

Company Announcement

25 February 2011

Phosphagenics Limited – Appendix 4E & Preliminary Final Report for year to 31 December 2010

Phosphagenics Limited (ASX: POH; OTCQX: PPGNY) today releases its consolidated Appendix 4E Report and Preliminary Final Report for the year ended 31 December 2010. The consolidated operating loss for the period before the impairment of acquired intangible assets and income tax benefit was \$5.9 million, a decrease compared to the loss of \$8.5 million for the previous financial year ended 31 December 2009.

Financial Results

The results for the 2010 financial year predominantly reflect the Company's continued investment in its proprietary TPM® technology.

The key points to note in the financial results are:

- The Company's consolidated cash reserves at 31 December 2010 were \$2.7 million (31 December 2009 – \$10.9 million). The Board commenced a balance sheet review in the later part of 2010. It is now well advanced in a number of initiatives and will announce the implementation of funding arrangements in March 2011.
- The Company notes that the overall value of its patent portfolio, assessed as a *cash generating unit*, was independently valued at \$217.2 million.
- Patent costs of \$760,000 for the year. The Company's portfolio of patent families now stands at 19 (compared to 14 at the time of the Company's acquisition of Vital Health Sciences Ltd (VHS) in 2004 – of which 5 have since been abandoned because of new discoveries and changing commercial priorities).
- The Company recognised a non-cash impairment charge of \$7.66 million in the year relating to the patents acquired from VHS in 2004. The charges reflect the abandonment of a number of acquired patents during the financial year.

Operational Review

As indicated above, the Company has made significant progress in the year under review in its commercialisation program. Highlights include:

- Oxycodone patch – completion of successful clinical studies using the Company's proprietary patch. Entering into arrangements with 3M, one of the world's leading patch technology companies, to produce commercial patches.
- Progressing fully funded research programs with a leading dermatological company, CSL and Novartis.
- Therapeutics Inc – IND approval for a new psoriasis drug to enter the clinic later this year.

- AOD – developing final formulation and establishing the Company’s ability to deliver the anti-cellulite compound. Commencing a human study. Product launch on track for April 2011.
- Developing new personal care products (platinum line) to be launched in the second quarter of 2011.
- Extending arrangements with Le Métier from two products to ten. Products will be launched in the US in April 2011.

Future Financing and Operational cashflow will be primarily directed to the launch of the anti-cellulite product in April, the completion of a commercial oxycodone patch and the commencement of a Phase 2 study in the third quarter.

Yours faithfully
Phosphagenics Limited



Mourice R Garbutt
Company Secretary

ENDS

Enquiries:

Dr Esra Ogru
Chief Executive Officer
Phosphagenics Limited
+61 3 9565 1119

Rudi Michelson
Monsoon Communications
+61 3 9620 3333

About Phosphagenics

Phosphagenics is commercialising drug delivery applications based on its novel transdermal (drugs administered via skin) TPM® – Targeted Penetration Matrix technology. TPM® is a patient friendly and cost effective system used to deliver proven pharmaceutical and nutraceutical products.

The lead product advancing through clinical trials is an oxycodone matrix system for the relief of chronic pain.

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

www.phosphagenics.com

Appendix 4E

Preliminary final report Period ending on or after 31 December 2010

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

Name of entity

Phosphagenics Limited

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

I.

ABN or equivalent company
reference

Year ended:
current period

previous corresponding period

32 056 482 403

31 December 2010

31 December 2009

Results for announcement to the market

\$A'000

2.1 Revenues from ordinary activities	up	365%	to	5,119
2.3 Profit (loss) from ordinary activities after tax attributable to members	up	32.6%	to	(11,275)
2.4 Net profit (loss) for the period attributable to members	Up	32.6%	to	(11,275)
2.4 Dividends (distributions)	Amount per security	Franked amount per security		
Final dividend	-	-		
Interim dividend	-	-		
In Specie Dividend	-	-		
Previous corresponding period:				
Final dividend	-	-		
Interim dividend	-	-		
In Specie Dividend	-	-		
2.5 Record date for determining entitlements to the dividend	N/A			

+ See chapter 19 for defined terms.

