ASX Limited
Market Announcements Office

Phosphagenics Full Year Financial Results

29 February 2016, Melbourne: Australian drug delivery company, Phosphagenics Limited (ASX: POH; OTCQX: PPGNY) today reported its full year financial results for the year ended 31 December 2015.

Financial Summary:

- Revenue of $2.19 million (2014: $2.05 million)
- Reported net loss after tax of $20.12 million (2014: $8.94 million)
- Cash position at 31 December 2015 of $12.40 million (2014: $20.68 million)
- R&D tax incentive of $2.28 million (2014: $2.46 million)
- Net operating cash outflow of $8.70 million (2014: $6.74 million)

Phosphagenics reported a cash balance of $12.4 million with a further R&D tax incentive of $2.28 million related to 2015 expenditure expected in 1st Quarter 2016. The company posted a net loss of $21.82 million which was larger than 2014 primarily due to $0.70 million of redundancy costs associated with structural changes undertaken across the second half of 2015, increased legal cost associated with two ongoing legal arbitrations and $7.84 million associated with a decrease in the value of intangible assets. Total revenue for the year was $2.19 million with sales of Vital ET by the Company's partner Ashland, increasing to $1.67 million.

During the year, the Company underwent significant structural and operational change as a result of a strategic review conducted in the second quarter under the leadership of new CEO Ross Murdoch. The review resulted in several key changes designed to optimize operational efficiency and focus, namely the creation of three new internal business units (Human Health, Animal Health and Nutrition and Production and Personal Care), scaling down of internal personnel to key executives with the required expertise to manage and optimize TPM in each business area, and a renewed focus on only priority, near term projects. These business units began operating in the third quarter 2015.

Phosphagenics' core business remains the development and commercialization of TPM® with a key focus on continuing to be development of its two TPM® patch products, expanding TPM®'s application into injectables, and building volume and additional uses within the personal care and animal health and nutrition markets.

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Human Health Business

In February 2015, the Company initiated recruitment into a randomised, double-blinded vehicle-controlled Phase 2a crossover study designed to assess the efficacy, safety and patch performance of its topical TPM®/Oxycodone patch. In January 2016, it was announced that that the patch performed well in the older PHN population with good three-day adhesion, minimal dermal irritation, good drug delivery with minimal systemic exposure and an attractive side effect profile similar to the vehicle patch. Despite the patch performing well, topically delivered oxycodone does not appear to be an effective treatment for the neuropathic pain suffered by the majority of the PHN population and this was reflected in the trial not meeting its primary end point; no statistically significant difference in pain relief was observed between treatment and vehicle.

The Company continues to believe that the patch has applications for other local pain indications and that the product profile remains attractive for partnering opportunities. The Company continues to believe that the patch has applications for other local pain indications and that the product profile remains attractive for partnering opportunities.

Phosphagenics increased its efforts to develop injectable formulations with TPM® in 2015. The Company entered its first partnership in this area in 2014, with Agila Specialties (now part of the global generic company, Mylan) to further the development and commercialisation of its TPM®/daptomycin injectable.

Animal Health & Nutrition Business

The Animal Health and Nutrition Business initiated a program of trials in September 2015 to investigate the potential benefit of TPM® on feed conversion rates in livestock. The first trial in Weaner pigs demonstrated a positive, statistically significant improvement in Feed Efficiency Rate (FER) during the first 14 days post weaning. A grower/finisher pig study has begun with results expected in the 2nd quarter 2016. Further trials in other species expected to follow in 2016.

In March 2015, Phosphagenics announced an expansion of its arrangement with partner IAH. The additional agreement now enables IAH to manufacture and sell animal nutrition products incorporating TPM® in Australia, New Zealand, the UK and Ireland (the UK and Ireland under the Feed-Mate™ brand). IAH began selling TPM® into the New Zealand market during 2015.

Production and Personal Care Business

Improvements in operational efficiency and safety were a key focus in 2015 and a number of specific improvements to the manufacturing plant, production planning processes and site set-out were implemented. These have provided immediate gains in efficiency and the potential for increases in capacity and decreases in production costs.

Also during the year, Phosphagenics highest-volume commercial partner Ashland Inc. delivered around a 10% increase in sales compared to FY2014.

BioElixia

The sale of the BioElixia brand was put on hold in mid-2015 pending the outcome of the Prophase Arbitration. Assuming a positive outcome, discussions are expected to start again in 2016. Stock levels have now been cleared and any prospective new buyer would likely have a complete relaunch of the brand.

Arbitration

Phosphagenics currently has two arbitrations underway. The arbitration with Prophase Inc relates to a license granted by Phosphagenics to the joint venture entity, Phusion Laboratories LLC, for the use of TPM® in OTC pharmaceutical products. Both Phosphagenics and Prophase are seeking unspecified damages and both parties are defending the claims. The arbitrator's decision is expected in mid-2016, although the actual delivery is at the discretion of the arbitrator.

In addition, Phosphagenics has lodged arbitration proceedings in Singapore against Mylan Laboratories Limited in which it asserts breaches of both the License and Research agreements originally entered into with Agila Specialties. Any award that might be received through this Arbitration is expected to be additional to any funds that may flow from a successful commercialisation of the TPM® daptomycin product.

Phosphagenics CEO, Dr Ross Murdoch said: "This year has been both challenging and rewarding for Phosphagenics. Our strategic review in mid-2015 identified the high value targets for the company and the three new business units have begun to realise this value for shareholders. Despite challenges with our patch programs, we continue to believe that the TPM® technology remains an attractive and compelling opportunity with the potential to create considerable value for shareholders."

Annual General Meeting

The 2016 Annual General Meeting of the members of Phosphagenics Limited is to be held on Thursday 19 May 2016 at the Oliphant Auditorium of the National Centre for Synchrotron Science, 800 Blackburn Road, Clayton, Victoria, starting at 9.00 a.m.

Enquiries

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Phosphagenics Limited
Appendix 4E
Preliminary Final Report

1. Company details

Name of entity:	Phosphagenics Limited
ABN:	32 056 482 403
Reporting period:	For the year ended 31 December 2015
Previous period:	For the year ended 31 December 2014

2. Results for announcement to the market

				$'000
Revenues from ordinary activities	up	7%	to	2,190
Loss from ordinary activities after tax attributable to owners of Phosphagenics Limited	up	125%	to	(20,120)
Loss for the year attributable to the owners of Phosphagenics Limited	up	125%	to	(20,120)

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

Comments
Loss for the Group was $20,120,000 (2014: $8,935,000).

Further information on the review of operations, financial position and future strategies is detailed in the 'Operating and Financial Review' section of the Directors' report within the Annual Financial Report.

3. Net tangible assets

	Reporting period cents	Previous period cents
Net tangible assets per ordinary security	1.32	2.06

4. Control gained over entities

Not applicable

5. Loss of control over entities

Not applicable

6. Dividends

Current period
There were no dividends paid, recommended or declared during the current financial period.

Previous period
There were no dividends paid, recommended or declared during the previous financial period.

7. Dividend reinvestment plans

Not applicable

8. Details of associates and joint venture entities

	Holding %	Aggregate share loss		Contribution to net loss	
		Current period	Previous period	Current period	Previous period
Phusion Laboratories LLC	50%	-	-	-	-

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

International Financial Reporting Standards.

10. Audit qualification or review

Details of audit/review dispute qualification (if any):

The financial statements have been audited and an unqualified opinion has been issued.

11. Attachments

Details of attachments (if any):

The Annual Financial Report of Phosphagenics Limited for the year ended 31 December 2015 is attached.

12. Signed

Peter Lankau
Chairman
29 February 2016
Melbourne

PHOSPHAGENICS LIMITED

ABN 32 056 482 403

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2015

CONTENTS

Directors' Report

Your directors are pleased to submit this report on Phosphagenics Limited and its controlled entities for the year ended 31 December 2015.

Directors

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

Information on Directors Currently in Office:

PETER LANKAU BS

Independent non-executive director (appointed 13 April 2015)

Chairman of the Board (appointed 12 May 2015)

Member of nomination and remuneration committees

Mr Lankau served as President and CEO and Director of US based pain management Company, Endo Pharmaceuticals Inc. from 2005 to 2008. He previously served as the Company's President and Chief Operating Officer and as Senior Vice President, US Commercial Business. While CEO, he led the Company to become an industry leader in specialty pharma, as well as developing its pipeline which included 12 product acquisitions and/or licensing transactions.

More recently, Mr Lankau was Executive Chairman of Nautilus Neurosciences Inc., a commercial stage, private equity-backed, neurology-focused specialty pharmaceutical Company, which sold its business to Depomed Inc. in December 2014 for more than US$50 million. Mr Lankau was Chairman and CEO of Logical Therapeutics Inc., a development stage Company which developed novel compounds for inflammatory disease. Currently Mr Lankau is a Principal in the consulting firm, Lankau Consulting LLC.

Other current directorships of listed entities: ANI Pharmaceuticals Inc.
Former directorships of listed entities in last 3 years: None

Nil ordinary shares in Phosphagenics Limited

ROSS MURDOCH PhD

Chief Executive Officer and managing director (appointed 13 April 2015)

Member of nomination committee

Dr Murdoch joined Phosphagenics as CEO in January 2015 and was appointed as director in April 2015. He has more than 25 years experience as a leader within the global healthcare, pharmaceutical and biotechnology industries. He has held senior management and executive positions in Australia, the USA and Europe, with responsibility for the strategy, development and commercialisation of products, product portfolios and the building and rebuilding of new and existing businesses.

Highlights of his career include Senior Vice President at Shire Pharmaceuticals (one of the world's leading specialty pharmaceutical companies), based in the USA and Switzerland, where he founded and grew both the Emerging Products Business and Haematology Business, and President and COO of Prana Biotechnology Limited based in Australia.

Dr Murdoch has a BSc degree with honours from Monash University, a PhD in Clinical Pharmacology from the University of Melbourne, and additional postgraduate training in Health Economics from Monash University Business School.

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

NATHAN DRONA MBA

Independent non-executive director

Chairman of audit and risk committee

Member of remuneration committee

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

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

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

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

DR GEERT CAUWENBERGH PhD

Independent non-executive director

Chairman of nomination committee

Member of remuneration and audit and risk committees

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

In 2001 Dr Cauwenbergh left Johnson & Johnson and founded Barrier Therapeutics, a Company developing drugs to treat skin diseases. In 2008

Directors' Report

Barrier Therapeutics was acquired by Stiefel Laboratories. At the time of acquisition the Company's annual revenues had reached approximately US$45 million.

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

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

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

DR GREG COLLIER PhD

Independent non-executive director (appointed 13 April 2015)

Chairman of remuneration committee

Member of nomination and audit and risk committees

Dr Collier has more than 20 years' experience spanning operational, clinical and scientific aspects of pharmaceutical research, development and commercialisation. He has led the planning and execution of multiple commercial transactions including in and out licensing deals and major M&A activities, and he has successfully taken a drug from discovery through to regulatory approval.

Notably, Dr Collier steered ChemGenex Pharmaceuticals Limited from a research-based Company with a market capitalisation of $10 million to a Company with completed clinical trials and regulatory dossiers submitted to the FDA and EMA. In 2011, ChemGenex was sold to Cephalon Inc. (now subsidiary of Teva Pharmaceuticals Industries Limited) for $230 million.

Prior to his commercial pharmaceutical career, Dr Collier had an outstanding academic career resulting in over 150 peer reviewed publications, and senior authorship on 33 patents. Dr Collier was the inaugural Alfred Deakin Professor at Deakin University, and also held positions at Melbourne University, Monash University and the University of Toronto. In 2010, Dr Collier was awarded the Roche Award of Excellence for his contribution to the biotechnology industry.

Dr Collier is currently CEO and Managing Director of listed drug development Company, Invion Limited.

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

Nil ordinary shares in Phosphagenics Limited

Former Directors:

LAWRENCE GOZLAN BSc (Hons)
Independent non-executive director and Chairman until his resignation on 12 May 2015.

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

Mr Gozlan was the Chairman of the remuneration committee and a member of the nomination and audit and risk committees.

Other current directorships of listed entities:
Prana Biotechnology Limited

Former directorships of listed entities in last 3 years:
Telesso Technologies Limited, Oncosil Medical Limited

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

HARRY ROSEN BA, LLB
Executive Director until his resignation on 8 July 2015.

Mr Rosen was the founding director of Phosphagenics Limited in 1999. Prior to this he was one of the founders of Betadene Limited and Denehurst Limited.

