



PHOSPHAGENICS

23 May 2008

**THE MANAGER
COMPANY ANNOUNCEMENTS OFFICE
ASX LIMITED**

Dear Sirs

**re : PHOSPHAGENICS LIMITED

 ANNUAL GENERAL MEETING**

Attached for release to the market is a copy of the Addresses to be given by the Chairman, Professor Andrew Vizard, and the CEO, Mr Harry Rosen.

The Company has been advised by Mr M D Preston, who is due to retire by rotation, that he will not now be seeking re-election as a director of the Company. Accordingly, shareholder approval for the withdrawal of resolution no. 3 will be sought at the meeting.

Yours faithfully
Phosphagenics Limited

per Mourice Garbutt
Company Secretary
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Phosphagenics Limited

ACN 056 482 403 ABN 32 056 482 403

Level 2, 90 William Street Melbourne VIC 3000

Telephone: 61 3 9605 5900 Facsimile: 61 3 9605 5999

Web page: www.phosphagenics.com Email: info@phosphagenics.com



PHOSPHAGENICS

Chairman's address to shareholders

AGM – 23rd May 2008

Starting out, as you aware Phosphagenics discovered a technology that improved the delivery and efficacy of numerous drugs. It is a true platform technology, protected by a suite of 23 patent families with applications in the pharmaceutical, nutraceutical, dermatological and cosmetic industries.

Our objective at Phosphagenics is to address unmet medical needs and provide innovative, patient friendly and efficient delivery applications of existing drugs, and to generate commercial success.

To achieve this objective, our strategy is to formulate our world-class delivery technologies with high-demand drugs already in the market – put simply taking high demand drugs and improving the delivery application.

Let me use insulin as an example.

Insulin is a high demand drug – the world diabetic population is forecasted to double to 350 million by 2025.

Insulin-dependant diabetics administer insulin with the age old and invasive injection.

We saw this as an opportunity, we're currently conducting a phase 2a clinical trial to provide a more patient friendly method of administration using our TPM/insulin formulation.

This strategy offers Phosphagenics the commercial advantages of a pipeline of products with lower risk and a faster route to market compared to developing new drugs.

I stood here last year and said that our strategy for 2007 was to accelerate our R&D product pipeline by undertaking extensive clinical programs based on our successful pre-clinical study results from 2006.

I am pleased to report that during 2007, we commenced four clinical trials:

- A phase 1b and a 2a insulin trial;
- A phase 2 Phospha E[®] trial, fully funded by Nestlé Nutrition, to establish the efficacy of our Phospha E[®] in reducing the risk factors associated with metabolic syndrome; and
- A phase 1 trial for the leading pain-relief drug oxycodone.

During the first few months of this year, we have further developed our product pipeline, as shown on this slide.

Let me explain some of the rationale of why these particular products were chosen for development and what advantages this extensive portfolio offers to the company.

Insulin and opioids have substantial markets: insulin global sales of more than US\$7 billion annually and opioid sales of US\$7.7 billion. Despite their widespread use, both insulin and opioids currently have significant issues associated with their administration. Our transdermal insulin and opioids provide novel solutions to those delivery problems.

Without a doubt, transdermal insulin and opioids are potential blockbuster products for Phosphagenics – possibly the jewels in the crown of our pipeline. But, being novel products, there is a defined pathway of clinical trials that must be navigated before the product can be registered for use. This path is certainly shorter than the path facing new actives, but still substantial.

We've chosen to undertake these clinical trials and not to licence the products at this stage as this can diminish value, hence our determination to continue their development.

In a phase 2 trial this year, we demonstrated that our TPM/Insulin formulation safely penetrated through human skin and delivered insulin into the blood stream of patients with Type 2 diabetes over a sustained period of time, without any adverse events.

We recently expanded this trial to include patients with Type 1 diabetes. This trial is scheduled for completion in the coming months. If successful we intend to immediately commence phase 2 trials in the U.S.

