Biotech Practice Lead for Kromite LLC (USA), a strategy consulting firm specialising in R&D portfolio management and decision analysis.

Between 2011 and 2013 Dr Stojanovic served as Senior Director of Global New Compound Marketing at Grunenthal GmbH, a pharmaceutical company specialising in pain therapeutics. At Grunenthal he managed the commercial planning for two novel opioids (cebranopadol & lexanopadol) in Phase 2/3 clinical development for the treatment of severe chronic pain and peripheral neuropathic pain. In addition to managing a team responsible for commercial strategy, market access and forecasting, strategic communications and stakeholder engagement, Dr Stojanovic served on the Joint Commercial Committee with Forest Laboratories, Grunenthal's development partner. He also briefly managed the lifecycle strategy for Versatis®, a 5% lidocaine patch and participated in a variety of commercial activities related to Grunenthal's many other opioid and non-opioid programs.

Dr Stojanovic spent six years at ZS Associates, a management-consulting firm that is globally recognised as a leader in providing sales and marketing strategic services to the life sciences industry. He completed a Post-Doctoral Fellowship in Drug Discovery at Northwestern University (USA), where he conducted research on neurodegenerative disease. He completed his PhD in Pharmacology & Toxicology at Dartmouth College (USA) and BS degrees in Chemistry and Cell & Structural Biology from the University of Illinois (USA). Among his many academic accomplishments, he was granted two doctoral fellowships and co-authored a peer-reviewed article with Nobel Laureate, Har Gobind Khorana.

JASON J. ROSEN

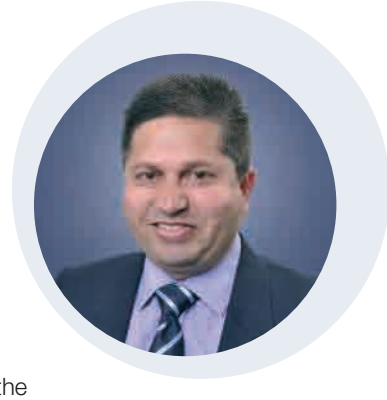
General Counsel

Mr Rosen joined the Company in October 2011 and serves as its General Counsel. He is based in our growing New York office, and as well as fulfilling the role of the Company's chief legal officer, he assumes a business development and commercial operations role.

He obtained a BComm and LLB (First Class Honours) from the University of Melbourne in 2004 having received a Law School Scholarship. In 2011 he completed an LLM (health law/ pharmaceutical law focus) from New York University Law School having gained an Arthur T Vanderbilt Scholarship.

After being admitted as a lawyer, Mr Rosen practiced in the litigation department and corporate and commercial department of international law firm Allens Arthur Robinson. He then completed an appointment as judicial clerk to the Honourable Justice Finkelstein at the Federal Court of Australia, where he was involved in Corporations law, trade practices law, intellectual property law, consumer protection law and administrative law proceedings. Before joining Phosphagenics, he worked for several years as a Senior Solicitor in the litigation branch of the Victorian Government Solicitor's Office, the primary source of legal advice to the State of Victoria, Australia.

Mr Rosen founded the Association for the Prevention of Medical Errors, a non-profit organisation that seeks to improve patient safety through law reform. In this role he has worked with the World Health Organisation's Patients for Patient Safety program, submitted a law reform report to the Victorian State Parliament and presented at various conferences on patient safety. He was Assistant Editor at the Melbourne Journal of International Law. He is currently a member of the Food and Drug Law Institute as well as the General Counsels Committee of the Biotechnology Industry Association in the US.



DIVYANG BUTALA

Vice President, Bioanalytical & CMC

Dr Butala joined the Company in 2009. He is responsible for the smooth scale-up of products from the Chemistry laboratory to the Hallmarc TPM® manufacturing facility where the process is validated and locked in.

He has more than 20 years of experience in the Pharmaceutical industry, including R&D/QC laboratory management, process development and scale-up of new drug candidates for clinical trials in Australia and overseas. During this period Dr Butala gained considerable expertise in preparing technical data packages for Technical and Drug Master Files and Investigative New Drug (IND) submissions to TGA and FDA.

Dr Butala has a PhD in Organic Chemistry from Bombay University.

MAHMOUD EL-TAMIMY

Vice President, Innovation & Development

Dr El-Tamimy joined the Company in 2007 from Monash University, after working in formulation and development for Acrux Ltd in 2004-5. He has 18 years of work experience locally and internationally and has been involved in numerous projects with major global pharmaceutical companies. His expertise has been required from initial in vitro and in vivo studies through to drugs being tested in late stage clinical trials.

At Phosphagenics Dr El-Tamimy is involved in formulating all trial drugs and was instrumental in the design of the original oxycodone TPM® patch prototype. Furthermore, he was able to incorporate all knowledge acquired in his working relationships with 3M and tesa Labtec GmbH and formulate the successful oxymorphone TPM® patch used in the 2013 trials. He is a major reason why Phosphagenics is being recognised as a leader in transdermal delivery technology.

Dr El-Tamimy graduated from Cairo University in 1993 and has since completed a PhD in Pharmaceuticals Formulation and Design.

ANNA LEGG

Chief Financial Officer

Ms Legg joined Phosphagenics in January 2013.

She has over 15 years of experience in financial management in government, private and public companies. She has been involved in establishing international entities covering their tax, legal and funding requirements. Her particular strengths include statutory reporting, system development and financial modelling.

Ms Legg works closely with the CEO and Senior Management Team to provide financial support for the growth of the business in Australia and internationally. She was primarily responsible for uncovering accounting irregularities that related to the former CEO.

Ms Legg holds a Bachelor of Economics from Macquarie University, Sydney and a Diploma in Law from the Legal Profession Admission Board, Sydney.

GREG MOSES

General Manager, Personal Care

Mr Moses joined the Company in November 2012. His experience spans wholesale and retail brand development. His previous roles have included General Manager at Australian Natural Brands and Purity Australia, working with popular brands, In Essence and Oil Garden Aromatherapy. He has also worked with leading Australian brand, Natio Pty Ltd, and is renowned for his ability to build brands with outcomes of strong sales growth. Mr Moses also spent several years as a Business Manager for Myer Grace Bros and was part of the team responsible for returning the failing Bendigo store into a profitable operation.

At Phosphagenics Mr Moses has been managing both the branded products under the BioElixia® label and the bulk formulation products sold to companies like GNC.

Phosphagenics – Consolidated 5 Years in Review

	2013	2012	2011	2010	2009
NET ASSETS/EQUITY					
per share (cents)	**4.0**	5.2	6.2	4.1	6.2
Amount	**$40.77 m**	$53.22 m	$63.01 m	$30.64 m	$45.83 m
SECURITIES : Year End Market Prices					
Shares (POH)(cents)	**11.5**	14.5	21.0	12.0	6.8
MARKET CAPITALISATION	**$117.4 m**	$147.9 m	$213.7 m	$88.8 m	$50.3 m
ISSUED SECURITIES					
Shares (POH) quoted	**1,020,465,957**	1,020,215,957	1,017,565,957	739,696,509	739,696,509
Options (POHOB) quoted	**-**	-	-	-	-
Options (various) unquoted	**2,750,000**	9,400,000	13,150,000	15,450,000	12,350,000
Rights unquoted	**16,000,000**	18,100,000	17,400,000	-	-
	$000	$000	$000	$000	$000
EQUITY RAISING					
Exercise of Options	**36**	356	-	-	14
Share Purchase Plan	**-**	-	3,001	-	7,000
Placement	**-**	-	31,706	-	-
Capital Raising Costs	**(2)**	(41)	(2,066)	-	(425)
	34	315	32,641	-	6,589
FUNDING					
Cash and Receivables	**9,505**	17,437	28,124	3,045	11,160
OPERATING RESULTS					
After Impairments and Tax	**(12,673)**	(10,513)	(457)	(15,486)	(12,661)
NET OPERATING EXPENSES					
Research Expenses	**$3.82**	$1.93	$3.99	$1.83	$2.68

Patent Portfolio

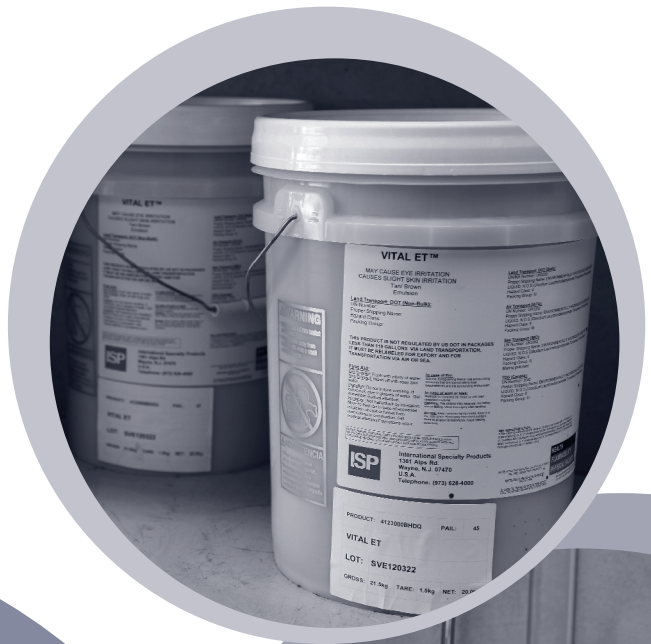
Title	Jurisdictions Granted	Jurisdictions Pending	Expiry
A carrier comprising one or more di and/or mono-(electron transfer agent) phosphate derivatives	Australia, China, Japan, Mexico, New Zealand, Russia, Singapore, South Africa	Brazil, Canada, Europe, Hong Kong, India, Israel, South Korea, USA	June 2026
Alkaloid Formulations	Australia, Canada, China, Europe, Hog Kong, India, Japan, South Korea, Mexico, New Zealand, Russia, Singapore, South Africa	Brazil, Israel, USA	March 2025
Carrier	Australia		August 2023
Carrier Composition	Singapore, South Africa	Australia, Brazil, Canada, China, Europe, India, Israel, Japan, South Korea, Mexico, New Zealand, Russia, USA	December 2030
Carrier Composition	Singapore, South Africa	Australia, Brazil, Canada, China, Europe, Hong Kong, India, Israel, Japan, South Korea, Mexico, New Zealand, Russia, Singapore, South Africa, Taiwan, USA	Feb 2031
Carrier for Enteral Administration	Australia, China, Europe, Japan, Mexico, New Zealand, Russia, Singapore, South Africa	Brazil, Canada, India, USA	August 2025
Complexes of Phosphate Derivatives	Australia, Europe	Brazil	November 2021
Composition		Australia, Europe, Hong Kong, USA	Feb 2031
Dermal Therapy	Australia, Canada, Japan, USA		July 2022
Formulations containing Phosphate Derivatives of Electron Transfer Agents	Australia, Canada, China, Europe, Japan, South Korea, Mexico, USA	Brazil, Europe, Hong Kong	November 2021
Improved Processes for Phosphorylation	Australia, Canada, Europe, Japan, Mexico, USA	Brazil	May 2020
New Composition		Australia, Europe, India, New Zealand, USA	March 2032
Transdermal Delivery Patch	Singapore, USA	Australia, Brazil, Canada, China, Europe, Hong Kong, India, Israel, Japan, South Korea, Mexico, New Zealand, Russia, South Africa, Taiwan, USA	March 2031
Unpublished Applications			
Formulations	Provisional		
Formulations	Provisional		

Phosphagenics Limited

ABN 32 056 482 403

Annual Financial Report

FOR THE YEAR ENDED 31 DECEMBER 2013



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Your Directors submit their report for the year ended 31 December 2013.

DIRECTORS

The names and details of the Directors of Phosphagenics Limited (also variously described as Phosphagenics, the Company, the Group, or the Consolidated Entity) in office during the financial year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

INFORMATION ON DIRECTORS

CURRENTLY IN OFFICE

JONATHAN LANCELOT ADDISON BEC (TAS), ASIC, CFTP (SNR)

(AGED 60 YEARS)

INDEPENDENT DIRECTOR SINCE NOVEMBER 2002, CHAIRMAN SINCE MAY 2010

LAST RE-ELECTED MAY 2013

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

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

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

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

HARRY ROSEN BA, LLB

(AGED 66 YEARS)

EXECUTIVE DIRECTOR APPOINTED TO THE BOARD IN JUNE 1999

APPOINTED MANAGING DIRECTOR - PRESIDENT DECEMBER 2005

LAST RE-ELECTED MAY 2004*

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

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

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

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

DON CLARKE LLB (HONS)

(AGED 59 YEARS)

INDEPENDENT DIRECTOR APPOINTED AUGUST 2010

ELECTED MAY 2011

LAST RE-ELECTED MAY 2013

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

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

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

STUART JAMES BA (HONS)

(AGED 64 YEARS)

INDEPENDENT DIRECTOR APPOINTED AUGUST 2010

ELECTED MAY 2011

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

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

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

DR SANDRA WEBB BPHARM, PHD, DIP LAW

(AGED 67 YEARS)

INDEPENDENT DIRECTOR APPOINTED AUGUST 2010

ELECTED MAY 2011

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

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

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

FORMER DIRECTORS

DR ESRA OGRU BSC (HONS) PHD

(AGED 38 YEARS)

EXECUTIVE DIRECTOR SINCE OCTOBER 2005

CHIEF EXECUTIVE OFFICER SINCE MAY 2010

LAST RE-ELECTED MAY 2012

RESIGNED 18 JULY 2013

Dr Ogru was appointed CEO of Phosphagenics in April 2010 and resigned in July 2013.

DIRECTORSHIPS OF OTHER LISTED COMPANIES

Directorships of other listed companies held by Directors in the three years immediately before the end of the financial year are as follows:

Name	Company	Period of Directorship
Jonathan Addison	Global Masters Fund Limited	Since 19 April 2005
Don Clarke	Circadian Technologies Limited	1 September 2005 to 29 November 2013
	Webjet Limited	Since 10 January 2008
Stuart James	Wolters Kluwer NV	Since 26 April 2006
	Pulse Health Limited	Since 7 November 2007
	Prime Financial Group Limited	Since 16 May 2006
	Progen Limited	1 July 2009 to 28 November 2013
	Greencross Limited	Since 30 October 2009

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 (formerly the Chartered Secretaries Australia) (FGIA); Chartered Institute of Secretaries (FCIS) and until recently a Justice of the Peace in Victoria. 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.

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.

REVIEW OF OPERATIONS

At the end of December 2013, the Company held $8.8 million in cash and cash equivalents (2012: $16.9 million). Accrued income includes expected recoupment of funds from the misappropriation of corporate monies disclosed to the market in 2013, and an estimate of monies expected to be received from the R&D tax incentive scheme. These combined amounts total $2.5m and ought to be received by the Company before end of second quarter of 2014. A further amount of $1.3m is scheduled to be received in early March. It is contingent on the settlement of a property sold by Esra Ogru and her husband.

Funds expended during the year were primarily used to advance the Opioid clinical programs and to initiate a Phase 2 clinical study for the treatment of acne with retinoic acid.

The Company booked a non-recurring amount of $0.7m for legal costs associated with the recovery of funds misappropriated by our former CEO and other parties.

Revenues for the year were $2.2 million, a decrease of 15% from 2012 mainly due to lower interest income. The underlying sales revenue of $1.4 million was 7% higher, but lower than expectations due to several factors including the impact that the dismissal of the former CEO, Dr Ogru, had on sales of the branded BioElixia® products, especially through home shopping TVSN where she was the face of our products.

Research expenses paid to third parties were $3.8m and were $1.9m higher than 2012, reflecting the greater number of clinical trials undertaken in 2013.

The net loss after tax for the year was $12.7 million compared to a net loss of $10.5 million for 2012. For further details refer to attached Financial Statements and notes.

RESEARCH & DEVELOPMENT

Phosphagenics' research and development programs in 2013 focused on the clinical development of the Company's opioid patches as part of its pain franchise. Phosphagenics successfully completed Phase 1 single dose studies for both the TPM®/Oxycodone and TPM®/Oxymorphone patches, and a Phase 1 multiple dose study for the optimized TPM®/Oxymorphone patch. After conducting extensive

quantitative and qualitative market studies, the Company determined that its pain portfolio would comprise both opioids. Additionally, management decided that the TPM®/Oxycodone patch would be developed for localized pain indications while the TPM®/Oxymorphone patch would be developed for chronic pain indications suitable for treatment by systemically delivered extended release opioids. This strategy not only increases the overall size of the target markets, but it also ensures that the Company's patches do not compete with each other. Comprehensive strategic plans, target product profiles and other studies necessary for the design of commercially appropriate Phase 2 studies were completed during the reporting period.

