

Phosphagenics Limited

(ABN 32 056 482 403)

Appendix 4D

Half Year Report for the period ended on 30 June 2007

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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:

The results for the half-year period ended 30 June 2007 reflect:

As is noted in the accompanying Directors' Report for the half-year period ended 30 June 2007 the accelerated R & D programme enabled the Company to announce the following important results:

- *started a multi phase morphine and insulin study, continuing from Phase 1 study completed last year*
- *concluded a Collaboration Agreement with Nestle for development of Phospha E for food and beverage markets*
- *Established OTC/QX listing in the USA – Code PPGNY*
- *extended the Company's drug delivery technologies to other routes of administration e.g. oral, intravenous*

As a result of the above, the Company has increased expenditures on the scientific and capital expenditures and recorded for the 6 months ended 30 June 2007, an after tax loss of \$3.474 million (2006: \$3.118 million). The increase in the loss incurred for the period being due principally to the additional R &D of \$2.817 m (2006:\$2.4.15m).

In order to ensure that the Company had and has the ability to fund the programme it raised equity capital of \$6.935m during the period and as at 30 June 2007 funds in hand totalled \$16.302m (2006: \$8.971m); refer to the Cash Flow Statement. As at 30 June 2007 Shareholders Equity totalled \$139.047m (2006: \$129.160m); refer Statement of Changes in Equity.

In addition, the Company has continued the construction of production plant facilities in Melbourne which will permit a substantial increase in the Company's ability to produce tocopheryl phosphates.

*Since the end of the June half-year period the Company has continued its accelerated R & D programme and, as announced on 8 August 2007, has in its Phase 1b clinical (human) trial in delivering insulin through the skin thereby demonstrating the **enhanced** ability of the Company's patented transdermal delivery product, TPM-02, to deliver large molecules through the skin. Full details of the results announced on 8 August 2006 can be viewed on the Company's website at: www.phosphagenics.com*

In July the Company announced the upgrade of its American Depository Receipts –Level 1 Facility in the USA for 'over-the-counter' trading in the Company's securities through a listing on the OTCQX as operated by Pink Sheets,LLC

Phosphagenics Limited
Appendix 4D, Half-Yearly Report for the period ended 30 June 2007

Appendix 4D

PHOSPHAGENICS LIMITED

ABN 32 056 482 403

Half Year Report
Period Ended 30 June 2007

(Previous Corresponding Period: Half year ended 30 June 2006)

Results for announcement to the market

\$A'000

		6 months 30 June 2007	6 months 30 June 2006
Revenues from ordinary activities	(Up 20%)	2,000	1,667
(Loss) from ordinary activities after tax attributable to members	(Up 11%)	(3,474)	(3,118)
Net (Loss) for the period attributable to members	(Up 11%)	(3,474)	(3,118)

Dividends (distributions)	Amount per security	Franked amount per security
6 months ended 30 June 2007 N/A	-	N/A ¢
6 months ended 30 June 2006 N/A	-	N/A ¢
Record date for determining entitlements to the dividend	N/A	

Phosphagenics Limited
Appendix 4D, Half-Yearly Report for the period ended 30 June 2007

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

For the 6 months ended 30 June 2007 the Company returned an after tax loss of A\$3,474,460 (2006: A\$3,118,421).

During the period, the Company continued and accelerated its commercial development programme with the following results:

- started a multi phase morphine and insulin study, continuing from Phase 1 study completed last year
- concluded a Collaboration Agreement with Nestle for development of Phospha E for food and beverage markets
- Established OTC/QX listing in the USA – Code PPGNY
- extended the Company's drug delivery technologies to other routes of administration e.g. oral, intravenous

In order to ensure that the Company had and has the ability to fund the commercial development programme it raised equity capital of A\$6-935m during the period and as at 30 June 2007 funds in hand totalled A\$16.302m (2006: A\$8.971m); refer to the Cash Flow Statement. As at 30 June 2007 Shareholders Equity totalled A\$139.047m (2006: A\$135.474m); refer Statement of Changes in Equity.

To examine in detail the information referred to above please visit the Company's recently upgraded website at: www.phosphagenics.com or contact the Company by telephone +613 9606 5900 or by facsimile +613 9605 5999

Net Tangible Assets Per Security

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

	30 June 2007	30 June 2006
Net tangible assets per security	3.19 Cents	1.82 Cents

Section 3: STATUTORY SECTION 320 ACCOUNTS

The Financial Report for the half-year period ended 30 June 2007, as attached, is inclusive of:

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Phosphagenics Limited

ABN 32 056 482 403

Financial Report
for the half year ended 30 June 2007

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Directors' Report

The Directors of Phosphagenics Limited submit their report for the half-year ended 30 June 2007.

