

APPENDIX 4E ASX PRELIMINARY FINAL REPORT

Phosphagenics Limited

ABN 32 056 482 403

31 December 2017

Lodged with the ASX under Listing Rule 4.3A

Contents

Results for announcement to the market	1
<i>Appendix 4E item 2</i>	
Preliminary Consolidated Statement of Comprehensive Income	2
<i>Appendix 4E item 3</i>	
Preliminary Consolidated Statement of Financial Position	3
<i>Appendix 4E item 4</i>	
Preliminary Consolidated Statement of Changes in Equity	4
<i>Appendix 4E item 6</i>	
Preliminary Consolidated Statement of Cash Flows	5
<i>Appendix 4E item 5</i>	
Supplementary Appendix 4E information	6
<i>Appendix 4E items 7 to 16</i>	

This report covers the consolidated entity consisting of Phosphagenics Ltd and its controlled entities. The financial statements are presented in the Australian currency.

Phosphagenics Limited and its Controlled Entities

Results for Announcement to the Market

for the year ended 31 December 2017
(previous corresponding period year ended 31 December 2016)

\$'000

Revenues from ordinary activities <i>(Appendix 4E item 2.1)</i>	down	28%	to	1,150
Loss from ordinary activities after tax attributable to owners of Phosphagenics Limited <i>(Appendix 4E item 2.2)</i>	down	50%	to	8,618
Loss for the year attributable to the owners of Phosphagenics Limited <i>(Appendix 4E item 2.3)</i>	down	51%	to	8,545

Dividends *(Appendix 4E item 2.4, 7 and 8)*

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

There are no dividend or distribution plans in operation.

Explanation of Revenue *(Appendix 4E item 2.6)*

Total revenue was down 28% for the year to \$1,150,356 (2016: \$1,588,294), with slightly increased royalties and licence fees of \$681,068 (2016: \$636,165) offset by lower sale of goods and services of \$469,288 (2016: \$952,129). Sales of Vital ET to global distributor, Ashland, were down on prior years as Ashland worked through their remaining excess stock which is now exhausted. Initial orders for over 4,800kgs have been received to date in 2018 and will be shipped by mid-March. Licence revenue was bolstered by term sheet signing fees by Terumo Corporation (Japan) for TPM[®]/Oxymorphone (\$407,308) and Sichuan Credit Pharma Co Ltd (China) for TPM[®]/Diclofenac (\$96,218).

Explanation of loss from ordinary activities after tax *(Appendix 4E item 2.6)*

The loss from ordinary activities was down 50% to \$8,618,028 (2016: \$17,246,647). Total revenue was down 28% for the year to \$1,150,356 (2016: \$1,588,294) and Other income was down by 43% to \$1,194,475 (2016: \$2,083,739), primarily from a decrease in the R&D tax incentive credit to \$1,007,684 (2016: \$1,832,705) reflecting lower spend on R&D in the year.

Expenses from continuing operations were considerably lower at \$10,869,104 (2016: \$20,589,518), with no intangible impairment loss booked in the current year (2016: \$7,207,000) and lower depreciation and amortisation expenses of \$776,468 (2016: \$2,471,546) which were partially offset by increased legal fees to support arbitrations of \$3,439,377 (2016: \$2,192,775).

Explanation of loss *(Appendix 4E item 2.6)*

Please refer above

Phosphagenics Limited and its Controlled Entities

Preliminary Consolidated Statement of Comprehensive Income

for the year ended 31 December 2017

	Note	2017 \$	2016 \$
Revenue from continuing operations			
Total revenue	3	1,150,356	1,588,294
Cost of sales		(93,755)	(329,162)
Gross profit		1,056,601	1,259,132
Other Income			
Other Income	3	1,194,475	2,083,739
Employee and directors benefits expenses		(3,157,699)	(3,429,404)
Research expenses		(1,191,231)	(1,752,153)
Consulting and professional expenses		(824,983)	(1,198,661)
Legal expenses	4	(3,584,140)	(2,677,732)
Amortisation and depreciation		(776,468)	(2,471,546)
Impairment losses	5	-	(7,207,000)
Other expenses		(1,334,583)	(1,853,022)
Loss before income tax		(8,618,028)	(17,246,647)
Income tax benefit		-	-
Loss from continuing operations		(8,618,028)	(17,246,647)
Profit / (loss) from discontinued operations	8	72,670	(68,751)
Loss for the period		(8,545,358)	(17,315,398)

