

Phylogica Limited

ACN 098 391 961

Appendix 4D

Half-year Report
Period ending 31 December 2006

Results for announcement to the market

Operating Performance	% Increase/ (Decrease)	31 Dec 2006 \$,000	31 Dec 2005 \$,000
Revenue for Ordinary Activities	Up 145%	618	252
Profit/(Loss) from ordinary activities after tax attributable to members	Up 13%	(1,755)	(2,013)
Net Profit/(Loss) for the half year attributable to members	Up 13%	(1,755)	(2,013)

Dividends

There are no or distribution reinvestment plans in operation and there have been no dividend or distribution payments during the financial half year ended 31 December 2006

Comments

During the 6 months, Phylogica Limited continued to pursue the discovery and development of novel therapeutics directed at inflammatory diseases including stroke, burn treatment and rheumatoid arthritis. As indicated in announcements over the past 6 months, important and significant technological results have been achieved. Expenditure continues to be closely monitored and is substantially in line with budget.

Net tangible assets per ordinary security	31 December 2006	31 December 2005
Net tangible assets	\$4,021,784	\$4,007,785
Number of shares on issue at reporting date	121,581,586	108,363,938
Net tangible assets per ordinary security	3.3 cents	3.7 cents

Control Gained or Lost over Entities

There have been no entities over which control has been gained or lost during the period ended 31 December 2006.

Associates and joint ventures

Not applicable

Foreign Entities Accounting Framework

Not applicable

Audit/Review Status

This Appendix 4D and the attached interim financial report are based on accounts which have been subjected to review. The accounts are not subject to audit dispute or qualification.

The attached interim financial report for the half-year ended 31 December 2006 forms part of this Appendix 4D. This half-year report is to be read in conjunction with the Phylogica Limited 2006 annual financial report and the notes contained therein.

Phylogica Limited

ACN 098 391 961

Interim Financial Report

31 December 2006

Phylogica Limited

ACN 098 391 961

Directors

Mr Joachim von Roy
Non-executive Chairman

Mr Harry Karelis
Non-executive Director

Mr Bruce McHarrie
Non-executive Director

Dr Mark Pierce
Non-executive Director

Dr Stewart Washer
Executive Director

Dr Paul Watt
Executive Director

Company Secretary

Graeme R Boden
Telephone: 08 9384 3284
Facsimile: 08 9284 3801
Email: gboden@bigpond.net.au

Share Registry

PO Box 535
Applecross
Western Australia 6953
770 Canning Highway
Applecross
Western Australia 6153
Telephone: 08 9315 2333
Facsimile: 08 9315 2233
Email: registrar@securitytransfer.com.au

Bankers

National Australia Bank
Subiaco Branch
464 Hay Street
Subiaco
Western Australia 6008

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Registered Office & Principal Place of Business

105 Hay Street
Subiaco
Western Australia 6008
Telephone: 08 9423 8888
Facsimile: 08 9423 8899
Website: www.phylogica.com

Auditors

KPMG
Central Park
152 – 58 St Georges Terrace
Perth
Western Australia 6000

Incorporated in Western Australia, October 2001
Listed on the Australian Stock Exchange (ASX)
Home Exchange: Perth
Code: PYC ordinary shares
PYCO options \$0.25 expiring 31/08/2007

Phylogica Limited

Directors' report

The directors present their report on Phylogica Limited (referred to in these financial statements as "the Company" or "Phylogica") together with the financial report for the half-year ended 31 December 2006 and the review report thereon.

Directors

The Directors of the Company at any time during or since the end of the half-year are:

Non-executive

Mr Joachim von Roy

Mr Harry Karelis

Mr Bruce McHarrie

Dr Mark Pierce

Dr Saliba Sassine

Appointed 20/2/07

Resigned 29/11/06

Executive

Dr Stewart Washer

Dr Paul Watt

Unless otherwise indicated, all Directors held their position as a Director throughout the entire half year and up to the date of this report.

