

Phylogica Limited

ACN 098 391 961

Appendix 4D

Half-Year Statement

Period ending 31 December 2013

Results for announcement to the market

Operating Performance	% Increase/ (Decrease)	31 Dec 2013 \$,000	31 Dec 2012 \$,000
Revenue from ordinary activities	467%	760	134
(Loss) from ordinary activities after tax attributable to members	(66%)	(393)	(1,158)
Net (loss) for the half year attributable to members	(66%)	(393)	(1,158)

Comment

Revenue of \$0.7m from one collaborator is reflected in the reduced loss for the half-year.

Dividends

There are no dividend or distribution reinvestment plans in operation and there have been no dividend or distribution payments during the financial half year ended 31 December 2013.

Net tangible assets per ordinary security	31 December 2013	31 December 2012
Net tangible assets	\$6,504,592	\$3,346,966
Number of shares on issue at reporting date	601,241,620	466,890,744
Adjusted number of shares ¹	1,002,069,367	N/A
Net tangible assets per ordinary security	0.65 cents	0.72 cents

¹ The number of shares is adjusted to include the shares subsequently allotted for the fully underwritten entitlement issue which closed on 30 December 2013.

Control Gained or Lost over Entities

Not applicable

Associates and joint ventures

Not applicable

Foreign Entities Accounting Framework

Not applicable

Audit/Review Status

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

The attached interim financial statements for the half-year ended 31 December 2013 form part of this Appendix 4D. This half-year report is to be read in conjunction with the Phylogica Limited 2013 annual financial statements and the notes contained therein.

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PHYLOGICA

BREAKTHROUGH PEPTIDE THERAPEUTICS

Phylogica Limited

ACN 098 391 961

Condensed Consolidated Interim Financial Statements

For the Half Year Ended 31 December 2013

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Phylogica Limited Corporate Directory

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Directors

Dr Douglas Wilson
Chairman

Mr Bruce McHarrie
Non-Executive Director

Mr Jeremy Curnock Cook
Non-Executive Director

Dr Bernard Hockings
Non-Executive Director

Dr Richard Hopkins
Chief Executive Officer

Company Secretary

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

Share Registry

Security Transfer Registrars Pty Ltd
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

Australia and New Zealand Banking Group
Subiaco Branch
464 Hay Street
Subiaco
Western Australia 6008

Registered Office

15 Lovegrove Close
Mount Claremont
Perth
Western Australia 6010
Telephone: 08 9384 3284
Facsimile: 08 9284 3801
Website: www.phylogica.com

Principal Place of Business

Telethon Institute for Child Health Research
100 Roberts Road
Subiaco
Western Australia 6008

Auditors

HLB Mann Judd
Level 4, 130 Stirling Street
Perth
Western Australia 6000
PO Box 8124
Perth BC, WA 6849

Incorporated in Western Australia:
October 2001

Listed on:

Australian Securities Exchange (ASX)
Home Exchange: Perth
Code: PYC ordinary shares

Frankfurt Exchange
Code: PH7 ordinary shares

Directors' Report

For the Half Year Ended 31 December 2013

The directors present their report on Phylogica Limited and its controlled entity (referred to in these financial statements as "the Group" or "Phylogica") together with the financial statements for the half-year ended 31 December 2013 and the review report thereon.

DIRECTORS

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

Non-Executive

Dr Doug Wilson	Chairman
Mr Bruce McHarrie	
Mr Jeremy Curnock Cook	
Dr Bernard Hockings	(appointed 23 January 2014)

Executive

Dr Richard Hopkins	Chief Executive Officer (appointed 19 July 2013)
Dr Paul Watt	Chief Executive Officer (resigned 19 July 2013)
Mr Nick Woolf	Chief Financial Officer (resigned 19 July 2013)

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

PHYLOGICA OVERVIEW

Phylogica Limited (ASX: PYC) is a biotechnology company based in Perth, Australia, with a world-class drug discovery platform harnessing the rich biodiversity of nature to discover novel peptide therapeutics. The Company's Phylomer[®] libraries have been optimised by natural evolutionary selection for peptides with stable drug-like structures. The unique qualities of Phylogica's Phylomer libraries are validated by its present partnership with Janssen Biotech (one of the Janssen pharmaceutical companies of Johnson & Johnson) and past partnerships with Roche, MedImmune (the worldwide biologics unit of AstraZeneca), Pfizer.

OPERATIONAL REVIEW

The second half of 2013 commenced with Phylogica announcing an expansion to its collaboration with Janssen after successfully delivering on a major project milestone. As part of this collaboration, Phylogica made significant progress towards validating a technology, referred to as the Endosomal Escape Trap, to discover novel cell penetrating peptides. The expanded relationship with Janssen focussed on developing assays that could measure the ability of Phylogica's cell penetrating peptide to deliver functional therapeutic cargoes inside cells. The overall aim was to identify Phylomer-drug conjugates that can be used to deliver therapeutic payloads into specific cell types with high efficiency.

