



13 August 2010

**THE MANAGER
COMPANY ANNOUNCEMENTS OFFICE
ASX LIMITED**

Dear Sirs

re : Phosphagenics Limited

HALF-YEARLY REPORT : APPENDIX 4D

Enclosed for release to the market is the Company's Appendix 4D Report for the half-year ended 30 June 2010 inclusive of the signed Financial Report of the Company for that period.

Yours faithfully
Phosphagenics Limited

Mourice Garbutt
Company Secretary
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About Phosphagenics Limited

Phosphagenics is a Melbourne-based, globally driven biotechnology company focused on the discovery of new and cost effective ways to enhance the bioavailability, activity, safety and delivery of proven pharmaceutical and nutraceutical products. Phosphagenics' core technology is built around the science and application of phosphorylation, a process where the addition of a phosphate group has been found to enhance the bioavailability, activity and safety of existing pharmaceuticals and nutraceuticals, as well as to assist in the production of drug delivery platforms. Phosphagenics' shares are listed on the Australian Stock Exchange (POH) and its ADR – Level 1 program was established in the U.S. with The Bank of New York Mellon (PPGNY) for U.S. investors to trade in Phosphagenics' stock on the 'over-the-counter' market. In July 2007, this was upgraded to the International OTCQX, a new premium market tier in the U.S. for international exchange-listed companies, operated by Pink Sheets, LLC.

Phosphagenics Limited

(ABN 32 056 482 403)

Appendix 4D

Half Year Report for the period ended on 30 June 2010

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Section 2: HIGHLIGHTS OF RESULTS, DIVIDENDS & ANALYSTS INFORMATION

The following comment is to be read in conjunction with the summarised results report:

For the 6 months ended 30 June 2010 the Company returned an after tax loss of \$0.550 million (2009: \$3.584 million).

During the period, the Company continued to advance the commercialisation of its unique patented delivery technology with the following results:

1. Positive results from a Phase 1b clinical study using the Company's patented TPM™ (Targeted Penetration Matrix) for the transdermal delivery of oxycodone. This successful trial showed that daily application of a TPM™-oxycodone patch delivered therapeutic bloodstream levels of oxycodone in a reproducible, consistent and sustained manner.
2. An agreement was signed appointing Pulse Pharmacies as the exclusive Australia-wide distributor of Phosphagenics' new Elixia™ skincare product range. The Elixia™ range of six products, including an Anti-oxidant Serum and a Multi V Moisturiser, uses the Phosphagenics patented TPM™ (Targeted Penetration Matrix) delivery technology to deliver more active ingredients into the skin. The Elixia™ range was launched in Sydney on 23 March 2010.
3. A strategic joint venture was formed with ProPhase Corporation to develop a wide range of over the counter (OTC) remedies for worldwide distribution and sale. The joint venture entity is the newly formed Phusion Laboratories LLC. Phusion combines Phosphagenics' state-of-the-art science and research team with ProPhase's robust distribution network and OTC market expertise to develop and market powerful OTC products.
4. A global agreement was signed with Novartis Animal Health to develop their patented transdermal (TPM) insulin delivery system for the treatment of diabetes in companion animals which opens new opportunities for Phosphagenics in the veterinary market.
5. The appointment of Southern Cross Equities as its corporate advisor for the role of providing general corporate advice as well as introducing Phosphagenics to new Australian and international investors.

As at 30 June 2010 funds in hand totalled \$8.433 million (2009: \$9.313 million); refer to the Statement of Cash Flow. At 30 June 2010 Shareholders Equity totalled \$49.811 million (2009: \$48.191 million); refer to the Statement of Changes in Equity.

To examine in detail the information referred to above please visit the Company's website at: www.phosphagenics.com or contact the Company by telephone +613 9565 1119 or by facsimile +613 9565 1151

Appendix 4D

PHOSPHAGENICS LIMITED

ABN 32 056 482 403

Half Year Report Period Ended 30 June 2010

(Previous Corresponding Period: Half year ended 30 June 2009)

The Appendix 4D should be read in conjunction with the most recent Financial Report

Results for announcement to the market

		\$A'000	\$A'000
		6 months 30 June 2010	6 months 30 June 2009
Revenues from ordinary activities	(Up 252%)	5,140	1,462
(Loss) from ordinary activities after tax attributable to members	(Down 85%)	(550)	(3,584)
Net (Loss) for the period attributable to members	(Down 85%)	(550)	(3,584)