Other Comprehensive Income

Items that may be classified to profit or loss

Exchange differences on translation of foreign operations	(5,859)	(3,463)
Income tax/(expense) on items of other comprehensive income	-	-
Other comprehensive income for the period, net of tax	(5,859)	(3,463)
Total comprehensive income for the period	(8,551,217)	(17,318,861)

Total comprehensive income for the period attributable to:

Owners of Phosphagenics Ltd and arises from:

Continuing operations	(8,623,887)	(17,246,647)
Discontinued operations	72,670	(68,751)
	(8,551,217)	(17,315,398)

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

Basic loss per share	7	(0.66) cents	(1.37) cents
Diluted loss per share	7	(0.66) cents	(1.37) cents

Loss per share attributable to the ordinary equity holders of the Company:

Basic loss per share	7	(0.66) cents	(1.37) cents
Diluted loss per share	7	(0.66) cents	(1.37) cents

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

Phosphagenics Limited and its Controlled Entities
Preliminary Consolidated Statement of Financial Position
as at 31 December 2017

	Note	31 December 2017	31 December 2016
		\$	\$
ASSETS			
Current Assets			
Cash and cash equivalents	10	2,898,596	6,091,508
Trade and other receivables		2,394,732	3,607,529
Inventories		291,642	237,017
Other current assets		217,512	247,190
Total Current Assets		5,802,482	10,183,244
Non-Current Assets			
Plant and equipment		251,032	384,933
Intangible assets	5	2,186,000	2,786,000
Total Non-Current Assets		2,437,032	3,170,933
Total Assets		8,239,514	13,354,177
LIABILITIES			
Current Liabilities			
Trade and other payables		1,238,838	1,318,162
Deferred income		108,262	-
Provisions		366,429	345,495
Total Current Liabilities		1,713,529	1,663,657
Non-Current Liabilities			
Deferred income		76,078	-
Provisions		46,545	44,000
Total Non-Current Liabilities		122,623	44,000
Total Liabilities		1,836,152	1,707,657
Net Assets		6,403,362	11,646,522
EQUITY			
Issued Capital	6	231,274,227	228,099,705
Reserves		30,351,533	30,223,857
Accumulated Losses		(255,222,398)	(246,677,040)
Total Equity		6,403,362	11,646,522

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

Phosphagenics Limited and its Controlled Entities
Preliminary Consolidated Statement of Changes in Equity
for the year ended 31 December 2017

	Contributed capital \$	Reserves \$	Accumulated losses \$	Total equity \$
Balance at 31 December 2015	228,099,705	30,191,262	(229,361,642)	28,929,325
Loss for the year	-	-	(17,315,398)	(17,315,398)
Other comprehensive income	-	(3,463)	-	(3,463)
Total comprehensive income (loss) for the period	-	(3,463)	(17,315,398)	(17,318,861)
Transactions with owners in their capacity as owners:				
Employee equity settlement benefits	-	36,058	-	36,058
Total transactions with owners	-	36,058	-	36,058
Balance at 31 December 2016	228,099,705	30,223,857	(246,677,040)	11,646,522
Loss for the year	-	-	(8,545,358)	(8,545,358)
Other comprehensive income	-	(5,859)	-	(5,859)
Total comprehensive income (loss) for the period	-	(5,859)	(8,545,358)	(8,551,217)
Transactions with owners in their capacity as owners:				
Issue of share capital	3,360,685	-	-	3,360,685
Transaction costs	(186,163)	-	-	(186,163)
Employee equity settlement benefits	-	133,535	-	133,535
Total transactions with owners	3,174,522	133,535	-	3,308,057
Balance at 31 December 2017	231,274,227	30,351,533	(255,222,398)	6,403,362

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

Phosphagenics Limited and its Controlled Entities
Preliminary Consolidated Statement of Cash Flows
for the year ended 31 December 2017