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

64,226,436 ordinary shares in Phosphagenics Limited
Nil performance rights in Phosphagenics Limited

Company Secretary

Ms Anna Legg was appointed Company Secretary of the Company and its subsidiaries on 3 December 2015. She replaced Mr Mourice Garbutt who had held the role since the Company's inception.

Ms Legg has been the Chief Financial Officer of the Company since January 2013. She holds a Bachelor of Economics from Macquarie University, a Diploma of Law from the Legal Practitioners Board (NSW) and is currently undertaking the Graduate Diploma in Corporate Governance with the Governance Institute of Australia. She is also a Member of the Australian Institute of Company Directors.

Directors' Report

Operating & Financial Review

Principal Activities
The principal activities of the Company are the development, production, sale and licensing of products incorporating its patented platform technology, TPM®, for the pharmaceutical, skin care and animal health and nutrition industries.

Result
The financial report for the financial year ended 31 December 2015, and the results herein, have been prepared in accordance with Australian Accounting Standards.

The consolidated loss after income tax attributable to ordinary shareholders for the financial year ended 31 December 2015 was $20,120,000 (2014: $8,935,000). The net operating cash outflow for the year was $8,705,000 (2014: $6,739,000), with a cash balance at 31 December 2015 of $12,395,000 (2014: $20,679,000).

Dividends
No dividends were paid or declared during the period and no dividends are recommended in respect of the financial year ended 31 December 2015.

Review of Financials
Income statement
The reported net loss after tax was $20,120,000 (2014: $8,935,000).

Total revenue for the year was $2,190,000 (2014: $2,053,000), with sales of Vital ET by the Company's partner Ashland increasing to $1,669,000 (2014: $1,498,000).

Expenses from continuing operations increased to $24,058,000 (2014: $14,164,000) primarily due to booking of an intangibles impairment of $7,837,000 (2014: $nil) and an increase in legal fees related to the Prophase arbitration to $1,560,000 (2014: $118,000).

Balance sheet
At the end of December 2015, the Company held $12,395,000 in cash and cash equivalents (2014: $20,679,000). The Company expects to receive a further $2,442,000 from the R&D tax incentive scheme before the end of first quarter of 2016.

Statement of cash flows
The net operating cash outflow for the year was $8,705,000 (2014: $6,739,000), with minimal recoveries of $160,000 compared to the prior year (2014: $2,430,000). Receipts from customers were $1,989,000 (2014: $2,248,000) with a further $661,000 in trade receivables for sales made in December 2015 due early in 2016.

Net cash inflows from financing activities were nil (2014 $18,205,000).

Earnings per share

	2015	2014
Basic loss per share	($0.0159)	($0.0080)
Diluted loss per share	($0.0159)	($0.0080)

Review of Operations
The Company underwent significant structural and operational change in 2015. Under leadership of the new CEO, Dr Ross Murdoch, the Company undertook a strategic review of all activities late in the second quarter 2015. This review reinforced the view that the Company can potentially create considerable value for shareholders through the development and commercialisation of proprietary products based on its TPM® delivery technology. However, to optimize operational efficiency several key changes should be made:

- Three new internal business units (Human Health, Animal Health and Nutrition and Production and Personal Care) be formed, each with a separate General Manager and industry specific goals. These business units began operation in the third quarter 2015.
- A strategic shift be made from the existing reliance on internal resourcing to a more flexible model where greater external expertise is managed by a smaller group of internal managers. This allows internal knowledge to be maintained while decreasing fixed overhead costs and accelerating the pace of many projects.
- Strategic down-sizing of internal R&D staff.
- A reduction in the number of prioritised R&D programs (particularly within the Human Health portfolio) allowing increased focus and resourcing of higher priority, later phase and/or lower-risk assets.

Human Health Business
The Human Health Business looked to advance three distinct areas in 2015:

- Further expansion of TPM®/Diclofenac gel;
- TPM®/oxycodone and TPM®/Oxymorphone patches; and
- TPM®/Injectables: including TPM/Daptomycin (with Mylan) and other TPM® injectable opportunities.

The TPM®/Diclofenac gel continues to be sold in India through both Themis and Novartis under the trade name Volvaren. Sales continued to grow although revenues remain relatively small. Expansion of sales through this existing channel is being explored as an opportunity to increase revenue without further development risk. Work to identify additional commercial partners for the existing product as well as potential product extensions were undertaken and are ongoing.

In February 2015, the Company initiated recruitment into a randomised, double blinded vehicle controlled Phase 2a crossover study designed to assess the efficacy, safety and patch performance of its topical

Operating & Financial Review

TPM®/Oxycodone patch. Twenty eight (28) patients suffering moderate-to-severe local pain associated with post-herpetic neuralgia (PHN) were enrolled and twenty five (25) patients met the criteria for assessment. It was hypothesised that the TPM®/Oxycodone patch would release oxycodone into the skin to interact with opioid receptors upregulated in response to PHN, enabling effective pain relief.

In January 2016, it was announced that that the patch performed well in the older PHN population with good three-day adhesion, minimal dermal irritation, good drug delivery with minimal systemic exposure and showed an attractive side effect profile similar to the vehicle patch. Despite the patch performing well, and evidence of positive pain relief in a subpopulation of PHN patients, the results of this study indicate that topically delivered oxycodone does not appear to be an effective treatment for neuropathic pain across the broader PHN population and this was reflected in the primary endpoint not reaching significance.

The Company continues to believe that the patch has applications for other local pain indications and that the product profile remains attractive for partnering opportunities.

Phosphagenics has previously demonstrated delivery of therapeutically relevant concentrations of oxymorphone via its TPM®/Oxymorphone patch in two Phase 1 human trials. In preparation for submission of an FDA IND adhesion and stability issues were noted that required significant external expertise. In May 2015 the Company announced the need to reformulate the TPM®/Oxymorphone patch. This reformulation is being undertaken by tesa Labtec gmbH, the Company associated with the successful development of the most recent TPM®/Oxycodone patch. At least three candidates are expected to enter stability testing in the third quarter 2016.

Phosphagenics increased efforts to develop further injectable formulations with TPM® in 2015. Phosphagenics first partnership in this area is with the global generic Company, Mylan Incorporated. (originally developed as a collaboration with Agila Specialties Private Limited before they were bought by Mylan in 2014). The partnership was for the development and commercialisation of a TPM®/Daptomycin injectable. Daptomycin is an antibiotic indicated for the treatment of complicated skin and skin structure infections and staphylococcus aureus bloodstream infections. Sales of the branded product "Cubicin" are currently around US$1 billion per annum. Robust competition from generic companies is expected from mid-2016. Development of the TPM®/Daptomycin product is in its later stages and launch of this product will entitle Phosphagenics to future royalty payments.

In addition to the commercial arrangement Phosphagenics has lodged arbitration proceedings in Singapore against Mylan in which it claims breaches of both the Licence and Research agreements originally entered into with Agila. Any award that might be received through this arbitration is expected to be additional to any funds that may flow from a successful commercialisation of the TPM®/ Daptomycin product.

Animal Health and Nutrition

Animal Health operations became a distinct business unit in the third quarter 2015 and a program of trial activities was mapped out to ensure an adequate data package for potential partners. This program of trials started in September 2015 with a weaner pig trial which recently reported positive Feed Efficiency Rate (FER) results for the first 14 days post weaning - a very important time in a pig's life cycle when it is subjected to great stress.

A grower pig study is underway with results expected in the second quarter 2016. Further trials in other species are expected in 2016.

Phosphagenics' partnership with Integrated Animal Health Pty Ltd (IAH) to manufacture and sell animal nutrition products incorporating TPM® in Australia continues to provide revenue although this remains a small component of the overall and was down on the previous year. In March 2015, Phosphagenics announced the expansion of its agreement with IAH to manufacture and sell animal nutrition products incorporating TPM® under the Feed-Mate™ brand into the UK and Ireland. IAH appointed Denis Brinicombe Group Pty Ltd as its distributor. Revenues are dependent on gaining the necessary approvals for the sale of TPM product into Europe and the process for this approval is ongoing. Once the arrangement begins the agreement has in place agreed minimum levels of sales.

Also during the year IAH began selling TPM into the New Zealand market under its agreement to sell to the dairy cattle industry in Australia and New Zealand.

Production and Personal Care

The Company continues manufacturing at its production facilities in Clayton in Melbourne. The focus in 2015 was to improve operational efficiencies and safety, whilst maintaining production and delivery requirements. A number of specific improvements to the manufacturing plant, production planning processes and site set-out have been implemented. These initiatives have provided immediate gains in efficiency with the potential for increases in capacity and decreases in production costs.

During 2015, Phosphagenics' highest-volume commercial partner Ashland Inc. delivered around a 10% increase in sales compared to the previous year.

Directors' Report

Operating & Financial Review

BioElixia
The sale of the BioElixia brand was put on hold in mid-2015 pending the outcome of the Prophase Arbitration. Assuming a positive outcome, discussions are expected to start again in 2016. Stock levels have now been cleared and any prospective new buyer would likely have a complete relaunch of the brand.

Other Corporate Matters
Phosphagenics is currently in an arbitration process with Prophase Inc in relation to a dispute regarding claims for breach of the operative agreements. Both parties are defending the claims each has brought against the other. The matter has proceeded through to a formal arbitration process and the judgement is expected to be handed down in mid-2016.

The Company has also entered into formal arbitration against Mylan Laboratories Limited, a wholly owned subsidiary of Mylan Incorporated. The arbitration notices assert Mylan is liable for breaches of several provisions under a Master Research Agreement and a Licencing Agreement and the Company is seeking redress. The hearing is expected to take place in late 2016 at the Singapore International Arbitration Centre.

Subsequent events

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

Business Strategy and Future Developments

The underlying business strategy of developing and commercialising TPM® remained unchanged from the previous year. The Company's key focus continues to be the development of its two TPM® patch products, expanding TPM®'s application into injectables, building volume and additional uses within the personal care, animal health and nutrition markets. The Company's new divisional structure supports the key focus areas.

The Company reduced its internal research capacity in late 2015 and intends to engage contract research organisations as and when required. In addition other internal functions were also outsourced, which along with close-down of BioElixia marketing support, is reflected in the reduction of headcount from 41 to 22 by December 2015. This will result in a decrease of fixed operational overhead expenses going forward.

The TPM®/Oxymorphone patch will continue its reformulation with tesa Labtec through 2016, with at least three candidates expected to enter stability testing in the third quarter 2016. Once stability has been determined further development of the patch will commence.

The Company has initiated partnering discussions and intends to seek additional partnering opportunities for the further development of TPM®/Oxycodone patch and TPM®/Oxymorphone patch.

Animal health and nutrition trials will continue through 2016 and into 2017. The results of the ongoing grower pig study are expected in the first half of 2016. Further trials in other species are planned to be initiated in 2016.

Phosphagenics continues to produce TPM® products such as TPM® and Vital ET for commercial sale. The key focus into 2016-17 is improved profit through increased top line revenue predominantly via improved sales volume and improved overall margin via increased efficiencies. The improved capacity combined with improved margin achieved in 2015 bode well for 2016. Discussions have commenced with key new and existing partners aimed at developing proactive partnering solutions that can drive mutual volume growth and improved revenues within each of their respective markets. These discussions are preliminary and there are no assurances that they will result in any commercial partnership arrangements.

The Company continues to monitor its production capacity at its manufacturing facilities and is undertaking planning for upscaling in anticipation of increased demand.

Phosphagenics intends to sell its branded personal care business, BioElixia, in 2016 following the completion of the Prophase arbitration.

The Company expects to outlay significant costs in respect of the previously announced arbitration proceeding with Mylan in respect of the licencing of the TPM/Daptomycin product to Agila Specialities Private Limited, now wholly owned subsidiary of Mylan Incorporated. The hearing is not expected to take place until late 2016. The existing Licencing Agreement continues in full force, with royalties due quarterly after the expected launch in first quarter of 2017. There are no assurances in respect of arbitration proceedings, nor in the continued development of products licenced to third parties.

The Company will continue to use its cash resources to invest in research and development activities and in legal costs to support its contractual rights.

Directors' Report

Operating & Financial Review

The Company continues to pursue commercialisation of all its development pipeline via licencing agreements appropriate for the stage of a product's development as well as continuing to look at new opportunities to build value for shareholders.

The Company has omitted certain information in respect of its business strategy and its future prospects as disclosure is likely to result in unreasonable prejudice to the Company. The Company will disclose these matters as required under its continuous disclosure obligations.