Dividends (distributions)	Amount per security	Franked amount per security
6 months ended 30 June 2010 N/A	-	N/A ¢
6 months ended 30 June 2009 N/A	-	N/A ¢
Record date for determining entitlements to the dividend	N/A	

Net Tangible Assets Per Security

Net tangible assets per security (with the comparative figure for the previous corresponding period):

	30 June 2010	30 June 2009
Net tangible assets per security	1.27 Cents	1.52 Cents

Brief explanation necessary to enable the figures above to be understood:

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1. Positive results from a Phase 1b clinical study using the Company's patented TPM™ (Targeted Penetration Matrix) for the transdermal delivery of oxycodone. This successful trial showed that daily application of a TPM™-oxycodone patch delivered therapeutic bloodstream levels of oxycodone in a reproducible, consistent and sustained manner.
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Section 3: STATUTORY SECTION 320 ACCOUNTS

The Financial Report for the half-year period ended 30 June 2010, as attached, is inclusive of:

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Phosphagenics Limited

ABN 32 056 482 403

Condensed Financial Report
for the half year ended 30 June 2010

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Directors' Report

The Directors of Phosphagenics Limited submit their report for the half-year ended 30 June 2010.

DIRECTORS

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

Currently in Office

**JONATHAN LANCELOT ADDISON (AGED 57 YEARS) BEC (TAS), ASIC, CFTP (SNR)
INDEPENDENT DIRECTOR SINCE NOVEMBER 2002, CHAIRMAN SINCE MAY 2010
LAST RE-ELECTED MAY 2008**

Mr Addison has over 30 years in the investment management industry, including wide experience in superannuation. Currently he is the Investment Manager (formerly Fund Manager) of the Meat Industry Employee Superannuation Fund (MIESF) whom he joined in June 1999 and where he is responsible for the investment management of MIESF.

MIESF, a self-administered industry superannuation fund established in 1981 which operates nationally, currently holds 21,800,000 shares in Phosphagenics Limited. Prior to his appointment to MIESF, Mr Addison was a Director and Asset Consultant within the corporate finance section of PricewaterhouseCoopers and in this role was responsible for establishing an investment consulting practice with clients ranging from superannuation funds to insurance funds and funds managers. Prior to that, he was a Manager Investment Consultant at Sedgwick Noble Lowndes.

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

**HARRY ROSEN (AGED 62 YEARS) BA , LLB
EXECUTIVE DIRECTOR APPOINTED TO THE BOARD IN JUNE 1999
APPOINTED MANAGING DIRECTOR/CHIEF EXECUTIVE OFFICER SINCE DECEMBER 2005
LAST RE-ELECTED MAY 2004***

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

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

* As Managing Director/ Chief Executive Officer Mr Rosen is not required to retire by rotation.

**PROFESSOR JOHN MILLS (AGED 70 YEARS) BS (HONS), MD, FACP, FRACP
INDEPENDENT DIRECTOR SINCE MARCH 2004
LAST RE-ELECTED MAY 2010**

Professor Mills has a long and distinguished career in medical research, clinical medicine and biomedical business. In addition to his position as a Non-Executive Director of Phosphagenics, he is Executive Chairman of Cavidì AB, Co-Founder and Director of R&D at TissuePath Pty Ltd, and a founding Non-Executive Director of GBS Venture Partners Pty Ltd. He was previously a Non-Executive Director (1995-2003) and Chairman (2001-2) of AMRAD Corporation. He is also a Non-Executive Director of the Prostate Cancer Foundation of Australia and Chair of the PCFA Research Committee. He holds professional appointments at Monash University, the University of California, San Francisco and RMIT, and is a consulting physician at The Alfred and Austin Hospitals in Melbourne.

Professor Mills has published over two hundred scientific articles and has served as a consultant to the pharmaceutical industry and governments, the World Health Organization and the United Nations.

Professor Mills was appointed Chairman of the Company's Audit, Compliance and Corporate Governance Committee in May 2010.

**MICHAEL RICHARD DWYER ASHTON (AGED 63 YEARS) BPHARM, MBA
INDEPENDENT DIRECTOR SINCE JULY 2008
LAST RE-ELECTED MAY 2009**

Mr Ashton has more than 30 years' experience in the international pharmaceutical industry having held senior management positions with Merck Inc. and Pfizer Inc., and executive board positions with Faulding Inc. and SkyePharma Plc.

Mr Ashton was CEO and Director of SkyePharma Plc., he was responsible for the re-organisation of SkyePharma AG as a public enterprise (1997–1998). In 1998 he took over responsibility of the operations of the SkyePharma Plc. group and re-organised the international structure in Europe, the U.S. and the world wide Business Development Group.