Transdermal opioids. Following successful results from our phase 1 clinical trial of Oxycodone in December, a collaborative program was commenced and is currently underway with LTS, a world leading patch development company, to incorporate the current formulation into a patch system. Plans are also underway to undertake a clinical trial of this patch in the second half of 2008.

As I said, potentially blockbuster products, but these will take time to get to market.

The next group of products in our pipeline, transdermal diclofenac, lidocaine and retinoic acid add a different dimension to our portfolio.

All three are currently available as topical products. Diclofenac as Voltaren gel, lidocaine as a topical anesthetic and retinoic acid for acne treatment. All three have topical limitations both in terms of penetrating the skin and causing irritation. The inability to penetrate the skin renders these products largely ineffective. We have very good reason to believe our transdermal technology can solve those problems.

Importantly, because these topical products already exist, and we're developing improved versions, we do not need to proceed through the standard phases of clinical development – we can complete proof of concept studies within two years of commencing a project, thus a much shorter, less expensive route to market.

We released the results of our pre-clinical studies of lidocaine last month. These results showed that formulating lidocaine with our TPM showed a nine fold increase in the amount of lidocaine delivered into the skin.

These results were outstanding and clearly demonstrate the superiority of our formulation over existing products.

The final product in development that I will mention is the orally delivered Phospha E[®]. This project involves an important strategic alliance with Nestlé Nutrition.

Nestlé Nutrition has about 22,000 employees in more than 70 markets, it is an autonomous business within the Nestlé group, one of the world's largest food and beverage companies. Nestlé Nutrition (Nestlé) manages and develops the group's specialty nutrition brands, its product portfolio covers infant nutrition, healthcare nutrition, performance nutrition and weight management.

Currently, we have a phase 2 clinical trial underway, fully funded by Nestlé Nutrition (Nestlé), to establish the efficacy of our Phospha E[®] in the management of metabolic syndrome.

In 2006, we began working with Nestlé on two pre-clinical studies that confirmed that, when given orally, Phospha E[®] significantly reduces many of the key biomarkers associated with metabolic syndrome.

We look forward to building on the already strong relationship we have with Nestlé and based on current recruitment rates, we expect to complete our phase 2 trial in the next few months.

The companies have agreed the principal terms of a commercialisation agreement, granting a worldwide exclusive licence to Nestlé for the use of Phospha E[®] in medical foods, and for Phosphagenics to be the exclusive manufacturer and supplier of Phospha E[®] to Nestlé. The final commercial agreement is due to be signed on the successful completion of the phase 2 trial.

We also applied for and were granted Generally Recognized As Safe (GRAS) status for Phospha E[®].

GRAS status allows manufacturers, such as Nestlé, to produce and sell foods that include Phospha E[®] in the US food and beverage market – the world's largest food and beverage market valued at more than US\$1 trillion a year.

This represents a tremendous commercial opportunity for Phosphagenics.

Obviously, appropriate funding is required to support the clinical programs that we have commenced. In 2007, Phosphagenics earned A\$4.4 million in revenue and we were also awarded two government grants with a combined total of up to A\$5.3 million over three

years. Subsequently, in May of this year, we raised A\$9.1 million through a share placement.

This removed a significant risk that directors considered the company was facing: lack of funds. We now have enough cash to support our R&D programs through to the end of year 2009.

Although we're Melbourne-based, Phosphagenics is a globally driven biotechnology company.

To support and leverage our R&D success, we expanded our international operations by establishing a U.S. office in New York.

Harry Rosen and Dr Esra Ogru spent a considerable time in New York and traveling in North America and Europe generating corporate activity through an extensive investor relations program while seeking new collaborative and commercial partnerships.

To support our international efforts, this week we announced the appointment of Fred Banti as Senior Vice President and Chief Business Officer.

Fred, who will be based in New York, has more than 27 years' experience as a pharmaceutical executive with strong management credentials in corporate, business and strategy development, portfolio and project management, commercial assessments and R&D.

His thorough understanding of the drug development and commercialisation process will strengthen Phosphagenics' business and corporate development.