Review of operations

The principal activity of Phylogica during the period was the discovery and development of novel therapeutics directed at proteins and their interactions.

Activities continue to progress rapidly for Phylogica with the past 6 months seeing important and significant technology and research results. The Company's share price regained ground during the period as a result and closed at 46.0 cents on 29 December 2006.

The Company recorded a loss of \$1,754,838 for the six months to 31 December 2006 (31 December 2005: \$2,012,997). Expenditure continues to be in line with budget.

Highlights of the period include:

- In October 2006, the Company completed a placement of 12,930,982 shares at \$0.29 each and 7,422,409 options to institutional and sophisticated investors to raise \$3,750,000. The funds are used to progress rapid development of Phylogica's internal product candidates for stroke and burns treatment, as well as to advance the current collaboration agreements with Johnson & Johnson Research Pty Ltd and Opsona Therapeutics Ltd.
- Tests confirmed that Phylomer® stroke drugs have suitable stability properties to function as stroke therapies. In addition, research results show Phylomer® stroke drugs are also effective in reducing brain damage after head injuries.
- Laboratory results show that Phylomer® burn drugs significantly accelerate wound healing. The trials were undertaken by the McComb Foundation of Perth, headed by 2005 Australian of the Year Clinical Professor Fiona Wood. On the strength of the results, the company has now concluded a new commercialisation agreement with the McComb Foundation. The deal gives Phylogica exclusive commercialisation rights for its Phylomer® drugs for the treatment of wound healing and scar tissue formation, in return for a revenue sharing arrangement with the McComb Foundation.

Review of operations (continued)

- Approval of Phylomer® patent in Europe covering Phylogica's innovative Blocker Trap screening technology that enables the company to more rapidly identify new drug leads.
- Development and validation of a major new source of exclusive Phylomer® drugs. The expanded libraries accelerate the Company's drug discovery program.
- Discovery of Phylomer® drug candidates that block key pathways that lead to crippling rheumatoid arthritis disease.

Phylogica continues to build on its strategy of collaboration with Australian and internationally recognised centres of excellence and scientists in the pursuit of its objectives.

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 3 and forms part of the Directors' report for the half-year ended 31 December 2006.

Signed in accordance with a resolution of the directors:

A handwritten signature in black ink, appearing to read 'Bruce McHarrie', with a horizontal line underneath it.

Bruce McHarrie
Director

Perth
22 February 2007



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Phylogica Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the financial half-year ended 31 December 2006 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the review; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

T R Hart
Partner

Perth

Dated: *22 February 2007*

Phylogica Limited

Interim income statement

For the half year ended 31 December 2006

	<i>Note</i>	31 Dec 2006	31 Dec 2005
		\$	\$
Commercial Income		208,344	-
Government Grant income		317,600	119,084
Gross profit		525,944	119,084
Contract research costs		757,225	559,454
Personnel expenses		726,166	574,185
Depreciation, amortisation and impairment		12,500	473,785
Professional services		207,671	149,150
Travel and accommodation		94,708	126,285
Licenses		6,789	148,100
Intellectual property maintenance		182,728	162,431
Laboratory consumables		134,030	-
Occupancy costs		34,977	44,573
Other operating expenses		215,743	312,460
Results from Operating Activities		(1,846,593)	(2,431,339)
Interest income		91,755	132,442
Loss before Income tax		(1,754,838)	(2,298,897)
Income tax benefit	4	-	285,900
Loss for the period attributable to the members of Phylogica Limited		(1,754,838)	(2,012,997)
		Cents	Cents
Basic earnings per share		(1.6)	(1.9)

Diluted earnings per share are not shown because potential ordinary shares on issue at the comparative balance dates are not considered dilutive.

The income statement is to be read in conjunction with the notes to the interim financial statements set out on pages 8 to 12.