Pursuing its new strategic direction, the Company completed a multiple dose Phase 1 clinical study with the TPM®/Oxymorphone patch in the second half of the year. This clinical trial produced exceptional results. In a world first, Phosphagenics delivered therapeutic doses of oxymorphone transdermally. Each of the 12 subjects in the repeat dose study attained oxymorphone plasma levels that were within the therapeutic dose range for the drug, as defined by the mean CMAX plasma concentrations on the FDA approved label for Opana® ER (the currently branded oral form of extended release oxymorphone). Furthermore, all subjects stayed well above therapeutic levels for the duration of the clinical study. These results exceeded expectations. The effectiveness of the patch provides the Company flexibility in determining commercial patch sizes of varying strength, in so doing providing plasma levels that are expected to cater for the majority of the targeted moderate to severe chronic pain population.

The Company does not intend to conduct a Phase 1 multiple dose study for its TPM®/Oxycodone patch for localised (peripheral or neuropathic) pain; the patch is Phase 2 ready. While there is good anecdotal evidence to suggest that opioids will reduce localised pain when administered topically, the Company will need to prove this in a Phase 2 proof of concept study. It is likely that the Company will conduct two Phase 2 proof of concept studies for different pain indications in 2014.

For both the TPM®/Oxymorphone patch and TPM®/Oxycodone patch, the Company is readying itself for Phase 2 studies that will be conducted during 2014 in Australia and/or in the United States.

The Company's other main pharmaceutical focus is its development of dermatology assets incorporating TPM®. During 2013, Phosphagenics commenced a Phase 2 clinical study for its TPM®/Tretinoin gel product targeting an acne indication. The study was designed to compare the TPM®/Tretinoin product to Retin A the market-leading product. The study is not a pivotal efficacy trial powered for statistical significance but will instead enable the Company to design its Phase 3 study. The Phase 2 study was scheduled for completion at the end of 2013 and although the majority of patients have completed treatment, recruiting the appropriate patients has proven difficult.

Although recruitment has almost been completed, as the Phase 2 clinical trial is a blinded study, the Company will not know the results until database lock, which occurs after all patients have completed treatment. Accordingly, this recruitment delay will mean that the 3-month trial will not completed until the end of the second quarter of 2014.

COMMERCIAL DEVELOPMENTS

The most significant new commercial developments for the Company during the reporting period were:

- The sub-licensing to and launch by Novartis of a TPM®/Diclofenac gel in India (manufactured for and sub-licensed to Novartis by Themis Medicare Limited);
- The launch by General Nutrition Corporation (GNC) of a skin firming and toning cream in over 5,000 retail stores, principally in the United States;
- The launch by Phosphagenics of a line extension, involving 4 new products, to its BioElixia® BodyShaper skincare line, principally in Australia and the United States.

In April 2013 Phosphagenics' commercial partner and the manufacturer of the TPM®/Diclofenac gel, Themis MediCare, announced that it had reached agreement to supply the formulation to Novartis India. In January 2014 Novartis India launched the product, called "Voveran® TPM gel", in in India. The product is indicated for:

- Post-traumatic inflammation of the tendons, ligaments, muscles, and joints, e.g. due to sprains, strains, and bruises;
- Localised forms of soft-tissue rheumatism, e.g. tendovaginitis, bursitis, shoulder-hand syndrome, and periarthropathy;

- Localised forms of rheumatism, e.g. osteoarthrosis of the peripheral joints and vertebral column.

In May 2013 Phosphagenics' partner GNC launched its Total Lean Toning Cream product in all of its corporate owned stores in the United States. The product, which is marketed as a skin firming and toning cream, is manufactured by Phosphagenics and supplied to GNC in the United States. It is the first topical product marketed under a GNC label, and the TPM®-based formulation was selected for used in the product based on the strength of its performance in human efficacy studies. Total Lean is the leading brand, by revenue, in GNC's diet category.

In July 2013 the Company launched four new products as a line extension to its BioElixia® BodyShaper line of skincare products:

- BioElixia® BodyShaper Stretch Mark Diminishing Crème;
- BioElixia® BodyShaper Firming Toning Body Lotion;
- BioElixia® BodyShaper Radiance Body Cleanser; and
- BioElixia® BodyShaper Exfoliating Body Polish.

Like the previously launched Cellulite Contour Crème, the Stretch Mark Diminishing Crème performed exceptionally well in photogrammetric study demonstrating an objectively quantified reduction in the appearance of stretch marks. A significant budget was committed to the Australian launch of this product in July 2013. The timing of the announcement of the misappropriations by the Company's former CEO impacted negatively on the product's launch.

In addition to these product launches, the Company continued to generate revenue through:

- its distribution arrangement with Ashland Inc of the Vital ET™ ingredient to the cosmetics industry;
- its distribution arrangements with Mastitis Management Australian and Equine Ergogenics Australia of nutritional supplements into dairy industry, and
- nutritional and feed supplements into the horse industry, respectively; and the direct marketing of its BioElixia® range of cosmetics products in Australia, the United States and South-East Asia.

BUSINESS STRATEGY AND FUTURE DEVELOPMENTS

In October 2013, Phosphagenics reported the most commercially significant clinical results in its history. The Company's multiple dose Phase 1 clinical study on the TPM®/Oxymorphone patch clearly demonstrated delivery of therapeutic levels of oxymorphone into plasma within the first 72 hour patch rotation. These levels were maintained through each patch rotation. Because oxymorphone is a well characterised drug, these results are sufficient to demonstrate the efficacy of the patch. The distinguishing feature between delivery systems and new drugs is that for new drugs, Phase 2 studies are normally required to establish efficacy. With old drugs such as oxymorphone, delivery of these drugs at therapeutic levels, establishes their efficacy. This is normally achieved in Phase 1 studies.

The path towards registration of the Company's opioids will include Phase 2 and Phase 3 studies as well as further Phase 1 studies to characterise and define the patch from a regulatory as well as a commercial perspective. These Phase 1 studies will commence shortly while Phosphagenics prepares for Phase 2 studies scheduled for 2014.

Currently the Company does not have plans to conduct Phase 3 studies, believing instead that positive Phase 2 results will enable it to out-license the opioid products.

For our pain franchise the Company's strategic direction is clear. It will conduct sufficient clinical studies, product and regulatory development to enable it to license its products on the most favourable terms taking into account risk factors as well as the cost and time to conduct clinical studies. For oxycodone and oxymorphone, the optimum time is likely to be at the conclusion of proof of concept studies. However, the Company will remain flexible in this regard. For diclofenac and lidocaine the optimal time to license these products may be prior to completion of Phase 2 studies. Several large pharmaceutical companies have approached Phosphagenics with a request to develop other pain products. When time permits the Company will undertake such developments, as they will quickly lead to commercial arrangements.

In regard to oxymorphone and oxycodone, Phosphagenics has commenced a commercial outreach program with large and medium sized pharmaceutical companies as well as pain specialty companies. Several meetings have been held and the Company anticipates that discussions

will continue with these and other interested parties throughout 2014. Discussions on commercialising the diclofenac product are progressing with several companies. Interest has been heightened as a consequent of the recent launch of the TPM®/ Diclofenac product in India. In additional to the gel, the company will also develop a patch product leveraging its experience in the field.

The Company's commercial strategy for its animal health division has commenced generating modest revenues and these are expected to increase strongly during 2014. The Company's primary strategy is to build the sales of raw material, that is TPM®, into the animal industry. This strategy is predicated on the need to focus on the opioid development and to minimise costs of development of products in other areas. At the same time, the Company wishes to maximise its valuable assets.

The Company is building a strong skin care division. Consumer products will be combined with dermatological products to form a specialised skin care division. The strategy will be one of licensing the TPM® technology for both the consumer products and the pharmaceutical dermatology products, which need to progress through the normal clinical studies associated with any drugs. However the route to market for these products is not expensive. The Company will continue the same strategy with its consumer care products of licensing and producing finished products for third parties. The emphasis on branded products, such as BioElixia®, will diminish.

Phosphagenics will announce its new Board shortly. Management views 2014 as the year of rebirth for Phosphagenics.

While 2013 was a difficult year and is now well behind the Company, it did provide several positives, with the TPM®/Oxymorphone multiple dose results being the clear stand out.

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.

DIVIDENDS

The Directors have not recommended the payment of any dividends and no dividends were declared, paid or reinvested in the year to 31 December 2013.

The holders of share options do not have voting rights or the ability to participate in any share or rights issue. Since the end of the financial year no options have been issued or exercised.

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 98/0100. 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.

DIRECTORS MEETINGS

The number of meetings of directors (including meetings of committees of directors) held during the year and the number of meetings attended by each director was as follows:

Directors	Board of Directors		Audit, Compliance and Corporate Governance committee	
	Held	Attended	Held	Attended
Non-executive directors				
Addison, J L	9	9	5	5
Clarke, D	9	9	5	5
James, S[2]	9	8	5	3
Webb, S	9	9	5	5
Executive directors				
Rosen, H	9	9	-	-
Ogru, E[1]	4	3	-	-

[1] Dr E. Ogru was granted a leave of absence and resigned on 18 July 2013.

[2] Mr S. James was granted a leave of absence whilst overseas.

The Audit, Compliance and Corporate Governance Committee has also been mandated by the Board of Directors to carry out the functions of a Remuneration Committee.

COMMITTEE MEMBERSHIP

For all committees, any two Directors constitutes a quorum. All Directors are eligible to sit on the share allotment committee. The Audit, Compliance and Corporate Governance committee comprises of Independent Directors; D Clarke (chairman), J L Addison, S James and S Webb. Mr Clarke was appointed chairman in August 2010 and continues to remain in this role.

DIRECTORS SHAREHOLDINGS

As at the date of this report, the interests of the directors in the shares and options of Phosphagenics Limited were:

Directors	Number of ordinary shares	Number of rights over ordinary shares	Number of options over ordinary shares
Non-executive directors			
Addison, J L	22,473	750,000	-
Clarke, D	35,484	350,000	-
James, S	-	350,000	-
Webb, S	111,000	350,000	-
Executive directors			
Rosen, H	64,226,436	2,000,000	-
Total	**70,107,003**	**5,800,000**	-

The number of rights held by directors, as shown above, are those Performance Rights as approved by shareholders at the 2011 Annual General Meeting ("AGM") per the terms of the Employee Conditional Rights Scheme as established by shareholders at the AGM – refer notes below on Remuneration Report for details of the terms and milestones.

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 Ltd	1,000,000	$0.15	12 May 2014
Phosphagenics Ltd	1,750,000	$0.15	17 June 2014
Total	**2,750,000**		

REMUNERATION REPORT (AUDITED)

This remuneration report for the year ended 31 December 2013 outlines the remuneration arrangements of the Company and the Group in accordance with the requirements of the Act and its regulations. This information has been audited as required by section 308(3C) of the Act.

For the purposes of this report, key management personnel (KMP) of the Group are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company and the Group, directly or indirectly, including any director (whether executive or otherwise) of the parent company.

Details of Key Management Personnel	
Non-Executive Directors	
Addison, J L	Chairman and Independent Director
Clarke, D	Independent Director
James, S	Independent Director
Webb, S	Independent Director
Executive Directors	
Rosen, H	President and Managing Director
Ogru, E	Chief Executive Officer – resigned 18 July 2013
Other Key Management Personnel	
Alsop, H	Vice President – Operations and Business Development – resigned 8 March 2013
Butala, D	Vice President – Bioanalytical & CMC
El-Tamimy, M	Vice President – Innovation & Development
Gavin, P	Chief Scientific Officer
Kinrade, S	Chief Operating Officer - appointed 21 March 2013 and resigned 8 October 2013
Legg, A	Chief Financial Officer - appointed 22 January 2013
Moses, G	General Manager – Personal Care
Rosen, J	General Counsel

REMUNERATION REPORT (AUDITED) (CONTINUED)

Remuneration Committee

The Remuneration Committee, part of the Audit, Compliance and Corporate Governance committee, is responsible for determining and reviewing remuneration arrangements for the directors and executives. The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of executives on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality, high performing director and executive team.

Remuneration Principles and Strategies

The performance of the Company depends upon the quality of its directors and executives. The broad remuneration philosophy is to ensure a remuneration package properly reflects the person's duties and responsibilities and that remuneration is competitive in attracting, retaining and motivating people of the highest quality.

In accordance with best practice corporate governance, the structure of non-executive director and executive remuneration is separate and distinct.

Non-Executive Directors' Remuneration

Objective

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

Structure

The Company's Constitution and the ASX Listing Rules both specify that the aggregate remuneration of non-executive directors shall be determined from time to time by a general meeting. The latest determination was at the Annual General Meeting held on 29 January 2004 when shareholders approved an aggregate remuneration of $300,000 per year, increased by CPI annually.

The amount of aggregate remuneration for submission to shareholders for approval and the fee structure is reviewed periodically. The Board considers advice from external consultants as well as the fees paid to non-executive directors of comparable companies when undertaking the annual review process. A review was conducted in February 2012 resulting in a 10.5% increase to remuneration of Non-Executive Directors, effective 1 March 2012.

From 1 March 2013 each Non-Executive Director receives a base fee of $42,945 (previously $42,000) for being a director of the Group. The Chairman receives an additional fee of $18,420 per annum.

The Non-Executive Directors do not receive retirement benefits, nor do they participate in any short term incentive programs. The Non-Executive Directors participate in the long term incentive scheme (rights issued under the Employee Conditional Rights Scheme (ECRS)) as detailed in the Executive Remuneration. The remuneration of Non-Executive Directors for the period ending 31 December 2013 and 31 December 2012 is detailed in the tables within this report.

Executive Remuneration

Objective

The Group aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities so as to align the interests of executives with those of shareholders to retain executives at the Company and to ensure that total remuneration is competitive by market standards.

Structure

In determining the level and make-up of executive remuneration, the board engages external consultants as needed to provide independent advice. The process consists of a review of company and individual performance, relevant comparative remuneration in the market and internally, and where appropriate, external advice on policies and practices.

Remuneration packages contain the following key elements: Fixed remuneration (base salary, superannuation and non-monetary benefits), Variable remuneration long term incentive (rights issued under the Employee Conditional Rights Scheme (ECRS) and previously under the Employee Share Option Plan (ESOP)).

During 2013 Mr Rosen relocated to New York and in order to receive the same net tax position Mr Rosen's package was adjusted resulting in an increase of 36% to gross remuneration.

Remuneration of other non-director executives and key management personnel was reviewed in September 2013, with four staff receiving pay rises averaging 10%.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Fixed Remuneration

Objective

Fixed remuneration is reviewed annually by the Board of Directors. The process consists of a review of Company and individual performance, relevant comparative remuneration externally and internally and, where appropriate, external advice on policies and practices. As noted above, the committee has access to external advice independent of management.

Structure

Executives are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and fringe benefits such as motor vehicles. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Group. Apart from termination benefits which accrue under statute such as unpaid annual leave, long service leave and superannuation benefits, there are no postemployment retirement benefits.

Variable Remuneration Long Term Incentive Plan

Objective

The objective of the long term incentive plan is 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.

Structure

Employee Share Option Plan

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

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

Employee Conditional Rights Scheme

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

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

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

Milestone 1 (16.5% of Rights awarded if achieved by 30 Jun 2012) - Completion of recruitment for the clinical trial of the oxycodone patch, Submission of an IND for the oxycodone patch, and gross revenues from global sales of all non-prescription products of the Company of not less than $10 million. Rights relating to Milestone 1 remain unvested as this milestone was no 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 nonprescription products of the Company of not less than $20 million.

Milestone 3 (34% of Rights awarded if any two of the following achieved by 31 Dec 2014) - Completion of all pivotal human clinical trials

REMUNERATION REPORT (AUDITED) (CONTINUED)

of the oxycodone patch, gross revenues from the commercialisation of the Company's TPM® technology for use in or in connection with the dermatology products of not less than $2 million, and gross revenues from global sales of all nonprescription products of the Company of not less than $30 million.

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

The Group's current remuneration policies provide a significant degree of linkage between an executive's variable long term incentive remuneration and the overall financial performance of the Group. Given the position of the Group and its stage of development, the remuneration is aimed at retaining key individuals to ensure the success of current and future product development and successful commercialisation of products, which will in turn impact future profitability of the Group and shareholder wealth.