2.6 Brief explanation of any of the figures in 2.1 to 2.4 necessary to enable the figures to be understood.

At the end of December 2010, the company held \$2.7 million in cash and cash equivalents. Closing cash was 75% below the amount held at December 2009 of \$10.9 million. The Phosphagenics board is reviewing various funding options which are in advanced stages of negotiation and will finalise the review by mid March. The capital raising will be primarily directed to the launch of the anti cellulite product in April, the completion of a commercial oxycodone patch and the commencement of a phase 2 study in the third quarter.

Revenues for the year of \$5.1 million increased by 365% from \$1.1 million in 2009, due mainly 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 31 December 2010.

The operating loss before impairment of acquired intangible assets and income tax was \$5.9 million, a decrease from \$8.5 million in 2009. The Company booked impairment charges relating to acquired patent assets of \$7.66 million in 2010. During the course of the financial year, a number of acquired patents were partially or fully abandoned, and as a result the carrying value of these particular patents has been written off in full. For further details refer to the attached Preliminary financial report and notes.

A number of R&D milestones were achieved in 2010 including:

Insulin

Completion of a transdermal insulin patch demonstrating that a proprietary TPM/insulin matrix patch can safely deliver insulin to regulate basal glucose regulation.

Diclofenac

Completion of a Phase 1 diclofenac study demonstrating the proprietary TPM/diclofenac formulation was safe and well tolerated in humans. A TPM/Diclofenac matrix patch system has also been developed and in vivo studies have demonstrated that the novel patch system can deliver sustained therapeutic amounts of Diclofenac into the blood.

Oxycodone

Completion of preclinical studies for the proprietary TPM/oxycodone transdermal matrix patch system. The results of the preclinical studies demonstrated that by incorporating TPM/oxycodone into innovative patch systems developed by Phosphagenics, the delivery of oxycodone was significantly increased when compared to Phosphagenics TPM/oxycodone gel alone. Several doses of the matrix patch system have been developed and tested in-house.

Phosphagenics completed a Phase 1B clinical study of the proprietary oxycodone transdermal matrix and reservoir patch systems. The results of the trial established that after a single dose the matrix patch delivered oxycodone into the blood stream in a reproducible, consistent and sustained manner.

Phosphagenics is now working with the global company – 3M (USA) to optimise and carry out large scale GMP development of the TPM/Oxycodone matrix patch system.

TPM/AOD cosmetic formulation

Phosphagenics has completed all the necessary formulation and development work for TPM/AOD formulation. The product is now being tested in small focus group trials to assess certain efficacy parameters.

+ See chapter 19 for defined terms.

Commercial Agreements

Phosphagenics signed an agreement with CSL to evaluate the TPM delivery technology

Phosphagenics entered into an exclusive agreement with Métier Tribeca LLC, (“Métier”) to enable Métier to launch a premier line of cosmetic products utilising the TPM delivery technology, under its brand name Le Métier de Beauté.

Phosphagenics signed a collaborative research and option agreement with Metabolic Pharmaceuticals Limited. Under the terms of the agreement, Phosphagenics may elect to license Metabolic’s patented compound, AOD9604, for use as a cosmeceutical product marketed as a cellulite and subcutaneous fat reduction treatment. The license, should Phosphagenics elect to exercise the option, will be a worldwide exclusive license.

Phosphagenics signed an agreement with Novartis animal health to evaluate the TPM/Insulin system in domestic cats and dogs.

Phosphagenics now has 3 products in various stages of clinical development:

- transdermal insulin delivery formulation;
- oxycodone patch system; and
- topical and patch diclofenac formulations

Looking Forward

Clinical trials have clearly shown TPM technology can be used to safely deliver active agents into the blood stream, or the dermis, without causing irritation or erythema.

Phosphagenics announced the completion of several successful Phase 1 trials for its proprietary oxycodone/TPM (Targeted Penetration Matrix) transdermal patch system which delivered oxycodone in therapeutic doses in a consistent and sustained manner. This trial was conducted over 10 days.