	Notes	2017 \$	2016 \$
OPERATING ACTIVITIES			
Receipts from customers (inclusive of goods and services tax)		1,257,523	2,139,757
Receipt of recoveries		76,539	-
Receipt of government grants		2,293,919	2,441,911
Payments to suppliers and employees (inclusive of goods and services tax)		(10,048,943)	(10,994,231)
Net cash used in operating activities	10(b)	(6,420,962)	(6,412,563)
INVESTING ACTIVITIES			
Interest received		33,816	171,085
Proceeds from sale of plant and equipment		75,300	-
Purchase of plant and equipment		(55,588)	(62,284)
Net cash from investing activities		53,528	108,801
FINANCING ACTIVITIES			
Proceeds from issues of shares	6	3,360,685	-
Costs of issue of shares	6	(186,163)	-
Net cash from financing activities		3,174,522	-
Net (decrease)/ increase in cash and cash equivalents		(3,192,912)	(6,303,762)
Cash and cash equivalents at the beginning of period		6,091,508	12,395,270
Cash and cash equivalents at the end of period	10(a)	2,898,596	6,091,508

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

Phosphagenics Limited and its Controlled Entities

Supplementary Appendix 4E Information

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

This preliminary final report has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E.

This report is to be read in conjunction with any public announcements made by Phosphagenics Limited during the reporting period in accordance with continuous disclosure requirements of the *Corporations Act 2001* and the Australian Securities Exchange Listing Rules.

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*. The principal accounting policies adopted in the preparation of the financial statements are consistent with those of the previous financial year.

i) Compliance with IFRS

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

ii) Going concern

For the year ended 31 December 2017, the consolidated entity has incurred losses of \$8,545,358 (2016: \$17,315,398) and experienced net cash outflows from operations of \$6,420,962 (2016: \$6,412,563). As at year end the cash position was \$2,898,596 (2016: \$6,091,508). Subsequent to year end the Company received a further \$1,371,688 in a share placement to sophisticated investors and \$1,252,095 for the R&D tax incentive for the year ended 30 June 2017.

During 2018 the Company expects increased revenues and decreased operational costs, primarily from reduced legal expenses associated with the Mylan arbitration. In the normal course of operations the directors are satisfied there is sufficient working capital, including those funds from its recent capital raise, that the Company has the ability to realise its assets and pay its liabilities and commitments in the normal course of business.

In 2016 the Company entered an arbitration with Mylan Laboratories Ltd (India) which concluded with a hearing in early November 2017 with an award expected to be rendered within three to six months from its conclusion. The outcome of arbitration is by nature uncertain and a positive award is not assured. If unsuccessful and costs are awarded against the Company, the Company is likely to need to find additional sources of funding.

Accordingly, there is material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and therefore, as it may not be able to realise its assets and discharge its liabilities in the normal course of business. However, the directors believe it is probable that the Company will be successful in the arbitration and accordingly have prepared the financial report on a going concern basis. As such no adjustments have been made to the financial statements relating to the recoverability and classification of the asset carrying amounts or classification of liabilities that might be necessary should the Company not be able to continue as a going concern.

2. SEGMENT INFORMATION

(Appendix 4E item 14.4)

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 division continues to prioritise development work on TPM[®]/Oxymorphone and enhanced injectables products while continuing to assess commercial opportunities for all TPM[®] products. Revenue is derived from royalty streams, licence fees and contract research.

Phosphagenics Limited and its Controlled Entities

Supplementary Appendix 4E Information

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 and was sold in 2017. Information about this discontinued division is provided in note 8.

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 2017 is as follows:

	Production and Personal Care	Human Health	Total all Segments	Unallocated	Total Group
2017	\$	\$	\$	\$	\$
Sales, Licences and Royalties	231,871	918,485	1,150,356	-	1,150,356
Total segment revenue	231,871	918,485	1,150,356	-	1,150,356
Other income	-	672,408	672,408	522,067	1,194,475
Depreciation and amortisation	(6,183)	-	(6,183)	(770,285)	(776,468)
Employee and directors benefit expense	(426,700)	(816,425)	(1,243,125)	(1,914,574)	(3,157,699)
Research expenses	-	(914,416)	(914,416)	(276,815)	(1,191,231)
Other operating expenses from continuing operations	(141,914)	(187,960)	(329,874)	(5,507,587)	(5,837,461)
Net operating profit/(loss) after tax	(342,926)	(327,908)	(670,834)	(7,947,194)	(8,618,028)
Segment assets	512,942	207,815	720,757	7,518,757	8,239,514