Earlier Mr Ashton was Chairman, President and CEO of Faulding Inc., the U.S. subsidiary he opened for FH Faulding, Australia's largest pharmaceutical company, and CEO of Purepac Inc. During that time, he supervised the start-up of David Bull in the U.S. and Canada and oversaw restructuring of Purepac Inc., into a leader of the U.S. generic pharmaceutical industry.

In addition, Mr Ashton served with Pfizer International for 14 years in various roles, which included Director of Pharmaceutical Business Development for Europe/Canada, Vice President of Pharmaceutical Development for Africa/Middle East, Pharmaceutical Business Director of Nigeria and Group Product Manager for the International Division in New York.

Mr Ashton previously applied his pharmacist background to various management positions during six years at Merck Sharp and Dohme in Sydney and the U.S. Mr Ashton is a member of the Boards of Hikma Pharmaceuticals Plc, Proximagen Neuroscience Plc and Transition Therapeutics Inc.

Mr Ashton holds a Bachelor of Pharmacy degree from Sydney University and a Masters in Business Administration from Rutgers University, New Jersey, U.S

**DR ESRA OGRU (AGED 34 YEARS) BSC (HONS) PHD
JOINT CHIEF EXECUTIVE OFFICER SINCE MAY 2010
LAST RE-ELECTED MAY 2009**

Dr Ogru is responsible for the management of the operations in Australia and internationally. She achieves this through leadership of a team of experienced pharmaceutical scientists and chemists and strategic collaborations.

In this role, Dr Ogru has developed commercial opportunities for both the Company's nutraceutical division and pharmaceutical technologies, such as transdermal drug delivery and drug enhancement platforms for cancer, heart disease and chronic pain management.

Dr Ogru has many years experience in both the academic and commercial aspects of the industry and has publications in peer-reviewed journals. Prior to joining Phosphagenics in 2001, Dr Ogru carried out significant research on obesity and diabetes. Additionally, she has considerable experience in the management and coordination of pre-clinical and clinical development of pharmaceutical products.

FORMER DIRECTORS:

**ASSOCIATE PROFESSOR ANDREW LANCELOT VIZARD (AGED 51 YEARS) BVSc (HONS) MVPM
NON EXECUTIVE INDEPENDENT DIRECTOR FROM JULY 1999 to MAY 2010 AND CHAIRMAN FROM
OCTOBER 2000 TO MAY 2010
LAST RE-ELECTED MAY 2007**

With a background in research and agricultural consultancy, Professor Vizard is the Senior Consultant with and former Director of the Mackinnon Project at the University of Melbourne. This enterprise is recognised as a leader in delivering practical advice to farmers and agribusiness on a wide range of agricultural and economic issues. Professor Vizard is the author of over fifty scientific papers.

Professor Vizard is an experienced company director, having served on the board of numerous statutory, scientific and commercial organisations. He is currently a Non-Executive Director of Ridley Corporation Ltd and Animal Health Australia Ltd, a Trustee of the Australian Wool Education Trust and a member of the Management Advisory Committee for Melbourne Water.

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

PRINCIPAL ACTIVITIES

The principal activities of the Company are the production, sale and licensing of products for the nutraceutical and pharmaceutical industries.

RESULTS

For the six months ended 30 June 2010, the Company returned an after tax loss of \$0.550 million (2009: \$3.584 million). The principal activity of Phosphagenics and its controlled entities for the half year period was the continued development of the Company's intellectual property on which \$0.764 million (2009: \$1.453 million) was expensed. From commercialising these activities the Company earned \$4.241 million in Licence Income and \$0.398 million from the sale of goods (2009: \$0.670 million).

Cash at 30 June 2010 totalled \$8.433 million (2009: \$9.313 million); refer to the Statement of Cash Flow. As at 30 June 2010 Shareholders Equity totalled \$49.811 million (2009: \$48.191 million); refer to the Statement of Changes in Equity.

DIVIDENDS

The Directors have not recommended the payment of any dividends and no dividends were declared, paid or reinvested in the period to 30 June 2010.

REVIEW AND RESULTS OF OPERATIONS

Phosphagenics' strategy is to leverage its unique platform technology, TPM™, across many markets to develop products for human health, veterinary medicines, personal care and cosmetics, over the counter and dermatology products. This strategy enables the company to diversify its portfolio thereby reducing risk and driving the company towards becoming financially self-sufficient.