In parallel to applying its proprietary delivery technology for use in pharmaceuticals, which have the potential to generate high value products, but which are subject to stringent regulatory requirements and long product development timelines, Phosphagenics is leveraging the research and development already undertaken to apply the TPM delivery technology to cosmetic and personal care products. The TPM delivery technology is well suited to products in this growing market, as products can be brought to market relatively quickly and with relatively low expenditure. Phosphagenics aims to generate cash from the sale of cosmeceutical products, which can be used to support research to develop the more costly, but higher value generating, pharmaceutical products.

In 2011 Phosphagenics will continue to develop and launch its own brand of personal care products (Elixia) into the Australian and South East Asian markets through pharmacies, department stores and infomercials. Phosphagenics will continue to expand the cosmetics business globally through the relationship with Le Métier de Beauté in the USA.

+ See chapter 19 for defined terms.

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

See attached Consolidated Preliminary Statement of Comprehensive Income

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

See attached Consolidated Preliminary Statement of Financial Position

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

See attached Consolidated Preliminary Statement of Cash Flow

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

N/A

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

N/A

8. A statement of retained earnings showing movements:

	Current period \$A'000	Previous corresponding period \$A'000
Retained profits (accumulated losses) at the beginning of the financial period	(155,749)	(147,248)
Net profit (loss) attributable to members	(11,275)	(8,501)
Net transfers from (to) reserves	-	-
Net effect of changes in accounting policies	-	-
Dividends and other equity distributions paid or payable	-	-
Retained profits (accumulated losses) at end of financial period	(167,024)	(155,749)

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

	Current period	Previous corresponding Period
Net tangible assets per security	0.8 cents	1.6 cents

+ See chapter 19 for defined terms.

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

10.1 Name of the entity.

N/A

10.2 The date of the gain or loss of control.

N/A

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

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

Name of entity	% Holding	Aggregate Share of profit (losses)		Contribution to net profit	
		Current period \$'000	Previous corresponding Period \$'000	Current period \$'000	Previous corresponding Period \$'000
Vital Health Sciences Pty Ltd	100	N/A	N/A	(1,791)	(5,655)
Phosphagenics Inc	100	N/A	N/A	(505)	(553)

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

N/A

+ See chapter 19 for defined terms.

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

International Financial Reporting Standards

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

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

Basic earnings per share (1.52) cents (2009: (1.26))

Diluted earnings per share (1.52) cents (2009: (1.26))

- 14.2 Returns to shareholders including distributions and buy backs:

N/A

- 14.3 Significant features of operating performance:

N/A

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

Refer to Preliminary financial statements

- 14.5 A discussion of trends in performance:

N/A

+ See chapter 19 for defined terms.

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

N/A

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

The accounts of the Company are in the process of being audited.

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

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

N/A

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

N/A

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

Signed by Company Secretary:



Name: Mourice Garbutt

Date: 25 February 2011

+ See chapter 19 for defined terms.

Phosphagenics Limited

ABN 32 056 482 403

Preliminary Final Report for the year ended 31 December 2010

CONTENTS

Consolidated preliminary statement of comprehensive income	2
Consolidated preliminary statement of financial position	3
Consolidated preliminary statement of cash flow	4
Consolidated preliminary statement of changes in equity	5
Notes to the consolidated preliminary financial report	6