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 :

**ASSOCIATE PROFESSOR ANDREW LANCELOT VIZARD (AGED 49 YEARS) BVSC (HONS) MVPM NON EXECUTIVE INDEPENDENT DIRECTOR SINCE JULY 1999 AND CHAIRMAN SINCE OCTOBER 2000
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. Professor Vizard has been a board member of a number of statutory, scientific and commercial organizations.

He is currently a non-executive Director of Ridley Corporation Ltd, Animal Health Australia Ltd and the Zoological Parks and Gardens Board of Victoria. He is also a trustee of The Australian Wool Trust.

Professor Vizard is a member of the Company's Audit, Compliance and Corporate Governance Committee and is the Company's representative on the Board of Directors of the Vital Health Sciences Pty Ltd group.

**HARRY ROSEN (AGED 60 YEARS) B.A (PSYCHOLOGY),. LLS.B.
EXECUTIVE DIRECTOR APPOINTED TO THE BOARD IN JUNE 1999
APPOINTED MANAGING DIRECTOR DECEMBER 2005
LAST RE-ELECTED MAY 2004**

Mr Rosen is Managing Director of Phosphagenics Limited and is a non-practicing lawyer. He 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 USA 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 (B.A.-Psychology) in 1970 and Melbourne University (LLB) in 1973.

Directors' Report continued

**JONATHAN LANCELOT ADDISON (AGED 54 YEARS) B.EC (TAS), ASIC, CFTP (SNR)
NON EXECUTIVE DIRECTOR SINCE NOVEMBER 2002
LAST RE-ELECTED MAY 2005**

Mr Addison has over 27 years in the investment management industry, including wide experience in superannuation. Currently he is the Fund Manager of the Meat Industry Employee Superannuation Fund ("MIESF") whom he joined in June 1999 and where he is responsible for the overall 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 being 4.36 per cent of the Company's issued voting share capital.

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 Manager Investment Consultant at Sedgwick Noble Lowndes.

Mr Addison is the Chairman of the Company's Audit, Compliance and Corporate Governance Committee.

Mr Addison also holds non-executive directorships with Austcorp Capital Funds Management Limited, African Enterprise Limited, African Enterprises New Zealand Limited, Hawksbridge Limited and Global Masters Fund Limited.

**PROFESSOR JOHN MILLS (AGED 67 YEARS) BS, MD, FACP, FRACP
NON-EXECUTIVE INDEPENDENT DIRECTOR SINCE MARCH 2004
LAST RE-ELECTED MAY 2007**

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 Managing Director of Narhex LifeSciences (ASX: NLS) and Executive Chairman of Narhex's wholly-owned Swedish subsidiary, Cavid AB. He is also a non-executive director of GBS Venture Partners Pty Ltd, and TissuPath Pty Ltd, and has previously been a non-executive director and Chairman of Amrad Corporation. He holds professorial appointments at Monash University and RMIT, and is a consulting physician at the Alfred and Austin hospitals in Melbourne.

Professor Mills has published over 200 scientific articles and has served as a consultant to industry and governments, the World Health Organization and the United Nations.

Professor Mills is a member of the Company's Audit, Compliance and Corporate Governance Committee and is also a member of Phosphagenics Limited's Scientific Advisory Board.

**DR ESRA OGRU (AGED 31 YEARS) BSC (HONS) PHD
EXECUTIVE DIRECTOR RESEARCH & DEVELOPMENT SINCE OCTOBER 2005
LAST RE-ELECTED MAY 2006**

Dr Ogru is responsible for the co-ordination and management of pre-clinical and clinical research for Phosphagenics.

After receiving her PhD in Biochemistry from Monash University, she conducted postdoctoral research at Monash University, Department of Biochemistry and Molecular Biology, where she was a member of the Obesity and Diabetes research group involved in the pre-clinical and clinical development of anti-obesity peptides.

Dr Ogru is experienced in many aspects of academic and commercial research and has publications in peer-reviewed journals.