Material Business Risks

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

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

Health and Safety

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

Environmental Regulations

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

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

Directors Meetings

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

	Board	**Audit and Risk**	**Nomin-ation**	**Remun-eration**
P Lankau	10 of 10	-	1 of 1	2 of 2
L Gozlan	5 of 5	1 of 1	2 of 2	-
N Drona	13 of 13	5 of 5	2 of 2	2 of 2
G Cauwenbergh	13 of 13	5 of 5	3 of 3	2 of 2
G Collier	10 of 10	4 of 4	1 of 1	2 of 2
R Murdoch	10 of 10	-	1 of 1	-
H Rosen	6 of 7	-	-	-

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

Directors' Report

Remuneration Report

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

a) Key management personnel disclosed in this report
b) Remuneration governance
c) Use of remuneration consultants
d) Executive remuneration policy and framework
e) Relationship between remuneration and Phosphagenics Limited's performance
f) Performance review and development
g) Non-executive director remuneration policy
h) Voting and comments made at the Company's 2015 Annual General Meeting
i) Details of remuneration
j) Service agreements
k) Details of share-based compensation and bonuses
l) Equity instruments held by key management personnel

a) Key management personnel

Non-executive and executive directors

(see pages 1 to 2 for details about each director)

P Lankau	(from 13 April 2015)
L Gozlan	(until 12 May 2015)
N Drona	
G Cauwenbergh	
G Collier	(from 13 April 2015)
H Rosen	(until 8 July 2015)
R Murdoch	(appointed as Chief Executive Officer on 14 January 2015 and Managing Director on 13 April 2015)

Other key management personnel

Name	Position
J Amon	VP, Product Development (to 28 September 2015)
P Gavin	Chief Scientific Officer
A Legg	Chief Financial Officer
R Libinaki	General Manager, Animal Health and Nutrition (from 9 April 2015)
G Moses	General Manager, Production and Personal Care (from 9 April 2015)
J Rosen	General Counsel
A Stojanovic	VP, Business Development and Commercial Operations

Changes since the end of reporting period

J Rosen ceased employment on 1 January 2016.

b) Remuneration Governance

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

c) Use of remuneration consultants

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

d) Executive remuneration policy and framework

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

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

The executive remuneration framework has three components:

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

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

(i) Base pay and benefits

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

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

(ii) Short term incentives

In December 2014 the Board approved the Short Term Incentive Program for all employees to reward for achievement of defined Company and agreed individual performance expectations for 12 months

Remuneration Report

ending 31 December each year. For 2014 an introductory pro-rata period applied from 1 July to 31 December and applicable bonuses were paid in March 2015.

The Program was modified by the Board in December 2015 to take into account the timing of appointment of the new CEO as well as the significant restructure announced in October 2015. In 2015 and 2016 pro-rata periods will again apply with bonuses paid for the period to June 2016 and December 2016 in August 2016 and March 2017 respectively.

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

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

Eligible executives, apart from the CEO, can receive up to 10% of their fixed base salary, as at June each year, as a bonus should they meet expected KPIs and up to 20% if KPI targets are exceeded. The CEO is eligible to receive up to 40% of his fixed base salary. The bonus will be paid in March of each year, unless modified, in the form of 100% (2014: 50%) cash.

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

(iii) Long term incentives

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

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

The ECRS allows eligible employees to be granted Performance Rights to acquire Shares at no cost. All employees, including executive and non-executive directors, and any individual whom the board determines to be an eligible participant for the purposes of the scheme, are eligible to participate in the scheme.

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

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

This scheme expired on 31 December 2015 with none of the Milestones reached. Accordingly all conditional rights expired.

Employee Conditional Rights Scheme approved by Board January 2015 (ECRS Scheme 2)

Under the terms of the ECRS, the rights will vest if certain non-market or market conditions are fulfilled. One of the key overriding conditions of the Scheme is that if the 10 day Volume Weighted Average Price (VWAP) is not less than $0.25 at any time prior to 31 December 2017, then 100% of the Performance Rights will vest. The VWAP price has not been met and all shares remain unvested.

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

Milestone 1 (16.5% of Rights awarded any two of five conditions achieved, or 33% of Rights awarded if any four of five conditions achieved, by 31 December 2015) - Completion of treatment phase of Phase 2a clinical trial of the TPM/Oxycodone patch, Submission of a US IND for the TPM/Oxymorphone patch, completion of treatment phase of a clinical trial of the TPM/Oxymorphone patch, selection of new priority molecule demonstrating transdermal delivery and gross revenues from sales of TPM products or commercialisation of not less than $6 million. This milestone was not achieved as only one of the five conditions was met and accordingly Rights relating to Milestone 1 remain unvested.

Milestone 2 (34% of Rights awarded if any three of the following achieved by 31 Dec 2016) – Submission of a US IND for any product other than TPM/Oxymorphone, completion of a Phase 2 clinical trial of the TPM/Oxycodone patch under a US IND, completion of a Phase 2 clinical trial of the TPM/Oxymorphone patch under a US IND, completion of a licencing agreement which exceeds $20 million, gross revenues from sales of TPM products of not less than $10 million, and completion of a Phase 1 clinical trial of a product containing TPM not previously in the development pipeline as at 31 December 2014.

Milestone 3 (33% of Rights awarded if any one of the following achieved by 31 Dec 2017) - Completion of a Phase 3 clinical trial for TPM/Oxycodone patch or TPM/Oxymorphone patch, execution of commercial agreements with minimum upfronts of $10 million and total value of at least $100 million, spin-off of Company's pain

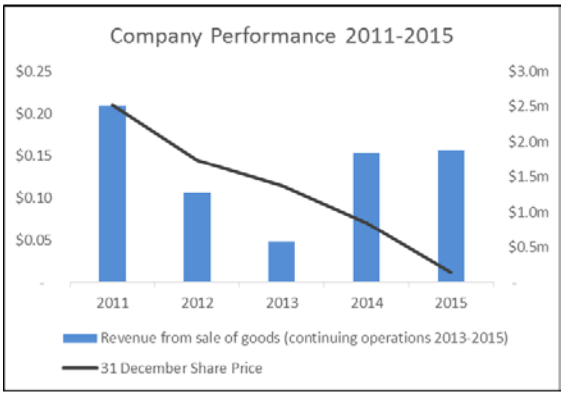
Remuneration Report

portfolio by way of IPO and gross revenues from sales of TPM products of not less than $15 million.

Employee Conditional Rights Scheme approved May 2015 (ECRS Scheme 3)
Under the terms of the ECRS Scheme 3, approved by the shareholders at the Annual General Meeting held on 18 May 2015 for the Chief Executive Officer (CEO), the rights will vest if certain non-market or market conditions are fulfilled. One of the key overriding conditions of the Scheme is that if the 10 day Volume Weighted Average Price is not less than $0.25 at any time prior to 31 December 2017, and provided the CEO remains an employee, 33.3% of the Performance Rights will vest on or after 31 December 2015, 33.3% will vest on or after 31 December 2016 and the remainder unvested on or after 31 December 2017. All other vesting conditions are the same as for ECRS Scheme 2.

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

The following chart shows the Company's annual revenues (2013 to 2015 from continuing operations) and year end share price over the five-year period from 1 January 2011 to 31 December 2015.



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

g) Non-executive director remuneration policy
On appointment to the Board, all non-executive directors are given a letter of offer that summarises the proposed remuneration, relevant to the office of director. Non-executive directors receive a Board fee and the chair of the audit committee receives a fee for chairing that committee, see table below.

Annual Directors Fees	**From 25 August 2015 ($)**
Chair	110,000
Other non-executive directors	55,000
Audit and risk committee - Chair	10,000

Non-executive director's fees are reviewed annually by the Board.

Fees and payments are determined within an aggregate non-executive director's pool limit approved by shareholders. The aggregate currently stands at $400,000 and was approved by shareholders at 2014 Annual General Meeting. This amount, or part thereof, is divided among non-executive directors as determined by the Board and reflecting time and responsibility related to the board and committees. The aggregate paid to non-executive directors was $261,128 (2014 $316,597). Directors fees include statutory superannuation contributions as required under Australian superannuation guarantee legislation.

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

h) Voting and comments made at the Company's 2015 Annual General Meeting
Phosphagenics received more than 67% of "yes" votes on its remuneration report for the 2014 financial year. The Company did not receive any specific feedback at the Annual General Meeting or throughout the year on its remuneration policies.

Directors' Report

Remuneration Report

i) Details of remuneration

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

2015	Short-term employee benefits			Post-employment benefits	Long-term benefits	Termination	Share based payment	
	Cash salary & fees $	Cash Bonus $	Benefits $	Super-annuation $	Long service leave $	$	Performance rights $	Total $
Non executive directors								
P Lankau [1]	65,509	-	-	-	-	-	-	65,509
L Gozlan [2]	35,888	-	-	3,409	-	-	-	39,297
N Drona	65,886	-	-	-	-	-	-	65,886
G Cauwenbergh	52,971	-	-	-	-	-	-	52,971
G Collier [1]	34,215	-	-	3,250	-	-	-	37,465
Sub-total	254,469	-	-	6,659	-	-	-	261,128
Executive directors								
R Murdoch [3]	353,621	-	104,896	32,142	332	-	1,524	492,515
H Rosen [4]	89,533	-	-	27,768	3,719	292,291	-	413,311
Other key management personnel								
J Amon [5]	149,576	-	-	18,940	-	50,228	-	218,744
P Gavin	200,385	9,570	-	19,909	3,333	-	200	233,397
A Legg	177,520	8,140	-	17,287	1,763	-	200	204,910
R Libinaki [6]	133,239	-	-	11,985	10,008	-	200	155,432
G Moses [6]	130,113	-	-	11,754	3,502	-	200	145,569
J Rosen [7]	330,200	19,395	12,089	5,519	-	150,323	200	517,726
A Stojanovic	322,315	21,381	23,651	12,616	-	-	200	380,163
Total	**2,140,971**	**58,486**	**140,636**	**164,579**	**22,657**	**492,842**	**2,724**	**3,022,895**

1 Appointed 13 April 2015
2 Resigned 12 May 2015
3 Appointed 14 January 2015
4 Resigned 8 July 2015
5 Redundant 28 September 2015
6 Appointed 9 April 2015
7 Ceased employment 1 January 2016

Directors' Report

Remuneration Report

2014	Short-term employee benefits			Post-employment benefits	Long-term benefits	Share based payment		
	Cash salary & Fees^	Cash Bonus***	Benefits	Super-annuation	Long service leave^	Options	Perform-ance rights**	Total^
	$	$	$	$	$	$	$	$
Non executive directors								
J Addison [1]	9,383	-	-	868	-	-	(38,197)	(27,946)
D Clarke [1]	6,567	-	-	607	-	-	(17,819)	(10,645)
S James [1]	7,000	-	-	-	-	-	(17,819)	(10,819)
S Webb [1]	6,567	-	-	607	-	-	(17,819)	(10,645)
L Gozlan [2]	164,955	-	-	11,713	-	30,000	-	206,668
N Drona [2]	62,500	-	-	-	-	30,000	-	92,500
G Cauwenbergh [2]	45,830	-	-	-	-	30,000	-	75,830
Sub-total	302,802	-	-	13,795	-	90,000	(91,654)	314,943
Executive director								
H Rosen	301,633	-	1,490	26,558	6,863	-	38,179	374,723
Other key management personnel								
J Amon [3]	24,034	-	-	2,325	22	-	-	26,381
P Gavin	210,782	-	-	18,751	9,380	-	21,539	260,452
A Legg	162,254	-	-	15,574	587	-	12,923	191,338
J Rosen	249,795	-	9,627	1,719	-	-	35,635	296,776
A Stojanovic [4]	229,596	-	17,991	7,018	-	-	-	254,605
Total	1,480,896	-	29,108	85,740	16,852	90,000	16,622	1,719,218

^ In 2014 Annual leave benefit of $90,191 was transferred from long-term benefits to short-term employee benefits and a recalculation of ($62,248) was further applied.
1 Resigned 28 February 2014
2 Appointed 28 February 2014
3 Appointed 17 November 2014
4 Appointed 14 February 2014
** Remuneration in the form of performance rights includes negative amounts for rights forfeited during the year.
*** Bonus allocation is yet to be determined. See note dii) of the Remuneration Report

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

	Fixed remuneration		At risk – STI		At risk - LTI	
	2015	2014	2015	2014	2015	2014
Name	%	%	%	%	%	%
Executive directors						
R Murdoch	100%	-	-	-	-	-
H Rosen	100%	90%	-	-	-	10%
Other key management personnel						
J Amon	100%	100%	-	-	-	-
P Gavin	96%	92%	4%	-	-	8%
A Legg	96%	93%	4%	-	-	7%
R Libinaki	100%	-	-	-	-	-
G Moses	100%	-	-	-	-	-
J Rosen	96%	89%	4%	-	-	11%
A Stojanovic	94%	100%	6%	-	-	-

j) Service agreements

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

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.