Consolidated preliminary statement of comprehensive income

FOR THE YEAR ENDED 31 DECEMBER 2010	Note	2010 \$'000	2009 \$'000
Revenue			
Sale of goods		419	670
Licences	2a	4,386	-
Finance revenue		314	430
Total revenue		<u>5,119</u>	<u>1,100</u>
Cost of sales		(44)	(228)
Gross profit		<u>5,075</u>	<u>872</u>
Rental income	2b	-	113
Income from government grants		161	304
Other income	2b	187	197
Employee and Directors benefits expenses		(3,491)	(3,504)
Occupancy and communications expenses		(169)	(242)
Consulting and professional expenses		(1,412)	(961)
Administration expenses		(868)	(516)
Research expenses		(2,969)	(3,450)
Impairment of acquired intangible assets		(7,660)	-
Impairment of available-for-sale investment		(1,449)	-
Other expenses	2c	(978)	(1,314)
Loss before income tax		<u>(13,573)</u>	<u>(8,501)</u>
Income tax benefit	3	2,298	-
Loss after income tax		<u>(11,275)</u>	<u>(8,501)</u>
Other Comprehensive Income			
Foreign currency translation	12	(20)	(18)
Income tax/(expense) on items of other comprehensive income		-	-
Other comprehensive income for the period, net of tax	12	<u>(20)</u>	<u>(18)</u>
Total comprehensive income for the period		<u>(11,295)</u>	<u>(8,519)</u>
Loss per share from continuing operations attributable to the ordinary equity holders of the parent:			
Basic loss per share	13	(1.52 cents)	(1.26 cents)
Diluted loss per share	13	(1.52 cents)	(1.26 cents)

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

Consolidated preliminary statement of financial position

AS AT 31 DECEMBER 2010	Note	2010 \$'000	2009 \$'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	15a	2,740	10,868
Trade and other receivables	4	305	292
Inventories	5	522	58
Other current assets		157	329
TOTAL CURRENT ASSETS		3,724	11,547
NON-CURRENT ASSETS			
Plant and equipment	6	1,298	1,445
Intangible assets	7	47,046	54,372
Available-for-sale investment	8	1,700	-
TOTAL NON-CURRENT ASSETS		50,044	55,817
TOTAL ASSETS		53,768	67,364
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	9	816	1,151
Provisions	10	115	96
TOTAL CURRENT LIABILITIES		931	1,247
NON-CURRENT LIABILITES			
Deferred tax liability	3	13,830	16,128
TOTAL NON-CURRENT LIABILITIES		13,830	16,128
TOTAL LIABILITIES		14,761	17,375
NET ASSETS		39,007	49,989
EQUITY			
Contributed Equity	11	176,905	176,905
Reserves	12	29,126	28,833
Accumulated losses		(167,024)	(155,749)
TOTAL EQUITY		39,007	49,989

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

Consolidated preliminary statement of cash flow

FOR THE YEAR ENDED 31 DECEMBER 2010	Note	2010 \$'000	2009 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		1,833	726
Receipt of government grants		161	334
Payments to suppliers and employees		(10,334)	(10,023)
Net cash used in operating activities	15(b)	<u>(8,340)</u>	<u>(8,963)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		342	423
Purchase of plant and equipment		(131)	(76)
Net cash from investing activities		<u>211</u>	<u>347</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issues of shares		-	6,589
Net cash from financing activities		<u>-</u>	<u>6,589</u>
Net decrease in cash and cash equivalents		(8,129)	(2,027)
Cash and cash equivalents at the beginning of period		10,869	12,896
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	15(a)	<u><u>2,740</u></u>	<u><u>10,869</u></u>

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

Consolidated preliminary statement of changes in equity

	Contributed Equity \$'000	Employee Benefits Reserve \$'000	Business Combination & Foreign Currency Translation Reserve \$'000	Accumulated Losses \$'000	Total \$'000
Balance at 1 January 2010	176,905	992	27,841	(155,749)	49,989
Loss for the period	-	-	-	(11,275)	(11,275)
Other comprehensive income	-	-	(20)	-	(20)
Total comprehensive income for the period	-	-	(20)	(11,275)	(11,295)
Transactions with owners in their capacity as owners:					
Employee equity settlement benefits	-	110	-	-	110
Share based payments	-	203	-	-	203
Balance at 31 December 2010	176,905	1,305	27,821	(167,024)	39,007
Balance at 1 January 2009	170,316	626	27,859	(147,248)	51,553
Loss for the period	-	-	-	(8,501)	(8,501)
Other comprehensive income	-	-	(18)	-	(18)
Total comprehensive income for the period	-	-	(18)	(8,501)	(8,519)
Transactions with owners in their capacity as owners:					
Issue of shares	7,014	-	-	-	7,014
Transaction costs on share issue	(425)	-	-	-	(425)
Employee equity settlement benefits	-	366	-	-	366
Balance at 31 December 2009	176,905	992	27,841	(155,749)	49,989