The company continues to form strategic alliances with both small and multinational corporations. Partnering with companies and combining complementary expertise and resources creates an environment that enables our company to move its projects forward. Partnerships provide Phosphagenics with credibility, capability and, most importantly, funding for many of its projects. All the while, it remains focused on developing its oxycodone patch, which is currently undergoing clinical trials to optimise the product profile before re-entering the clinic towards the end of the year to undertake Phase 2/3 studies.

Update on key programs:

TPM/AOD9604 –Novel anti-fat peptide

The novel biological properties of AOD9604, combined with the company's delivery technology, provide Phosphagenics an opportunity of developing a product that may reduce the visible appearance of subcutaneous fat or cellulite. Formulation work has been underway to maximise the delivery of this novel peptide into the skin, eliminating the need for the active to travel through the systemic circulation by directly targeting problem areas. Human studies are planned to assess the cosmetic benefits of the TPM/AOD9604 in relation to the appearance of these problem areas. By developing AOD as a cosmetic product, development costs will be substantially reduced, as will the time required to get the product to market. If successful, the TPM/AOD9604 product will not only capture a significant percentage of the global anti-cellulite market but will likely also increase the size of that market.

The AOD program has attracted commercial interest and Phosphagenics is working with experts to plan the development and commercial strategy for the product. The current leading commercial cosmetic creams with which our product will compete have little supporting scientific data demonstrating efficacy. An efficacious topical cream able to improve the visible appearance of subcutaneous fat should quickly impact the global market. The low cost of entry into the personal care industry and the speed in which products can be launched into the market makes this product commercially extremely attractive.

Phosphagenics aims to complete its formulation and efficacy study this year and to commence the commercialisation process for TPM/AOD9604 in the first quarter of 2011. This program is proceeding in line with expectations and Phosphagenics is encouraged by the developments completed to date.

TPM/OXYCODONE – For the management of chronic pain

Phosphagenics has re-entered the clinic to conduct a comprehensive study aimed at identifying the optimum-dosing regimen for its TPM/oxycodone matrix patch system. Commercially it is desirable to design a patch for either a one or a seven day application as this leads to better patient compliance.

The current study is expected to be completed by the end of Q3 2010. Phosphagenics is working closely with leading pain experts who will review the data when the study is completed and advise on the most appropriate path forward into the phase 2/3 program.

The company is also in late stage discussions with commercial patch manufacturers and regulatory experts to plan the program for registering and commercialising the TPM/oxycodone matrix system.

Although oxycodone, an opioid derivative, is more potent than morphine, it nevertheless produces less adverse side effects. It has become the drug of choice for chronic pain management of patients suffering from debilitating diseases such as cancer, with annual sales exceeding US\$3 billion globally. Currently the drug can only be administered orally or intravenously. Phosphagenics aims to take this program as far as possible in-house and become the first company to offer chronic pain sufferers an oxycodone patch that will provide sustained pain relief.

TPM/INSULIN – For the management of diabetes

Phosphagenics has successfully developed a TPM/insulin matrix patch system. The product has performed well in all preclinical studies and is now ready for clinical development. This is a very exciting and key program for the company. A TPM/Insulin patch system has the potential to be a blockbuster and the ability to revolutionise the way basal insulin can be treated. However, the program requires significant monetary investment given the complexity of the disease state. Consequently the company has made a strategic decision to prioritise the TPM/oxycodone program ahead of its insulin program. The TPM/insulin project is a high priority program for the company and will advance its clinical development program once the oxycodone project has been bedded down.

This decision was made because TPM/oxycodone has a much easier route to market from a clinical, regulatory and cost perspective. This strategy will allow the company to progress its lead program into commercialisation and provide maximum returns to shareholders.

Phusion Laboratories LLC

Phusion Labs, the new joint venture company (owned by Phosphagenics 50% and by ProPhase Corporation 50%-formerly known as Quigley Corporation) has completed a preliminary evaluation of the US Over the Counter (OTC) market for “non prescription” pharmaceutical products. Product categories to initiate the development phase are being evaluated for market value, differentiation and development feasibility. As a consequence of these evaluations the joint venture is likely to initially focus on developing two new skin product lines for anti-wrinkles and for acne. Other exciting products with a range of different actives for the treatment and management of various conditions are also being considered for incorporating the benefits of the TPM™ technology.

Beyond these initial developments, the JV continues to consider additional new market sectors where the TPM™ technology may provide added value. This OTC venture will provide a significant avenue for Phosphagenics to use the TPM™ technology in the development and commercialisation of OTC products.