Phylogica Limited

Interim balance sheet

For the half year ended 31 December 2006

	<i>Note</i>	31 Dec 2006 \$	30 June 2006 \$
Current assets			
Cash and cash equivalents		4,504,080	2,638,872
Trade and other receivables		73,504	77,427
Other		34,724	41,517
Total current assets		4,612,308	2,757,816
Non-current assets			
Property, plant and equipment	5	92,445	74,397
Total non-current assets		92,445	74,397
Total assets		4,704,753	2,832,213
Current Liabilities			
Trade and other payables		468,662	370,749
Non Interest-bearing liabilities		29,230	12,704
Employee benefits	10	56,307	189,270
Deferred government grants		128,770	145,186
Total current liabilities		682,969	717,909
Total liabilities		682,969	717,909
Net assets		4,021,784	2,114,304
Equity			
Issued capital	3	11,383,785	7,820,452
Accumulated losses	3	(7,362,001)	(5,706,148)
Total equity attributable to members of Phylogica Limited		4,021,784	2,114,304

The balance sheet is to be read in conjunction with the notes to the interim financial statements set out on pages 8 to 12.

Phylogica Limited

Interim statement of cash flows

For the half year ended 31 December 2006

	<i>Note</i>	31 Dec 2006 \$	31 Dec 2005 \$
Cash flows from operating activities			
Grants received		470,936	364,740
Cash paid to suppliers and employees		<u>(2,246,796)</u>	<u>(1,787,566)</u>
Cash used in operations		(1,775,860)	(1,422,826)
Interest received		108,281	119,456
Net cash from operating activities		<u>(1,667,579)</u>	<u>(1,303,370)</u>
Cash flows from investing activities			
Acquisition of property, plant and equipment	5	(30,546)	(31,565)
Acquisition of other investments		-	-
Net cash from investing activities		<u>(30,546)</u>	<u>(31,565)</u>
Cash flows from financing activities			
Proceeds from the issue of share capital	3	3,769,583	-
Repayment of borrowings		-	(5,000)
Payment of transaction costs	3	<u>(206,250)</u>	<u>(20,000)</u>
Net cash from financing activities		<u>3,563,333</u>	<u>(25,000)</u>
Net decrease in cash and cash equivalents		1,865,208	(1,359,935)
Cash and cash equivalents at 1 July		<u>2,638,872</u>	<u>5,505,128</u>
Cash and cash equivalents at 31 December		<u>4,504,080</u>	<u>4,145,193</u>

This statement of cash flows is to be read in conjunction with the notes to the interim financial statements set out on pages 8 to 12.

Phylogica Limited

Statement of changes in equity

For the half year ended 31 December 2006

	<i>Note</i>	31 Dec 2006 \$	31 Dec 2005 \$
Total equity at the beginning of the year		2,114,304	5,780,882
Loss for the period		(1,754,838)	(2,012,997)
Issue of capital	3	3,769,583	100,000
Share capital transaction costs	3	(206,250)	(52,000)
Share based payments expense for the period		98,985	191,900
Total equity at the end of the half year		4,021,784	4,007,785

This statement of changes in equity is to be read in conjunction with the notes to the interim financial statements set out on pages 8 to 12.

Notes to the interim financial statements

1. Significant accounting policies

Phylogica Limited is a company domiciled in Australia. The interim financial report of the Company for the six months ended 31 December 2006 was authorised for issue by the directors on 22 February 2007.

The annual financial report of the Company as at and for the year ended 30 June 2006 is available upon request from the Company's registered office at the address or at Web site shown earlier in this report.

(a) Statement of compliance

The interim financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards AASB 134: Interim financial reporting and the Corporations Act 2001.

The interim financial report does not include all of the information required for a full annual financial report, and should be read in conjunction with the annual financial report of the Company as at and for the year ended 30 June 2006.

This interim financial report was approved by the Board of Directors on 22 February 2007.

(b) Significant accounting policies

Except as described below, the accounting policies applied by the Company in this interim financial report are the same as those applied by the Company in its financial report as at and for the year ended 30 June 2006.