Directors' Report continued

MICHAEL DAVID PRESTON (AGED 61 YEARS) M.A., F.C.A.
NON-EXECUTIVE DIRECTOR SINCE NOVEMBER 2004
LAST RE-ELECTED MAY 2005

Mr Preston is a principal partner and founder of Alberdale & Co., an FSA-regulated corporate finance and business advisory firm based in London with offices in USA. Alberdale specialises in media, technology and life sciences and manages a high technology venture capital fund concentrating in life sciences. Mr Preston was previously a founder of Sterling Publishing Group PLC, a business publishing company that was publicly listed in London in 1985. He was also a founder of the Broad Street Group PLC, a marketing services company that was publicly listed in London in 1986 and eventually acquired by the French group BDDP. Mr Preston has extensive experience as a financial and strategic adviser to many growing companies in the UK and USA. He is a Fellow of the Institute of Chartered Accountants in England and Wales and shares his time between New York and London.

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 6 months ended 30 June 2007, the Company returned an after tax loss of \$3,474,460 (2006: \$3,118,421). The principal activity of Phosphagenics and its controlled entities for the half year period has been the continued development of the Company's intellectual property on which \$2.817m (2006: \$2.481m) was expended. For further details of the Company's accelerated commercial development programme refer to "Review and Results of Operations".

In order to ensure that the Company had and has the ability to fund the research programme it raised equity capital of \$6.935m during the period and as at 30 June 2007 funds in hand totalled \$16.302m (2006: \$8.971m); refer to the Cash Flow Statement. As at 30 June 2007 Shareholders Equity totalled \$139.047m (2006: \$129.160m); refer 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 2007.

Review and results of operations

During the period, the Company continued with and accelerated its research programme with the following important results:

- Started a multi phase transdermal morphine and insulin study, continuing from the Phase 1 study completed last year
- Concluded a Collaboration Agreement with Nestle for development of Phospha E for food and beverage markets
- Extended the Company's delivery technologies to other routes of administration e.g. oral, intravenous
- Extended the Company's delivery technologies to routes of administration other than transdermal, e.g. oral
- Established OTC/QX listing in the USA – Code PPGNY

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

During the period to 30 June 2007 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.

Directors' Report continued

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.

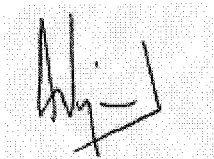
ROUNDING

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:

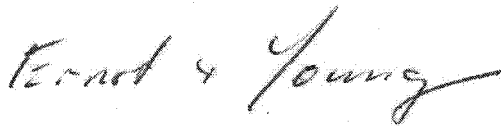


Associate Professor
Andrew Lancelot Vizard
Chairman and Independent Director

Dated this 29th day of August 2007

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 2007, 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.



Ernst & Young



Don Brumley
Partner
29th August 2007

Income Statement

For the half-year ended 30 June 2007

		Consolidated	
	Notes	2007 \$'000	2006 \$'000
Revenue			
Sale of Goods	3a	92	202
Income from Government Grants	3a	335	444
Royalties	3a	860	338
Total Revenue		1,287	984
Cost of Sales		(3)	(116)
Gross Profit		1,284	868
Finance Revenue	3a	550	316
Rental Revenue	3a	43	41
Other income	3a	120	326
Employee and Directors benefits expenses	3b	(839)	(754)
Occupancy and communications expenses		(266)	(232)
Consulting and professional expenses		(734)	(649)
Administration expenses		(264)	(167)
Research expenses		(2,817)	(2,481)
Other expenses	3c	(551)	(386)
Loss before income tax		(3,474)	(3,118)
Income tax (expense)/credit	4	-	-
Loss attributable to members of the parent entity		(3,474)	(3,118)
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the parent			
- basic earnings per share		(0.58 cents)	(0.57 cents)
- diluted earnings per share		(0.58 cents)	(0.57 cents)

Balance Sheet

For the half-year ended 30 June 2007

	Notes	Consolidated	
		As at 30 June 2007 \$'000	As at 31 December 2006 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents	6	16,302	14,425
Trade and other receivables		3,154	1,498
Inventories		55	53
Prepayments		41	50
Total Current Assets		19,552	16,026
Non-current Assets			
Intangible Assets		122,454	122,184
Goodwill		34,261	34,261
Property, plant and equipment		1,508	1,023
Total Non-current Assets		158,223	157,468
TOTAL ASSETS		177,775	173,494
LIABILITIES			
Current Liabilities			
Trade and other payables		1,508	1,081
Provisions		302	21
Total Current Liabilities		1,810	1,102
Non-Current Liabilities			
Deferred tax liabilities		36,918	36,918
Total Non-current Liabilities		36,918	36,918
TOTAL LIABILITIES		38,728	38,020
NET ASSETS		139,047	135,474
EQUITY			
Contributed Equity	11	161,543	154,608
Retained earnings		(50,672)	(47,154)
Reserves		28,176	28,020
Total Equity		139,047	135,474