In concluding, the next 12 months for Phosphagenics will be focused on continuing our extensive clinical programs and developing additional products in the area of targeted, localised delivery.

I am of the opinion that all the elements required to increase shareholder value are in place: quality management, skilled innovative researchers, intellectual property and a strong bank balance capable of funding our high value R&D pipeline that will support the establishment of global commercial opportunities.

As Chairman and on behalf of the Board, I take this opportunity to thank all staff at Phosphagenics for their tireless efforts. In particular I would like to thank Michael Preston for his contribution to the Company, as a Director, over the last three and a half years.

Andrew Vizard
Chairman



PHOSPHAGENICS

CEO's address to shareholders

AGM – 23rd May 2008

Mr. Chairman, fellow directors and Shareholders,

Patience is one of the key elements required when investing in any technology and our shareholders have shown an abundance of that. As much as we like to believe that we can predict the timing and outcome of scientific research, unexpected events inevitably arise.

An investment in biotechnology has inherent risks, yet despite the risks, we do make these investments. While the reasons may be varied, I suspect that many of you made your decision on a similar basis to me: our company has diverse and incredibly robust technologies; it is at the leading edge of science in the field of drug delivery; and has multiple applications, whether in pain management, diabetes, food or personal care products.

However, as important as any financial rewards, we also want to make a difference in what we do and what the companies in which we chose to invest in, do. A successful biotechnology company makes invaluable contributions to society by extending the longevity and improving the quality of life.

In 1895, when the first U.S. pharmaceutical laboratory was established, the average life expectancy was around 50 years of age. Since then, it has increased by 56 per cent to around 78 years.

It is not difficult to imagine that by the close of the 21st Century, the majority of people will live to 100 years or more. We can hardly attribute this explosion in longevity to evolution. Undoubtedly, biotechnology and medical research have played the central role in the changing life expectancy, and the continuation of this research is being funded by your investment and people like you.

For those of you who are not motivated solely by altruism, let me share with you the way we are positioning your company for success.

So that you can better understand our commercial strategy, I will briefly touch upon our primary technology, which involves encapsulating drugs into spheres using our proprietary product. We

have patented a formulation that produces spheres that are ultra deformable and therefore change their shape so that they are able to get through the tight spaces within our skin.

Our technology differs from any other technology in the world in two important ways. Firstly, we are able to load a very large percentage of the drug into the spheres, often beyond 90 per cent. Secondly, we can control the size of spheres and consequently have the flexibility of delivering drugs either into the skin or through the skin. Small spheres readily get through the tight junctions of the skin to deliver drugs into the blood stream. On the other hand, large spheres are trapped in these tight spaces where they burst and deliver the drug. We refer to this as targeted, non-systemic delivery.

Currently we have seven products in our pipeline that are either in clinical studies or about to enter the clinic – consequently, we have many shots at goal.

Our portfolio is diverse and comprises of: insulin for diabetes; morphine, oxycodone and lidocaine for pain management; diclofenac for inflammation; retinoic acid for acne treatment and Phospha E[®] for regulating inflammatory biomarkers and metabolic syndrome.

Insulin, morphine and oxycodone are being developed for delivery into the systemic circulation, that is, the blood stream. Lidocaine, diclofenac and retinoic acid, recent additions to our portfolio, are being developed for targeted, non-systemic delivery. Phospha E[®], by contrast, is an oral compound.

Today we have ongoing clinical studies for insulin and Phospha E[®] in Australia, and retinoic acid in the U.S.

We are developing a patch for oxycodone and morphine in collaboration with LTS in Germany and plan to re-enter the clinic with oxycodone as soon as the patch development has been completed, which is expected to be later this year.

We have completed our pre-clinical development for lidocaine with outstanding results and we are currently conducting pre-clinical studies for diclofenac, which is sold as Voltaren.

To give you an idea of the market size of the drugs we have under development, annual sales for insulin exceeds US\$7 billion, for both oxycodone and lidocaine it exceeds US\$1.2 billion each, for diclofenac it exceeds US\$700 million and for retinoic acid and morphine it is around US\$350 million each. The market for Phospha E will need to be developed, but we are partnering with the world's largest food producer, Nestlé.