	Production and Personal Care	Human Health	Total all Segments	Unallocated	Total Group
2016	\$	\$	\$	\$	\$
Sales, Licences and Royalties	1,293,344	238,382	1,531,726	56,568	1,588,294
Total segment revenue	1,293,344	238,382	1,531,726	56,568	1,588,294
Other income	-	75,848	75,848	2,007,891	2,083,739
Depreciation and amortisation	(10,778)	-	(10,778)	(2,460,768)	(2,471,546)
Impairment losses on intangible assets	-	-	-	(7,207,000)	(7,207,000)
Employee and directors benefit expense	(446,808)	(854,754)	(1,301,562)	(2,127,842)	(3,429,404)
Other operating expenses from continuing operations	(366,573)	(1,363,862)	(1,730,435)	(6,080,295)	(7,810,730)
Net operating profit/(loss) after tax	469,185	(1,904,386)	(1,435,201)	(15,810,566)	(17,246,647)
Segment assets	634,027	162,369	796,396	12,557,781	13,354,177

Phosphagenics Limited and its Controlled Entities

Supplementary Appendix 4E Information

	2017	2016
	\$	\$

3. REVENUE AND OTHER INCOME

Revenue from continuing operations

Sale of goods and services	469,288	952,129
Royalties and license fees	681,068	636,165
Total	1,150,356	1,588,294

Other income

R&D tax incentive credit	1,007,684	1,832,705
Finance revenue	35,997	171,186
Other income	74,255	79,848
Recoveries received [#]	76,539	-
Total	1,194,475	2,083,739

[#] The Company recognises payments received under Deeds of Settlement or from the Bankruptcy Trustee, related to the misappropriations announced in 2014, when they are virtually certain.

4. EXPENSES

Legal expenses

Legal expenses associated with arbitrations	(3,439,377)	(2,192,775)
Other legal expenses	(144,763)	(484,957)
Total	(3,584,140)	(2,677,732)

5. INTANGIBLE ASSETS

	Total Intellectual Property \$
Year ended 31 December 2017	
At 1 January 2017 net of accumulated amortisation and impairment	2,786,000
Amortisation	(600,000)
At 31 December 2017, net of accumulated amortisation and impairment	2,186,000
At 31 December 2017	
Cost (gross carrying amount)	121,362,000
Accumulated amortisation and impairment	(119,176,000)
Net carrying amount	2,186,000

	Total Intellectual Property \$
Year ended 31 December 2016	
At 1 January 2016 net of accumulated amortisation and impairment	12,269,000
Impairment losses	(7,207,000)
Amortisation	(2,276,000)
At 31 December 2016, net of accumulated amortisation and impairment	2,786,000
At 31 December 2016	
Cost (gross carrying amount)	121,362,000
Accumulated amortisation and impairment	(118,576,000)
Net carrying amount	2,786,000

Phosphagenics Limited and its Controlled Entities

Supplementary Appendix 4E Information

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 31 December 2016 it was assessed that an impairment event had occurred due to delays to the commercialisation of TPM®/Daptomycin product and to the resulting cash flows assumptions in the valuation model. An independent valuer was engaged to calculate the fair value of the acquired patents using a number of management assumptions. The independent valuer used a discounted cash flow model as the valuation basis, applying probability weightings 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, including an assumption that the commercialisation partner for TPM®/Daptomycin did not have an intention to launch the product. The valuer provided a range of valuations of which the Company judged to utilise the low-point of valuations provided. As at 31 December 2016, the fair value of the acquired patents was assessed at \$3,218,000. Where the valuer provided a higher patent value than the existing net carrying amount, the lower of the two values was taken. Accordingly the Company recognised an impairment of \$7,207,000.

At 31 December 2017 it was assessed that no impairment events had occurred to relevant patents.