Cash Flow Statement

For the half-year ended 30 June 2007

	Notes	Consolidated	
		2007 \$'000	2006 \$'000
Cash flows from operating activities			
Receipts from customers and related parties		499	625
Receipts of Government grants		42	-
Payments to suppliers and employees		(6,058)	(4,864)
Net cash flows from used in operating activities		(5,517)	(4,239)
Cash flows from investing activities			
Interest received		567	316
Purchase of property, plant and equipment		(108)	(295)
Net cash flows from investing activities		459	21
Cash flows from financing activities			
Proceeds from share issues		6,935	-
Net cash flows from financing activities		6,935	-
Net increase (decrease) in cash and cash equivalents		1,877	(4,218)
Cash and cash equivalents at beginning of the period		14,425	13,189
Cash and cash equivalents at end of the period	6	16,302	8,971

Statement of Changes in Equity

For the half-year ended 30 June 2007

Consolidated

	Ordinary Shares	Employee Benefits Reserve	Revaluation Reserve \$'000	Retained earnings	Total
	\$'000	\$'000		\$'000	\$'000
Balance at 1 January 2007	154,608	208	27,812	(47,154)	135,474
Loss for the period *	-	-	-	(3,474)	(3,474)
Employee equity settled benefits	-	156	-	-	156
Issue of shares	6,935	-	-	-	6,935
Balance at 30 June 2007	161,543	364	27,812	(50,672)	139,047
Balance at 1 January 2006	145,306	47	27,812	(41,028)	132,137
Loss for the period *	-	-	-	(3,118)	(3,118)
Employee equity settled benefits	-	141	-	-	141
Balance at 30 June 2006	145,306	188	27,812	(44,146)	129,160

* Balances represent the total recognised income and expense for the period.

Condensed Notes to the Financial Statements

For the half-year ended 30 June 2007

BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

This general purpose condensed financial report for the half year ended 30 June 2007 has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act , 2001.

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 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 2006 and be considered together with any public announcements made by Phosphagenics Limited during the half-year ended 30 June 2007 in accordance with the continuous disclosure obligations of the ASX Listing rules.

Changes in Accounting Policy

Since 1 January 2007 The Group has adopted the following Standards and Interpretations mandatory for annual Periods beginning on or after 1 January 2007. Adoption of these Standards and Interpretations did not have any effect on the financial position or performance of the Group.

- AASB 7 Financial Instruments: Disclosures
- AASB 2005-10 Amendments to Australian Accounting Standards (AASB 132,101,114,117,133,139,1,4,1023 and 1038)
- Interpretation 8 Scope of AASB 2 Share-based payments
- Interpretation 9 Reassessment of Embedded Derivatives
- Interpretation 10 Interim Financial Reporting

2. SEGMENT REPORTING

The Group comprises the following business segments:

- Nutraceuticals – licensing of dietary supplements, production and sale of products for the personal care industry.
- Pharmaceuticals – licensing of pharmaceuticals and transdermal technologies.

Business Segments

The following table presents revenue and profit information regarding business segments for the half-year periods ended 30 June 2007 and 30 June 2006.

	<i>Continuing Operations</i>			<i>Total Operations</i>
	Nutraceuticals	Pharmaceuticals	Unallocated	Total
Half-year ended 30 June 2007				
Segment revenue	1,069	335	596	2,000
Segment result	970	(2,682)	(1,762)	(3,474)
Half-year ended 30 June 2006				
Segment revenue	660	647	360	1,667
Segment result	243	(1,981)	(1,380)	(3,118)

3. REVENUES AND EXPENSES

	Consolidated	
	2007 \$'000	2006 \$'000
a) Revenue & Income		
Sales revenue	92	202
Income from Commercial Ready grant	335	444
Royalties	860	338
	<u>1,287</u>	<u>984</u>
Interest revenue	550	316
Total finance revenue	<u>550</u>	<u>316</u>
Rental Revenue	43	41
Other income	120	326
Total revenue and income	<u>2,000</u>	<u>1,667</u>
b) Salaries and employee benefits expense		
Salaries and wages	(589)	(660)
Superannuation	(94)	(59)
Employee equity settled benefits	(156)	(141)
Total salaries and employee benefits expense	<u>(839)</u>	<u>(860)</u>
c) Other expenses		
Other operating expenses	(551)	(298)
Total other expenses	<u>(551)</u>	<u>(298)</u>
d) Seasonality of Operations		
Phosphagenics Limited operations are not affected by seasonality		