In the past year or so, our scientific team has substantially improved our technology. Commercially, we needed to develop a strategy that would leverage their work.

We were already developing insulin and oxycodone, which are relatively long term projects. What we needed was to develop a strategy that would deliver shareholder value quicker.

The criteria we set were: speed to market; easier regulatory pathway; lower development costs; indications that have unmet medical needs and sizeable markets. Targeted non-systemic delivery readily fulfilled these characteristics.

This strategy will enable us to complete proof of concept, phase 2 studies within two years of commencing a project at a cost that will be significant less than the cost of developing new drugs.

As we are targeting localised non-systemic delivery, our regulatory pathway will be relatively easy. There are many instances where it would be preferable to deliver drugs transdermally yet pills are prescribed because there are no adequate technologies available, or where transdermal delivery is available, it has poor bioavailability or causes severe skin irritation.

Another important aspect of our strategy is that we have selected compounds with a partner in mind. This arose as a consequence of discussions with several pharmaceutical companies over the past year, who have expressed an interest in co-developing the drugs we have selected. Having said this, insulin and oxycodone remain our priority. While insulin is a long-term project, the rewards to our shareholders for success will be incredible.

Having seven compounds in, or about to enter, the clinical stage is a large undertaking for a small company. Until such time as we enter into licensing arrangements, we will not expand our clinical pipeline. However, we will remain opportunistic. We believe that there is a ready market for our products once we have sufficient clinical data, but so that you understand the length involved in the process, it normally takes between six to 12 months to negotiate these types of arrangements.

We are committed to establishing our commercial operations in the U.S. and have recently appointed Fred Banti as our global Chief Business Officer and Senior Vice President.

Fred has more than 27 years' experience in the pharmaceutical industry. This appointment is a strong indication that we believe that we have reached a pivotal point in our corporate development where greater emphasis will be placed on commercial outcomes as we are now in a position to do so.

We expect that other commercial appointments will follow in the U.S. as we start allocating a larger percentage of our financial resources towards commercial development. We have been in discussions with several multinational companies for some time who continue to show great interest in our technologies. However, like you, we are running out of patience and consequently have made the decision not to rely solely on these negotiations but to take control of our own destiny and we are considering the merits of launching our own products in the U.S. for dietary supplements and personal care, so long as we remain focused on our main game, pharmaceutical, and the costs are minimal.

The final two matters I need to touch upon before vacating the podium are our recent capital raising and our current share price.

The greatest risk to our company was to run out of money before attaining our commercial goals. We had been in discussions with U.S. investment bankers since the beginning of 2007 with many interested in undertaking a capital raising on our behalf. Along came the sub-prime bubble and the world changed. While we still had U.S. Bankers wanting to raise the money, the rules of the game changed so much that we started looking for alternatives.

In the end we approached our largest shareholder and through BBY, who were incredibly good during the process, one US fund. In a matter of a week we raised sufficient funds to see us through to the end of 2009. This is a testament to the strength of our technology.

Yes, we could have waited until getting results in the second half of the year however to mitigate financial risk in the current marketplace, where capital raisings for biotechnology companies are extremely difficult, we thought it was prudent to do it now.

I have made it a policy not to discuss share price. My reluctance is greater in today's volatile market where small companies are being decimated for no apparent reasons. I have spoken to you about our clinical trials. Although no-one can predict the outcome of a trial, it is fair to say that the likelihood of one or more of our trials succeeding is extremely high. The value of just one successful trial is several times greater than our current capitalisation.

In addition to having many opportunities in our pharmaceutical division, the same is true of our nutraceutical division. We believe that by transitioning into non-systemic delivery, and with our recent capital raising, we have removed significant risks from any investment in our company.

From what I have said, you can readily ascertain my view of our current share price. I can assure you that we will do everything possible in the coming months to get this message across to potential investors.

I thank you for coming along this journey with us and look forward to delivering future successes.

Harry Rosen
President & CEO