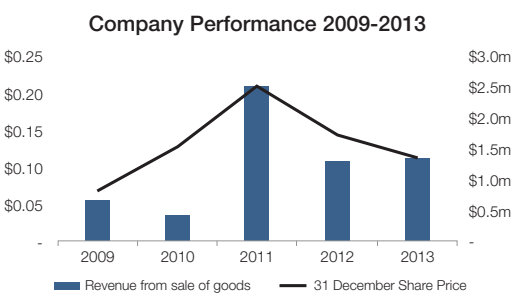
Employment Contracts

No executives have fixed term contracts with the Group. The Company or the executive may terminate employment by providing four weeks written notice. On termination, any long term incentive plan (ESOP) options or (ECRS) rights that have vested are available to be exercised. Any options or rights that have not yet vested will be forfeited. The Company may terminate employment at any time without notice if serious misconduct has occurred. 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.

Company Performance and its Link to Long- Term Incentives

The financial performance measures driving longterm incentive vesting and payment outcomes are revenues from the sale of goods and Company share price. Because of the stage of the Company's development, earnings per share and other profitability based measures do not accurately reflect performance over the past five years.

The following chart shows Phosphagenics Limited's annual revenues from the sale of goods and year end share price over the five-year period from 1 January 2009 to 31 December 2013.



Options Granted During the Year to Key Management Personnel

No options were awarded during the year to key management personnel and no options vested during the year.

Performance Rights Granted During the Year to Key Management Personnel

1,200,000 (2012: 1,450,000) ECRS Rights were awarded to key management personnel during the year, of which nil vested.

Aggregates	2013 $	2012 $
Short-Term Benefits	1,825,977	1,645,236
Post-Employment	129,855	135,780
Share Based Payment	174,629	238,440
Termination	-	15,508
Totals	**2,130,461**	**2,034,964**

REMUNERATION REPORT (AUDITED) (CONTINUED)

Remuneration of Key Management Personnel

	Short – Term		Post-Employment	Share Based Payment	Termination Benefits	Total	Performance Related
2013	Salary & Fees $	Cash Bonus $	Superannu-ation $	Performance Rights $	$	$	%
Non-Executive Directors							
Addison, J L	56,091	-	5,119	14,304	-	75,514	18.9%
Clarke, D	39,255	-	3,582	6,682	-	49,519	13.5%
James, S	42,200	-	-	6,682	-	48,882	13.7%
Webb, S	39,255	-	3,582	6,682	-	49,519	13.5%
Executive Directors							
Rosen, H[1]	412,562	-	13,261	38,184	-	464,007	8.2%
Ogru, E[2]	137,615	-	12,385	38,182	-	150,000	-
Key Management Personnel							
Alsop, H[3]	50,203	-	4,518	-	-	54,721	-
Butala, D	150,646	5,000	14,202	21,538	-	191,386	11.3%
El-Tamimy, M****	135,000	10,000	13,225	21,538	-	179,763	12.0%
Gavin, P	157,584	10,000	15,287	21,538	-	204,409	10.5%
Kinrade, S[4]	80,166	-	7,363	-	-	87,529	-
Legg, A[5]	130,175	15,000	13,311	1,077	-	159,563	0.7%
Moses, G	150,997	-	13,780	769	-	165,546	0.5%
Rosen, J	204,228	-	10,240	35,635	-	250,103	14.2%
Totals	**1,785,977**	**40,000**	**129,855**	**174,629**	**-**	**2,130,461**	

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

[2] E Ogru resigned on 18 July 2013.

[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.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Remuneration of Key Management Personnel

	Short Term		Post-Employment	Share Based Payment	Termination Benefits	Total	Performance Related
2012	Salary & Fees $	Cash Bonus $	Superannu-ation $	Performance Rights $	$	$	%
Non-Executive Directors							
Addison, J L	51,682	-	4,651	14,318	-	70,651	20.3%
Clarke, D	37,873	-	3,409	6,682	-	47,964	13.9%
James, S	38,740	-	2,542	6,682	-	47,964	13.9%
Webb, S	37,873	-	3,409	6,682	-	47,964	13.9%
Executive Directors							
Rosen, H	276,856	-	24,917	38,182	-	339,955	11.2%
Ogru, E	275,230	-	24,771	38,182	-	338,183	11.3%
Key Management Personnel							
Alsop, H[1]	191,667	-	17,250	28,636	-	237,823	12.0%
Gavin, P	151,376	-	13,624	21,538	-	186,538	11.5%
Arnott, A[2]	69,840	-	-	4,308	-	74,148	5.8%
Butala, D	143,758	-	12,938	21,538	-	178,234	12.1%
El-Tamimy, M[4]	126,409	-	11,377	21,538	-	159,324	13.5%
Rosen, J[4]	128,964	-	4,879	30,154	-	163,997	18.4%
Kyriakou, K[3]	97,853	-	10,203	-	15,508	123,564	-
Moses, G[4]	17,115	-	1,540	-	-	18,655	-
Totals	**1,645,236**	**-**	**135,780**	**238,440**	**15,508**	**2,034,964**	

[1] H Alsop commenced on 1 March 2012.

[2] A Arnott is employed under contract, with no fixed period. Either party may terminate the agreement at any time by giving the other party 14 days' notice in writing.

[3] K Kyriakou resigned on 7 August 2012.

[4] G Moses commenced on 19 November 2012. M El-Tamimy and J Rosen became Key Management Personnel effective 1 Jan 2012

REMUNERATION REPORT (AUDITED) (CONTINUED)

Option Holdings of Key Management Personnel

2013	01 Jan 13 Balance No.	Award Date	Fair value per option at award Date	Exercise Price	Expiry Date	Expired No.	31 Dec 13 Balance No.	Vested No.
Non Executive Directors								
Addison, J.L	-	-	-	-	-	-	-	-
Clarke, D	-	-	-	-	-	-	-	-
James, S	2,400,000	-	-	0.14	31-Mar-13	(2,400,000)	-	-
Webb,S	-	-	-	-	-	-	-	-
Executive Directors								
Rosen, H	-	-	-	-	-	-	-	-
Ogru, E	-	-	-	-	-	-	-	-
Key Management Personnel								
Alsop, H	-	-	-	-	-	-	-	-
Butala, D	250,000	18-Jun-09	$0.095	0.15	17-Jun-14	-	250,000	250,000
El-Tamimy, M	250,000	18-Aug-08	$0.053	0.15	17-Aug-13	(250,000)	-	-
	200,000	18-Jun-09	$0.095	0.15	17-Jun-14	-	200,000	200,000
Gavin, P	100,000	18-Aug-08	$0.053	0.15	17-Aug-13	(100,000)	-	-
	300,000	18-Jun-09	$0.095	0.15	17-Jun-14	-	300,000	300,000
Kinrade, S	-	-	-	-	-	-	-	-
Legg, A	-	-	-	-	-	-	-	-
Moses, G	-	-	-	-	-	-	-	-
Rosen, J	-	-	-	-	-	-	-	-
Totals	**3,500,000**	**-**	**-**	**-**	**-**	**(2,750,000)**	**750,000**	**750,000**

REMUNERATION REPORT (AUDITED) (CONTINUED)

Option holdings of Key Management Personnel

2012	01 Jan 12 Balance No.	Award Date	Fair value per option at award Date	Exercise Price	Expiry Date	Expired No.	31 Dec 12 Balance No.	Vested No.
Non Executive Directors								
Addison, J.L	-	-	-	-	-	-	-	-
Clarke, D	-	-	-	-	-	-	-	-
James, S	2,400,000	-	-	0.14	31-Mar-13	-	2,400,000	2,400,000
Webb,S	-	-	-	-	-	-	-	-
Executive Directors								
Rosen, H	-	-	-	-	-	-	-	-
Ogru, E	-	-	-	-	-	-	-	-
Key Management Personnel								
Alsop, H	-	-	-	-	-	-	-	-
Gavin, P	100,000	18-Aug-08	$0.053	0.15	17-Aug-13	-	100,000	100,000
	300,000	18-Jun-09	$0.095	0.15	17-Jun-14	-	300,000	300,000
Arnott, A	-	-	-	-	-	-	-	-
Butala, D	250,000	18-Jun-09	$0.095	0.15	17-Jun-14	-	250,000	250,000
El-Tamimy, M	250,000	18-Aug-08	$0.053	0.15	17-Aug-13	-	250,000	250,000
	200,000	18-Jun-09	$0.095	0.15	17-Jun-14	-	200,000	200,000
Rosen, J	-	-	-	-	-	-	-	-
Kyriakou, K[1]	-	-	-	-	-	-	-	-
Moses, G	-	-	-	-	-	-	-	-
Totals	**3,500,000**	**-**	**-**	**-**	**-**	**-**	**3,500,000**	**3,500,000**

[1] K Kyriakou is no longer a key management personnel due to her resignation on 7 August 2012.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Performance Rights Holdings of Key Management Personnel

2013	01 Jan 13 Balance No.	Award date	Performance Rights awarded during the year No.	Fair value per performance right at award date	31 Dec 13 Balance No.	Not Vested No.	% of Remuneration consisting of Performance rights
Non Executive Directors							
Addison, J.L	750,000	1-May 2011	-	$0.07	750,000	750,000	18.9%
Clarke, D	350,000	1-May 2011	-	$0.07	350,000	350,000	13.5%
James, S	350,000	1-May 2011	-	$0.07	350,000	350,000	13.7%
Webb, S	350,000	1-May 2011	-	$0.07	350,000	350,000	13.5%
Executive Directors							
Rosen, H	2,000,000	1-May 2011	-	$0.07	2,000,000	2,000,000	8.2%
Ogru, E[1]	2,000,000	1-May 2011	(2,000,000)	-	-	-	-
Key Management Personnel							
Alsop, H[2]	750,000	21-Mar-2012	(750,000)	$0.14	-	-	-
Arnott, A[3]	200,000	3-Oct-2011	(200,000)	$0.07	-	-	-
Butala, D	1,000,000	3-Oct-2011	-	$0.07	1,000,000	1,000,000	11.3%
El-Tamimy, M	1,000,000	3-Oct-2011	-	$0.07	1,000,000	1,000,000	12.0%
Gavin, P	1,000,000	3-Oct-2011	-	$0.07	1,000,000	1,000,000	10.5%
Legg, A	-	20-Dec-2013	700,000	$0.02	700,000	700,000	0.7%
Moses, G	-	20-Dec-2013	500,000	$0.02	700,000	700,000	0.5%
Rosen, J	700,000	21-Mar-2012	-	$0.14	700,000	700,000	14.2%
Totals	**10,450,000**		**(1,750,000)**	**-**	**8,700,000**	**8,700,000**	

[1] E Ogru resigned on 18 July 2013.

[2] H Alsop resigned on 8 March 2013.

[3] A Arnott was no longer considered a key management personnel as at 22 January 2013 when A Legg commenced as CFO.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Performance Rights Holdings of Key Management Personnel

2012	01 Jan 12 Balance No.	Award date	Performance Rights awarded during the year No.	Fair value per performance right at award date	31 Dec 12 Balance No.	Not Vested No.	% of Remuneration consisting of Performance rights
Non Executive Directors							
Addison, J.L	750,000	1-May 2011	-	$0.07	750,000	750,000	20.3%
Clarke, D	350,000	1-May 2011	-	$0.07	350,000	350,000	13.9%
James, S	350,000	1-May 2011	-	$0.07	350,000	350,000	13.9%
Webb, S	350,000	1-May 2011	-	$0.07	350,000	350,000	13.9%
Executive Directors							
Rosen, H	2,000,000	1-May 2011	-	$0.07	2,000,000	2,000,000	11.2%
Ogru, E	2,000,000	1-May 2011	-	$0.07	2,000,000	2,000,000	11.3%
Key Management Personnel							
Alsop, H	-	21-Mar-2012	750,000	$0.14	750,000	750,000	12.0%
Gavin, P	1,000,000	3-Oct-2011	-	$0.07	1,000,000	1,000,000	11.5%
Arnott, A	200,000	3-Oct-2011	-	$0.07	200,000	200,000	5.8%
Butala, D	1,000,000	3-Oct-2011	-	$0.07	1,000,000	1,000,000	12.1%
El-Tamimy, M	1,000,000	3-Oct-2011	-	$0.07	1,000,000	1,000,000	13.5%
Rosen, J	-	21-Mar-2012	700,000	$0.14	700,000	700,000	18.4%
Kyriakou, K[1]	750,000	3-Oct-2011	(750,000)	$0.07	-	-	-
Moses, G	-	-	-	-	-	-	-
Totals	**9,750,000**		**700,000**		**10,450,000**	**10,450,000**	

[1] K Kyriakou was no longer a key management personnel due to her resignation on 7 August 2012.

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.

4,200,000 (2012: 1,150,000) performance rights were cancelled during the year.

REMUNERATION REPORT (AUDITED) (CONTINUED)

Shareholdings of Key Management Personnel

2013	01 Jan 13 Balance No.	Granted as remuneration No.	Net other change No.	31 Dec 13 Balance No.
Non Executive Directors				
Addison, J.L	22,473	-	-	22,473
Clarke, D	35,484	-	-	35,484
James, S	-	-	-	-
Webb, S	111,000	-	-	111,000
Executive Directors				
Rosen, H	64,226,436	-	-	64,226,436
Ogru, E	5,711,610	-	(5,711,610)	-
Key Management Personnel				
Alsop, H	-	-	-	-
Butala, D	-	-	-	-
El-Tamimy, M	-	-	-	-
Gavin, P	99,000	-	-	99,000
Kinrade, S	-	-	-	-
Legg, A	-	-	-	-
Rosen, J	2,000,068	-	-	2,000,068
Moses, G	-	-	-	-
Totals	**72,206,071**	**-**	**(5,711,610)**	**66,494,461**

[1] E Ogru resigned on 18 July 2013.

2012	01 Jan 12 Balance No.	Granted as remuneration No.	Net other change No.	31 Dec 12 Balance No.
Non Executive Directors				
Addison, J.L	22,473	-	-	22,473
Clarke, D	35,484	-	-	35,484
James, S	-	-	-	-
Webb, S	111,000	-	-	111,000
Executive Directors				
Rosen, H	64,226,436	-	-	64,226,436
Ogru, E	5,711,610	-	-	5,711,610
Key Management Personnel				
Alsop, H	-	-	-	-
Gavin, P	99,000	-	-	99,000
Arnott, A	-	-	-	-
Butala, D	-	-	-	-
El-Tamimy, M	-	-	-	-
Rosen, J	2,000,068	-	-	2,000,068
Kyriakou, K	-	-	-	-
Moses, G	-	-	-	-
Totals	**72,206,071**	**-**	**-**	**72,206,071**

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 15 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.

SUBSEQUENT EVENTS

There has not been any matter or circumstances, other than that 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.

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

28 February 2014
Melbourne

Auditor's Independence Declaration

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Building a better working world

Auditor's Independence Declaration to the Directors Phosphagenics Ltd

In relation to our review of the financial report of Phosphagenics Ltd for the half-year ended 31 December 2013, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

David Petersen
Partner
28 February 2014

CORPORATE GOVERNANCE PRACTICES & CONDUCT

The Board of Directors of Phosphagenics Limited is responsible for establishing the corporate governance framework of the Group having regard to the ASX Corporate Governance Council (CGC) published guidelines as well as its corporate governance principles and recommendations. The Board guides and monitors the business and affairs of Phosphagenics Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

The table below summarises the Company's compliance with the CGS's recommendations.