Elixia®

Phosphagenics' first venture into the commercial world of personal care has resulted in a successful launch of our Elixia® skincare range.

A significant program of advertising, promotion and training continues as we build Elixia® brand recognition and awareness of the benefits of TPM™ in the Australian marketplace and develop strategies to expand distribution and sales into the global cosmetics industry.

Elixia® product development is in full swing, with four new high-end products specifically targeting anti-ageing scheduled for production Q3 2010. Market leading anti-ageing ingredients plus TPM™ have been formulated into a Daily Skin Smoothing Lotion, Night Renew Complex, Eye Brightening Fluid and a Hand Revitalising Cream. Together they create a skincare regime that balances 'botox-like' properties during the day with the renewal of skin cells at night. An Eye Fluid to help reduce dark circles and puffiness under eyes and a rich Hand Cream with anti-ageing ingredients and sun protection complete our Personal Care new products offer for 2010.

Phosphagenics is confident these new range additions will showcase Elixia® as a competitive premium brand that will expand our appeal and exposure to consumers and form the foundations of our global Personal Care growth strategy.

Le Métier de Beauté

Following from the success of the two Peau Vierge products launched in November 2009, Le Métier is now getting ready to launch 6 new products containing TPM™ in September 2010. These new products will be sold at a premium and will only be exclusively available through dermatologists throughout the USA. Phosphagenics is working closely with Le Métier to develop and market high-end personal care products containing TPM™ technology.

Commercial Partnerships

Phosphagenics continues to work closely with Novartis Animal Health to develop TPM/insulin for domestic pets. The program is proceeding well and on plan.

Phosphagenics has entered into several research and development agreements with leading companies in the dermatology and cosmetics fields. These programs are at various stages of development. If they are successful, Phosphagenics will announce the nature of the future relationships as they move towards definitive commercial arrangements which are expected to be achieved by early 2011.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the period to 30 June 2010 there was no significant change in the state of affairs of the consolidated entity other than that referred to in the half-year report or notes thereto.

SIGNIFICANT EVENTS AFTER BALANCE DATE

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

LIKELY DEVELOPMENTS AND FUTURE RESULTS

Disclosure of information regarding likely developments in the operations of the consolidated entity in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the consolidated entity. Accordingly this information has not been disclosed in this report.

ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (unless stated otherwise) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

REGISTERED OFFICE

Level 2, 90 William Street, Melbourne, Victoria 3000

Signed in accordance with a resolution of the Board of Directors:



Jonathan Lancelot Addison
Chairman and Independent Director

Dated this 13th day of August 2010



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Auditor's Independence Declaration to the Directors of Phosphagenics Limited

In relation to our review of the financial report of Phosphagenics Limited for the half-year ended 30 June 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A handwritten signature in black ink that reads 'Ernst & Young' in a cursive, stylized font.

Ernst & Young

A handwritten signature in black ink that reads 'David Petersen' in a cursive, stylized font.

David Petersen
Partner
13 August 2010

Statement of Comprehensive Income

for the half-year ended 30 June 2010

		Consolidated	
	Notes	30 June 2010 \$'000	30 June 2009 \$'000
Revenue			
Sale of goods	3a	398	670
Licences	3a	4,241	-
Finance revenue	3a	203	239
Total Revenue		4,842	909
Cost of sales		(98)	(228)
Gross Profit		4,744	681
Rental income	3a	-	73
Income from government grants	3a	161	480
Other income	3a	137	-
Employee and Directors benefits expenses	3b	(1,839)	(1,801)
Occupancy and communications expenses		(120)	(133)
Consulting and professional expenses		(782)	(457)
Administration expenses		(416)	(285)
Research expenses		(764)	(1,453)
Other expenses	3c	(1,671)	(689)
Loss before income tax		(550)	(3,584)
Income tax/(expense)		-	-
Loss after income tax expense		(550)	(3,584)
Other Comprehensive Income			
Foreign currency translation		(7)	(14)
Income tax/(expense) on items of other comprehensive income		-	-
Other comprehensive loss for the period, net of tax		(7)	(14)
Total comprehensive loss for the period		(557)	(3,598)
Loss per share from continuing operations attributable to the ordinary equity holders of the parent			
basic loss per share		(0.07 cents)	(0.54 cents)
diluted loss per share		(0.07 cents)	(0.54 cents)