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

R Murdoch, Chief Executive Officer
- (from 14 January 2015)
- No fixed term of agreement.
- Base salary, inclusive of 9.5% superannuation, per annum as at 31 December 2015 of $383,250, to be reviewed annually in line with Company policies.
- Relocation allowance.
- Contribution towards closing out expenses of selling principal place of residence.
- Right to participate in the Short Term Incentive program, with bonus rate of up to 40% of base salary.
- Right to participate in Phosphagenics Ltd Employee Conditional Rights Scheme with a grant of 15,000,000 rights. If eligibility to convert occurs under the share price crystallising at $0.25 prior to 31 December 2017 then vesting will occur in three equal tranches, with each portion vesting at each December providing the executive is still an employee at that time. If eligibility to convert occurs by achieving the established milestones then vesting will occur in line equally with other employees.
- Subject to termination at any time by the executive giving 3 months' notice in writing within the first six months of employment, and six months' notice thereafter; or the Company giving 3 months' notice in writing within the first six months of employment, and six months' notice thereafter; or the Company at any time without notice if the executive is guilty of serious misconduct, becomes unable to pay his debts as they become due or is found guilty by court of a criminal offence.

J Amon, VP Product Development
- (to 28 September 2015)
- No fixed term of agreement.
- Base salary, inclusive of superannuation, per annum as at 28 September 2015 of $220,000, to be reviewed annually in line with Company policies.
- Right to participate in the Short Term Incentive program at 20% of base salary.
- Right to participate in Phosphagenics Ltd Employee Conditional Rights Scheme with a grant of minimum 1,000,000 rights.
- Subject to termination at any time by the executive giving 3 months' notice in writing; or the Company giving 3 months' notice in writing; or the Company at any time without notice if the executive is guilty of serious misconduct, becomes unable to pay his debts as they become due or is found guilty by court of a criminal offence.

P Gavin, Chief Scientific Officer
- No fixed term of agreement.
- Base salary, inclusive of superannuation, per annum as at 31 December 2015 of $219,000.
- Subject to termination at any time by the executive giving 1 months' notice in writing; or the Company giving 1 months' notice in writing; or the Company at any time without notice if the executive is guilty of serious misconduct, becomes unable to pay her debts as they become due or is found guilty by court of a criminal offence.

A Legg, Chief Financial Officer
- No fixed term of agreement.
- Base salary, inclusive of superannuation, per annum as at 31 December 2015 of $186,250.
- Subject to termination at any time by the executive giving 1 months' notice in writing; or the Company giving 1 months' notice in writing; or the Company at any time without notice if the executive is guilty of serious misconduct, becomes unable to pay her debts as they become due or is found guilty by court of a criminal offence.

R Libinaki, General Manager, Animal Health and Nutrition
- No fixed term of agreement.
- Base salary, inclusive of superannuation, per annum as at 31 December 2015 of $186,150, to be reviewed annually in line with Company policies.
- Right to participate in the Short Term Incentive program at 20% of base salary.
- Right to participate in Phosphagenics Ltd Employee Conditional Rights Scheme.
- Subject to termination at any time by the executive giving 3 months' notice in writing; or the Company giving 3 months' notice in writing; or the Company at any time without notice if the executive is guilty of serious misconduct, becomes unable to pay his debts as they become due or is found guilty by court of a criminal offence.

G Moses, General Manager, Bulk and Production
- No fixed term of agreement.
- Base salary, inclusive of superannuation, per annum as at 31 December 2015 of $186,150, to be reviewed annually in line with Company policies.
- Right to participate in the Short Term Incentive program at 20% of base salary.
- Right to participate in Phosphagenics Ltd Employee Conditional Rights Scheme.

Remuneration Report

- Subject to termination at any time by the executive giving 3 months' notice in writing; or the Company giving 3 months' notice in writing; or the Company at any time without notice if the executive is guilty of serious misconduct, becomes unable to pay his debts as they become due or is found guilty by court of a criminal offence.

J Rosen, General Counsel
- No fixed term of agreement.
- Base salary per annum as at 31 December 2015 of US$237,500.
- Right to negotiate a short term incentive bonus after 12 months service.
- Right to participate in Phosphagenics Ltd Employee Conditional Rights Scheme with a minimum grant of 500,000 rights.
- Provision of health and dental insurance for employee.
- Subject to termination at any time by the executive giving 30 days' notice in writing; or the Company giving 30 days' notice in writing; or the Company at any time without notice if the executive is guilty of serious misconduct, becomes unable to pay his debts as they become due or is found guilty by court of a criminal offence.

A Stojanovic, VP Business Development and Commercial Operations
- No fixed term of agreement.
- Base salary per annum as at 31 December 2015 of US$237,500.
- A discretionary cash bonus up to 20% of base salary or other amount as agreed between the parties subject to fulfilment of performance criteria set by February each year.
- Right to participate in Phosphagenics Ltd Employee Conditional Rights Scheme with a minimum grant of 1,000,000 rights.
- Provision of health and dental insurance for employee and 50% contribution towards costs of family cover.
- Matched contributions to Company retirement plan to maximum value of US$8,500.
- Entitlement to severance pay of 33.3% of base pay if the Company terminates employment due to sale or other disposition of all or substantially all of the Company's assets or business by way of merger, consolidation or spin-off.
- Subject to termination at any time by the executive giving 14 days' notice in writing; or the Company giving 30 days' notice in writing; or the Company at any time without notice if the executive is guilty of serious misconduct, becomes unable to pay his debts as they become due or is found guilty by court of a criminal offence.

H Rosen, President and Founder
- (to 8 July 2015)
- No service agreement.
- Base salary, inclusive of 9.5% superannuation, per annum as at 8 July 2015 of $312,252.

k) Details of share-based compensation and bonuses

Options Granted During the Year to Key Management Personnel

In 2015 nil (2014 3,000,000) options were awarded to non-executive directors at the annual general meeting. The 2014 issued options were valued at $0.03 each, are non-quoted, have a strike price of $0.17 and expiry date of five years. No options vested during the year.

Performance Rights Granted During the Year to Key Management Personnel

26,200,000 (2014: nil) ECRS Rights were awarded to key management personnel during the year, of which nil vested.

Remuneration Report

l) Equity instruments held by key management personnel

The tables below show the number of:
- i) options over ordinary shares in the Company;
- ii) performance rights holdings granted under the Employee Conditional Rights Scheme;
- iii) shares in the Company; and

that were held during the financial year by key management personnel of the group, including their close family members and entities related to them. There were no shares granted during the reporting period as compensation.

i) Option holdings

2015 Name	Balance at start of year	Granted as compensation	Expired	Other changes	Balance at end of year	Vested
L Gozlan [1]	1,000,000	-	-	(1,000,000)	-	1,000,000
N Drona	1,000,000	-	-		1,000,000	1,000,000
G Cauwenbergh	1,000,000	-	-		1,000,000	1,000,000
Totals	**3,000,000**	**-**	**-**	**(1,000,000)**	**2,000,000**	**3,000,000**

1 Resigned 12 May 2015

ii) Performance rights holdings

2015	Balance at start of year No.	Award date	Awarded during the year No.	Fair value per option at award date	Other changes No.	Balance at end of year No.	Not vested No.
P Lankau[1]	-	-	-	-	-	-	-
L Gozlan[2]	-	-	-	-	-	-	-
N Drona	-	-	-	-	-	-	-
G Cauwenbergh	-	-	-	-	-	-	-
G Collier[1]	-	-	-	-	-	-	-
R Murdoch[3]	-	18 May 2015	15,000,000	$0.0004	-	15,000,000	15,000,000
H Rosen[4]	2,000,000	31 May 2011	-	$0.07	(2,000,000)	-	-
J Amon[5]	-	28 April 2015	1,600,000	$0.0005	(1,600,000)	-	-
P Gavin	1,000,000	3 Oct 2011	-	$0.07	(1,000,000)	-	-
	-	28 April 2015	1,600,000	$0.0005	-	1,600,000	1,600,000
A Legg	700,000	20 Dec 2014	-	$0.02	(700,000)	-	-
	-	28 April 2015	1,600,000	$0.0005	-	1,600,000	1,600,000
R Libinaki [6]	-	28 April 2015	1,600,000	$0.0005	-	1,600,000	1,600,000
G Moses [6]	-	28 April 2015	1,600,000	$0.0005	-	1,600,000	1,600,000
J Rosen	700,000	1 Apr 2012	-	$0.14	(700,000)	-	-
	-	28 April 2015	1,600,000	$0.0005	-	1,600,000	1,600,000
A Stojanovic	-	28 April 2015	1,600,000	$0.0005	-	1,600,000	1,600,000
Totals	**4,400,000**		**26,200,000**		**(6,000,000)**	**24,600,000**	**24,600,000**

1 Appointed 13 April 2015
2 Resigned 12 May 2015
3 Appointed 14 January 2015
4 Resigned 8 July 2015
5 Redundant on 28 September 2015
6 Appointed 9 April 2015

All performance rights granted to key management personnel have been issued in accordance with the provisions of the Employee Conditional Rights Scheme (ECRS). In 2015 11,200,000 (2014 nil) rights were issued to key management personnel relating to ECRS 2 and 15,000,000 (2014 nil) rights were issued to key management personnel relating to ECRS 3.

No performance rights vested or were exercised during the year.

3,600,000 (2014: 2,800,000) performance rights were cancelled during the year in line with scheme terms in which rights are forfeited when personnel cease employment. A further 2,400,000 (2014: nil) rights lapsed relating to expiry of ECRS 1.

Remuneration Report

iii) Shareholdings

2015 Name	Balance at start of year	Received during year on exercise of option	Received vesting of rights to deferred shares	Other changes during the year	Balance at end of year
P Lankau [1]	-	-	-	-	-
L Gozlan [2]	-	-	-	-	-
N Drona	-	-	-	-	-
G Cauwenbergh	20,000	-	-	-	20,000
G Collier [1]	-	-	-	-	-
R Murdoch [3]	-	-	-	-	-
H Rosen [4]	64,391,436	-	-	(64,391,436)	-
J Amon [5]	-	-	-	-	-
P Gavin	99,000	-	-	-	99,000
A Legg	266,500	-	-	-	266,500
R Libinaki [6]	-	-	-	338,951	338,951
G Moses [6]	-	-	-	-	-
J Rosen	2,000,068	-	-	-	2,000,068
A Stojanovic	64,000	-	-	-	64,000
Totals	**66,841,004**	**-**	**-**	**(64,052,485)**	**2,788,519**

1 Appointed 13 April 2015
2 Resigned 12 May 2015
3 Appointed 14 January 2015
4 Resigned 8 July 2015
5 Redundant 28 September 2015
6 Appointed 9 April 2015

Directors' Report

Share Options

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

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

Rounding of Amounts

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

Indemnification of Officers and Auditors

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

Non-audit services

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

Auditor's independence declaration

The auditor's independence declaration is included on page 17 of the financial report.

Changes in State of Affairs

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

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

Peter Lankau
Chairman

29 February 2016
Melbourne

pwc

Auditor’s Independence Declaration

As lead auditor for the audit of Phosphagenics Limited for the year ended 31 December 2015, I declare that to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

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

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

Anton Linschoten
Partner
PricewaterhouseCoopers

Melbourne
29 February 2016

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

Corporate Governance Statement

This statement summaries the corporate governance policies and procedures adopted by the Phosphagenics' board of directors ("Board") and discloses the extent to which the Company has followed the ASX Corporate Governance Council's Corporate Governance Principals and Recommendations (3rd Edition)("ASX Principles") during and since the reporting period. The Board aims to ensure the Company operates with a corporate governance framework and culture that is relevant, practical and cost effective for the current size and stage of development of the business.

Principle 1: Lay solid foundations for management and oversight

1.1 Roles and Responsibilities of Board and Management

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

Responsibilities of the Board

The responsibilities of the Board include oversight, accountability and approval of:

(a) Strategic Issues
- Approving management's corporate strategy and performance objectives;
- Providing strategic advice to management;
- Monitoring performance and implementation of strategy and ensuring appropriate resources are available.