INCOME TAX

The major components of income tax expense for the half-year ended 30 June 2007 and 30 June 2006 are:

	Consolidated	
	2007 \$'000	2006 \$'000
Consolidated Income Statement		
<i>Current income tax</i>		
Current income tax credit/(expense)	-	-
Adjustments in respect of current income tax of previous years	-	-
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	-	-
Income tax reported in the consolidated income statement	-	-

DIVIDENDS PAID AND PROPOSED

There were no dividends declared or paid during the half year ended 30 June 2007. (2006: NIL)

CASH AND CASH EQUIVALENTS

	Consolidated	
	30 June 2007 \$'000	31 December 2006 \$'000
For the purposes of the half-year condensed cash flow statement, cash and cash equivalents are comprised of the following:		
Cash at bank and in hand	4,802	425
Short-term deposits	11,500	14,000
	16,302	14,425
	-	-
	16,302	14,425

SHARE BASED PAYMENTS

During the six months ended 30 June 2007, 900,000 share options were granted under the Employee Share Option Plan. The following table lists the inputs to the model used for the half-year ended 30 June 2007 and 2006: 2,600,000.

	30 June 2007	30 June 2006
Dividend yield (%)	-	-
Expected volatility (%)	43.0	49.0
Risk-free interest rate (%)	6.08	5.67
Early exercise multiple / expected life	5.0	5.0
Contractual life (years)	5.0	5.0

INVENTORIES

There were no inventory write-downs recognised as an expense during the half-year ended 30 June 2007 (2006: NIL).

PROPERTY, PLANT & EQUIPMENT**Acquisitions and disposals**

During the half-year ended 30 June 2007, the Group acquired assets with a cost of \$568,063 (2006: \$273,953). The Company continued construction of plant at Clayton to enable the commercial production of the Company's products..

COMMITMENTS AND CONTINGENCIES**Lease Commitments**

At 30 June 2007 the Group has commitments of \$221,539 (2006: \$475,789) relating to non-cancellable operating leases over the office and production facilities, which expire in 2008.

CONTRIBUTED EQUITY

	Consolidated	
	30 June 2007	31 December 2006
	\$'000	\$'000
Issued and paid up capital		
Ordinary shares fully paid (i)	161,543	154,608
(i) Ordinary shares		
Fully paid ordinary shares carry one vote per share and carry the right to receive dividends		
<i>Movement in ordinary shares on issue</i>	No. '000	\$'000
At 1 Jan 2007	580,105	154,608
Issue of shares cash	23,334	6,935
At 30 June 2007	603,439	161,543
At 1 Jan 2006	546,758	145,306
Issue of shares cash	33,333	10,000
Exercise of options	14	2
Transaction costs on share issue	-	(700)
At 31 Dec 2006	580,105	154,608

(i) Share options

There were no options exercised during the period.

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.

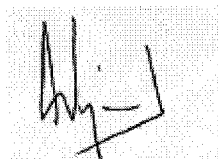
Directors' Declaration

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 2007 and of its performance for the year 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



Associate Professor
Andrew Lancelot Vizard
Chairman and Independent Director

Melbourne, 29 August 2007

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 (the company), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, other selected explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 an Interim Financial Report 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 2007 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* and other mandatory financial reporting requirements in Australia. 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.

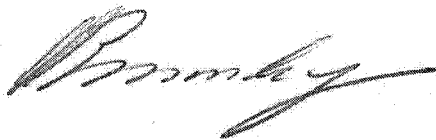
Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim financial report of Phosphagenics Limited is not in accordance with:

- (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2007 and of its performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- (b) other mandatory financial reporting requirements in Australia.



Ernst & Young



Don Brumley
Partner
Melbourne
29th August 2007

Phosphagenics Limited
Appendix 4D, Half-Yearly Report for the period ended 30 June 2007

Section 4: AUDIT ALERT

As at 30 June 2007 and as the date of this Report there are no matters of dispute or qualification or likely dispute or qualification.