This work was exceptionally challenging and consumed a significant portion of the company's resources. However by the end of 2013, the company has made significant progress towards achieving the goal of validating the endosomal escape trap technology. This work has successfully identified a range of novel cell penetrating sequences that were confirmed as having the functional ability to deliver different therapeutic cargoes inside cells. These exciting data have important strategic implications regarding the company's decision to specialise in the field of intracellular drug delivery. Having validated our novel platform to discover functionally active delivery reagents, the company can look forward to translating these findings to commercial outcomes with existing and new Pharma partners. The company can now extend these concepts to identify Phylomer peptides as the therapeutic cargoes themselves, offering a fully integrated drug discovery and delivery solution.

Phylogica also made significant progress towards developing a suite of complementary technologies to generate macro-cyclic Phylomer peptides. The overall aim is to integrate these macrocyclic technologies with our genetically encoded screening platforms enabling us to screen billions of

Directors' Report (Continued)

For the Half Year Ended 31 December 2013

cyclised peptide candidates that have been engineered for favourable drug-like properties such as stability and improved potency. These features are highly prized in the pharma industry and hence attract significant commercial values. We look forward to providing further updates as these programmes mature.

FINANCIAL RESULTS

The consolidated operating loss after tax for the half year ended 31 December 2013 was \$393,176 (31 December 2012: loss after tax \$1,157,892).

The accounting standards do not permit the capitalisation of research and development expenditure in circumstances where the Company cannot demonstrate probable future economic benefits derived from the results of the expenditure. The expenditure incurred in relation to obtaining and maintaining patent protection is allowed to be capitalised under the standards but the Company has adopted a policy of expensing such expenditure as it is incurred.

Since incorporation, Phylogica has raised \$42.2 million in capital, reduced to \$39.7 million after netting capital raising fees. From this amount the following expenditures have been undertaken (all amounts \$ million, excluding the impact of tax):

Research & Development:	Prior to FY 2011	FY 2012	FY 2013	Half Year to 31/12/2013	Total
	\$m	\$m	\$m	\$m	\$m
Contract Research	10.85	2.14	2.43	1.22	16.64
Personnel (allocation)	4.69	0.68	0.78	0.31	6.46
Laboratory Consumables	2.82	0.61	0.55	0.32	4.30
	18.36	3.43	3.76	1.85	27.40
IP Maintenance	2.22	0.29	0.29	0.19	2.99
	20.58	3.72	4.05	2.04	30.39

FINANCIAL STRENGTH

The Company's cash position after completion of the entitlement issue on 8th January 2013 was \$6.2 million, with \$0.7 million of invoiced revenue to be received January/ March 2014 and approximately \$1.8 million from the R&D tax offset in September 2014. Expenditure is presently running at the rate of \$0.45 million per month which annualises to \$5.4 million.

OUTLOOK

The Endosomal Escape Trap project has yielded a high quality data-pack that has generated significant commercial interest. The ability to identify novel cell penetrating peptides that can significantly expand the druggable landscape is of significant interest to Pharma companies. In addition, the industry's focus on peptides as therapeutics continues to grow significantly, which is evident from the fact that the peptide drug market is growing twice as fast as traditional pharmaceuticals. Having upgraded the platform and continued to invest in its in-house capabilities, Phylogica has built on its industry-leading science in the field. As a result, Phylogica is well positioned to deliver on its objectives over the next 12 months: 1) to drive revenue through discovery alliances; and 2) to establish new out-licensing opportunities by generating value-adding data around its in-house programs.

Directors' Report (Continued)

For the Half Year Ended 31 December 2013

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration under s307C of the Corporations Act 2001 is set out on the following page and forms part of the Directors' report for the half-year ended 31 December 2013.

Signed in accordance with a resolution of the directors pursuant to s306(3) of the Corporations Act 2011.



Bruce McHarrie
Director

Perth
28th February 2014

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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the consolidated financial report of Phylogica Limited for the half-year ended 31 December 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- a) the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b) any applicable code of professional conduct in relation to the review.