(b) Shareholding items
- Issuing shares, options or conditional rights;
- Determining the amount of dividend.

(c) Financial items
- Approving and monitoring financial and other reporting;
- Approving and monitoring the progress of major capital expenditure, capital management, acquisitions and divestitures;
- Reporting to shareholders.

(d) Risk and control
- Overseeing groups control and accountability system;
- Reviewing and ratifying systems of risk management, internal compliance and control, and legal compliance to ensure appropriate compliance frameworks are in place.

(e) Board and senior management
- Appointment, performance assessment and, if necessary, removal of CEO;
- Ratifying appointment and, where appropriate, removal of CFO and Company Secretary;
- Ratifying other senior executive appointments, organisational changes and senior management remuneration policies and practices;
- Approving succession plans for management;
- Monitoring performance of the board both collectively and individually;
- Recommending directors for nomination and removal.

(f) Other Board responsibilities
- Monitoring and ensuring compliance with best practice corporate governance requirements;
- Approving board committee charters.

Further details are outlined in the Board Charter which can be found at
www.phosphagenics.com/investors/corporate-governance

Responsibilities of the CEO

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

Corporate Governance Statement

1.2 Director appointment and election

The Board undertakes appropriate checks before appointing any new candidates as directors, which include review by the Nomination Committee against the board skills matrix, interview by all directors and appropriate reference checking. All material information regarding any director proposed for re-election will be included in the Explanatory Information to the relevant Notice of Meeting.

1.3 Written Agreements with Directors and Senior Executives

New directors receive a letter of appointment which outlines the key terms and conditions of their appointment. Senior executives and all employees are required to sign employment agreements which set out the key terms of their employment.

1.4 Responsibilities of the Company Secretary

The Company Secretary is responsible for providing administrative support to the Board and its Committees. The Company Secretary is accountable directly to the Board, through the Chair, on all matters relating to proper functioning of the Board. The specific responsibilities of the Company Secretary are outlined in the Board Charter which is available at www.phosphagenics.com/investors/corporate-governance

1.5 Diversity Policy

The Company recognises the value contributed to the organisation by employing people with varying skills, cultural backgrounds, ethnicity and experience. The Company believes its diverse workforce is the key to continued growth and improved productivity and performance. The Company actively values and embraces diversity of its employees and is committed to creating an inclusive workplace where everyone is treated equally and fairly, and where discrimination, harassment and inequality are not tolerated. While the Company is committed to fostering diversity at all levels, gender diversity continues to be a priority for the group.

In accordance with the Diversity Policy the Nomination Committee established measureable objectives for achieving gender diversity and has conducted an assessment of the progress towards them.

Diversity Objective	Measurement	FY15 Performance
Program activity - training	Implementation and training of four existing policies: Diversity and Respect in Workplace, Equal Opportunity, Bullying and Harassment, Flexible Working Arrangements.	Completed by July 2015.
Program activity - new policy development	Development and implementation of 2 new policies: Leave Purchase and Performance and Development Planning.	Leave Purchase Policy developed and implemented. Performance and Development Policy due to be completed 2H2015, not completed due to staff restructure.
Program participation in training of policies	Employees undertaking training	100% participation
Program participation in flexible working arrangements	An increase in employees working under flexible working arrangements	Due to restructure number of employees reduced from 9 to 7 employees working under flexible working arrangements.
Program participation in leave purchase requests	An increase in participation	There were no requests for purchased leave in 2015.
Program participation in performance and development planning	Employees having performance plans	100% of employees had performance plans. No development plans were undertaken in 2015.
Program effectiveness reflected in gender diversity by job level	Increase in 2014 rates	See gender diversity table below.
Program effectiveness reflected in gender diversity in recruitment	Increase in 2014 rates	Achieved. In 2015 66% of new recruits were female compared to 55% in 2014.
Program effectiveness reflected in gender diversity in turnover	Decrease in 2014 rates	Achieved. Excluding redundancies, 50% of departures were female, compared to 100% in 2014.
Program effectiveness reflected in exit interview feedback	Implement enhanced exit interview to collect data	Implementation completed.

Corporate Governance Statement

It is noted that although Phosphagenics has a high level of gender diversity, due to the low overall number of staff and the significant restructure which occurred, a change of a few employees can have significant impact on the Company's performance in respect of its measurable diversity objectives.

The table below outlines gender diversity within Phosphagenics for 2014 and 2015:

	Whole organisation		Senior Executive		Board	
	2014	2015	2014	2015	2014	2015
Total	41	22	6	7	4	5
Female	20	12	1	2	0	0
% Female	49%	55%	17%	29%	0%	0%

1.6 Board, committee and director performance

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

The Chairman undertakes a one-on-one assessment with each of the non-executive directors with respect to individual director performance.

The Board, Committees and Chairman undertook performance assessments in February 2016 and they were conducted in accordance with these procedures.

1.7 CEO and senior executive performance

The Company has a performance management program which includes annual assessments of performance in February each year. The program has been modified in 2015 to take into account the timing of appointment of the new CEO as well as the significant corporate restructure announced in October 2015. A pro-rata assessment will take place in June 2016 and again in December 2016, before the Company returns to its standard annual assessment program in 2017. For further details on process of evaluation of senior executives please see Remuneration Report pages 7 to 15.

Principle 2: Structure the Board to add value

2.1 Nomination committee

The Board has a nomination committee which is composed of four directors, the majority independent, and is chaired by an independent director. At the date of this report the committee consisted of the following members:

- Dr G Cauwenbergh (Chairman)
- Mr P Lankau
- Dr R Murdoch
- Dr G Collier

Details of these directors' attendance at committee meetings are set out in the Directors' Report on page 6.

A charter for the nomination committee can be found at www.phosphagenics.com/investors/corporate-governance

2.2 Board skills

The Board seeks to achieve a mix of skills and diversity that it enables it to most effectively carry out its functions and responsibilities. The following Board skills matrix describes the combined skills of the Board across a range of areas.

Corporate Governance Statement

Board Skills Matrix	Board Representation
Extensive Board / Director Experience Has extensive director experience in a range of listed companies.	4
Global Executive Management Has been successful in senior executive roles in global companies or equivalent experience in a range of business environments.	5
Strategy Has ability to identify and critically assess strategic opportunities and develop successful strategies.	5
Governance Has commitment to high standards of corporate governance.	5
Financial / Risk Management Has audit / risk management experience at Board or senior executive level in financial accounting and reporting, corporate finance and assessment of financial viability and planning.	4
Pharmaceutical Industry Experience Has senior executive experience in large pharmaceutical or biotech organisation.	5
R&D / Product Development Has experience in research and development or product development within pharmaceutical or biotech organisation.	5
Business Development Has extensive knowledge of licencing and deal structures in US and rest of world.	5
Production Has experience in manufacturing or quality operations of production facilities and global supply	3
Regulatory Has knowledge of regulatory authority pathways in Australia, US and EMEA.	5
Leadership knowledge and abilities Has an understanding of effective leadership principles and systems at organisational level.	5
Ethics and Integrity Has an understanding of the role as director and sets high personal standards for behaviour and values.	5

2.3 Board members

Details of the members of the Board, their experience, qualifications, term of office and independence status are set out in the Directors' Report under the section titled "Information on Directors" on pages 1 to 2.

2.4 Directors' independence

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

Under these criteria the Board has determined that all non-executive directors, which form a majority of the board, were independent at the date of this report. The Board assesses the independence of directors as and when required.

2.5 Independent Chairman

The current Chairman, Mr Lankau, is an independent non-executive director appointed in April 2015. The CEO, Dr Murdoch, was appointed CEO in January 2015 and as Managing Director in April 2015.

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

2.6 Director induction and professional development

The Nomination Committee overseas, reviews and makes recommendations to the Board in relation to induction and development of non-executive directors, to ensure they develop and maintain the skills and knowledge needed to perform their roles as directors effectively.

Corporate Governance Statement

The Company has a program for the induction of new directors which includes briefings with the CEO, Company Secretary, Senior Management and industry experts, site visits and provision of appropriate Company documentation.

The Board receives regular updates as well as attends an annual workshop provided by the Company's legal advisors to assist with keeping current with relevant legal and industry developments.

Principle 3: Promote ethical and responsible decision making

3.1 Code of Conduct

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

Principle 4: Safeguard integrity in financial reporting

4.1 Audit and Risk Committee

The Board has established an Audit and Risk Committee comprising three independent non-executive directors. The chairman of the committee must be an independent director who is not chairman of the board. At the date of this report the Committee consisted of the following members:

Mr N Drona (Chairman)

Dr G Cauwenbergh

Dr G Collier

Details of these directors' qualifications and attendance at committee meetings are set out in the Directors' Report on pages 1 to2 and page 6. The Committee meets at least two times per year and has direct access to the Company's auditors.

The charter of the Committee can be found on the Company's website at www.phosphagenics.com/investors/corporate-governance.

4.2 CEO and CFO Declarations for financial statements

Prior to approval of the Company's financial statements for the half or full year by the Board, the CEO and CFO provide a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

4.3 External auditors

The external auditor, PricewaterhouseCoopers, attends each AGM and is available to answer questions from shareholders relevant to the audit.

Principle 5: Make timely and balanced disclosure

5.1 Continuous disclosure

The Company has a continuous disclosure policy to ensure compliance with ASX Listing Rules and has a vetting and authorisation process designed to ensure announcements are factual, complete and balanced.

A copy of this policy is available on the Company's website at www.phosphagenics.com/investors/corporate-governance.

Principle 6: Respect the rights of shareholders

6.1 Information on website

The Company provides information about itself and its corporate governance to its shareholders and members of the public on its website at www.phosphagenics.com

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

- annual and half-yearly reports;
- quarterly newsletters and shareholder calls to provide updates on operation and developments;
- announcements on the Company's website;
- market briefings; and
- presentations at general meetings.

In addition to ensuring all Company information is available on the Company's website soon after receiving confirmation by the ASX of the receipt of the announcement, the Company will send to each shareholder or member of the public, who has requested, either by post or email, a copy of the release.

6.3 Participation at shareholder meetings
The Company holds its AGM in May each year in Melbourne. The Notice of Meeting and related Explanatory Notes are distributed to shareholders in accordance with the requirements of the Corporations Act, and simultaneously posted to the ASX.

The AGM provides the Company the opportunity to communicate with shareholders through the CEO presentation and the Chairman's address.

Shareholders are given the opportunity at the AGM to ask general questions about the management of the Company, as well as ask questions about particular agenda items. Shareholders who are unable to attend the meeting in person may submit written questions together with their proxy form.

6.4 Electronic communication
Shareholders are encouraged to receive shareholder material electronically, which can be established by registering on the Company website or to certain information via the Company's share registry, Computershare.

Shareholders are also able to contact the Company via the general contact email address info@phosphagenics.com, and where appropriate a response will be provided.

Principle 7: Recognise and manage risk

7.1 Audit and risk committee
The Board has established an Audit and Risk Committee consisting of three independent non-executive directors. Details regarding composition, meetings and charter are set out in section 4.1 of this Corporate Governance Statement.

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

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

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

The Company has a Risk Management Policy, a summary of which is available on the Company's website, which sets out the objectives and key principals of risk management, along with responsibilities and authorities of the Board, the Audit and Risk Committee, the CEO, CFO, Executive Management and management. The Company has adopted a risk management strategy that aims to identify and minimise the potential for loss, while also maximising strategic opportunities for growth and development. The Board sets risk appetite and tolerance levels for the Company and reviews this, and the risk management framework each reporting period in order to satisfy itself that it continues to be sound.

During the reporting period Executive Management has reported to the Audit and Risk Committee as to the effectiveness of the group's management of its material business risks and the effectiveness of the risk management framework.

7.3 Internal audit function
With regard to the Company's size, the Board does not deem it necessary to have an internal audit function. As outlined in section 7.2 the Company has a comprehensive system of risk management and undertakes regular reviews of its effectiveness and where necessary utilises the resources of an external risk consultant.

7.4 Sustainability risks and management
The Company does not have any material exposure to environmental or social sustainability risks. The Company's key economic risks are outlined on page 6 of the directors' report under the heading 'Material Business Risks'. In addition to risk management strategies outlined in section 7.1 and 7.2, the Company utilises risk mitigation strategies including employing qualified and specialised consultants, external advisors and holding a comprehensive insurance program.