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

Notes to the consolidated preliminary financial report

YEAR ENDED 31 DECEMBER 2010

1. BASIS OF PREPARATION OF FINANCIAL REPORT

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

2. OTHER REVENUE AND EXPENSES

	2010 \$'000's	2009 \$'000's
(a) Licences		
Licences – ProPhase Labs ¹	4,241	-
Licences – Other	145	-
Total	4,386	-
¹ The licence revenue relates to a one-time payment to Phosphagenics of approximately \$1.09 million (US\$1 million) and the issuance of 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 \$3.199 million. These shares are recognised as an available-for-sale investment at 31 December 2010.		
(b) Other Income		
Rental income	-	113
Other	187	197
Total	187	310
(c) Other Expenses		
Net foreign exchange gains/(losses)	(91)	(106)
Depreciation	(300)	(365)
Loss on disposal of plant & equipment	-	(39)
Amortisation	(66)	(101)
Operating lease rental expenses	(342)	(490)
Travel	(124)	(183)
Other	(55)	(30)
Total	(978)	(1,314)

3. INCOME TAXES

	2010 \$'000's	2009 \$'000's
Major components of income tax expense are:		
<i>Current income tax</i>	-	-
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	(2,298)	-
Income tax expense recorded in the statement of comprehensive income	<u>(2,298)</u>	<u>-</u>
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	<u>(13,573)</u>	<u>(8,501)</u>
Income tax expense calculated at 30% (2009: 30%)	(4,072)	(2,550)
Non-deductible expenses	558	159
Research & development deduction	(223)	(259)
Unused tax losses and tax offsets not recognised as deferred tax assets	1,439	2,650
Income tax benefit reported in income statement	<u>(2,298)</u>	<u>-</u>
Deferred tax liabilities comprise:		
Intellectual property	13,830	16,128
	<u>13,830</u>	<u>16,128</u>
Unrecognised deferred tax balances		
The following items have not been brought to account as deferred tax assets:		
Tax losses not recognised	16,891	15,452
Temporary differences not recognised	-	-
Total	<u>16,891</u>	<u>15,452</u>

Tax consolidation

The company and its wholly-owned Australian resident entities have not formed a tax-consolidated group and are therefore taxed as separate entities.

4. TRADE AND OTHER RECEIVABLES

Current	2010 \$'000	2009 \$'000
Trade receivables	30	99
Allowance for impairment loss	-	-
	30	99
Other	4	4
Goods and services tax (GST) recoverable	271	189
Total	<u>305</u>	<u>292</u>

5. INVENTORIES

	2010	2009
	\$'000	\$'000
Raw materials:		
At cost	283	58
Finished goods:		
At cost	239	-
Total	<u>522</u>	<u>58</u>

6. PLANT AND EQUIPMENT

2010	Plant and equipment at cost	Total
	\$'000	\$'000

Year ended 31 December 2010

At 1 January 2010 net of accumulated depreciation and impairment	1,445	1,445
Additions	153	153
Disposals	-	-
Depreciation charge for the year	(300)	(300)
At 31 December 2010, net of accumulated depreciation and impairment	<u>1,298</u>	<u>1,298</u>

At 31 December 2010

Cost	2,566	2,566
Accumulated depreciation and impairment	(1,268)	(1,268)
Net carrying value	<u>1,298</u>	<u>1,298</u>

2009	Plant and equipment at cost	Total
	\$'000	\$'000

Year ended 31 December 2009

At 1 January 2009 net of accumulated depreciation and impairment	1,761	1,761
Additions	88	88
Disposals	(39)	(39)
Depreciation charge for the year	(365)	(365)
At 31 December 2009, net of accumulated depreciation and impairment	<u>1,445</u>	<u>1,445</u>

