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PHOSPHAGENICS

ASX Limited
Market Announcements Office

By electronic lodgement

Invoicing and Accounting Misappropriations Investigation

24 July 2013, Melbourne: Australian drug delivery technology company Phosphagenics Limited (ASX: POH, OTCQX: PPGNY) (the Company) has received an update on the investigation into irregularities described in the Company's announcement of 1 July 2013 that is being conducted by Deloitte Forensic.

The key points are:

1. Funds totaling approximately $5.7 million have been misappropriated from the Company. The fraudulent misappropriations occurred over a period of eight years (from 2005 until 2013) and involved the Company paying funds in respect of false invoices.

2. Dr Esra Ogru has been dismissed by the Board as an employee of Phosphagenics. The Company alleges that she is implicated in and has benefited from the misappropriated funds.

3. The Company alleges that five other persons, including one recently dismissed Phosphagenics employee, have been involved in the fraudulent activities. There is no evidence of the involvement of any other employee.

4. The Company has taken steps to preserve and take security over the assets of the persons involved in, and who benefited from the misappropriations. At this stage, the Company is unable to indicate the quantum that it will recover but it is likely to be a substantial part of the misappropriated funds.

5. While the timing for the recovery of the funds is unknown, the Company will pursue all available claims against the persons responsible for the misappropriations as expeditiously as possible, including claims for restitution, the cost of the investigation, interest and any other losses resulting from the misappropriations.

Executive Director, Mr Harry Rosen, will remain in Melbourne until all steps necessary to achieve restitution of the misappropriated funds have been put into place and a new CEO has been appointed.

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Scheduled clinical programs, planned product development and marketing activities have continued uninterrupted. A full review of all internal systems and authorisations has been commissioned and, in the interim, other measures have been implemented with the aim of ensuring that this type of event never reoccurs.

"The Company is confident that it will receive substantial restitution and compensation from the various parties responsible for the misappropriations," said Mr Rosen.

"We continue to be extremely positive about the future of our business and believe we have the appropriate structures and personnel in place to continue the development of our unique platform technology. We have outstanding employees who simply want to get on with their jobs. Morale is excellent. Further, when restitution is made, our cash resources should increase significantly from the $14.1 million cash holdings recently announced.

"Despite this, I and my fellow directors cannot aptly describe our profound disappointment in what has occurred."

ENDS

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About Phosphagenics

Phosphagenics Limited 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 products advancing through clinical trials are an oxycodone and oxymorphone 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).

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