The remaining fair value of the acquired patents is dependent on the continued sales of Vital ET® and the commercialisation of TPM®/Oxycodone prior to the expiry of the patents. Revenue assumptions related to this have been assessed for delays in revenue receipts, with delays of one year not materially impacting the value of the assets.

6. ISSUED CAPITAL

Fully paid ordinary shares	2017	2017	2016	2016
	No. '000's	\$	No. '000's	\$
Balance at beginning of year	1,261,965	228,099,705	1,261,965	228,099,705
Issue of shares	224,047	3,360,685	-	-
Costs of issue	-	(186,163)	-	-
Balance at end of year	1,486,012	231,274,227	1,261,965	228,099,705

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 2017 there were a total of 38,071,300 unexercised unquoted options issued as share based payments, of which 4,750,000 options are fully vested and can be exercised at any time up to the date of expiry.

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

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

Item	2017	2017	2016	2016
	Options	WAEP	Options	WAEP
	No.	\$	No.	\$
Outstanding at beginning of the year	36,948,150	\$0.17	3,000,000	\$0.17
Granted during the year	20,250,000	\$0.023	33,948,150	\$0.023
Forfeited during the year	(4,216,200)	\$0.023	-	-
Exercised during the year	-	-	-	-
Expired during the year	(14,910,650)	\$0.023	-	-
Outstanding at end of the year	38,071,300	\$0.034	36,948,150	\$0.035
Exercisable at end of the year	4,750,000	\$0.12	3,000,000	\$0.17

Phosphagenics Limited and its Controlled Entities

Supplementary Appendix 4E Information

7. EARNINGS PER SHARE

(Appendix 4E item 14.1)

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.

	2017 cents	2016 cents
From continuing operations attributable to the ordinary equity holders of the Company	(0.66)	(1.37)
From discontinued operations	(0.00)	(0.00)
Total basic earnings per share attributable to the ordinary equity holders of the Company	(0.66)	(1.37)

b) Diluted earnings per share

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

From continuing operations attributable to the ordinary equity holders of the Company	(0.66)	(1.37)
From discontinued operations	(0.00)	(0.00)
Total diluted earnings per share attributable to the ordinary equity holders of the Company	(0.66)	(1.37)

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

	2017 \$	2016 \$
Net Loss attributable to ordinary equity holders for the calculation of basic and diluted earnings per share		
From continuing operations	(8,618,028)	(17,246,647)
From discontinued operations	72,670	(68,751)
	(8,545,358)	(17,315,398)

d) Weighted average number of shares used as the denominator

	2017 No. '000's	2016 No. '000's
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,301,865	1,261,966
Effect of dilution:		
Share options	45,510	10,977
Performance rights	6,205	26,090
Weighted average number of ordinary shares adjusted for the effect of dilution	1,353,580	1,299,033

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.

Phosphagenics Limited and its Controlled Entities

Supplementary Appendix 4E Information

8. DISCONTINUED OPERATION

a) Description

The sale of branded cosmetics division, BioElixia®, which was put on hold pending the outcome of the ProPhase arbitration in early 2016, was completed in August 2017. Accordingly, this division has been treated as a discontinued operation for the periods ended 31 December 2016 and 2017.

b) Financial performance and cash flow information

The financial performance and cash flow information presented is for the years ended 31 December 2017 and 2016.

	2017	2016
	\$	\$
Total sales	-	48,309
Cost of sales	-	(43,429)
Profit on sale of BioElixia	200,000	-
Stock obsolescence expense	-	(2,255)
Legal expenses	(127,330)	
Other expenses	-	(71,376)
Profit / (loss) before income tax	72,670	(68,751)
Income tax expense	-	-
Profit / (loss) from discontinued operation	72,670	(68,751)

9. INTEREST IN OTHER ENTITIES

a) Subsidiaries

(Appendix 4E item 11)

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

Entity	Country of Incorporation	2017 Equity Interest	2016 Equity Interest	2017 Investment \$	2016 Investment \$
Vital Health Sciences Pty Ltd	Australia	100%	100%	4,300,000	4,300,000
Preform Technologies Pty Ltd ¹	Australia	100%	100%	-	-
Adoil Pty Ltd ¹	Australia	100%	100%	-	-
Phosphagenics Inc.	USA	100%	100%	-	-