At 31 December 2009

Cost	2,414	2,414
Accumulated depreciation and impairment	(969)	(969)
Net carrying value	<u>1,445</u>	<u>1,445</u>

7. INTANGIBLE ASSETS

2010	Intellectual Property \$'000	Development costs \$'000	Total \$'000
Balance at 1 January 2010 net of accumulated amortisation and impairment	52,062	2,310	54,372
Additions internally developed	-	400	400
Provision for impairment	(6,485)	(1,175)	(7,660)
Amortisation	-	(66)	(66)
Balance at 31 December 2010 net of accumulated amortisation and impairment	<u>45,577</u>	<u>1,469</u>	<u>47,046</u>

At 31 December 2010

Cost (gross carrying amount)	121,362	3,295	124,657
Accumulated amortisation and impairment	(75,785)	(1,826)	(77,611)
Net carrying amount	<u>45,577</u>	<u>1,469</u>	<u>47,046</u>

2009	Intellectual Property \$'000	Development costs \$'000	Total \$'000
Balance at 1 January 2009 net of accumulated amortisation and impairment	52,062	1,856	53,918
Additions	-	555	555
Provision for impairment	-	-	-
Amortisation	-	(101)	(101)
Balance at 31 December 2009 net of accumulated amortisation and impairment	<u>52,062</u>	<u>2,310</u>	<u>54,372</u>

At 31 December 2009

Cost (Gross carrying amount)	121,362	2,895	124,257
Accumulated amortisation and impairment	(69,300)	(585)	(69,885)
Net carrying amount	<u>52,062</u>	<u>2,310</u>	<u>54,372</u>

Provision for impairment

An Independent valuer was engaged by the Company to calculate asset recoverable amounts, calculated using discounted cash flow methodology, and applying sensitivity analysis to various input assumptions. Recoverable amounts were assessed from both a single cash generating unit as well as individual patent asset perspectives.

Due to reprioritising development and commercialisation of particular projects, a number of patents have been totally or partially abandoned. Consequently the Directors have decided to decrease the carrying value of the acquired patent assets from the December 2009 value of \$53.7 million, to \$47.0 million. The decrease in asset value of \$7.66 million (2009: \$Nil) is recognised as an expense and has no cash impact on the Company.

8. AVAILABLE-FOR-SALE INVESTMENT

	2010 \$'000's	2009 \$'000's
Share – US listed		
Fair value at acquisition date	3,149	-
Impairment	(1,449)	-
Shares – at fair value	<u>1,700</u>	<u>-</u>

9. CURRENT TRADE AND OTHER PAYABLES

	2010	2009
	\$'000	\$'000
Trade payables	548	989
Accrued expenses	92	83
Goods and services tax (GST) payable	2	-
Other	174	79
Total	816	1,151

10. CURRENT PROVISIONS

CURRENT	2010	2009
	\$'000	\$'000
Annual leave benefits	98	86
Long service leave benefits	17	10
Total	115	96

11. CONTRIBUTED EQUITY

Fully paid ordinary shares	2010	2010	2009	2009
	No. '000's	\$'000	No. '000's	\$'000
Balance at beginning of year	739,696	176,905	663,542	170,316
Issue of shares	-	-	76,087	7,000
Exercise of options	-	-	67	14
Capital raising costs	-	-	-	(425)
Balance at end of year	<u>739,696</u>	<u>176,905</u>	<u>739,696</u>	<u>176,905</u>

12. RESERVES

	2010	2009
	\$'000	\$'000
Reserves		
Business combination	27,812	27,812
Employee equity-settled benefits	1,056	946
Other equity-settled benefits	249	46
Foreign Currency Translation Reserve	9	29
	<u>29,126</u>	<u>28,833</u>
Business combination reserve		
Balance at beginning of year	<u>27,812</u>	<u>27,812</u>
Balance at end of year	<u>27,812</u>	<u>27,812</u>

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

Employee equity-settled benefits reserve

Balance at beginning of year	946	580
Share based payment expense	110	366
Balance at end of year	<u>1,056</u>	<u>946</u>

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.