Principle	Recommendation	Comply Yes/No	Reference/ explanation	ASX Listing Rule/ Recommendation
1	**Lay solid foundations for management and oversight**			
1.1	Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions.	Yes	Page 48	ASX LR 1.1
1.2	Companies should disclose the process for evaluating the performance of senior executives.	Yes	Page 50	ASX LR 1.2
1.3	Companies should provide the information indicated in the guide to reporting on Principle 1.	Yes		ASX LR 1.3
2	**Structure the board to add value**			
2.1	A majority of the board should be independent directors.	Yes	Page 49	ASX LR 2.1
2.2	The chair should be an independent director.	Yes	Page 49	ASX LR 2.2
2.3	The roles of chair and chief executive officer should not be exercised by the same individual.	Yes	Page 49	ASX LR 2.3
2.4	The board should establish a nomination committee.	No	Page 49	ASX LR 2.4
2.5	Companies should disclose the process for evaluating the performance of the board, its committees and individual directors.	Yes		ASX LR 2.5
2.6	Companies should provide the information indicated in the guide to reporting on Principle 2.	Yes		ASX LR 2.6
3	**Promote ethical and responsible decision-making**			
3.1	Companies should establish a code of conduct and disclose the code or a summary of the code as to: • The practices necessary to maintain confidence in the company's integrity. • The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders. • The responsibility and accountability of individuals for reporting and investigating reports of unethical practices.	Yes	Website	ASX CGC 3.1
3.2	Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them.	Yes	Website	ASX CGC 3.2
3.3	Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them.	Yes	Page 53	ASX CGC 3.3

3.4	Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executives positions and women on the Board.	Yes	Page 53	ASX CGC 3.4
3.5	Companies should provide the information indicated in the guide to reporting on Principle 3	Yes		ASX LR 3.5
4	**Safeguard integrity in financial reporting**			
4.1	The board should establish an audit committee.	Yes	Page 50	ASX LR 4.1
4.2	The audit committee should be structured so that it: – Consists only of non-executive directors – Has at least three members – Consists of a majority of independent directors – Is chaired by an independent chair, who is not chair of the board	Yes	Page 50	ASX LR 4.2 ASX LR 12.7
4.3	The audit committee should have a formal charter.	Yes	Page 50	ASX LR 4.3
4.4	Companies should provide the information indicated in the Guide to reporting on Principle 4.	Yes		ASX LR 4.4
5	**Make timely and balanced disclosure**			
5.1	Companies should establish written policies designed to ensure compliance with ASX listing rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies.	Yes	Page 50	ASX LR 5.1
5.2	Companies should provide the information indicated in the guide to reporting on Principle 5.	Yes		ASX LR 5.2
6	**Respect the rights of shareholders**			
6.1	Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy.	Yes	Page 52	ASX LR 6.1
6.2	Companies should provide the information indicated in the guide to reporting on Principle 6.	Yes		ASX LR 6.2
7	**Recognise and manage risk**			
7.1	Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies.	Yes	Page 51	ASX LR 7.1
7.2	The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks	Yes	Page 51	ASX LR 7.2

7.3	The board should disclose whether it has received assurance from the chief executive officer [or equivalent] and the chief financial officer [or equivalent] that the declaration provided in accordance with section 295A of the Corporations Act 2001 is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.	Yes	Page 51	ASX LR 7.3
7.4	Companies should provide the information indicated in the guide to reporting on Principle 7.	Yes		ASX LR 7.4
8	**Remunerate fairly and responsibly**			
8.1	The board should establish a remuneration committee.	Yes	Page 52	ASX LR 8.1
8.2	The remuneration committee should be structured so that it consists of a majority of independent directors, is chaired by an independent chair, and has at least three members.	Yes	Page 33 & 50	
8.3	Companies should clearly distinguish the structure of non-executive directors' remuneration from that of executive directors and senior executives.	Yes	Page 34 & 52	ASX LR 8.2
8.4	Companies should provide the information indicated in the Guide to reporting on Principle 8.	Yes		ASX LR 8.3

The Companies corporate governance practices were in place throughout the year ended 31 December 2013.

BOARD FUNCTIONS

The Board seeks to identify the expectations of the shareholders, as well as other regulatory and ethical expectations and obligations. In addition, the Board is responsible for identifying areas of significant business risk and ensuring arrangements are in place to adequately manage those risks. To ensure that the Board is well equipped to discharge its responsibilities, it has established guidelines for the nomination and selection of directors and for the operation of the Board. The responsibility for the operation and administration of the Group is delegated, by the Board, to the Chief Executive Officer and the executive management team. The Board ensures that this team is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess the performance of the Chief Executive Officer and the executive management team. Whilst at all times the Board retains full responsibility for guiding and monitoring the Group, in discharging its stewardship it makes use of sub-committees.Specialist committees are able to focus on a particular responsibility and provide informed feedback to the Board. To this end the Board has established Share Allotment and Audit, Compliance and Corporate Governance Committees.

The Directors in office at the date of this statement, their skills, experience, expertise and period of directorship are detailed in the Directors' Report. In respect of the attendance at Board and Committee Meetings, shareholders are referred to the table of Meeting Attendance contained on page 32.

STRUCTURE OF THE BOARD

The skills, experience and expertise relevant to the position of director held by each director in office at the date of the annual report are included in the Directors' Report. Directors of Phosphagenics Limited are considered to be independent when they are independent of management and free from any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement.

In the context of director independence, "materiality" is considered from both the Group and individual director perspective. The determination of materiality requires consideration of both quantitative and qualitative elements. An item is presumed to be quantitatively immaterial if it is equal to or less than 5% of the appropriate base amount. It is presumed to be material (unless there is qualitative evidence to the contrary) if it is equal to or greater than 10% of the appropriate base amount. Qualitative factors considered include whether a relationship is strategically important, the competitive landscape, the nature of the relationship and the contractual or other arrangements governing it and other factors that point to the actual ability of the director in question to shape the direction of the Group's loyalty.

In accordance with the definition of independence above, and the materiality thresholds set, the following Directors of Phosphagenics Limited are considered to have the following status:

Name	Position and status	Term in Office
Non-executive directors		
Addison, J L	Chairman and Independent Director	11 years
Clarke, D	Independent Director	3 years
James, S	Independent Director	3 years
Webb, S	Independent Director	3 years
Executive directors		
Rosen, H	President	14 years

The Board recognises the Corporate Governance Council's recommendation that the Chair should be an independent director.

Composition of the Board

The Company's Constitution provides for the appointment of a minimum of three Directors and up to a maximum of eight. At the date of this report, the Company has five Directors comprising one Executive and four Non-Executive Directors. The Chairman of the Board and the Chairman of the Board's Committees' are Non-Executive Directors.

In February 2013 the Board of Directors undertook a review of the status of each Director and reached the opinion that each current Director, apart from Mr Rosen, could be classified as a Non-Executive Director. In addition, this assessment has concluded that Mr Addison, Mr Clarke, Mr James, and Dr Webb qualified as Independent Directors. A further review was undertaken in February 2014 and the Board of Directors reached the opinion that status of each Director has not changed since February 2013.

BOARD RESPONSIBILITIES

The responsibility for the operation and administration of the Company is delegated by the Board to the specifically identified outsourced service providers. The Board ensures that this team of service providers is appropriately qualified and experienced to discharge their responsibilities and has in place procedures to assess their performance.

The Board is responsible for ensuring that management's objectives and activities are aligned with the expectations and risks identified by the Board. The Board has a number of mechanisms in place to ensure this is achieved. In addition to the establishment of specific committees referred in this statement, these mechanisms include the following:

- Implementation of operating plans and budgets by management and Board monitoring of progress against budget – this includes the establishment and monitoring of key performance indicators (both financial and non-financial) for all significant business processes;
- Procedures to allow Directors, in the furtherance of their duties, to seek independent professional advice at the company's expense;
- The review and approval of acquisitions and disposals of businesses and assets, and the approval of contracts and financing arrangements within defined limits; and
- The appointment of an outsourced service provider, which is responsible for managing the Company's public image and communication with shareholders.

In conjunction with an ongoing review of the Board Charter, the Board will consider its responsibilities and delegated authorities to ensure they comply with best practice corporate governance.

Nomination and Membership

Subject to the provisions of the Company's Constitution, Board composition and selection criteria for Directors are addressed by the full Board. Accordingly, a Nomination and Membership Committee has not been established.

The Constitution provides for events whereby Directors may be removed from the Board. Similarly, shareholders have the ability to nominate, appoint and remove Directors. The Constitution also provides for the regular rotation of Directors, which ensures that Directors, other than the Managing Director, seek re-election by shareholders at least once every three years.

Independent Professional Advice

Directors, in carrying out their duties as Directors or as members of Board Committees, may, after prior consultation with the Chairman, seek independent professional advice at the expense of the Company. If appropriate, such advice will be available to all Directors.

Timely and Balanced Disclosure

The Board of Directors has established written policies and procedures designed to ensure compliance and at each meeting of the Board of Directors specifically monitors the Company's activities and disclosures. On average there are between six and ten Board meetings a year. The Board of Directors has endorsed the principles of best corporate governance practice as set out by the Council.

Performance

The performance of the Board and key executives is reviewed periodically against both measurable and qualitative indicators. The performance criteria against which directors and executives are assessed are aligned with the financial and non-financial objectives of Phosphagenics Limited.

TRADING POLICY

A Company Share Trading policy was adopted by the Board of Directors in May 2010 and amended by a resolution of directors in December 2010. Under the Company's Share Trading Policy, an executive or director must not trade in any securities of the Company at any time when they are in possession of unpublished, price-sensitive information in relation to those securities; during a blackout period or outside the Executive Trading Windows period without the permission of the Approving Officer. The Directors are permitted to deal in securities in which they have a relevant interest without restriction for any period other than the last day in each half or full year reporting period until six weeks after the release to the ASX of the announcements by the Company of its full year or half year results and six weeks after the date of the Company's annual general meeting. Directors are required to wait at least two business days after the release of any market sensitive announcement by the Company so that the market has had time to absorb the information.

As required by the ASX listing rules, the Company notifies the ASX of any transaction conducted by Directors in the securities of the Company.

BOARD OF DIRECTORS AND ITS COMMITTEES

The Board of Directors is responsible for the overall governance of the Company inclusive of its strategic development and the direction and the control of operations of the Company. Whilst the Board retains overall responsibility, it has established certain committees to assist in carrying out its responsibilities. Such committees include the Audit, Compliance and Corporate Governance Committee and the Share Allotment Committee.

Audit, Compliance and Corporate Governance Committee

It is the Board's responsibility to ensure that an effective internal control framework exists within the entity. This includes internal controls to deal with both the effectiveness and efficiency of significant business processes, the safeguarding of assets, the maintenance of proper accounting records, and the reliability of financial information as well as non-financial considerations such as the benchmarking of operational key performance indicators.

The Board has delegated responsibility for establishing and maintaining a framework of internal control and ethical standards to the Audit, Compliance and Corporate Governance Committee. The Committee also provides the Board with additional assurance regarding the reliability of financial information. A Committee charter has been approved by the Board.

The Committee, as at the date of this statement, comprises four Non Executive Independent Directors; Mr D Clarke (Chairman), Mr J Addison, Mr S James and Dr S Webb. The Company's Auditors are invited to attend meetings and to participate in committee discussions. The CFO and Company Secretary attends committee meetings.

The duties of the Committee include:

- The review of the Audit Program and all matters relevant to the financial affairs of the Company's activities together with the production of Statutory Financial Reports inclusive of the Reports and Declarations by Directors.
- To review and advise on procedures in place to record the Company's activities and to ensure the safety of the Company's records and assets.
- To review Internal Control Procedures and the Auditor's Management letter.

- To review the half yearly and yearly reports to the ASX Limited together with a review of the scope and quality of the annual statutory audit and the half-year audit review.
- To monitor Compliance with the provisions of the Act, Australian Securities and Investment Commission guidelines and practice notes, ASX Listing Rules, taxation requirements and all regulatory bodies.
- Carry out the functions of the Remuneration Committee.
- Group Risk management.

Share Allotment Committee

Any two Directors will constitute a quorum for this committee, which deals with the allotment of new shares or grant or exercise of options.

INTERNAL CONTROL FRAMEWORK AND ETHICAL STANDARDS

The Board of Directors seeks to identify the expectations of shareholders as well as other regulatory and ethical expectations and obligations.

These matters are undertaken by the full Board together with the Audit, Compliance and Corporate Governance Committee. In respect of the ethical standards, the full Board regularly discusses the maintenance by the Company of appropriate ethical standards in line with the Council's recommendations.

RISK

The Board acknowledges the Revised Supplementary Guidance to Principle 7 issued by the ASX in June 2008 and has continued its proactive approach to risk management. The identification and effective management of risk, including calculated risk-taking is viewed as an essential part of the company's approach to creating long-term shareholder value.

In recognition of this, the Board determines the Company's risk profile and is responsible for overseeing and approving risk management strategy. The Audit, Compliance and Corporate Governance Committee reviews policies, internal compliance and internal control.

The Audit, Compliance and Corporate Governance Committee oversees the assessment of the effectiveness of risk management and internal compliance and control. The tasks of undertaking and assessing risk management and internal control effectiveness are delegated to management through the Chief Executive Officer and Chief Financial Officer, including responsibility for the day to day design and implementation of the Company's risk management and internal control system.

Management reports to the Audit, Compliance and Corporate Governance Committee on the Company's key risks and the extent to which it believes these risks are being adequately managed. The reporting on risk by management is a standing agenda item at monthly Board meetings.

Business Risk

The main areas of business risk, which are considered on an ongoing basis by the Board, are:

- Failure to develop commercial products from the company's research and development
- Ability to raise capital or generate free cash flow to fund future research and development activities
- Failure to market the company's products
- General economic factors including those affecting interest and exchange rates
- Changes in Corporations and Taxation Law.

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:

- Their view provided on the Company's financial report is founded on a sound system of risk management and internal compliance and control which implements the financial policies adopted by the Board; and
- The Company's risk management and internal compliance and control system is operating effectively in all material respects.

The board agrees with the views of the ASX on this matter and notes that due to its nature, internal control assurance from the Chief Executive Officer and Chief Financial Officer can only be reasonable rather than absolute. This is due to such factors as the need for judgement, the use of testing on a sample basis, the inherent limitations in internal control and because much of the evidence available is persuasive rather than conclusive and therefore is not and cannot be designed to detect all weaknesses in control procedures. In response to this, internal control questions are required to be completed by the key management personnel in support of these written statements.

REMUNERATION

The Board is responsible for determining and reviewing compensation arrangements for the directors themselves, the Chief Executive Officer and executive team. A Compensation (Remuneration) Committee has not been separately established, rather the function is performed by the Audit, Compliance and Corporate Governance Committee.

It is the Company's objective to provide maximum stakeholder benefit from the retention of a high quality Board and executive team by remunerating directors and key executives fairly and appropriately with reference to relevant employment market conditions. For a full discussion of the Company's remuneration philosophy and framework and the remuneration received by directors and executives in the current period please refer to the remuneration report, which is contained within the directors' report.

SHAREHOLDER COMMUNICATION POLICY

Phosphagenics' objective is to promote effective communication with its shareholders at all times. Phosphagenics Limited is committed to:

- Ensuring that shareholders and the financial markets are provided with full and timely information about Phosphagenics' activities in a balanced and understandable way.
- Complying with continuous disclosure obligations contained in applicable the ASX listing rules and the Act in Australia.
- Communicating effectively with its shareholders and making it easier for shareholders to communicate with Phosphagenics Limited.

To promote effective communication with shareholders and encourage effective participation at general meetings, information is communicated to shareholders:

- Through the release of information to the market via the ASX
- Through the distribution of the annual report and Notices of Annual General Meeting
- Through shareholder meetings and investor relations presentations
- Through letters and other forms of communications directly to shareholders
- By posting relevant information on Phosphagenics website: www.phosphagenics.com.

The Company's website www.phosphagenics.com has a dedicated Investor Relations section for the purpose of publishing all important company information and relevant announcements made to the market. The Company has also established an e-mail directory for the direct distribution of announcements made to the ASX.

The external auditors are required to attend the Annual General Meeting and are available to answer any shareholder questions about the conduction of the audit and preparation of the audit report.

Annual Reports are provided to all share and option holders who have elected to receive the Report.

At the meetings of shareholders, Directors are subject to questioning by shareholders about the Directors' stewardship of the Company's affairs and it is shareholders who ultimately vote upon the financial statements and reports, the election of Directors, appointment of Auditors and any matters of Special Business.

DIVERSITY

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

We actively value and embrace the diversity of our employees and are committed to creating an inclusive workplace where everyone is treated equally and fairly, and where discrimination, harassment and inequity are not tolerated. While Phosphagenics is committed to fostering diversity at all levels, gender diversity has been and continues to be a priority for the Group.

To this end, the Group supports and complies with the recommendations contained in the ASX *Corporate Governance Principles and Recommendations*. The Group has established a diversity policy outlining the Board's measurable objectives for achieving diversity. This is assessed annually to measure the progress towards achieving those objectives. The diversity policy is available in the corporate governance section on the Group's website.

Broadly, the Groups measurable objectives are as follows:

- Phosphagenics' state and re-state where necessary that there are no forms of discrimination / bias in considering anyone for a position with the Group, i.e. on grounds of gender; age; physical appearance; origins; race; religion; marital status; sexual preference; pregnancy or likely pregnancy; political leanings; disabilities;
- All new appointments or promotion / career enhancement and remuneration be on the basis of merit and ability to carry out the work responsibilities;
- Within the broad ambit of ensuring that the Group's activities are best developed and to ensure harmony of working within the group that there be flexibility in working hours to enable domestic / private lives to allow for a balance between career and family obligations;
- Consideration be given to job sharing.

The table below outlines the diversity within Phosphagenics Limited:

Level	Female		Male		Total
	Number	%	Number	%	
Board	1	20%	4	80%	5
Key Management personnel	1	17%	5	83%	6
Other staff	17	71%	7	29%	24
Total	**19**	**54%**	**16**	**46%**	**35**

Signed in accordance with a resolution of the Directors.