¹Non-operating subsidiaries

b) Interests in associates and joint ventures

(Appendix 4E item 10)

Entity	Country of Incorporation	2017 Equity Interest	2016 Equity Interest	2017 Investment \$'000	2016 Investment \$'000
Phusion Laboratories LLC	USA	-	50%	-	-

Phusion Laboratories was a jointly controlled entity formed in March 2010 with ProPhase Labs Inc. Under the Operating Agreement Phosphagenics was not required to contribute to funding. Phusion had accumulated losses which management had assessed that Phosphagenics did not have an obligation to make good. Accordingly Phosphagenics' share of losses has historically not been recorded in the Consolidated Income Statement or Balance Sheet.

Phosphagenics and ProPhase were in arbitration relating to the jointly controlled entity from October 2014 until the ruling was handed down by the American Arbitration Association in November 2016. The ruling included an order for the jointly controlled entity to be wound up which has now been completed.

Phosphagenics Limited and its Controlled Entities

Supplementary Appendix 4E Information

10. 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:

	2017	2016
	\$	\$
Cash at Bank	1,469,037	5,886,872
Short Term Deposits	1,429,559	204,636
	2,898,596	6,091,508

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

Net Loss after tax	(8,545,358)	(17,315,398)
<i>Adjustments for:</i>		
Depreciation and amortisation and impairments	776,468	2,471,546
Impairment of intangible assets	-	7,207,000
Write down of fixed assets for obsolescence	11,502	901
Profit on sale of fixed asset	(73,781)	-
Share based payment expense	133,535	36,058
Foreign currency translation reserve	(5,859)	(3,463)
Interest received	(33,816)	(171,085)
<i>Changes in assets and liabilities:</i>		
Decrease in trade receivables and other receivables	1,212,797	1,116,419
(Increase) / decrease in inventories	(54,625)	40,815
Decrease in other current assets	29,678	295,266
Decrease in assets classified as held for sale	-	17,000
(Decrease) / increase in trade payables and other payables	(79,322)	106,850
Increase in deferred revenues	184,340	-
Increase / (decrease) in provisions	23,479	(214,467)
Net cash (used in) operating activities	(6,420,962)	(6,412,558)

11. OTHER SIGNIFICANT INFORMATION

(Appendix 4E item 12)

Contingent Liability

In 2016 the Company entered an arbitration with Mylan Laboratories Ltd (India) ("Mylan"). The hearing concluded in early November 2017 and an award was expected to be rendered within three to six months from its conclusion. A successful outcome from arbitration would result in the Company being awarded an amount payable by Mylan, the quantum and timing of which cannot be reliably determined. However, in the event that all or part of the arbitration claims are unsuccessful, the arbitrator may order the Company to pay the respondent's costs, which in most cases is less than the actual costs incurred by the party and which are currently unknown. Please refer to Note 1 for further information.

Events After Balance Sheet Date

On 17 January 2018 the Company received a refund of \$1,252,095 for the R&D tax incentive for the tax year ended 30 June 2017.

On 18 January 2018 the Company completed a placement to sophisticated investors of 91,445,867 ordinary shares raising \$1,371,688.

Phosphagenics Limited and its Controlled Entities

Supplementary Appendix 4E Information

12. NET TANGIBLE ASSET BACKING

(Appendix 4E item 9)

	Reporting period cents	Previous period cents
Net tangible assets per ordinary security	0.28	1.02

13. SIGNIFICANT FEATURES OF OPERATING PERFORMANCE

(Appendix 4E items 14.3)

Refer to Results for Announcement to Market.

14. TRENDS IN PERFORMANCE

(Appendix 4E items 14.5)

Refer to Results for Announcement to Market.

15. OTHER FACTORS THAT AFFECTED RESULTS IN THE PERIOD OR WHICH ARE LIKELY TO AFFECT RESULTS IN THE FUTURE

(Appendix 4E items 14.6)

Refer Note 11.

16. AUDIT STATUS

(Appendix 4E items 15 and 16)

These financial statements are currently in the process of being audited. The auditors are expected to issue an unqualified audit opinion, with an emphasis of matter on going concern in relation to the matter detailed in Note 1.