12. RESERVES (continued)

	2010 \$'000	2009 \$'000
Other equity-settled benefits reserve		
Balance at beginning of year	46	46
Share based payments	203	-
Balance at end of year	<u>249</u>	<u>46</u>

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

Foreign Currency Translation Reserve

Balance at beginning of year	29	47
Foreign Currency Translation	(20)	(18)
Balance at end of year	<u>9</u>	<u>29</u>

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

13. EARNINGS PER SHARE

Loss used in calculating earnings per share	2010 \$'000's	2009 \$'000's
Net Loss from continuing operations attributable to ordinary equity holders for the calculation of basic and diluted earnings per share	(11,275)	(8,501)
Weighted average number of shares	2010 No. '000's	2009 No. '000's
Weighted average number of ordinary shares for the purposes of basic earnings per share	739,696	681,716
Effect of dilution:		
Share options	22,352	70,997
Weighted average number of ordinary shares adjusted for the effect of dilution	762,048	752,713

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.

14. OPERATING SEGMENTS

Business segments

2010	Nutraceuticals \$'000's	Pharmaceuticals \$'000's	Unallocated \$'000's	Total Group \$'000's
Revenue				
Sales and Royalties	554	4,251	-	4,805
Grant Income	-	161	-	161
Total segment revenue	554	4,421	-	4,966
Net operating profit/(loss) after tax	(5,821)	(2,154)	(3,300)	(11,275)
Interest revenue	-	-	314	314
Depreciation and amortisation	(280)	(66)	(20)	(366)
Segment assets	799	1,055	51,914	53,768
Capital Expenditure	-	132	21	153
Segment liabilities	242	281	14,238	14,761
Cash flow information				
Net cash flow from Operating activities	(1,297)	(3,495)	(3,548)	(8,340)
Net cash flow from investing activities	-	(82)	293	211
Net cash flow from financing activities	-	-	-	-

2009	Nutraceuticals \$'000's	Pharmaceuticals \$'000's	Unallocated \$'000's	Total Group \$'000's
Revenue				
Sales and Royalties	670	-	-	670
Grant Income	-	304	-	304
Total segment revenue	670	304	-	974
Net operating loss after tax	(2,647)	(2,976)	(2,840)	(8,463)
Interest revenue	-	-	430	430
Depreciation and amortisation	(341)	(101)	(24)	(466)
Write off of assets	-	-	(38)	(38)
Segment assets	799	923	65,642	67,364
Capital expenditure	7	74	7	88
Segment liabilities	24	786	16,560	17,375
Cash flow information				
Net cash flow from Operating activities	(2,395)	(2,287)	(4,281)	(8,963)
Net cash flow from investing activities	(7)	(62)	416	347
Net cash flow from financing activities	-	-	6,589	6,589

15. 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:

	2010	2009
	\$'000	\$'000
Cash at Bank	2,565	2,198
Short Term Deposits	175	8,670
	<u>2,740</u>	<u>10,868</u>

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

	2010	2009
	\$'000	\$'000
Net Loss after tax	(11,275)	(8,501)
<i>Adjustments for:</i>		
Revenue from licence fees received as shares	(3,149)	-
Depreciation, disposal and amortisation of non-current assets	366	505
Impairment of available-for-sale asset	1,449	-
ESOP Expense	110	366
Other share based payments	203	-
Capitalisation of development expenses	(400)	(555)
Impairment of acquired intangible assets	7,660	-
Interest received	(342)	(430)
<i>Changes in assets and liabilities:</i>		
(Increase)/ decrease in trade receivables and other receivables	(13)	(60)
(Increase)/decrease in inventories	(464)	154
(Increase)/decrease in other current assets	172	(159)
(Decrease)/increase in deferred tax liability	(2,298)	-
(Decrease)/increase in trade payables and other payables	(378)	(281)
(Decrease)/increase in provisions	19	(2)
Net cash (used in) operating activities	<u>(8,340)</u>	<u>(8,963)</u>