Statement of Financial Position

as at 30 June 2010

				Consolidated	
	Notes	30 June 2010 \$'000	31 December 2009 \$'000		
ASSETS					
Current Assets					
Cash and cash equivalents	5	8,433	10,868		
Trade and other receivables		139	292		
Inventories		155	58		
Other current assets		141	329		
Total Current Assets		8,868	11,547		
Non-current assets					
Intangible assets		54,728	54,372		
Property, plant and equipment		1,310	1,445		
Available-for-sale investment		1,842	-		
Total Non-Current Assets		57,880	55,817		
TOTAL ASSETS		66,748	67,364		
LIABILITIES					
Current liabilities					
Trade and other payables		686	1,151		
Provisions		123	96		
Total Current Liabilities		809	1,247		
Non-current liabilities					
Deferred tax liabilities		16,128	16,128		
Total Non-Current Liabilities		16,128	16,128		
TOTAL LIABILITIES		16,937	17,375		
NET ASSETS		49,811	49,989		
EQUITY					
Contributed equity	10	176,905	176,905		
Accumulated losses		(156,299)	(155,749)		
Reserves		29,205	28,833		
TOTAL EQUITY		49,811	49,989		

Statement of Cash Flows

for the half-year ended 30 June 2010

	Notes	Consolidated	
		30 June 2010 \$'000	30 June 2009 \$'000
Cash flows from operating activities			
Receipts from customers and related parties		1,731	568
Receipts of government grants		161	528
Payments to suppliers and employees		(4,528)	(4,897)
Net cash flows used in operating activities		(2,636)	(3,801)
Cash flows from investing activities			
Interest received		209	252
Purchase of plant and equipment		(9)	(48)
Net cash flows from investing activities		200	204
Cash flows from financing activities			
Proceeds from share issues		-	14
Net cash flows from financing activities		-	14
Net increase/(decrease) in cash and cash equivalents		(2,436)	(3,583)
Cash and cash equivalents at beginning of the period		10,869	12,896
Cash and cash equivalents at end of the period	5	8,433	9,313

Statement of Changes in Equity

for the half-year ended 30 June 2010

	Consolidated				Total
	Contributed Equity	Employee & Other Benefits Reserve	Foreign Currency Translation Reserve	Accumulated Losses	
	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 January 2010	176,905	992	27,841	(155,749)	49,989
Loss for the period	-	-	-	(550)	(550)
Other comprehensive income	-	-	(7)	-	(7)
Total comprehensive income for the half year	176,905	992	27,834	(156,299)	49,432
Transactions with owners in their capacity as owners					
Employee equity settled benefits	-	109	-	-	109
Southern Cross share based payments	-	270	-	-	270
Balance at 30 June 2010	176,905	1,371	27,834	(156,299)	49,811
Balance at 1 January 2009	170,316	626	27,859	(147,248)	51,553
Loss for the period	-	-	-	(3,584)	(3,584)
Other comprehensive income	-	-	(14)	-	(14)
Total comprehensive income for the half year	-	-	(14)	(3,584)	(3,598)
Transactions with owners in their capacity as owners					
Employee equity settled benefits	-	222	-	-	222
Issue of shares	14	-	-	-	14
Balance at 30 June 2009	170,330	848	27,845	(150,832)	48,191

Notes to the Financial Statements

for the half-year ended 30 June 2010

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

This general purpose condensed financial report for the half year ended 30 June 2010 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act, 2001*.

The financial report is prepared on an ongoing concern basis. In concluding the going concern assumption is appropriate the Directors are satisfied that, based on their forecasts, the company will be able to manage its operating cashflows such that it has sufficient cash to meet their obligations for the next 12 months. Furthermore the company intends to raise additional funds during the course of the next 12 months to fund its commercialization operations in future periods.

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

It is recommended that the half-year financial report be read in conjunction with the annual report for the year ended 31 December 2009 and be considered together with any public announcements made by Phosphagenics Limited during the half-year ended 30 June 2010 in accordance with the continuous disclosure obligations of the ASX Listing rules.

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

2. OPERATING SEGMENTS

Identification of reportable segments

The group has identified its operating segments based on the internal reports that are reviewed and used by the chief executive officer and the management team (the chief operating decision makers) 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.