In the prior financial year the Company adopted AASB 132 *Financial Instruments: Disclosure and Presentation* and AASB 139 *Financial Instruments: Recognition and Measurement* in accordance with the transitional rules of AASB 1. This change has been accounted for by adjusting the opening balance of retained earnings and reserves at 1 July 2005.

(c) Estimates

The preparation of an interim financial report in conformity with AASB 134 *Interim Financial Reporting* requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

In preparing this interim financial report, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial report as at and for the year ended 30 June 2006.

(d) Financial Risk Management

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Australian dollars at foreign exchange rates ruling at the dates the fair value was determined.

The Company's financial risk management objectives and policies are consistent with that disclosed in the financial report as at and for the year ended 30 June 2006.

Notes to the interim financial statements (continued)

2 Loss from ordinary activities

At 31 December 2005, \$466,278 of capitalised intellectual property was expensed as an impairment loss in accordance with accounting policy. During the half year ended 31 December 2006 no intellectual property was expensed.

3 Issued capital and accumulated losses

(i) Issued and paid up capital

	31 Dec 2006	30 June 2006
121,581,586 (2006: 108,572,271) ordinary shares fully paid	11,383,785	7,820,452

The following movements in ordinary shares were recorded from 1 July 2006:

	Number of shares	\$
Balance brought forward as at 1 July 2006	108,572,271	7,820,452
Options exercised for cash	78,333	19,583
Issue of shares for cash	12,930,982	3,750,000
Transaction costs	-	(206,250)
Balance carried forward as at 31 December 2006	121,581,586	11,383,785

(ii) Accumulated losses

	31 Dec 2006 \$	30 June 2006 \$
Opening Balance	(5,706,148)	(1,940,007)
Loss for the period	(1,754,838)	(3,991,475)
Share based compensation	98,985	225,334
Balance as at 31 December 2006	(7,362,001)	(5,706,148)

(iii) Options

60,000 options to acquire ordinary shares were issued during the half year ended 31 December 2006 under and in accordance with the Phylogica Employee Share Option Plan (ESOP). One third vested on the grant date and the remaining two thirds vest on the first anniversary of issue.

Nil options to acquire ordinary shares were issued to directors during the half year ended 31 December 2006.

Total number of options on issue as at 31 December 2006 is 29,150,178:

<u>Description</u>	<u>Options on Issue</u>	<u>Expiry Date</u>	<u>Exercise Price</u>
Quoted Options	21,920,178	31 August 2007	\$0.25 ea
Unquoted Options (ESOP)	6,650,000	30 June 2010	\$0.25 ea
Unquoted Options (ESOP)	580,000	30 June 2010	\$0.30 ea

Notes to the interim financial statements (continued)

4 Income tax expense/benefit

The company was eligible for the research and development tax rebate for the half year ended 31 December 2005 of \$285,900 based on its research and development concession application lodged with AusIndustry.

Deferred tax assets have not been recognised as at 31 December 2006 because it is not probable that future taxable profit will be available against which the Company can utilise the benefits therefrom.

5 Property, plant and equipment

Acquisitions and disposals

During the six months ended 31 December 2006, the Company acquired assets with a cost of \$30,546 (six months ended 31 December 2005: \$31,565).

6 Segment information

The Company comprises a single business segment comprising discovery and development of novel therapeutics and a single geographical location being Australia. The segment details are therefore fully reflected in the results and balances reported in the interim income and balance sheet statements.

7 Events subsequent to balance date

Subsequent to the interim balance sheet and up to the date of this report, there has not arisen any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of the affairs of the Company in future financial years.

8 Contingent liabilities and contingent assets

There are no known significant liabilities or contingent assets as at the date of this report.