Jonathan Lancelot Addison
Chairman

28 February 2014
Melbourne

Consolidated Statement of Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2013	Note	2013 $'000	2012 $'000
Revenue			
Sale of goods		1,376	1,284
Licences	3a	229	246
Finance revenue		553	1,133
Total revenue		2,158	2,663
Cost of sales		(752)	(733)
Gross profit		1,406	1,930
Income from government grants	3b	2,994	2,985
Other income		35	157
Recoveries	3c	1,690	-
Employee and Directors benefits expenses		(4,849)	(4,607)
Occupancy and communications expenses		(652)	(661)
Consulting and professional expenses	3d	(2,532)	(1,182)
Marketing		(1,217)	(1,287)
Research expenses		(3,818)	(1,929)
Amortisation and depreciation		(3,883)	(3,909)
Costs under investigation		(584)	(1,237)
Other expenses	3e	(1,263)	(773)
Loss before income tax		(12,673)	(10,513)
Income tax benefit	4	-	-
Profit / (loss) after income tax		(12,673)	(10,513)
Other Comprehensive Income - recyclable			
Foreign currency translation	14	(12)	11
Income tax/(expense) on items of other comprehensive income		-	-
Other comprehensive income for the period, net of tax	14	(12)	11
Total comprehensive income for the period		(12,685)	(10,502)
Profit / (loss) per share from continuing operations attributable to the ordinary equity holders of the parent:			
Basic profit / (loss) per share	15	(1.24) cents	(1.03) cents
Diluted profit / (loss) per share	15	(1.24) cents	(1.03) cents

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

Consolidated Statement of Financial Position

	Note	31 December 2013 $'000	31 December 2012 Restated $'000	1 January 2012 Restated $'000
CURRENT ASSETS				
Cash and cash equivalents	22a	8,823	16,912	27,196
Trade and other receivables	7	4,421	4,555	2,168
Inventories	8	699	854	964
Other current assets		212	218	223
TOTAL CURRENT ASSETS		**14,155**	**22,539**	**30,551**
NON-CURRENT ASSETS				
Plant and equipment	9	926	1,034	1,161
Intangible assets	10	27,877	31,519	35,162
TOTAL NON-CURRENT ASSETS		**28,803**	**32,553**	**36,323**
TOTAL ASSETS		**42,958**	**55,092**	**66,874**
CURRENT LIABILITIES				
Trade and other payables	11	1,688	1,464	3,589
Provisions	12	432	352	244
TOTAL CURRENT LIABILITIES		**2,120**	**1,816**	**3,833**
NON-CURRENT LIABILITES				
Provisions	12	67	56	29
TOTAL NON-CURRENT LIABILITIES		**67**	**56**	**29**
TOTAL LIABILITIES		**2,187**	**1,872**	**3,862**
NET ASSETS		**40,771**	**53,220**	**63,012**
EQUITY				
Issued capital	13	209,895	209,861	209,546
Reserves	14	29,914	29,724	29,318
Accumulated losses		(199,038)	(186,365)	(175,852)
TOTAL EQUITY		**40,771**	**53,220**	**63,012**

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

Consolidated Statement of Cash Flow

FOR THE YEAR ENDED 31 DECEMBER 2013	Note	2013 $'000	2012 $'000
OPERATING ACTIVITIES			
Receipts from customers		1,466	1,956
Receipt of recoveries	(3c)	1,356	-
Receipt of government grants		3,376	27
Payments to suppliers and employees		(14,776)	(13,646)
Net cash used in operating activities	20(b)	**(8,578)**	**(11,663)**
INVESTING ACTIVITIES			
Interest received		588	1,248
Purchase of plant and equipment		(133)	(184)
Net cash from investing activities		**455**	**1,064**
FINANCING ACTIVITIES			
Proceeds from issues of shares	13	-	356
Proceeds from exercise of options	13	36	-
Costs of issue of shares	13	(2)	(41)
Net cash from financing activities		**34**	**315**
Net increase/(decrease) in cash and cash equivalents		(8,089)	(10,284)
Cash and cash equivalents at the beginning of period		16,912	27,196
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	22(a)	**8,823**	**16,912**

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

Consolidated Statement of Changes in Equity

	Issued Capital	Employee Benefits Reserve	Other Benefits Reserve	Business Combination & Foreign Currency Translation Reserve	Accumulated Losses	Total
	$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 January 2013	209,861	1,588	306	27,830	(186,365)	53,220
Profit / (loss) for the period	-	-	-	-	(12,673)	(12,673)
Other comprehensive income	-	-	-	(12)	-	(12)
Total comprehensive income for the period	-	-	-	(12)	(12,673)	(12,685)
Transactions with owners in their capacity as owners:						
Issue of share capital	36					36
Transaction costs	(2)					(2)
Employee equity settlement benefits	-	202	-	-	-	202
Share based payments	-	-	-	-	-	-
Balance at 31 December 2013	**209,895**	**1,790**	**306**	**27,818**	**(199,038)**	**40,771**
Balance at 1 January 2012	209,546	1,193	306	27,819	(175,852)	63,012
Profit / (loss) for the period	-	-	-	-	(10,513)	(10,513)
Other comprehensive income	-	-	-	11	-	11
Total comprehensive income for the period	-	-	-	11	(10,513)	(10,502)
Transactions with owners in their capacity as owners:						
Issue of share capital	356					356
Transaction costs	(41)					(41)
Employee equity settlement benefits	-	395	-	-	-	395
Share based payments	-	-	-	-	-	-
Balance at 31 December 2012	**209,861**	**1,588**	**306**	**27,830**	**(186,365)**	**53,220**

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

YEAR ENDED 31 DECEMBER 2013

1. CORPORATE INFORMATION

The consolidated financial statements of Phosphagenics Limited for the year ended 31 December 2013 was authorised for issue in accordance with a resolution of the Directors on 28 February 2014.

Phosphagenics Limited (the parent) is a for profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange ("ASX").

The nature of the operations and principal activities of the Group are described in the Directors' Report.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Table of Contents

Basis of Preparation of the financial report

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001, Australian Accounting Standards, and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

Restatement of Comparatives

Comparative amounts have been restated as a result of the correction of prior period errors as described in Note 20 and for changes in accounting policies as described in Note 21.

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

Change in Accounting Policy

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

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

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

Consequently, the Company has made a voluntary change in accounting policy to amortise its intangible assets from their acquisition date and has reflected this policy change in the financial report on a retrospective basis as required by Accounting Standards. The impact of the change in accounting policy is set out in Note 21.

(a) Compliance with IFRS

The financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

(b) New Accounting Standards and Interpretations

i) Changes in accounting policy and disclosure

With the exception of the change in accounting policy described above, the accounting policies adopted are consistent with those of the previous financial year. The Group has not adopted any new or amended Australian Accounting Standards and AASB Interpretations during the year.

(ii) Accounting Standards and Interpretations issued but not yet effective

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting period ending 31 December 2013, outlined in the table below:

Reference	Title	Summary
AASB 1053	Application of Tiers of Australian Accounting Standards	This standard establishes a differential financial reporting framework consisting of two tiers of reporting requirements for preparing general purpose financial statements: a. Tier 1: Australian Accounting Standards b. Tier 2: Australian Accounting Standards - Reduced Disclosure Requirements Tier 2 comprises the recognition, measurement and presentation requirements of Tier 1 and substantially reduced disclosures corresponding to those requirements. The following entities apply Tier 1 requirements in preparing general purpose financial statements: a. For-profit entities in the private sector that have public accountability (as defined in this standard) b. The Australian Government and State, Territory and Local governments The following entities apply either Tier 2 or Tier 1 requirements in preparing general purpose financial statements: a. For-profit private sector entities that do not have public accountability b. All not-for-profit private sector entities c. Public sector entities other than the Australian Government and State, Territory and Local governments. **Consequential amendments to other standards to implement the regime were introduced by AASB 2010-2, 2011-2, 2011-6, 2011-11, 2012-1, 2012-7 and 2012 11.**
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements [AASB 124]	This amendment deletes from AASB 124 individual key management personnel disclosure requirements for disclosing entities that are not companies. It also removes the individual KMP disclosure requirements for all disclosing entities in relation to equity holdings, loans and other related party transactions.
AASB 2012-3	Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities	AASB 2012-3 adds application guidance to AASB 132 Financial Instruments: Presentation to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.
Interpretation 21	Levies	This Interpretation confirms that a liability to pay a levy is only recognised when the activity that triggers the payment occurs. Applying the going concern assumption does not create a constructive obligation.
AASB 9	Financial Instruments	AASB 9 includes requirements for the classification and measurement of financial assets. It was further amended by AASB 2010-7 to reflect amendments to the accounting for financial liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139. The main changes are described below. a. Financial assets that are debt instruments will be classified based on (1) the objective of the entity's business model for managing the financial assets; (2) the characteristics of the contractual cash flows. b. Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income. Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument. c. Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases. d. Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows: • The change attributable to changes in credit risk are presented in other comprehensive income (OCI) • The remaining change is presented in profit or loss If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. Consequential amendments were also made to other standards as a result of AASB 9, introduced by AASB 2009-11 and superseded by AASB 2010-7 and 2010-10. The AASB issued a revised version of AASB 9 (AASB 2013-9) during December 2013. The revised standard incorporates three primary changes: 1. New hedge accounting requirements including changes to hedge effectiveness testing, treatment of hedging costs, risk components that can be hedged and disclosures; 2. Entities may elect to apply only the accounting for gains and losses from own credit risk without applying the other requirements of AASB 9 at the same time; and 3. The mandatory effective date moved to 1 January 2017.

Application date of standard	Impact on Group Financial Report	Application date for Group
1 July 2013	Phosphagenics Limited (the parent) is a company limited by shares and the shares are publically traded on the Australian Stock Exchange. Therefore the Group has public accountability and will apply the Tier 1 requirements in preparing general purpose financial statements.	1 January 2014
1 July 2013	These amendments will result in changes to disclosures in the financial statements and will have no impact on the financial performance or position of the Group.	1 January 2014
1 January 2014	The amendments may have an impact on the Group however the Group has not yet assessed the impact.	1 January 2014
1 January 2014	The amendments may have an impact on the Group however the Group has not yet assessed the impact.	1 January 2014
1 January 2017	The amendments may have an impact on the Group however the Group has not yet assessed the impact.	1 January 2017

Reference	Title	Summary
AASB 2013-3	Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets	AASB 2013-3 amends the disclosure requirements in AASB 136 Impairment of Assets. The amendments include the requirement to disclose additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposal.
AASB 2013-4	Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting [AASB 139]	AASB 2013-4 amends AASB 139 to permit the continuation of hedge accounting in specified circumstances where a derivative, which has been designated as a hedging instrument, is novated from one counterparty to a central counterparty as a consequence of laws or regulations.
AASB 2013-5	Amendments to Australian Accounting Standards – Investment Entities [AASB 1, AASB 3, AASB 7, AASB 10, AASB 12, AASB 107, AASB 112, AASB 124, AASB 127, AASB 132, AASB 134 & AASB 139]	These amendments define an investment entity and require that, with limited exceptions, an investment entity does not consolidate its subsidiaries or apply AASB 3 Business Combinations when it obtains control of another entity. These amendments require an investment entity to measure unconsolidated subsidiaries at fair value through profit or loss in its consolidated and separate financial statements. These amendments also introduce new disclosure requirements for investment entities to AASB 12 and AASB 127.
Annual Improvements 2010–2012 Cycle	Annual Improvements to IFRSs 2010–2012 Cycle	This standard sets out amendments to International Financial Reporting Standards (IFRSs) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB. The following items are addressed by this standard: • IFRS 2 - Clarifies the definition of 'vesting conditions' and 'market condition' and introduces the definition of 'performance condition' and 'service condition'. • IFRS 3 - Clarifies the classification requirements for contingent consideration in a business combination by removing all references to IAS 37. • IFRS 8 - Requires entities to disclose factors used to identify the entity's reportable segments when operating segments have been aggregated. An entity is also required to provide a reconciliation of total reportable segments' asset to the entity's assets. • IAS 16 & IAS 38 - Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts. • IAS 24 - Defines a management entity providing KMP services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of IAS 24 for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be separately disclosed.
Annual Improvements 2011–2013 Cycle	Annual Improvements to IFRSs 2011–2013 Cycle	This standard sets out amendments to International Financial Reporting Standards (IFRSs) and the related bases for conclusions and guidance made during the International Accounting Standards Board's Annual Improvements process. These amendments have not yet been adopted by the AASB. The following items are addressed by this standard: • IFRS 13 - Clarifies that the portfolio exception in paragraph 52 of IFRS 13 applies to all contracts within the scope of IAS 39 or IFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in IAS 32. • IAS 40 - Clarifies that judgment is needed to determine whether an acquisition of investment property is solely the acquisition of an investment property or whether it is the acquisition of a group of assets or a business combination in the scope of IFRS 3 that includes an investment property. That judgment is based on guidance in IFRS 3.
AASB 1031	Materiality	The revised AASB 1031 is an interim standard that cross-references to other Standards and the Framework (issued December 2013) that contain guidance on materiality. AASB 1031 will be withdrawn when references to AASB 1031 in all Standards and Interpretations have been removed.
AASB 2013-9	Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments	The Standard contains three main parts and makes amendments to a number Standards and Interpretations. Part A of AASB 2013-9 makes consequential amendments arising from the issuance of AASB CF 2013-1. Part B makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 and also makes minor editorial amendments to various other standards. Part C makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 Hedge Accounting into AASB 9 Financial Instruments.

	Application date of standard	Impact on Group Financial Report	Application date for Group
	1 January 2014	The amendments may have an impact on the Group however the Group has not yet assessed the impact.	1 January 2014
	1 January 2014	The amendments may have an impact on the Group however the Group has not yet assessed the impact.	1 January 2014
	1 January 2014	The amendments may have an impact on the Group however the Group has not yet assessed the impact.	1 January 2014
	1 July 2014	The amendments may have an impact on the Group however the Group has not yet assessed the impact.	1 January 2015
	1 July 2014	The amendments may have an impact on the Group however the Group has not yet assessed the impact.	1 January 2015
	1 January 2014	The amendments may have an impact on the Group however the Group has not yet assessed the impact.	1 January 2014
		The amendments may have an impact on the Group however the Group has not yet assessed the impact.	

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Phosphagenics Limited and its subsidiaries as at and for the year ended 31 December each year ('the Group').

Subsidiaries are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a group controls another entity.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Investments in subsidiaries held by Phosphagenics Limited are accounted for at cost in the separate financial statements of the parent entity less any impairment charges.

(d) Operating Segments

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance and for which discrete financial information is available. Management will also consider other factors in determining operating segments such as the existence of a line manager and the level of segment information presented to the board of directors.

Operating segments that meet the quantitative criteria as prescribed by AASB 8 are reported separately. However, an operating segment that does not meet the quantitative criteria is still reported separately where information about the segment would be useful to users of the financial statements.

Information about other business activities and operating segments that are below the quantitative criteria are combined and disclosed in a separate category for "all other segments".

(e) Significant accounting judgements, estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

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.

Development costs

An intangible asset arising from development expenditure on an internal project is recognised only when Phosphagenics can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Any expenditure capitalised is amortised over the period of expected future benefit from the related project on a straight line basis. The carrying value of capitalised developments costs not yet available for use is tested for impairment annually at 31 December.

Certain development costs relate to patents which have finite lives. These costs are being amortised over their remaining useful lives which ranges between 9 to 12 years.

(f) Cash and cash equivalents

Cash and short term deposits in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less, that are readily convertible to known amounts of cash and which are subject to an insignificant rate of change in value.

For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(g) Provisions and employee benefits

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects the current market assessments of the time value of money and the risks specific to the liability. The increase in the provision resulting from the passage of time is recognised in finance costs.

Employee leave benefits

Wages, salaries and annual leave.

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within twelve months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave

The liability for long service leave is recognised and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date 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 reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(h) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Income is also recognised where there is a reasonable assurance that a cash benefit will arise under the R&D tax incentive from eligible expenditure incurred during the period.

(i) Income Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses,

to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the statement of comprehensive income.

Tax consolidation legislation

Phosphagenics Limited and its wholly-owned Australian controlled entities elected to form a tax consolidation group as of 1 July 2009. As a result the tax base of intangible assets was reset such that the deferred tax liability of $13,830,498 was reversed during the year ended 31 December 2011.

The head entity, Phosphagenics Limited 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.