Types of products and services

Nutraceuticals

Nutraceuticals is the use of vitamins and nutritious products to improve human health. The nutraceutical business is developing active ingredients for the following market segments:

- Dietary Supplements - e.g. vitamin capsules & tablets. Phosphagenics is using its patented technology to orally deliver dietary supplements aimed at improving bioavailability and efficacy.
- Functional Foods and Beverages - e.g. nutritionally enhanced foods. Functional foods are an expanding nutraceutical market division, aimed at improving the nutritional benefits of everyday foods.
- Personal care products. Discovery research at Phosphagenics has shown that α -tocopheryl phosphate (TP) is a natural molecule with increased activity over standard Vitamin E (α tocopherol). TP has scientifically proven anti-inflammatory properties, it reduces redness, protects against UV induced photo damage, and also

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

In April 2010 Phosphagenics launched its own brand of cosmetic products in Australia (Elixia®) sold exclusively through Pulse Pharmacies. Phosphagenics' nutraceutical business is a revenue-generating growth business. The route to market for Phosphagenics' nutraceutical products is through partnering with companies that have established distribution networks within the relevant market segments.

Pharmaceuticals

Phosphagenics' pharmaceutical segment is focused on:

- Drug delivery – enhancing the delivery of existing drugs orally or through the skin, utilising Phosphagenics' delivery technology TPM™
- Drug enhancement – augmenting the biological activity of existing drugs by adding a phosphate group to the chemical structure of the drug

The route to market for Phosphagenics' pharmaceutical products is through partnering with larger pharmaceutical companies at the appropriate stage in a product's development so as to maximise return on the Company's research and development investment.

The core competencies of the pharmaceutical business are generation of pharmaceutical intellectual property and translation of this knowledge base into commercially viable product candidates for the treatment of human conditions and disease.

Phosphagenics' strategy is to capitalise on its proprietary technology through joining its resources and development capabilities with co-development partners or licensees.

The objective of any development or marketing agreement entered into is to generate revenues from three sources:

- milestone payments and development fees during the pre-marketing phases of product development;
- royalties on product sales by partners; and
- manufacturing and supply of product to partners, predominantly of the phosphorylated delivery compound.

Phosphagenics choice of development products is based on market opportunity and the overall commercial viability of each individual drug candidate, including assessment of the current and expected competition for the product, the cost, timing and degree of difficulty to commercialise the product, the patent status of the drug compound and the market size of the product to be developed.

Accounting policies and inter-segment transactions

The accounting policies used by the Group in reporting segments internally are the same as those contained in note 1 to the accounts and in the prior period.

The following table presents revenue and profit information regarding business reportable for the half-year periods ended 30 June 2010 and 30 June 2009.

Half-year ended 30 June 2010	Nutraceuticals \$'000	Pharmaceuticals \$'000	Total Group \$'000
Revenue			
Sales and Royalties	398	4,241	4,639
Total segment revenue	<u>398</u>	<u>4,378</u>	4,639
Other revenue			203
Grant income			<u>161</u>
Total revenue and grant income per statement of comprehensive income			<u>5,003</u>
Result			
Segment result			(550)
Segment assets			
Segment operating assets	<u>799</u>	<u>934</u>	1,733
Unallocated assets			10,287
Intangible assets			<u>54,728</u>
Total assets per the statement of financial position			<u>66,748</u>
Half-year ended 30 June 2009	Nutraceuticals \$'000	Pharmaceuticals \$'000	Total Group \$'000
Revenue			
Sales and Royalties	670	-	670
Total segment revenue	<u>670</u>	<u>-</u>	670
Other revenue			239
Grant income			<u>480</u>
Total revenue and grant income per statement of comprehensive income			<u>1,389</u>
Result			
Segment result			(3,584)
Segment assets			
Segment operating assets	<u>792</u>	<u>902</u>	1,694
Unallocated assets			9,566
Intangible assets			<u>54,226</u>
Total assets per the statement of financial position			<u>65,486</u>

3. REVENUES AND EXPENSES

	Consolidated	
	30 June 2010	30 June 2009
	\$'000	\$'000
a) Revenue & Income		
Sales revenue	398	670
Income from Commercial Ready grant	-	304
Income from P3 grant	-	176
Income from Export Market Development Grant	161	-
Income from Licences – ProPhase Labs ¹	4,241	-
	4,800	1,150
Interest revenue	203	239
Total finance revenue	203	239
Rental income	-	73
Other income	137	-
Total revenue and income	5,140	1,462
¹ The licence revenue relates to a one-time payment to Phosphagenics of approximately \$1.09m (US\$1 million) and the issuance to Phosphagenics of 1.44 million shares in ProPhase Labs common stock which based on market price at the contract signing date was valued at approximately \$3.185 million. These shares are recognised as an available-for-sale investment at 30 June 2010.		
b) Salaries and employee benefits expense		
Salaries and wages	(1,600)	(1,446)
Superannuation	(130)	(133)
Employee equity settled benefits	(109)	(222)
Total salaries and employee benefits expense	(1,839)	(1,801)
c) Other expenses		
Impairment of ProPhase shares	(1,308)	-
Net foreign exchange gains/(losses)	94	(105)
Depreciation	(146)	(181)
Amortisation	(33)	(7)
Operating lease rental expenses	(180)	(286)
Travel	(61)	(85)
Other	(37)	(25)
Total other expenses	(1,671)	(689)
d) Seasonality of Operations		
Phosphagenics Limited operations are not affected by seasonality		