9 Earnings per share

Basic earnings per share

The calculation of basic earnings per share for the six months ended 31 December 2006 was based on the loss attributable to ordinary shareholders of \$1,754,838 (six months ended 31 December 2005: \$2,012,997) and a weighted average number of ordinary shares outstanding during the six months ended 31 December 2006 of 110,890,264 (six months ended 31 December 2005: 108,195,460), calculated as follows:

Notes to the interim financial statements (continued)

(i) Profit attributable to ordinary shareholders

	31 Dec 2006	31 Dec 2005
Loss for the period:	\$	\$
Basic earnings	(1,754,838)	(2,012,997)

(ii) Weighted average number of ordinary shares

	31 Dec 2006	31 Dec 2005
Issued ordinary shares at 1 July 2006	108,572,271	107,863,938
Effect of shares issued	2,317,993	331,522
Weighted average number of ordinary shares at 31 December 2006	110,890,264	108,195,460

10 Employee Benefits

(i) Details of total employee benefits as at balance sheet date

	31 Dec 2006	30 June 2006
	\$	\$
Liability for annual leave	56,307	42,558
Incentive provision	-	146,712
Total employee benefits	56,307	189,270

(ii) Share-based payments

In 2005 the Company established a employee share option programme (ESOP) that entitles key management personnel and senior employees to purchase shares in the Company. The terms and conditions of the share option programme are disclosed in the Offer Information Statement released to the Australian Stock Exchange on 19 October 2005. During the six months ended 31 December 2006 60,000 options were granted under the ESOP.

The terms and conditions of the grants made during the six months ended 31 December 2006 are as follows:

Grant date	Number of instruments	Vesting conditions	Contractual life of options
Option grant at 1 September 2006	30,000	Three years of service	3.83 years
Option grant at 11 September 2006	30,000	Three years of service	3.80 years

(iii) Fair value of share options and assumptions for the six months ended 31 December 2006:

Number of Options	Grant Date	Expiry Date	Fair Value Per Option	Exercise Price	Price of Shares on grant date	Risk Free Interest Rate (%)	Estimated Volatility (%)	Number Vested at 31/12/06
30,000	1-Sep 06	30-Jun-10	\$0.36	\$0.30	\$0.46	5.71	30%	10,000
30,000	11- Sep 06	30-Jun-10	\$0.32	\$0.30	\$0.42	5.77	30%	10,000

20,000 options vested immediately and of the remaining two thirds vest on the first anniversary.

The basis of measuring fair value is consistent with that disclosed in the financial report as at and for the year ended 30 June 2006.

Notes to the interim financial statements (continued)

11 Key management personnel expense

Key management personnel receive compensation in the form of short-term employee benefits, post-employment benefits and equity compensation benefits (see note 10). Key management personnel received total compensation of \$536,187 for the six months ended 31 December 2006 (six months ended 31 Dec 2005: \$416,380). Total remuneration is included in share based payment expense, administration expenses, research and development expenses and other operating expenses in the income statement.

12 Related parties

Arrangements with related parties continue to be in place. For details of these arrangements, refer to the 30 June 2006 annual financial report.

Directors' declaration

In the opinion of the directors of Phylogica Limited (the Company)

1. the financial statements and notes set out on pages 4 to 12, are in accordance with the Corporations Act 2001 including:
 - (a) giving a true and fair view of the financial position of the Company as at 31 December 2006 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and
 - (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:

A handwritten signature in black ink, appearing to read 'Bruce McHarrie', with a horizontal line underneath it.

Bruce McHarrie
Director

Perth
22 February 2007



Independent auditor's review report to the members of Phylogica Limited

Report on the Financial Report

We have reviewed the accompanying half-year financial report of Phylogica Limited, which comprises the interim balance sheet as at 31 December 2006, income statement, statement of changes in equity and cash flow statement for the half-year ended on that date, a description of accounting policies and other explanatory notes and the directors' declaration.

Directors' Responsibility for the 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 Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal control 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 half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Company's financial position as at 31 December 2006 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of Phylogica Limited, 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.

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 Phylogica Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Company's financial position as at 31 December 2006 and of its performance for the half-year ended on that date; and



- (b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the Corporations Regulations 2001.

KPMG

KPMG

A handwritten signature in blue ink, appearing to read 'T R Hart', written in a cursive style.

T R Hart
Partner

Perth

Dated: *22 February 2007*