In addition to its own current and deferred tax amounts, Phosphagenics Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

(j) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(k) Intangible assets

Intangible assets acquired separately or in a business combination are initially measured at cost. The cost of an intangible asset acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets, excluding capitalised development costs, are not capitalised and expenditure is recognised in the statement of comprehensive income in the year in which the expenditure was incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. 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.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed each reporting period to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for as a change in an accounting estimate and is thus accounted for on a prospective basis.

Research and Development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an internal project is recognised only when Phosphagenics can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the development and the ability to measure reliably the expenditure attributable to the intangible asset during its development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure so capitalised is amortised over the period of expected benefit from the related project.

The carrying value of an intangible asset arising from development expenditure is tested for impairment annually when the asset is not yet available for use, or more frequently when an indication of impairment arises during the reporting period.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of comprehensive income when the asset is derecognised.

(l) Impairment of non-financial assets

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.

The Group conducts an annual review of asset values, which is used as a source of information to assess for any indicators of impairment. External factors, such as changes in expected future processes, technology and economic conditions, are also monitored to assess for indicators of impairment. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of an asset's fair value less costs to sell 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 that are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that have previously been impaired are tested for possible reversal of the impairment whenever events or changes in circumstances indicate that the impairment may have reversed.

(m) Investments and other financial assets

Investments and other financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are categorised as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired or originated. Designation is re-evaluated at each reporting date, but there are restrictions on reclassifying to other categories.

When financial assets are recognised initially, they are measured at fair value, plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets, principally equity securities that are designated as available-for-

sale or are not classified as any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is recognised in the statement of comprehensive income.

The fair value of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business on the reporting date.

(n) Trade and other payables

Trade payables and other payables are carried at amortised costs and are not discounted due to their short term nature. They represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are not secured and are usually paid within 30 days of recognition.

(o) Share-based payment transactions

The Group provides benefits to its employees, including Key Management Personnel (KMP), in the form of share-based payments, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions). There is currently two plans in place to provide these benefits being the Employee Share Option Plan (ESOP), and the Employee Conditional Rights Scheme (ECRS) which provides benefits to key management personnel.

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).

The charge to the statement of comprehensive income for the period is the cumulative amount as calculated above less the amounts already charged in previous periods. There is a corresponding entry to equity.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

In reporting periods where a net loss is reported, options are considered anti-dilutive and therefore are excluded in the calculation of diluted earnings per share. Where a net profit is reported, options are considered dilutive and therefore included in the calculation of diluted earnings per share.

(p) Leases

Leases where the lessor retains substantial risks and reward of ownership are classified as operating leases. Operating lease payments are recognised as an expense in the statement of comprehensive income on a straight-line basis over the lease term.

(q) Inventories

Inventories including raw materials, work in progress and finished goods are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and conditions are accounted for as follows:

Raw materials

Purchase cost on a first-in, first-out basis. The cost of purchase comprises the purchase price including, import duties and other taxes (other than those subsequently recoverable by the entity from the taxing authorities), transport, handling and other costs directly attributable to the acquisition of raw materials. Volume discounts and rebates are included in determining the cost of purchase.

Finished goods and work-in-progress

Cost of direct materials, labour and a proportion of variable and fixed manufacturing overheads based on normal operating capacity.

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

(r) Trade and other receivables

Trade receivables, which generally have thirty to sixty day terms, are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less an allowance for impairment.

Collectability of trade receivables is reviewed on an ongoing basis. Individual debts that are known to be uncollectible are written off when identified. An impairment provision is recognised when there is objective evidence that the Group will not be able to collect the receivable. Financial difficulties of the debtor, default payments or debts more than ninety days overdue are considered objective evidence of impairment. The amount of the impairment loss is the receivable carrying amount compared to the present value of estimated future cash flows, discounted at the original effective interest rate.

(s) Plant and Equipment

Plant and equipment is stated at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a diminishing value basis as follows:

Computer Equipment – 33% p.a.

Plant and equipment – 20% p.a.

Office Equipment – 20% p.a.

The assets' residual values, useful lives and amortisation methods are reviewed, and adjusted if appropriate, at each reporting period. When no future economic benefits are expected to arise from the continued use of an item of property, plant and equipment, it is derecognised. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income in the year the item is derecognised.

(t) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable taking into account contractually defined terms of payment and excluding taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods and the costs in respect of the transaction can be reliably measured. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

Royalties

Royalty revenue is recognised on an accrual basis in accordance with the substance of the relevant agreement.

Interest income

Revenue is recognised as the interest accrues (using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset) to the net carrying amount of the financial asset.

(u) Issued capital

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

(v) Foreign currency translation

Functional and presentation currency

Both the functional and presentation currency of Phosphagenics Limited and its Australian subsidiaries' is Australian dollars ($). The United States subsidiary's functional currency is United States Dollars which is translated to the presentation currency.

Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Translation of Group Companies functional currency to presentation currency

The results of the United States subsidiary are translated into Australian Dollars as at the date of each transaction. Assets and liabilities are translated at exchange rates prevailing at reporting date. Exchange variations resulting from the translation are recognised in the foreign currency translation reserve in equity.

On consolidation, exchange differences arising from the translation of the net investment in the United States subsidiary are taken to the foreign currency translation reserve. If the United States subsidiary were sold, the proportionate share of exchange differences would be transferred out of equity and recognised in the profit and loss.

(w) Earnings per share

Basic earnings per share is calculated as net profit or loss attributable to members of the parent divided by the weighted average number of ordinary shares. Where the Group generates a loss attributable to members of the parent, basic and diluted earnings per share are the same as a loss attributable to members of the parent cannot be further diluted.

3. OTHER REVENUE AND EXPENSES

	2013 $'000	2012 $'000
(a) Licenses		
Licenses - other	229	246
Total	**229**	**246**
(b) Income from Government Grants		
Export market development grant	155	27
R&D Incentive credit	2,839	2,958
Total	**2,994**	**2,985**
The R&D incentive credit is the estimated cash payment received as a 45% offset of eligible expenditure in developing the Company's products through research and development activities undertaken for the year ended 31 December 2013.		
(c) Recoveries		
Recoveries received	1,356	-
Recoveries receivable	334	-
Total	**1,690**	**-**
Recoveries are recognised where they are virtually certain. See further details at note 16.		
(d) Consulting and profession expenses		
Legal costs associated with investigation and recovery of misappropriations	(749)	-
Other consulting and professional expenses	(1,783)	(1,182)
Total	**(2,532)**	**(1,182)**
(e) Other Expenses		
Net foreign exchange gain / (loss)	(12)	21
Travel	(202)	(244)
Doubtful debts	(263)	(96)
Insurance	(193)	(210)
Obsolete stock	(370)	(100)
Other	(223)	(144)
Total	**(1,263)**	**(773)**

4. INCOME TAXES

	2013 $'000's	2012 $'000's
Major components of income tax expense are:		
Current income tax	-	-
Deferred income tax	-	-
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	**(12,673)**	**(10,513)**
Income tax expense calculated at 30% (2012: 30%)	(3,802)	(3,154)
Non-assessable income	(507)	-
Non-deductible expenses	465	473
Unused tax losses and tax offsets not recognised as deferred tax assets	3,844	2,681
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	24,226	21,845
Temporary differences not recognised	-	-
Total	**24,226**	**21,845**

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.

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	2013 Options No.	2013 WAEP $	2012 Options No.	2012 WAEP $
Outstanding at beginning of the year	9,400,000	$0.15	13,150,000	$0.17
Granted during the year	-	-	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	(250,000)	$0.13	(2,650,000)	$0.13
Expired during the year	(6,400,000)	$0.26	(1,100,000)	$0.26
Outstanding at end of the year	**2,750,000**	**$0.15**	**9,400,000**	**$0.15**
Exercisable at end of the year	2,750,000	$0.15	9,400,000	$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 2013 is represented by:

Issuing entity	Australian stock exchange listed	shares under option No.	Class of shares	Exercise price $	Expiry date
Phosphagenics Ltd	unquoted	1,000,000	Ordinary	$0.15	14 May 2014
Phosphagenics Ltd	unquoted	1,750,000	Ordinary	$0.15	17 Jun 2014
Total		**2,750,000**			

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	2013 Performance Rights No.	2013 WAEP $	2012 Performance Rights No.	2012 WAEP $
Outstanding at beginning of the year	18,100,000	-	17,400,000	-
Granted during the year	2,100,000	0.00	1,850,000	0.00
Forfeited during the year	(4,200,000)	-	(1,150,000)	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at end of the year	**16,000,000**	**0.00**	**18,100,000**	**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 2013 $162,273 was reversed as a result of forfeited unvested performance rights.

The outstanding balance as at 31 December 2013 is represented by:

Issuing entity	Australian stock exchange listed	Performance Rights No.	Class of shares	Exercise price $	Expiry date
Phosphagenics Ltd	unquoted	16,000,000	Ordinary	$0.00	30 June 2016
Total		**16,000,000**			

The expense recognised from equity settled share based performance transactions during the year is $364,072. There were no cancellations or modifications to the awards in 2013 or 2012.

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 2013 no share options were granted under the ESOP (2012: nil).

During the year ended 31 December 2013 2,100,000 share rights were granted at a fair value of $0.02 under the ECRS (2012: 1,850,000) which will vest based upon achievement of certain performance objectives. In 2012 these rights consisted of 1,650,000 share rights with a fair value of $0.14 and 200,000 share rights with a fair value of $0.09.

During the year ended 31 December 2013 no options were granted to non-employees (2012: nil).

Model Inputs	2013 Rights	2012 Rights	2012 Rights
Dividend yield %	0.00%	0.00%	0.00%
Expected volatility %	60%	60%	60%
Risk-free interest rate %	2.50%	4.00%	4.00%
Option life (years)	1.1 years	2.8 years	2.3 years
Option Exercise price $	Nil	Nil	Nil
Weighted Average Share price at measurement date	$0.11	$0.24	$0.16

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 is Ernst & Young.

Amounts received or due and receivable by Ernst & Young	2013 $	2012 $
Audit or review of the financial report	83,185	84,935
Other non-audit services	-	1,740
Taxation services	35,027	50,500
Total	**118,212**	**137,175**

7. TRADE AND OTHER RECEIVABLES

Current	31 December 2013 $'000	31 December 2012 Restated $'000	1 January 2012 Restated $'000
Trade receivables	589	485	644
Allowance for impairment loss	(262)	(100)	(8)
	327	385	636
R&D tax incentive credit receivable	3,499	3,881	923
Recoveries receivable	334	-	-
Other receivables[1]	261	289	609
Total	**4,421**	**4,555**	**2,168**

[1] In Other receivables an amount of $139,624, representing accrued royalties receivable, has been reclassified from Other current assets in 2012.

The restatement of amounts in R&D tax incentive credit receivable includes a prior period adjustment of $208,480 at 1 January 2012 and $578,316 at 31 December 2012. These amounts have been restated for the prior period error described in note 20.

Trade receivables are non-interest bearing and are generally 45 day terms or as specified in contracts or agreements.

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 $262,299 (2012: $100,104) were deemed impaired at 31 December 2013. A debt of $100,104 was written-off during the year as it was deemed non-recoverable (2012: nil).

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

		Neither past due or impaired	Past due but not impaired		
Period	Total $'000		31-60 days $'000	61-90 days $'000	90+ days $'000
31 December 2013	327	75	18	206	28
31 December 2012	385	61	203	32	89

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

	2013 $'000	2012 $'000
Raw materials (at cost or net realisable value)	375	593
Finished goods (at cost or net realisable value)	324	261
Total inventories at the lower of cost and net realisable value	**699**	**854**

During 2013, $369,580 (2012: $104,300) 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.

9. PLANT AND EQUIPMENT

Year ended 31 December 2013	Plant and equipment at cost $'000	Total $'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

Year ended 31 December 2012	Plant and equipment at cost $'000	Total $'000
At 1 January 2012 net of accumulated depreciation and impairment	1,161	1,161
Additions	139	139
Disposals	-	-
Depreciation charge for the year	(266)	(266)
At 31 December 2012, net of accumulated depreciation and impairment	1,034	1,034
At 31 December 2012		
Cost	2,830	2,830
Accumulated depreciation and impairment	(1,796)	(1,796)
Net carrying value	1,034	1,034

10. INTANGIBLE ASSETS

Year ended 31 December 2013	Intellectual Property $'000	Development Costs $'000	Total $'000
At 1 January 2012 net of accumulated amortisation and impairment	30,183	1,336	31,519
Additions internally developed	-	-	-
Provision for impairment	-	-	-
Amortisation	(3,576)	(66)	(3,642)
At 31 December 2013, net of accumulated amortisation and impairment	26,607	1,270	27,877
At 31 December 2013			
Cost (gross carrying amount)	121,362	3,295	124,657
Accumulated amortisation and impairment	(94,755)	(2,025)	(96,780)
Net carrying amount	26,607	1,270	27,877

Year ended 31 December 2012	Intellectual Property $'000	Development Costs $'000	Total $'000
At 1 January 2012 net of accumulated amortisation and impairment	43,255	1,402	44,657
Adjustment to accumulated amortisation to periods ending 31 December 2011 due to changes in accounting policies per note 21	(9,495)	-	(9,495)
Restated opening balance at 1 January 2012 net of accumulated amortisation and impairment	33,760	1,402	35,162
Additions internally developed	-	-	-
Provision for impairment	-	-	-
Amortisation	(4,621)	(66)	(4,687)
Adjustment to amortisation due to changes in accounting policies per note 21	1,044	-	1,044
Restated amortisation	(3,577)	(66)	(3,643)
Restated at 31 December 2012, net of accumulated amortisation and impairment	30,183	1,336	31,519
Restated at 31 December 2012			
Cost (gross carrying amount)	121,362	3,295	124,657
Accumulated amortisation and impairment	(91,179)	(1,959)	(93,138)
Net carrying amount	30,183	1,336	31,519

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.

Development costs

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

Capitalised development costs relating to patents are amortised from the date significant revenues are carried over the remaining patent life.

Development expenditure is tested for impairment annually, when the asset is not yet available for use, or more frequently when an indication of impairment arises during the reporting period. At 31 December 2013 zero development costs were impaired and recognised as an expense (2012: Nil).

11. CURRENT TRADE AND OTHER PAYABLES

	31 December 2013 $'000	31 December 2012 Restated $'000	1 January 2012 Restated $'000
Trade payables	311	549	1,977
Accrued expenses	810	341	1,123
Goods and services tax (GST) payable	469	384	260
Other payables	98	190	209
Total	**1,688**	**1,464**	**3,589**

The restatement of amounts in GST payable and Accrued expenses includes prior year adjustments of $363,595 at 31 December 2012 and $231,231 at 1 January 2012. These amounts have been restated for the prior period error described in note 20.

An amount of $190,621 was reclassified from accrued expenses to other payables in 2012. An amount of $37,861 was reclassified from accrued expenses to trade payables in 2012. 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

	2013 $'000	2012 $'000
Current		
Annual leave benefits	262	247
Long service leave benefits	170	105
Total Current	**432**	**352**
Non-Current		
Long service leave benefits	67	56
Total Non-Current	**67**	**56**

13. ISSUED CAPITAL

Fully paid ordinary shares	2013 No. '000's	2013 $'000	2012 No. '000's	2012 $'000
Balance at beginning of year	1,020,215	209,861	1,017,565	209,546
Issue of shares	-	-	-	-
Exercise of options	250	36	2,650	356
Capital raising costs	-	(2)	-	(41)
Balance at end of year	1,020,465	209,895	1,020,215	209,861

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 2013 there were a total of 2,750,000 unexercised unquoted options issued as share based payments, of which 2,750,000 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 2013 there were a total of 16,000,000 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.

14. RESERVES

	2013 $'000	2012 $'000
Reserves		
Business combination	27,812	27,812
Employee equity-settled benefits	1,790	1,588
Other equity-settled benefits	306	306
Foreign Currency Translation Reserve	6	18
	29,914	29,724
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	1,588	1,193
Share based payment expense	202	395
Balance at end of year	1,790	1,588
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	18	7
Foreign Currency Translation	(12)	11
Balance at end of year	6	18
The foreign currency translation reserve is used to record the translation from Phosphagenics Inc.'s functional currency into Phosphagenics Ltd's reporting currency.		

15. EARNINGS PER SHARE

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.

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).

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.