4. DIVIDENDS PAID AND PROPOSED

There were no dividends declared or paid during the half year ended 30 June 2010. (2009: NIL)

5. CASH AND CASH EQUIVALENTS

	Consolidated	
	30 June 2010 \$'000	31 December 2009 \$'000
For the purposes of the half-year condensed statement of cash flows, cash and cash equivalents are comprised of the following:		
Cash at bank and in hand	2,263	2,198
Short-term deposits	6,170	8,670
	8,433	10,868
Total Cash and Cash Equivalents	8,433	10,868

6. SHARE BASED PAYMENTS

Share option fair values are calculated using a Binomial model. The options will be settled in ordinary shares of Phosphagenics Limited and vested options 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).

For options granted under the terms of the Employee Share Option Plan (ESOP) 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 are no other services or performance criteria attached to share based payment options issued under the terms of the ESOP.

During the six months ended 30 June 2010 no share options were granted under the ESOP (2009: 3,650,000). On 12 April 2010 15,000,000 options were granted to Southern Cross Equities Ltd, of which 5,000,000 vested at grant date.

The following table lists the inputs to the model used for the half-year ended 30 June 2010.

	30 June 2010 Tranche 1	Consolidated	
		30 June 2009 ESOP Tranche 1	ESOP Tranche 2
Dividend yield (%)	0.00%	0.00%	0.00%
Expected volatility (%)	61%	65%	65%
Risk-free interest rate (%)	5.3%	5.28%	4.49%
Option life (years)	3 years	10 years	5 years
Option exercise price (\$)	14.20 cents	13.70 cents	15.0 cents

7. INVENTORIES

No inventory write-downs were recognised as an expense during the half-year ended 30 June 2010 (2009: NIL).

8. PLANT & EQUIPMENT**Acquisitions and disposals**

During the half-year ended 30 June 2010, the Group acquired assets with a cost of \$10,560 (2009: \$88,567).

9. COMMITMENTS AND CONTINGENCIES**Lease Commitments**

At 30 June 2010 the Group has commitments of \$405,853 (2009: \$110,969) relating to non-cancellable operating leases over the office and manufacturing facilities, which expire in 2011.

10. CONTRIBUTED EQUITY

	Consolidated	
	(No. '000's)	(\$'000's)
Issued and paid up capital		
Fully paid ordinary shares carry one vote per share and carry the right to receive dividends		
Movement in ordinary shares on issue:		
At 1 January 2010	739,696	176,905
Issue of shares	-	-
Exercise of options	-	-
Transaction costs on share issue	-	-
At 30 June 2010	739,696	176,905
At 1 January 2009	663,542	170,316
Issue of shares	-	-
Exercise of options	67	14
Transaction costs on share issue	-	-
At 30 June 2009	663,609	170,330

11. EVENTS AFTER THE BALANCE SHEET DATE

No events occurred between the balance sheet date and the date when these financial statements were authorised for issue.

Directors' Declaration

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

In the opinion of the directors:

- (a) the financial statements and notes of the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the period ended on that date; and
 - (ii) complying with Accounting Standards AASB 134: *Interim Financial Reporting* and *Corporations Regulations 2001*; and
- (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



Jonathan Lancelot Addison
Chairman and Independent Director

Melbourne
13th August 2010



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To the members of Phosphagenics Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Phosphagenics Limited, which comprises the condensed statement of financial position as at 30 June 2010, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Phosphagenics Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

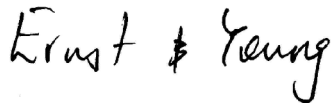
Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Conclusion

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

- a) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



Ernst & Young



David Petersen
Partner
Melbourne
13 August 2010

Section 4: AUDIT ALERT

As at 30 June 2010 and as the date of this Report there are no matters of dispute or qualification or likely dispute or qualification.