Principle 8: Remunerate fairly and responsibly

8.1 Remuneration committee
The Board has established a Remuneration Committee consisting of four independent non-executive directors. The chairman of the committee must be an independent director. At the date of this report the Committee consisted of the following members:

Dr G Collier (Chairman)
Mr P Lankau
Mr N Drona
Dr G Cauwenbergh

Details of these directors' qualifications and attendance at committee meetings are set out in the Directors' Report on pages 1 to 2 and page 6. The Committee meets at least two times per year.

The charter of the Committee can be found on the Company's website at www.phosphagenics.com/investors/corporate-governance

8.2 Executive and non-executive remuneration policies
Non-executive directors are remunerated at market rates for comparable companies for time, commitment, and responsibilities. The Board as a whole determines payments to the non-executive directors and reviews their remuneration annually, based on market practice, duties, and accountability. The maximum aggregate amount of fees that can be paid to non-executive directors is subject to approval by shareholders at the Annual General Meeting.

Each executive has a formal service agreement, which includes a position description and sets out duties, rights and responsibilities as well as entitlement on termination. The Company has policies which apply to base salaries, short-term incentives and long-term incentives. Further information on remuneration is set out in the Remuneration Report on pages 7 to 15.

8.3 Hedging of equity incentive schemes
Phosphagenics prohibits Key Management Personnel from entering into transactions in associated products which operate to limit the economic risk of security holdings in Phosphagenics over unvested entitlements or entitlements which have vested but remain subject to a holding lock. A copy of the Securities Trading Policy can be found on the Company's website at www.phosphagenics.com/investors/corporate-governance.

The Corporate Governance Statement was approved by the Board of directors on 29 February 2016.

Annual Financial Report for the year ended 31 December 2015

Contents

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

The financial statements are presented in the Australian currency.

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

Phosphagenics Limited
11 Duerdin Street
Clayton Victoria 3168

The financial statements were authorised for issue by the directors on 29 February 2016. The directors have the power to amend and reissue the financial statements.

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

Consolidated Income Statement

	Notes	2015 $'000	2014 $'000
Revenue from continuing operations			
Sale of goods	2	1,880	1,847
Royalties	2	310	206
Total revenue		2,190	2,053
Cost of sales		(667)	(461)
Gross profit		1,523	1,592
Income from government grants	2	2,279	2,456
Finance revenue		512	452
Other income		7	135
Recoveries	2	160	2,095
Employee and directors benefits expenses	3a	(5,852)	(4,792)
Research expenses		(1,956)	(2,986)
Consulting and professional expenses	3b	(1,178)	(552)
Legal expenses	3c	(2,051)	(289)
Amortisation and depreciation		(3,268)	(3,783)
Impairment losses	10	(7,837)	-
Other expenses	3d	(1,916)	(1,762)
Loss before income tax		(19,577)	(7,434)
Income tax benefit	4	-	-
Loss from continuing operations		(19,577)	(7,434)
Loss from discontinued operations	18	(543)	(1,501)
Loss for period		(20,120)	(8,935)

Earnings per share for loss from continuing operations attributable to the ordinary equity holders of the Company:			
Basic profit / (loss) per share	15	(1.55) cents	(0.66) cents
Diluted profit / (loss) per share	15	(1.55) cents	(0.66) cents

Earnings per share for loss attributable to the ordinary equity holders of the Company:			
Basic profit / (loss) per share	15	(1.59) cents	(0.80) cents
Diluted profit / (loss) per share	15	(1.59) cents	(0.80) cents

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

Consolidated Statement of Comprehensive Income

	Notes	2015 $'000	2014 $'000
Loss for the period		(20,120)	(8,935)
Other Comprehensive Income			
Items that may be classified to profit or loss			
Exchange differences on translation of foreign operations	14	16	(9)
Income tax/(expense) on items of other comprehensive income		-	-
Other comprehensive income for the period, net of tax	14	16	(9)
Total comprehensive income for the period		(20,104)	(8,944)

Total comprehensive income for the period attributable to:		
owners of Phosphagenics Ltd arises from:		
Continuing operations	(19,561)	(7,443)
Discontinued operations	(543)	(1,501)
	(20,104)	(8,944)

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

Consolidated Balance Sheet

	Notes	31 December 2015 $'000	31 December 2014 $'000
ASSETS			
Current Assets			
Cash and cash equivalents	22a	12,395	20,679
Trade and other receivables	7	4,724	5,213
Inventories	8	278	220
Other current assets		542	562
Assets classified as held for sale	18	17	382
Total Current Assets		17,956	27,056
Non-Current Assets			
Plant and equipment	9	519	814
Intangible assets	10	12,269	23,031
Total Non-Current Assets		12,788	23,845
Total Assets		30,744	50,901
LIABILITIES			
Current Liabilities			
Trade and other payables	11	1,212	1,026
Provisions	12	569	752
Total Current Liabilities		1,781	1,778
Non-Current Liabilities			
Provisions	12	35	95
Total Non-Current Liabilities		35	95
Total Liabilities		1,816	1,873
Net Assets		28,928	49,028
EQUITY			
Issued Capital	13	228,100	228,100
Reserves	14	30,191	30,171
Accumulated Losses		(229,363)	(209,243)
Total Equity		28,928	49,028

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

Consolidated Statement of Changes in Equity

	Contributed capital	Reserves	Accumulated losses	Total equity
	$'000	$'000	$'000	$'000
Balance at 1 January 2014	209,895	29,914	(200,308)	39,501
Loss for the year	-	-	(8,935)	(8,935)
Other comprehensive income (loss)	-	(9)	-	(9)
Total comprehensive income (loss) for the year	-	(9)	(8,935)	(8,944)
Transactions with owners in their capacity as owners:				
Issue of share capital	19,320	-	-	19,320
Transaction costs	(1,115)	-	-	(1,115)
Employee equity settlement benefits	-	176	-	176
Directors equity settlement benefits	-	90	-	90
Total transactions with owners	18,205	266	-	18,471
Balance at 31 December 2014	228,100	30,171	(209,243)	49,028
Loss for the year	-	-	(20,120)	(20,120)
Other comprehensive income	-	16	-	16
Total comprehensive income (loss) for the period	-	16	(20,120)	(20,104)
Transactions with owners in their capacity as owners:				
Issue of share capital	-	-	-	-
Transaction costs	-	-	-	-
Employee equity settlement benefits	-	4	-	4
Total transactions with owners	-	4	-	4
Balance at 31 December 2015	228,100	30,191	(229,363)	28,928

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

Consolidated Statement of Cash Flows

	Notes	2015 $'000	2014 $'000
OPERATING ACTIVITIES			
Receipts from customers		1,989	2,248
Receipt of recoveries		160	2,430
Receipt of government grants		2,665	1,982
Payments to suppliers and employees		(13,519)	(13,399)
Net cash used in operating activities	22(b)	(8,705)	(6,739)
INVESTING ACTIVITIES			
Interest received		510	485
Purchase of plant and equipment		(89)	(95)
Net cash from investing activities		421	390
FINANCING ACTIVITIES			
Proceeds from issues of shares	13	-	19,320
Costs of issue of shares	13	-	(1,115)
Net cash from financing activities		-	18,205
Net (decrease)/ increase in cash and cash equivalents		(8,284)	11,856
Cash and cash equivalents at the beginning of period		20,679	8,823
Cash and cash equivalents at the end of period	22(a)	12,395	20,679

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

Notes to the consolidated financial statements

Contents

Notes to the consolidated financial statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Basis of preparation

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

i) Compliance with IFRS

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

ii) Historical cost convention

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

iii) Going concern

For the year ended 31 December 2015, the consolidated entity has incurred losses of $20,120,000 (2014: $8,935,000) and experienced net cash outflows of $8,705,000 from operations (2014: $6,739,000). As at year end the cash position was $12,395,000 (2014:$ 20,679,000). The Company is in development phase and as such expects to be utilising cash until its research becomes commercial. The directors are satisfied that there is sufficient working capital and the Company has the ability to realise its assets and pay its liabilities and commitments in the normal course of business. Accordingly the directors have prepared the financial report on a going concern basis and that no asset will be realised for an amount less than the amount it is recorded in the Consolidated Balance Sheet.

iv) New and amended standards adopted by the group

The group has applied the following standards and amendments for the first time for the annual reporting period commencing 1 January 2015:

- AASB 2014-1 *Amendments to Australian Accounting Standards;*
- AASB 2015-1 *Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle;*
- AASB 2015-1 *Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB101.*

None of the new and amended standards that are mandatory for the first time for the financial year beginning 1 January 2015 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

v) New standards and interpretations not yet adopted

The group has elected not to apply any pronouncements before their operative date in the annual reporting period beginning 1 January 2015.

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

vi) Critical accounting estimates and judgements

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

(1) R&D Tax Incentives

From 1 July 2011 the Australian Government has provided a tax incentive, in the form of a refundable tax offset of 45%, for eligible research and development expenditure. Management has assessed its research and development activities and expenditure to determine which are likely to be eligible under the scheme. For the period ended 31 December 2015 the Company has recorded an item in other income of $2,279,000 (2014: $2,456,000) to recognise this amount which relates to this period.

(2) Share-based payment transactions

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

(3) Development costs

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

(4) Estimated impairment of intangibles
The group tests whether intangible assets have suffered any impairment at each reporting date. The recoverable amount of intangible assets is assessed at its value in use. This calculation requires the use of assumptions. (Refer to Note 10 for details of these assumptions).

b) Principles of consolidation

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

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

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

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

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

iv) Equity method
Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the group's share of the post-acquisition profits or losses of the investee in profit or loss, and the group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

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

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

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

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

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

c) Segment reporting

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

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

d) Foreign currency translation

i) Functional and presentation currency
Items included in the financial statements of each of the group's entities are measured using the currency

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

ii) Transactions and balances

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

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

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

iii) Group Companies

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

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

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

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

e) Revenue recognition

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

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

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

f) Government grants

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

g) Income tax

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

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

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

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

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

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

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

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

h) Investment allowances and similar tax incentives

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

i) Leases

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

j) Impairment of assets

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

k) Cash and cash equivalents

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

l) Trade receivables

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

m) Inventories

Raw materials and stores, work in progress and finished goods

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

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

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

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

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

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

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

o) Investments and other financial assets

i) Classification

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

ii) Loans and receivables

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

p) Plant and equipment

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

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

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

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

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

q) Intangible assets

i) Intellectual Property

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

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

ii) Trademarks and licences

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

r) Trade and other payables

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

s) Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

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

t) Employee benefits

i) Short-term obligations

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

ii) Other long-term employee benefit obligations

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

iii) Share-based payments

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

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

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

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

iv) Bonus plans

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

v) Termination benefits

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

u) Contributed equity

Ordinary shares are classified as equity.

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

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

v) Dividends

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

w) Earnings per share

i) Basic loss per share

Basic loss per share is calculated by dividing:

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

ii) Diluted loss per share

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

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

x) Goods and Services Tax (GST)

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

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

Notes to the consolidated financial statements

	2015 $'000	2014 $'000
2. REVENUE AND OTHER INCOME		
Revenue from continuing operations		
Sale of goods	1,880	1,847
Royalty and licence revenue	310	206
Total	**2,190**	**2,053**
Revenue from discontinued operations (note 18)		
Sale of goods	30	356
Income from Government Grants		
R&D tax incentive credit	2,279	2,456
Total	2,279	2,456
Recoveries		
Recoveries received	160	2,095
Total	160	2,095

3. EXPENSES

(a) Employee and directors benefit expenses

	2015 $'000	2014 $'000
Directors fees	(261)	(317)
Research and development employee expenses	(1,906)	(2,102)
Redundancy costs	(705)	(131)
Recruitment and relocation expenses	(196)	(180)
ESOP expenses	(4)	(268)
All other employee expenses	(2,780)	(1,794)
Total	**(5,852)**	**(4,792)**

(b) Consulting and profession expenses[1]

	2015 $'000	2014 $'000
Audit expenses	(111)	(100)
Other consulting and professional expenses	(1,067)	(452)
Total	**(1,178)**	**(552)**

(c) Legal expenses[1]

	2015 $'000	2014 $'000
Legal expenses associated with Prophase arbitration	(1,560)	(118)
Legal expenses associated with Mylan arbitration	(378)	-
Other legal expenses	(113)	(171)
Total	**(2,051)**	**(289)**

1 In 2014 Legal expenses of $289,000 were reported within Consulting and professional expenses in the Consolidated Income Statement

	2015 $'000	2014 $'000
(d) Other Expenses		
Net foreign exchange gain / (loss)	122	127
Travel	(457)	(438)
Doubtful debts[1]	-	243
Insurance	(196)	(219)
Shareholder and listing expenses	(151)	(185)
Patent portfolio expenses [2]	(637)	(397)
Occupancy and communication expenses [3]	(553)	(547)
Other [4]	(44)	(346)
Total	**(1,916)**	**(1,762)**

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

2 In 2014 patent portfolio expenses of $397,000 were reported within Research expenses in the Consolidated Income Statement.