Profit / (loss) used in calculating earnings per share	**2013 $'000's**	**2012 $'000's**
Net Profit / (loss) from continuing operations attributable to ordinary equity holders for the calculation of basic and diluted earnings per share	(12,673)	(10,513)

Weighted average number of shares	**2013 No. '000's**	**2012 No. '000's**
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,020,402	1,019,318
Effect of dilution:		
Share options	4,948	10,773
Performance rights	16,937	18,535
Weighted average number of ordinary shares adjusted for the effect of dilution	1,042,287	1,048,626

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

Lease Commitments

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

Non-cancellable operating lease payments	**2013 $'000's**	**2012 $'000's**
Within 1 year	54	176
After 1 year but not more than 5 years	-	142
After more than 5 years	-	-
Total minimum lease payments	-	318

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 $1,050,620 had been repaid. A further amount of $26,826 has been recognised in other income for share sales in January 2014. The expected net proceeds of $1,290,000 from the sale of Dr Ogru's principal place of residence to her father, Sabah Ogru, has not been recognised in other income as the settlement was not held to be virtually certain. The property is due for settlement in March 2014 and income will be recognised on transfer of funds. 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 all real property.

On 7 November 2013 the Company entered into a Deed of Settlement with an unnamed third party, 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 $305,913 had been repaid by these parties. The Company holds a first ranking mortgage over the parties' principal place of residence due for sale by late March 2014. The Company expects to receive in excess of $750,000, but due to the uncertainty regarding the property's valuation the recovery has not been recognised in income. 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. Due to the uncertainty of proceedings no recoveries have been recognised. The Company is the largest creditor and is actively pursuing its claims.

On 20 December 2013 Phosphagenics entered into an agreement with its former CEO, Dr Ogru, its former employee, Dr Gianello and the shareholders of a German company, which had previously sold its Intellectual Property to a US company. The German company is entitled to payments from the US company upon certain milestones being met. Phosphagenics will be entitled to a share of these milestone payments should they eventuate. On 12 February 2014 the Company received Dr Ogru's share of a milestone payment made in July 2013. An amount of $260,706 has been recognised in income. Future receipts are dependent upon the US company achieving development milestones, which are uncertain, and therefore no future benefits have been recognised in the accounts. Should the US company achieve its next two development milestones, for each milestone the Company would receive approximately $250,000 with respect to Dr Ogru's share.

Dr Gianello's share, which is the same as Dr Ogru's, will be paid to a law firm trust account and be included in any bankruptcy considerations.

17. SEGMENT INFORMATION

Identification of reportable segments

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

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

The Animal Health segment did not meet materiality levels and has been included within the Unallocated segment.

Types of products and services

Skin Care

Skin Care is the use of TP in a range of products to improve the appearance of skin. Discovery research at Phosphagenics has shown that α-tocopheryl phosphate (TP) is a natural molecule with increased activity over standard Vitamin E (α tocopherol). TP has scientifically proven anti-inflammatory properties, it reduces redness, protects against UV induced photo damage, and also helps to heal and prevent acne. The structure

of TP allows it to act as a penetration enhancer, increasing dermal absorption compared to tocopherol acetate and α-tocopherol, allowing it to penetrate deeper into the skin for increased action. TPM® is also able to increase the penetration of molecules formulated in the same cream.

Phosphagenics has commercialised a range of skin care products under the brand name BioElixia®, within two categories: high performance skin care and BodyShaper products. In Australia these products are sold on-line, through home shopping channel TVSN, at major department stores, David Jones and Myer, as well as Priceline and other pharmacy chains.

The Company is conducting research into dermalogical products and is currently in 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.

Accounting policies and inter-segment transactions

Accounting policies used by the Group in reporting segments are contained in note 2 to the accounts.

Major customers

The Group has a number of customers to which it provides products and services. The most significant customer accounts for 17% (2012: 47%) of external sales and royalties revenue within the skin care operating segment. The next most significant client accounts for 16% (2012: 16%) of external revenue also within the skin care operating segment.

Business Segments

2013	Skin Care $'000's	Pain Portfolio $'000's	Total all Segments $'000s	Unallocated $'000's	Total Group $'000's
Sales and Royalties	1,503	87	1,590	15	1,605
Total segment revenue	**1,503**	**87**	**1,590**	**15**	**1,605**
Net operating profit/(loss) after tax	**(1,869)**	**(3,586)**	**(5,455)**	**(7,218)**	**(12,673)**
Interest revenue	-	-	-	553	553
Income from government grants	-	-	-	2,994	2,994
Depreciation and amortisation	(142)	-	(142)	(3,741)	(3,883)
Segment assets	**1,856**	**-**	**1,856**	**41,102**	**42,958**
Capital Expenditure	-	-	-	(133)	(133)
Segment liabilities	**-**	**-**	**-**	**2,187**	**2,187**
Cash flow information					
Net cash flow from Operating activities	(1,195)	(3,687)	(4,882)	(3,696)	(8,578)
Net cash flow from investing activities	-	-	-	455	455
Net cash flow from financing activities	-	-	-	34	34

2012	Skin Care $'000's	Pain Portfolio $'000's	Total all Segments $'000s	Unallocated $'000's	Total Group $'000's
Sales and Royalties	1,530	-	1,530	-	1,530
Total segment revenue	**1,530**	**-**	**1,530**	**-**	**1,530**
Net operating profit/(loss) after tax	**(957)**	**(793)**	**(1,753)**	**(9,302)**	**(11,055)**
Interest revenue	-	-	-	1,133	1,133
Income from government grants	-	-	-	2,985	2,985
Depreciation and amortisation	(178)	-	(178)	(4,774)	(4,952)
Segment assets	**2,017**	**-**	**2,017**	**53,075**	**55,092**
Capital Expenditure	-	-	-	116	139
Segment liabilities	**-**	**-**	**-**	**1,872**	**1,872**
Cash flow information					
Net cash flow from Operating activities	(1,136)	(793)	(1,929)	(9,739)	(11,668)
Net cash flow from investing activities	-	-	-	1,028	1,028
Net cash flow from financing activities	-	-	-	356	356

i) Segment revenue reconciliation to the statement of comprehensive income

Reconciliation of revenue	2013 $'000	2012 $'000
Total segment revenue	1,590	1,530
Other revenue from continuing activities	568	1,133
Total revenue	2,158	2,663

Revenue from external customers by geographical locations is detailed below. Revenue is attributed to geographic location based on the location of the customers.

Revenue by geographical location	2013 $'000	2012 $'000
Australia	1,726	1,896
Germany	205	-
Switzerland	-	515
United States	227	207
Other	-	45
Total revenue	2,158	2,663

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

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

Reconciliation of segment net operating profit after tax to net profit/ loss before tax	2013 $'000	2012 $'000
Segment net operating profit/(loss) after tax	(5,455)	(1,753)
R&D Incentive credit	2,839	2,958
Salaries and employee benefits expense	(4,849)	(4,607)
Amortisation and depreciation	(3,741)	(3,730)
Other operating loss from continuing activities	(1,467)	(3,381)
Total net profit before tax per the statement of comprehensive income	(12,673)	(10,513)

iii) Segment assets reconciliation to the statement of financial position

In assessing the segment performance on a monthly basis, the executive management committee analyses the segment as described above and its relation to the segment assets. Segment assets are those operating assets of the entity that the management committee views as directly attributing to the performance of the segment. These assets include plant and equipment, receivables and inventory.

Reconciliation of segment operating assets to total assets	2013 $'000	2012 $'000
Segment operating assets	1,856	2,017
Other operating assets from continuing activities		
Intangibles	27,877	31,519
Cash & cash equivalents	8,823	16,912
All other operating assets from continuing activities	4,402	4,644
Total assets per the statement of financial position	42,958	55,092

The analysis of the location of non-current assets is as follows:

Non-current assets by geographical location		
Australia	28,801	32,551
United States	2	2
Total assets	28,803	32,553

iv) Segment liabilities reconciliation to the statement of financial position

Segment liabilities include trade and other payables and debt. The Group has a centralised finance function that is responsible for raising debt and capital for the entire operations. Each entity or business uses this central function to invest excess cash or obtain funding for its operations.

Reconciliation of segment operating liabilities to total liabilities		
Segment operating liabilities	-	-
Deferred tax liabilities	-	-
Other operating liabilities from continuing activities	2,187	1,872
Total liabilities per the statement of financial position	2,187	1,872

18. RELATED PARTY DISCLOSURE

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

Entity	Country of Incorporation	2013 Equity Interest	2012 Equity Interest	2013 Investment $'000	2012 Investment $'000
Vital Health Sciences Pty Ltd	Australia	100%	100%	27,111	27,111
Preform Technologies Pty Ltd	Australia	100%	100%	-	-
Adoil Pty Ltd	Australia	100%	100%	-	-
Phosphagenics Inc.	USA	100%	100%	-	-
Equine Ergogenics Australia Pty Ltd	Australia	0%	50%	-	-

Phosphagenics sold its share in Equine Ergogenics Australia Pty Ltd for $1 as at 31 December 2013 and entered into a royalty arrangement, including minimum royalties payable, from 1 January 2014.

Other transactions with Key Management Personnel

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 $9,182 (2012: $31,542) during the year. These services were provided on normal commercial terms.

Performance Rights Holdings of Key Management Personnel

2013	1 Jan 13 Balance No.	Award date	Performance Rights awarded during the year No.	Fair value per performance right at award date No.	31 Dec 13 Balance No.	Not Vested No.	% of Remuneration consisting of Performance rights
Non-Executive Directors							
Addison, J.L	750,000	1-May 2011	-	$0.07	750,000	750,000	18.9%
Clarke, D	350,000	1-May 2011	-	$0.07	350,000	350,000	13.5%
James, S	350,000	1-May 2011	-	$0.07	350,000	350,000	13.7%
Webb, S	350,000	1-May 2011	-	$0.07	350,000	350,000	13.5%
Executive Directors							
Rosen, H	2,000,000	1-May 2011	-	$0.07	2,000,000	2,000,000	8.2%
Ogru, E[1]	2,000,000	1-May 2011	(2,000,000)	-	-	-	-
Key Management Personnel							
Alsop, H[2]	750,000	21-Mar-2012	(750,000)	$0.14	-	-	-
Arnott, A[3]	200,000	3-Oct-2011	(200,000)	$0.07	-	-	-
Butala, D	1,000,000	3-Oct-2011	-	$0.07	1,000,000	1,000,000	11.3%
El-Tamimy, M	1,000,000	3-Oct-2011	-	$0.07	1,000,000	1,000,000	12.0%
Gavin, P	1,000,000	3-Oct-2011	-	$0.07	1,000,000	1,000,000	10.5%
Legg, A	-	20-Dec-2013	700,000	$0.02	700,000	700,000	0.7%
Moses, G	-	20-Dec-2013	500,000	$0.02	700,000	700,000	0.5%
Rosen, J	700,000	21-Mar-2012	-	$0.14	700,000	700,000	14.2%
Total	**10,450,000**		**(1,750,000)**	**-**	**8,700,000**	**8,700,000**	

[1] E Ogru resigned on 18 July 2013.

[2] H Alsop resigned on 8 March 2013.

[3] A Arnott was no longer considered a key management personnel as at 22 January 2013 when A Legg commenced as CFO.

All performance rights granted to key management personnel have been issued in accordance with the provisions of the Employee Conditional Rights Scheme (ECRS).

Option Holdings of Key Management Personnel

2013	1 Jan 13 Balance No.	Award Date	Fair value per option at award Date	Exercise Price	Expiry Date	Expired No.	31 Dec 13 Balance No.	Vested No.
Non-Executive Directors								
Addison, J.L	-	-	-	-	-	-	-	-
Clarke, D	-	-	-	-	-	-	-	-
James, S	2,400,000	-	-	0.14	31-Mar-13	(2,400,000)	-	-
Webb, S	-	-	-	-	-	-	-	-
Executive Directors								
Rosen, H	-	-	-	-	-	-	-	-
Ogru, E	-	-	-	-	-	-	-	-
Key Management Personnel								
Alsop, H	-	-	-	-	-	-	-	-
Butala, D	250,000	18-Jun-09	$0.095	0.15	17-Jun-14	-	250,000	250,000
El-Tamimy, M	250,000	18-Aug-08	$0.053	0.15	17-Aug-13	(250,000)	-	-
	200,000	18-Jun-09	$0.095	0.15	17-Jun-14	-	200,000	200,000
Gavin, P	100,000	18-Aug-08	$0.053	0.15	17-Aug-13	(100,000)	-	-
	300,000	18-Jun-09	$0.095	0.15	17-Jun-14	-	300,000	300,000
Kinrade, S	-	-	-	-	-	-	-	-
Legg, A	-	-	-	-	-	-	-	-
Moses, G	-	-	-	-	-	-	-	-
Rosen, J	-	-	-	-	-	-	-	-
Totals	**3,500,000**	**-**	**-**	**-**	**-**	**(2,750,000)**	**750,000**	**750,000**

2012	1 Jan 12 Balance No.	Award Date	Fair value per option at award Date	Exercise Price	Expiry Date	Expired No.	31 Dec 12 Balance No.	Vested No.
Non-Executive Directors								
Addison, J.L	-	-	-	-	-	-	-	-
Clarke, D	-	-	-	-	-	-	-	-
James, S	2,400,000	-	-	0.14	31-Mar-13	-	2,400,000	2,400,000
Webb, S	-	-	-	-	-	-	-	-
Executive Directors								
Rosen, H	-	-	-	-	-	-	-	-
Ogru, E	-	-	-	-	-	-	-	-
Key Management Personnel								
Alsop, H	-	-	-	-	-	-	-	-
Gavin, P	100,000	18-Aug-08	$0.053	0.15	17-Aug-13	-	100,000	100,000
	300,000	18-Jun-09	$0.095	0.15	17-Jun-14	-	300,000	300,000
Arnott, A	-	-	-	-	-	-	-	-
Butala, D	250,000	18-Jun-09	$0.095	0.15	17-Jun-14	-	250,000	250,000
El-Tamimy, M	250,000	18-Aug-08	$0.053	0.15	17-Aug-13	-	250,000	250,000
	200,000	18-Jun-09	$0.095	0.15	17-Jun-14	-	200,000	200,000
Rosen, J	-	-	-	-	-	-	-	-
Kyriakou, K[1]	-	-	-	-	-	-	-	-
Moses, G	-	-	-	-	-	-	-	-
Totals	**3,500,000**	**-**	**-**	**-**	**-**	**-**	**3,500,000**	**3,500,000**

[1] K Kyriakou is no longer a key management personnel due to her resignation on 7 August 2012.

Shareholdings of Key Management Personnel

2013	1 Jan 13 Balance No.	Granted as remuneration No.	Net other change No.	31 Dec 13 Balance No.
Non-Executive Directors				
Addison, J.L	22,473	-	-	22,473
Clarke, D	35,484	-	-	35,484
James, S	-	-	-	-
Webb, S	111,000	-	-	111,000
Executive Directors				
Rosen, H	64,226,436	-	-	64,226,436
Ogru, E[1]	5,711,610	-	(5,711,610)	-
Key Management Personnel				
Alsop, H	-	-	-	-
Butala, D	-	-	-	-
El-Tamimy, M	-	-	-	-
Gavin, P	99,000	-	-	99,000
Kinrade, S	-	-	-	-
Legg, A	-	-	-	-
Rosen, J	2,000,068	-	-	2,000,068
Moses, G	-	-	-	-
Total	**72,206,071**	**-**	**(5,711,610)**	**66,494,461**

[1] E Ogru resigned on 18 July 2013

2012	1 Jan 12 Balance No.	Granted as remuneration No.	Net other change No.	31 Dec 12 Balance No.
Non-Executive Directors				
Addison, J.L	22,473	-	-	22,473
Clarke, D	35,484	-	-	35,484
James, S	-	-	-	-
Webb, S	111,000	-	-	111,000
Executive Directors				
Rosen, H	64,226,436	-	-	64,226,436
Ogru, E	5,711,610	-	-	5,711,610
Key Management Personnel				
Alsop, H	-	-	-	-
Gavin, P	99,000	-	-	99,000
Arnott, A	-	-	-	-
Butala, D	-	-	-	-
El-Tamimy, M	-	-	-	-
Rosen, J	2,000,068	-	-	2,000,068
Kyriakou, K	-	-	-	-
Moses, G	-	-	-	-
Totals	**72,206,071**	**-**	**-**	**72,206,071**

Transactions with other related parties

During the year, Vital Health Sciences Pty Ltd borrowed $137,326 (2012: repaid $149,604) and Phosphagenics Inc. repaid $110,760 (2012: borrowed $370,063) from Phosphagenics Ltd (the parent entity). The loan is non-trading in nature.

Phosphagenics Inc. has insufficient net assets to repay the inter-company loan balance to Phosphagenics Ltd (the parent entity). At 31 December 2012 Phosphagenics Ltd recognised a writeback in the impairment of $110,760 (2012: provision $426,730) against the inter-company loan with Phosphagenics Inc.