3 In 2014 occupancy and communications expenses of $547,000 were reported separately in the Consolidated Income Statement.

4 In 2014 marketing expenses of $24,000 were reported separately in Other Expenses note 3(b).

4. INCOME TAXES

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	(20,120)	(8,935)
Income tax expense calculated at 30% (2014: 30%)	(6,036)	(2,681)
Non-assessable income	(732)	(629)
Non-deductible expenses	4,340	1,417
Unused tax losses and tax offsets not recognised as deferred tax assets	2,428	1,893
Income tax benefit reported in income statement	-	-
Deferred tax liabilities comprise:		
Intellectual property	-	-
Unrecognised deferred tax balances		
The following items have not been brought to account as deferred tax assets:		
Tax losses not recognised (at current tax rate of 30%)	29,989	27,561
Temporary differences not recognised	-	-
Total	**29,989**	**27,561**

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

Tax consolidation

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

(ii) Tax effect accounting by members of the tax consolidated group
Measurement method adopted under AASB Interpretation 1052 Tax Consolidation Accounting
The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Group has applied the Group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group. The current and deferred tax amounts are measured in a systematic manner that is consistent with the broad principles in AASB 112 *Income Taxes*.

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.

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	2015 Options No.	2015 WAEP $	2014 Options No.	2014 WAEP $
Outstanding at beginning of the year	3,000,000	$0.17	2,750,000	$0.15
Granted during the year	-	-	3,000,000	$0.17
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	(2,750,000)	$0.15
Outstanding at end of the year	3,000,000	$0.17	3,000,000	$0.17
Exercisable at end of the year	3,000,000	$0.17	3,000,000	$0.17

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 2015 is represented by:

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

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	2015 Performance Rights No.	2015 WAEP $	2014 Performanc e Rights No.	2014 WAEP $
Outstanding at beginning of the year	13,200,000	-	16,000,000	-
Granted during the year	40,010,000	-	-	-
Forfeited during the year	(15,650,000)	-	(2,800,000)	-
Exercised during the year	-	-	-	-
Expired during the year	(6,600,000)	-	-	-
Outstanding at end of the year	**30,960,000**	**0.00**	**13,200,000**	**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 2015 $1,125 was reversed as a result of forfeited unvested performance rights. The amount recognised from equity settled share based performance transactions during the year is $4,641. The net expense from equity settled share transactions was $3,516.

The outstanding balance as at 31 December 2015 is represented by:

Issuing entity	Performance Rights (No)	Class of shares	Exercise price ($)	Expiry date
Phosphagenics Ltd	30,960,000	Ordinary	$0.00	31 December
Total	**30,960,000**			

There were no cancellations or modifications to the awards in 2015 or 2014.

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 2015 nil (2014: 3,000,000) share options were granted at a fair value of nil (2014: $0.03) under the ESOP. An expense of nil (2014: $90,000) was recognized in the period.

During the year ended 31 December 2015 40,010,000 (2014: 2,100,000) share rights were granted at a fair value of $0.0005 (2014: $0.02) under the ECRS which will vest based upon achievement of certain performance objectives.

Model Inputs	2015 Rights	2014 Options
Dividend yield %	0.0%	0.0%
Expected volatility %	60%	60%
Risk-free interest rate %	1.80 -2.07%	3.20%
Option life (years)	2.6 – 2.7 years	5 years
Option Exercise price $	$0.00	$0.17
Weighted Average Share price at measurement date	$0.03	$0.08

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

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

6. REMUNERATION OF AUDITORS

The auditor of Phosphagenics Ltd (the parent), and the Group for the period ended 31 December 2015 is PricewaterhouseCoopers.

Amounts received or due and receivable by auditor	2015 $	2014 $
PricewaterhouseCoopers		
Audit or review of the financial report	111,338	100,000
Other non-audit services	-	15,000
Total PricewaterhouseCoopers	**111,338**	**115,000**

7. TRADE AND OTHER RECEIVABLES

Current	2015 $'000	2014 $'000
Trade receivables	803	758
R&D tax incentive credit receivable	3,623	4,039
Other receivables	298	416
Total	**4,724**	**5,213**

Trade receivables are non-interest bearing and are generally 45 day terms or as specified in contracts or agreements. An amount of $2,442,000 is expected to be received from the R&D tax incentive scheme before end March 2016. A further amount of $1,181,000 will form part of the R&D tax incentive claimed for the tax year ended 30 June 2016 and is expected to be received before December 2016.

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

	Total	Neither past due or impaired	Past due but not impaired		
			31-60 days	61-90 days	90+ days
	$'000	$'000	$'000	$'000	$'000
31 December 2015	803	661	92	43	7
31 December 2014	758	620	57	30	51

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

	2015 $'000	2014 $'000
Raw materials (at cost or net realisable value)	158	146
Finished goods (at cost or net realisable value)	120	74
Total inventories at the lower of cost and net realisable value	278	220

During 2015, $16,044 (2014: $18,249) 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 2015	Plant and equipment at cost $'000	Total $'000
At 1 January 2015 net of accumulated depreciation and impairment	814	814
Additions	89	89
Write off of assets for obsolescence	(41)	(41)
Depreciation charge for the year	(343)	(343)
At 31 December 2015, net of accumulated depreciation and	519	519
At 31 December 2015		
Cost	2,863	2,863
Accumulated depreciation and impairment	(2,344)	(2,344)
Net carrying value	519	519

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

10. INTANGIBLE ASSETS

Year ended 31 December 2015	Intellectual Property $'000	Total $'000
At 1 January 2015 net of accumulated amortisation and impairment	23,031	23,031
Impairment losses	(7,837)	(7,837)
Amortisation	(2,925)	(2,925)
At 31 December 2015, net of accumulated amortisation and impairment	12,269	12,269
At 31 December 2015		
Cost (gross carrying amount)	121,362	121,362
Accumulated amortisation and impairment	(109,093)	(109,093)
Net carrying amount	12,269	12,269

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

Impairment Testing
Intellectual Property
Intellectual property asset cost represents the fair value of nine patents acquired by the Company at 31 December 2004, less accumulated amortisation and adjusted for any accumulated impairment loss. Intellectual property is amortised over its useful life, being the patent life of between 15 -19 years at acquisition (to between 2020 and 2023), and tested for indicators of impairment at each reporting date. In 2010 one of the purchased patents was abandoned.

At 30 June 2015, due to the Company's net asset value totalling more than its market capitalisation, it was assessed that an impairment trigger had occurred and an independent valuer was engaged to calculate the fair value of the entire acquired patent portfolio. The independent valuer used a discounted cash flow model. For products still in development, probability weightings were applied to clinical trials and regulatory approval. Discount rates of between 13-18% were applied to risk adjusted forecasted cash flows over the remaining economic life of the patents. At 30 June an impairment of $7,837,000 was recognised.

As at 31 December 2015, due to the Company's net asset value totalling more than its market capitalisation, it was assessed that an impairment trigger had also occurred and the independent valuer was re-engaged to calculate the fair value of the acquired patents. Management provided updated assumptions where they had changed from the June valuation. The independent valuer used the same valuation basis, being a discounted cash flow model, probability weightings were applied to clinical trials and regulatory approval for products still in development and discount rates of between 13-20% were applied to risk adjusted forecasted cash flows over the remaining economic life of the patents. Forecasted cash flows primarily relate to anticipated royalty payments on successful commercialisation of a product or existing revenue streams if commercialised. A range of product launch dates for the initiation of royalty streams was modelled providing a range of valuations of which the Company judged to utillise the low-point of valuations provided by the valuer.

As at 31 December 2015, the fair value of the acquired patents was assessed at $12,541,000 which was not materially different to the book value. Accordingly no further impairment was recognised at 31 December.

The fair value of the acquired patents is largely dependent on the valuation assigned to the TPM®/Daptomycin product relating to acquired patents expiring in 2020 and 2021. This product is currently under development by a commercialisation partner. The Company has commenced arbitration proceedings against their commercialisation partner in relation to breaches of several provisions of the relevant Agreements. The arbitration hearing is expected to take place in late 2016. The outcome of this arbitration may have an impact on the timing of the commercialisation of the TPM®/Daptomycin product and resulting cash flows, which may lead to further material impairments of this asset.

11. CURRENT TRADE AND OTHER PAYABLES

	2015 $'000	2014 $'000
Trade payables	409	582
Accrued expenses	691	274
Other payables	112	170
Total	**1,212**	**1,026**

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

	2015 $'000	2014 $'000
Current		
Annual leave benefits	276	372
Bonus	-	72
Redundancy	149	109
Long service leave benefits	144	199
Total Current	**569**	**752**
Non-Current		
Long service leave benefits	35	95
Total Non-Current	**35**	**95**
Total	**604**	**847**

a) Movement in provisions

2015	Annual leave $'000	Bonus $'000	Redund-ancy $'000	Long service leave $'000	Total $'000
Carrying amount at start of year	**372**	**72**	**109**	**294**	**847**
Charged to profit or loss					
Additional provisions recognised	264	-	366	(8)	622
Amounts used during the year	(360)	(72)	(326)	(107)	(865)
Carrying amount at end of year	**276**	**-**	**149**	**179**	**604**

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

The provision for annual leave represents the employee's statutory entitlements and the entire amount of $276,000 (2014: $372,000) is presented as current since the group does not have the right to defer such settlements. The provision for long service leave shown in current includes all unconditional entitlements where employees have completed the required period of service. The amount of $144,000 (2014: $199,000) is presented as current as the group does not have the unconditional right to defer settlement.

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

	2015 $'000	2014 $'000
Annual leave obligations expected to be settled after 12 months	42	122
Long service leave obligations expected to be settled after 12 months	101	129
Total	**143**	**251**

13. ISSUED CAPITAL

Fully paid ordinary shares	**2015 No. '000's**	**2015 $'000**	**2014 No. '000's**	**2014 $'000**
Balance at beginning of year	1,261,965	228,100	1,020,465	209,895
Issue of shares	-	-	241,500	19,320
Exercise of options	-	-	-	-
Capital raising costs	-	-	-	(1,115)
Balance at end of year	1,261,965	228,100	1,261,965	228,100

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 2015 there were a total of 3,000,000 unexercised unquoted options issued as share based payments, of which 3,000,000 options are fully vested and can be exercised at any time up to the date of expiry.

As at close of business on 31 December 2015 there were a total of 30,960,000 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

	2015 $'000	2014 $'000
Reserves		
Business combination	27,812	27,812
Employee equity-settled benefits	2,060	2,056
Other equity-settled benefits	306	306
Foreign Currency Translation Reserve	13	(3)
	30,191	30,171

	2015 $'000	2014 $'000
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

	2015 $'000	2014 $'000
Employee equity-settled benefits reserve		
Balance at beginning of year	2,056	1,790
Share based payment expense	4	266
Balance at end of year	2,060	2,056

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.

	2015 $'000	2014 $'000
Other equity-settled benefits reserve		
Balance at beginning of year	306	306
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.