No amounts were provided for doubtful debts relating to debts due from related parties at reporting date (2012: Nil).

19. 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 ear, 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.

20. PRIOR PERIOD ERRORS

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

- R&D Incentive amounts received of $578,000 and recorded as Other income for the periods up to 31 December 2012 have been overstated on a cumulative basis; and
- GST of approximately $363,595 relating to periods up to 31 December 2012 has been incorrectly claimed on fraudulent invoices where there was no supply of goods or services and may be subject to recovery by the Australian Taxation Office.
- These amounts include an estimate of probable interest charges.

Line item affected by error:

Consolidated Statement of Financial Position	**1 January 2012 $'000**	**31 December 2012 $'000**
Trade and other receivables	Decrease 208	Decrease 578
Trade and other payables	Increase 231	Increase 363
Accumulated losses	Increase 439	Increase 941

Consolidated Statement of Comprehensive Income	**Year ended 31 December 2012 $'000**
Income from government grants	Decrease 370
Costs under investigation	Increase 132
Loss after income tax	Increase 502
Total comprehensive loss for period	Increase 502
Basic profit /(loss) per share	(0.05) cents
Diluted profit/(loss) per share	(0.05) cents

Misappropriations of approximately $1,105,000 (excluding GST) have been identified in research expenses in the prior year to 31 December 2012 and have been reallocated to Costs under investigation expense line in the comparative statement of comprehensive income.

Incorrectly claimed GST in relation to the year ended 31 December 2012 was also included in the Costs under investigation line in the Statement of Comprehensive Income. In the Half Year Financial Report for the period ended 30 June 2103 the Company first restated its comparatives for the effect of the errors described. Since that time the Company has further refined its calculation of the incorrectly claimed GST which has resulted in the amount of the restatement at 1 January 2012 and 31 December 2012 being revised.

21. CHANGES IN ACCOUNTING POLICY

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

Line item affected by the change in accounting policy:

Consolidated Statement of Financial Position	**1 January 2012 $'000**	**31 December 2012 $'000**
Intangibles	Decrease 9,495	Decrease 8,451
Accumulated losses	Increase 9,495	Increase 8,451
Consolidated Statement of Comprehensive Income		
Amortisation of intangible assets		Decrease 1,044
Loss after income tax		Decrease 1,044
Total comprehensive loss for period		Decrease 1,044
Basic profit/(loss) per share		0.10 cents
Diluted profit/(loss) per share		0.10 cents

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:

	2013 $'000	**2012 $'000**
Cash at Bank	1,637	1,254
Short Term Deposits	7,186	15,658
	8,823	16,912

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

Net Profit / (loss) after tax	(12,673)	(10,513)
Adjustments for:		
Depreciation, disposal and amortisation of non-current assets	3,883	3,909
Share based payment expense (ECRS)	202	395
Other share based payments	-	-
Foreign currency translation reserve	(12)	-
Interest received	(589)	(1,248)
Changes in assets and liabilities:		
(Increase)/ decrease in trade receivables and other receivables	134	(2,247)
(Increase)/decrease in inventories	155	110
(Increase)/decrease in other current assets	6	(83)
(Decrease)/increase in trade payables and other payables	224	(2,121)
(Decrease)/increase in provisions	91	135
Net cash (used in) operating activities	(8,578)	(11,663)

23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise of cash and short-term deposits. Various financial instruments such as trade receivables and trade payables arise directly from operations. The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates.

The Group does not enter into, or trade, financial instruments including derivative financial instruments, for speculative purposes and manages its exposure to key financial risks, including interest rate and currency risk in accordance with the principals of prudent financial management. The objective of this is to support the delivery of the Group's financial targets whilst protecting future financial security.

Primary responsibility for identification and control of financial risks rests with the Audit Committee under the authority of the Board. The Board reviews and agrees policies for managing each of the risks including foreign exchange risk, interest rate risk and future cash flow forecast projections.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2 to the financial statements.

(a) Risk exposures and responses

Interest rate risk

The consolidated entity is only exposed to interest rate risk relating to cash at bank as it has no borrowings. At reporting date the Group has the following financial assets (no financial liabilities at 31 December 2013 or 31 December 2012) exposed to Australian Variable Interest Rates:

	2013 $'000	2012 $'000
Financial Assets		
Cash and cash equivalents	8,823	16,912

The following sensitivity analysis is based on the interest rate risk exposures in existence at 31 December 2012. If interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax loss and equity would have been affected as follows:

	Post Tax Loss Higher/(Lower)		Equity Higher/(Lower)	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Judgements of reasonably possible movements:				
+ 1% (100 basis points)	88	169	-	-
-.5% (50 basis points)	(44)	(85)	-	-

The movements in profit are due to higher/lower interest income from variable rate term deposits and cash balances. There is no equity movement as there are no financial assets or financial liabilities which are designated as cash flow hedges. The sensitivity is lower in 2013 in comparison to 2012 due to the lower cash and cash equivalents balance.

Foreign Currency Risk

The Group has transactional currency exposures principally due to its operations in the United States. Such exposure arises from sales or purchases by an operating unit in currencies, principally US dollars, other than the Groups presentation currency.

Approximately 45% of sales and royalties (2012: 44%) are denominated in currencies other than the presentation currency of the Group (Australian dollars), whilst approximately 76% (2012: 89%) of costs are denominated in the Groups presentation currency. At 31 December 2013 the Group had the following exposure to US dollar foreign currency not designated in cash flow hedges:

	2013 $'000	2012 $'000
Financial Assets		
Cash and cash equivalents	25	139
Trade and other receivables	205	277
	230	416
Financial Liabilities		
Trade and other payables	(420)	(396)
Net Exposure	**(190)**	**20**

(b) Risk exposures and responses

At 31 December 2013, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and equity would have been affected as follows:

	Post Tax Loss Higher/(Lower)		Equity Higher/(Lower)	
	2013 $'000	2012 $'000	2013 $'000	2012 $'000
Judgements of reasonably possible movements:				
Consolidated				
AUD/USD +10%	23	14	-	-
AUD/USD -5%	(11)	(7)	-	-

Credit risk management

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 obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults.

Group exposure to, and the credit ratings of, 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:

Year Ended 31 December 2013	≤ 6 Months $'000	6-12 Months $'000	1-5 Years $'000	>5 Years $'000	Total $'000
Liquid financial assets					
Cash and cash equivalents	8,823	-	-	-	8,823
Trade and other receivables	3,057	1,364	-	-	4,421
	11,880	1,364	-	-	13,244
Financial liabilities					
Trade and other payables	(1,467)		-	-	(1,467)
	(1,467)		-	-	(1,467)
Net inflow/(outflow)	**10,413**	**1,364**	**-**	**-**	**11,777**

(c) Risk exposures and responses

Liquidity risk management

Liquidity risk arises from the financial liabilities of the group and the group's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due. The Group continuously monitors cash flows and matches the maturity profiles of financial assets and liabilities.

Year Ended 31 December 2013	≤ 6 Months $'000	6-12 Months $'000	1-5 Years $'000	>5 Years $'000	Total $'000
Liquid financial assets					
Cash and cash equivalents	8,823	-	-	-	8,823
Trade and other receivables	3,057	1,364	-	-	4,421
	11,880	1,364	-	-	13,244
Financial liabilities					
Trade and other payables	(1,467)	(221)	-	-	(1,688)
	(1,467)	(221)	-	-	(1,688)
Net inflow/(outflow)	**10,413**	**1,143**	**-**	**-**	**11,556**

Year Ended 31 December 2012	≤ 6 Months $'000	6-12 Months $'000	1-5 Years $'000	>5 Years $'000	Total $'000
Liquid financial assets					
Cash and cash equivalents	16,912	-	-	-	16,912
Trade and other receivables	3,875	-	680	-	4,555
	20,787	-	680	-	21,467
Financial liabilities					
Trade and other payables	(1,101)	-	(363)	-	(1,688)
	(1,101)	-	(363)	-	(1,688)
Net inflow/(outflow)	**19,686**	**-**	**317**	**-**	**20,003**

Fair Value

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

Capital Management

Management's objective is to ensure the entity continues as a going concern with the ability to fund future research and development requirements and commercialise the Groups products. Management also aim to maintain a capital structure that ensures the lowest cost of capital available and deliver optimal long term returns to shareholders.

24. INFORMATION RELATING TO PHOSPHAGENICS LIMITED ('THE PARENT ENTITY')

	31 December 2013 $'000	31 December 2012 Restated $'000	1 January 2012 Restated $'000
Current assets	13,705	22,133	29,887
Total assets	67,580	75,941	83,808
Current liabilities	2,090	1,732	3,556
Total liabilities	2,146	1,788	3,585
Contributed equity	209,895	209,861	209,546
Accumulated losses	(146,526)	(137,660)	(130,822)
Employee equity benefits reserve	1,790	1,586	1,192
Foreign Currency Translation Reserve	(31)	-	-
Other equity-settled benefits reserve	306	306	307
Total shareholder's equity	64,434	74,093	80,223
Loss of the parent entity	(8,866)	(6,842)	(10,392)
Total comprehensive income of the parent entity	(8,866)	(6,842)	(10,392)
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 accordance with a resolution of the Directors of Phosphagenics Limited, I state that:

1. In the opinion of the directors:

   (a) The financial statements and notes of Phosphagenics Limited for the financial year ended 31 December 2013 are in accordance with the Corporations Act 2001, including:

      (i) Giving a true and fair view of the consolidated entity's financial position as at 31 December 2013 and performance for the year ended on that date; and

      (ii) Complying with Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001;

   (b) The financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 2(a); and

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

2. This declaration has been made after receiving the declarations required to be made to the Directors by the Chief Executive Officer and Chief Financial Officer in accordance with section 295A of the Corporations Act 2001 for the financial year ended 31 December 2013.

On behalf of the Board

Jonathan Lancelot Addison
Chairman

28 February 2014
Melbourne

Independent Auditor's Report

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Building a better working world

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, which comprises the consolidated statement of financial position as at 31 December 2013, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2 (a), 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 about 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 judgment, 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 controls relevant to the 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 controls. 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*. We have given to the directors of the company a written Auditor's Independence Declaration.

Independent Auditor's Report

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 2013 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2 (a).

Report on the remuneration report

We have audited the Remuneration Report included in pages 7 to 14 of the directors' report for the year ended 31 December 2013. 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.

Opinion

In our opinion, the Remuneration Report of Phosphagenics Limited for the year ended 31 December 2013, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

David Petersen
Partner
Melbourne
28 February 2014

Additional Shareholder Information

Additional Shareholder Information-ASX Listing Rule 4.10. as at 15 March 2014

SHARES :

Twenty Largest Holdings : Ordinary Fully Paid Shares.	As at 15/03/14	% Issued Shares	Ranking
CITICORP NOMINEES PTY LIMITED	125,824,051	12.33	1
NATIONAL NOMINEES LIMITED	79,026,820	7.74	2
J P MORGAN NOMINEES AUSTRALIA LIMITED	63,853,631	6.26	3
PAROHA NOMINEES PTY LTD	61,167,143	5.99	4
JOGRA NOMINEES PTY LTD	44,377,714	4.35	5
MR ROSS COPELAND + MRS GINA COPELAND	42,282,190	4.14	6
MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED	35,442,384	3.47	7
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	18,252,661	1.79	8
ZAHAVETTE PTY LTD	13,737,372	1.35	9
MR ROSS GRAHAM COPELAND + MRS GINA COPELAND <PUBLICITY PRESS S/F A/C>	10,913,586	1.07	10
SUPERDES PTY LTD <SUPERDES SUPER FUND A/C>	9,300,000	0.91	11
MR JEFFREY MARKOFF <MARKOFF SUPER ST5 A/C>	7,365,575	0.72	12
MR DAVID SEGAL	6,663,666	0.65	13
JP MORGAN NOMINEES AUSTRALIA LIMITED <CASH INCOME A/C>	6,600,611	0.65	14
PARADYCE PTY LTD	6,172,552	0.60	15
BNP PARIBAS NOMS PTY LTD <DRP>	5,660,000	0.55	16
DECOLAND HOLDINGS PTY LTD	5,500,000	0.54	17
DALSEY PTY LTD <THE DALSEY SUPER A/C>	5,200,000	0.51	18
MRS DANIELLE SEGAL	5,140,000	0.50	19
ERNEST SZOKE	5,084,270	0.50	20
Sub-Total - Top 20 Holders	**557,564,226**	**54.64**	
- Other Holders	462,901,731	45.36	
TOTAL ISSUED SHARES	**1,020,465,957**	**100.00**	

VOTING RIGHTS

Shares : One vote per share.

RANGE OF SHAREHOLDERS			15/04/13
Range	**Holders**	**Units**	**%**
1-1000	477	119,950	0.01
1001-5000	1,091	3,453,286	0.34
5001-10000	935	7,554,542	0.74
10001-100000	2,730	104,834,337	10.27
100001-OVER	915	904,503,842	88.64
	6,148	**1,020,465,957**	**100.00**

MARKETABLE PARCELS - SHARES

Holdings that are less than a marketable parcel of the Company's ordinary fully paid shares as at 15 March 2014 at a closing price of A$0.105 a share, consisted of a total of 1,383 holders each holding a parcel of less than 4,762 shares and covering an aggregate of 2,651,065 shares.

BUY-BACK

The Company has not undertaken any share buy-back plans during or since the year ended 31 December 2013

SUBSTANTIAL SHAREHOLDINGS

The following Substantial Shareholdings('SSH') have been declared to the Company :

Holder of relevant interest	Entitlement to No. securities	Date of SSH Notice	Form No.
Orbis Global Equity Fund Ltd	133,609,911	22.03.2012	604
Harry Rosen	64,226,436	16.01.2012	604
Ross G Copeland	45,175,335	14.09.2011	603

Broking Commissions: Not applicable.

UNQUOTED OPTIONS

OPTIONS : EXPIRED 31 MARCH 2013

As at closed of buisness on 31 March 2013 the Company had received applications for the exercise of 250,000 options at an exercise price of $0.142 an option.

As such, a total of 4,750,000 March 31 2013 options automatically lapsed through non-exercise.

Following clearance of funds the Company will be issuing 250,000 new ordinary fully paid shares arising from the the exercise of the 31 March 2013 options.

VOTING RIGHTS

The 31 March 2013 Options carried no voting rights.

OPTIONS : 22 MAY 2014

Twenty Largest Holdings : (expiring 22 May 2014 & exercisable at 17.0cents each.)	Number Options Held	% Issued Capital	Ranking
Mr K Poutakidis	1,000,000	100.00	1

The options are fully vested and may be exercised at any time before the stated expiry date.

VOTING RIGHTS

Options carry no voting rights.

EMPLOYEE SHARE OPTION PLAN ("THE PLAN")

As at the date of this report the Company has on issue under the terms & conditions of the PLAN an aggregate of 1.75 million ESOP options which expire in August 2014 with an exercise price of A$0.15 an option. The options may be exercised at any time before the stated expiry date after they have become fully vested. As at the date of this report no ESOP options have been exercised.

During the financial year a total of 1.45 million (A$0.15) options lapsed in June 2014 through non-exercise.

A summary of the options issued under the PLAN is:

Granted	15,900,000
Less Lapsed	-14,150,000
Number of options now on issue	1,750,000
Number fully vested options	1,750,000
Number non-vested options	-
	1,750,000

On a fully diluted basis the number of unexercised ESOP options (1,750,000) represents 0.268 per cent of all issued securities.

VOTING RIGHTS

ESOP Options carry no voting rights.

UNQUOTED RESTRICTED SECURITIES

At the 2011 Annual General Meeting shareholders approved the establishment of an employees Conditional Rights Plan.

At the same meeting shareholders approved and authorised the Company to issue a total of 5,800,000 Rights to the directors noted in the various resolutions. In addition to the 5,800,00 shareholder authorised Rights the Company has issued, in total, 15,550,000 Rights to employees bringing the total number of Rights issued under the Plan to 21,350,000.

Up to and including 1 5 March 2014 a total of 5,350,00 employee Rights have lapsed leaving a total of non-exercised Rights of 16,000,000 as at 15 March 2014.

All Rights have been issued on the terms set out in the Explanatory Memorandum accompanying the Notice of Meeting for the 2011 Annual General Meeting. Upon the achievement of the stated milestones and having vested the Rights may be exercised on the basis of one new ordinary Phosphagenics Limited share for each Right so exercised.

The Rights and any shares issued pursuant to the exercise of the Rights are subject to the restrictions as set out in the Conditional Rights Plan document as referred to the the 2011 Annual General Meeting documentation.

As at the date of this information no Rights have vested.