	2015 $'000	2014 $'000
Foreign Currency Translation Reserve		
Balance at beginning of year	(3)	6
Foreign Currency Translation	16	(9)
Balance at end of year	13	(3)

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

15. EARNINGS PER SHARE

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

	2015 cents	2014 cents
From continuing operations attributable to the ordinary equity holders of the Company	(1.55)	(0.66)
From discontinued operations	(0.04)	(0.14)
Total basic earnings per share attributable to the ordinary equity holders of the Company	(1.59)	(0.80)

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

From continuing operations attributable to the ordinary equity holders of the Company	(1.55)	(0.66)
From discontinued operations	(0.04)	(0.14)
Total diluted earnings per share attributable to the ordinary equity holders of the Company	(1.59)	(0.80)

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

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

c) Reconciliation of earnings used in calculating earnings per share

	2015 $'000's	2014 $'000's
Net Profit / (loss) attributable to ordinary equity holders for the calculation of basic and diluted earnings per share		
From continuing operations	(19,577)	(7,434)
From discontinued operations	(543)	(1,501)
	(20,120)	(8,935)

d) Weighted average number of shares used as the denominator

	2015 No. '000's	2014 No. '000's
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,261,966	1,122,059
Effect of dilution:		
Share options	3,000	3,067
Performance rights	34,308	14,815
Weighted average number of ordinary shares adjusted for the effect of dilution	1,299,274	1,139,941

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

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

16. COMMITMENTS AND CONTINGENCIES

a) Lease Commitments

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

Non-cancellable operating lease payments	2015 $'000's	2014 $'000's
Within 1 year	80	145
After 1 year but not more than 5 years	3	81
After more than 5 years	-	-
Total minimum lease payments	83	226

b) Contingent Liabilities

The Company is in an arbitration process with Prophase Labs Inc, its joint venture partner. The arbitration relates to a dispute regarding claims for breach of the licence granted by Phosphagenics to the joint venture entity, Phusion Laboratories LLC, for the use of TPM® in OTC pharmaceutical products. Prophase Labs is seeking unspecified damages. The Company is also seeking unspecified damages. Both parties have defended the claims in arbitration which commenced in December 2015 and is continuing, with lodgement of written closing arguments expected to occur by March 2016. The decision by the arbitrator is expected to be handed down in mid-2016.

17. SEGMENT INFORMATION

a) Description of segments

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

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

Production and Personal Care

Production and Personal Care manufactures and sells TPM® and Vital ET for the use in drug delivery and cosmetic formulations.

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

Human Health

Phosphagenics' Human Health portfolio covers delivery of drugs through gels, injectables and patches.

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

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

Revenue is derived from royalty streams and contract research.

All other segments

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

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

b) Segment results

The segment information provided to the chief executive officer for the reportable segments for the year ended 31 December 2015 is as follows:

2015	Production and Personal Care $'000's	Human Health $'000's	Total all Segments $'000s	Unallocated $'000's	Total Group $'000's
Sales and Royalties	2,057	42	2,099	91	2,190
Total segment revenue	**2,057**	**42**	**2,099**	**91**	**2,190**
Other income	-	6	6	1	7
Interest revenue	-	-	-	512	512
Income from government grants	-	-	-	2,279	2,279
Recoveries	-	-	-	160	160
Depreciation and amortisation	(137)	-	(137)	(3,131)	(3,268)
Impairment losses on intangible assets	-	-	-	(7,837)	(7,837)
Employee and directors benefit expense	-	-	-	(5,852)	(5,852)
Other operating expenses from continuing operations	(811)	(2,244)	(3,055)	(4,713)	(7,768)
Net operating profit/(loss) after tax	**1,109**	**(2,196)**	**(1,087)**	**(18,490)**	**(19,577)**
Segment assets	**1,310**	**194**	**1,504**	**29,240**	**30,744**

2014	Production and Personal Care $'000's	Human Health $'000's	Total all Segments $'000s	Unallocated $'000's	Total Group $'000's
Sales and Royalties	1,873	40	1,913	140	2,053
Total segment revenue	**1,873**	**40**	**1,913**	**140**	**2,053**
Interest revenue	-	-	-	452	452
Income from government grants	-	-	-	2,456	2,456
Recoveries	-	-	-	2,095	2,095
Depreciation and amortisation	(52)	-	(52)	(3,731)	(3,783)
Employee and directors benefit expense	-	-		(4,792)	(4,792)
Other operating expenses from continuing operations	(780)	(2,601)	(3,381)	(2,534)	(5,915)
Net operating profit/(loss) after tax	**1,041**	**(2,561)**	**(1,520)**	**(5,914)**	**(7,434)**
Segment assets	**1,156**	**29**	**1,185**	**49,716**	**50,901**

There was an impairment charge to intangibles of $7,837,000 in 2015 (2014: $nil).

c) Understanding segment results

i) Segment revenue

Revenues from external customers comes from the sale of TPM® products on a wholesale basis as well as royalties. Revenues of approximately $1,669,000 (2014: $1,498,000) are derived from a single external customer group. These revenues are attributed to the Bulk and Personal Care segment.

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

	2015 $'000	2014 $'000
Australia	3	34
Switzerland	1,389	607
United States	544	569
India	163	117
Brazil	-	548
Other	-	38
Total revenue	2,099	1,913

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

Total segment revenue	2,099	1,913
Other revenue	91	140
Total revenue from continuing operations (note 2)	2,190	2,053

ii) Segment assets

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

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

Australia	12,785	23,838
United States	3	7
Total assets	12,788	23,845

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

Segment operating assets	1,504	1,185
Discontinued operation (BioElixia® - see note 18)	17	382
Unallocated		
• Intangibles	12,269	23,031
• Cash & cash equivalents	12,395	20,679
• All other operating assets from continuing activities	4,559	5,624
Total assets per the balance sheet	30,744	50,901

iii) Segment liabilities

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

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

Segment operating liabilities	-	-
Unallocated:		
• Deferred tax liabilities	-	-
• Other operating liabilities from continuing activities	1,816	1,873
Total liabilities per the balance sheet	1,816	1,873

18. DISCONTINUED OPERATION

a) Description

In December 2014 the Company made the strategic decision to sell its branded cosmetics division, BioElixia®. The sale was put on hold pending the outcome of the Prophase arbitration. Accordingly this division has been treated as a discontinued operation for the periods ended 31 December 2014 and 2015.

b) Financial performance and cash flow information

The financial performance and cash flow information presented is for the years ended 31 December 2015 and 2014.

	2015 $'000	2014 $'000
Total sales	144	398
Less retailer discounts applied	(114)	(42)
Revenue (note 2)	30	356
Cost of sales	(110)	(260)
Stock obsolescence expense	(236)	(18)
Marketing	(50)	(474)
Other expenses	(177)	(1,105)
Loss before income tax	(543)	(1,501)
Income tax expense	-	-
Loss from discontinued operation	(543)	(1,501)

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

The following assets and liabilities were reclassified as held for sale in relation to the discontinued operation as at 31 December 2015.

Assets classified as held for sale		
Inventories	17	382
Total assets of group held for sale	17	382

19. RELATED PARTY TRANSACTIONS

a) Subsidiaries

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

b) Key management personnel compensation

Short-term employee benefits	2,340,093	1,510,004
Post-employment benefits	164,579	85,740
Long-term benefits	22,657	16,852
Termination benefits	492,842	-
Share-based payments	2,724	106,622
	3,022,895	1,719,218

In 2014 Annual leave benefit of $90,191 was transferred from long-term benefits to short-term employee benefits and a recalculation of ($62,248) was further applied.

Detailed remuneration disclosures are provided in the remuneration report on pages 7 to 15.

c) Transactions with other related parties

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

20. INTEREST IN OTHER ENTITIES

a) Subsidiaries

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

Entity	Country of Incorporation	2015 Equity Interest	2014 Equity Interest	2015 Investment $'000	2014 Investment $'000
Vital Health Sciences Pty Ltd	Australia	100%	100%	13,300	27,111
Preform Technologies Pty Ltd[1]	Australia	100%	100%	-	-
Adoil Pty Ltd[1]	Australia	100%	100%	-	-
Phosphagenics Inc.	USA	100%	100%	-	-

[1]Non-operating subsidiaries

b) Interests in associates and joint ventures

Entity	Country of Incorporation	2015 Equity Interest	2014 Equity Interest	2015 Investment $'000	2014 Investment $'000
Phusion Laboratories LLC	USA	50%	50%	-	-

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

21. EVENTS AFTER BALANCE SHEET DATE

There has not been any matter or circumstance, other than those referred to in the financial statements or notes thereto, that has arisen since the end of the financial 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.

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:

	2015 $'000	2014 $'000
Cash at Bank	4,471	707
Short Term Deposits	7,924	19,972
	12,395	20,679

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

Net Loss after tax	(20,120)	(8,935)
Adjustments for:		
Depreciation and amortisation and impairments	3,268	3,783
Impairment of intangible	7,837	-
Write down of fixed assets for obsolesce	41	-
Share based payment expense (ECRS)	4	266
Foreign currency translation reserve	16	(9)
Interest received	(510)	(485)
Changes in assets and liabilities:		
Decrease/(increase) in trade receivables and other receivables	489	(792)
(Increase)/decrease in inventories	(58)	479
Decrease/(increase) in other current assets	20	(350)
Decrease/(increase) in assets classified as held for sale	365	(382)
Decrease/(increase) in trade payables and other payables	186	(662)
(Decrease)/increase in provisions	(243)	348
Net cash (used in) operating activities	(8,705)	(6,739)

23. FINANCIAL RISK MANAGEMENT

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

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

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

a) Market risk

i) Interest rate risk

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

	2015 $'000	2014 $'000
Financial Assets		
Cash and cash equivalents	12,395	20,679

Sensitivity

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

	Impact on post tax profit		Impact on other components of equity	
	2015 $'000	2014 $'000	2015 $'000	2014 $'000
Judgements of reasonably possible movements:				
+1% (100 basis points)	123	207	-	-
-0.5% (50 basis points)	(62)	(103)	-	-

ii) Foreign Currency Risk

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

The group has purchased options to hedge exposures to Euro payments due in the first six months of 2016. The group does not use derivative financial instruments to hedge its exposures in US dollars. The Chief Executive Officer and Chief Financial Officer regularly monitor the potential impact of movements in foreign exchange exposure.

Approximately 75% of sales and royalties (2014: 78%) are denominated in currencies other than the presentation currency of the Group (Australian dollars), whilst approximately 71% (2014: 78%) of costs are denominated in the Groups presentation currency.

At 31 December 2015 the Group had the following exposure to US dollar foreign currency not designated in cash flow hedges:

	2015	2014
	$'000	$'000
Financial Assets		
Cash and cash equivalents	22	61
Trade and other receivables	731	568
	753	629
Financial Liabilities		
Trade and other payables	(565)	(407)
Net Exposure	188	222

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

	Impact on post tax profit		Impact on other components of equity	
	2015	2014	2015	2014
	$'000	$'000	$'000	$'000
Judgements of reasonably possible movements:				
Consolidated				
AUD/USD +10%	(17)	(20)	-	-
AUD/USD -10%	21	25	-	-

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

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

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

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

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

24. PARENT ENTITY FINANCIAL INFORMATION

	2015 $'000	2014 $'000
Balance Sheet		
Current assets	17,093	26,102
Total assets	55,440	79,530
Current liabilities	1,518	1,750
Total liabilities	1,574	1,806
Shareholders' equity		
Issued capital	228,100	228,100
Reserves		
Employee equity benefits reserve	2,060	2,056
Foreign Currency Translation Reserve	336	146
Other equity-settled benefits reserve	306	306
Accumulated losses	(176,936)	(152,884)
	53,866	77,724
Loss of the parent entity	(24,052)	(6,282)
Total comprehensive income of the parent entity	(24,052)	(6,282)
Guarantees entered into by the parent entity in relation to the debts of its subsidiaries	-	-
Contingent liabilities of the parent entity	-	-
Contractual commitments by the parent equity for the acquisition of property, plant or equipment.	-	-

Directors’ Declaration

In the directors’ opinion:

(a) the financial statements and notes of Phosphagenics Limited for the financial year ended 31 December 2015 are in accordance with the *Corporations Act 2001*, including:

(i) complying with Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and

(ii) giving a true and fair view of the consolidated entity’s financial position as at 31 December 2015 and of its performance for the year ended on that date; and

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

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

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

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

Peter Lankau
Chairman

29 February 2016
Melbourne

Independent auditor's report to the members of Phosphagenics Limited

Report on the financial report

We have audited the accompanying financial report of Phosphagenics Limited (the company), which comprises the consolidated balance sheet as at 31 December 2015, the consolidated income statement and consolidated statement of comprehensive income , consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for Phosphagenics Limited (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at year's end or from time to time during the financial year.

Directors' responsibility for the financial report

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

Auditor's responsibility

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

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

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

Independence

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

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

Auditor's opinion

In our opinion, the financial report of Phosphagenics Limited is in accordance with the *Corporations Act 2001,* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2015 and of its performance for the year ended on that date; and

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

Report on the Remuneration Report

We have audited the remuneration report included in pages 7 to 15 of the directors' report for the year ended 31 December 2015. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's opinion

In our opinion, the remuneration report of Phosphagenics Limited for the year ended 31 December 2015 complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

Anton Linschoten
Partner

Melbourne
29 February 2016