**Perth, Western Australia
28 February 2014**

**M R W Ohm
Partner**

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Phylogica Limited
 Condensed Consolidated Statement Comprehensive Income
 For the half year ended 31 December 2013

		Consolidated	
	<i>Note</i>	31 Dec 2013	31 Dec 2012
		\$	\$
Continuing Operations			
Commercial Income	3	700,125	-
Government Grant Income		6,500	98,056
Interest Income		12,954	35,814
Other Income		40,613	-
Contract Research Costs		(1,219,907)	(1,224,698)
Personnel Expenses		(612,606)	(839,619)
Depreciation, Amortisation and Impairment		(105,050)	(137,007)
Professional Services		(280,079)	(325,746)
Travel and Accommodation		(103,848)	(154,976)
Intellectual Property Maintenance		(186,721)	(72,841)
Laboratory Consumables		(323,302)	(276,580)
Other Operating Expenses		(113,820)	(139,533)
Loss Before Income Tax Expense		(2,185,141)	(3,037,130)
Income Tax Benefit		1,791,965	1,879,238
Net Loss for the Period		(393,176)	(1,157,892)
Other Comprehensive Income for the Period, Net of Tax	3	-	-
Total Comprehensive Loss for the Period		(393,176)	(1,157,892)
		Cents	Cents
Basic Loss Per Share	9	(0.08)	(0.25)
Diluted Loss Per Share	9	(0.08)	(0.21)

The condensed consolidated statement of comprehensive income is to be read in conjunction with the accompanying notes to the financial statements.

Phylogica Limited
Condensed Consolidated Statement of Financial Position

As at 31 December 2013

		Consolidated	
	<i>Note</i>	31 Dec 2013	30 June 2013
		\$	\$
Current assets			
Cash and cash equivalents		4,652,066	1,806,905
Trade and other receivables	5	2,405,399	118,698
Total current assets		<u>7,057,465</u>	<u>1,925,603</u>
Non-current assets			
Property, plant and equipment	6	299,250	336,858
Total non-current assets		<u>299,250</u>	<u>336,858</u>
Total assets		<u>7,356,715</u>	<u>2,262,461</u>
Current liabilities			
Trade and other payables		552,411	778,434
Employee benefits	11	283,302	270,656
Total current liabilities		<u>835,713</u>	<u>1,049,090</u>
Non-current liabilities			
Employee benefits	11	16,410	18,498
Total non-current liabilities		<u>16,410</u>	<u>18,498</u>
Total liabilities		<u>852,123</u>	<u>1,067,588</u>
Net assets		<u>6,504,592</u>	<u>1,194,873</u>
Equity			
Issued capital	2	39,666,296	34,055,506
Reserves		466,516	1,514,209
Accumulated losses	2	(33,628,220)	(34,374,842)
Total equity		<u>6,504,592</u>	<u>1,194,873</u>

The condensed consolidated statement of financial position is to be read in conjunction with the accompanying notes to the financial statements.

Phylogica Limited
 Condensed Consolidated Statement of Cash Flows
 For the half year ended 31 December 2013

		Consolidated	
	<i>Note</i>	31 Dec 2013	31 Dec 2012
		\$	\$
Cash flows from operating activities			
Commercial income received		-	145,065
Other income received		40,613	-
Cash paid to suppliers and employees		(2,950,530)	(2,897,737)
Cash used in operations		(2,909,917)	(2,752,672)
R&D tax rebate		1,791,965	1,879,238
Grant income		6,500	98,056
Interest received		12,358	37,575
Net cash used in operating activities		(1,099,094)	(737,803)
Cash flows from investing activities			
Acquisition of property, plant and equipment	6	(75,908)	(12,633)
Net cash used in investing activities		(75,908)	(12,633)
Cash flows from financing activities			
Proceeds from the issue of share capital	2	4,417,732	-
Proceeds from the issue of converting notes	2	-	1,600,000
Payment of transaction costs	2	(397,569)	-
Net cash provided by financing activities		4,020,163	1,600,000
Net (decrease)/increase in cash and cash equivalents		2,845,161	849,564
Cash and cash equivalents at 1 July		1,806,905	2,779,090
Cash and cash equivalents at 31 December		4,652,066	3,628,654

This condensed consolidated statement of cash flows is to be read in conjunction with the accompanying notes to the financial statements.

Phylogica Limited
 Condensed Consolidated Statement of Changes in Equity
 For the half year ended 31 December 2013

	Note	Issued Capital \$	Accumulated Losses \$	Reserves \$	Total \$
Balance at 1 July 2012		32,455,506	(30,935,218)	1,173,570	2,693,858
Loss attributable to members of parent entity		-	(1,157,892)	-	(1,157,892)
Other comprehensive income		-	-	-	-
Total comprehensive income/(loss)		-	(1,157,892)	-	(1,157,892)
Share capital raised during the period		1,600,000	-	-	1,600,000
Share capital transaction costs		-	-	-	-
Share based payments		-	-	211,000	211,000
Balance at 31 December 2012		34,055,506	(32,093,110)	1,384,570	3,346,966
Balance at 1 July 2013		34,055,506	(34,374,842)	1,514,209	1,194,873
Loss attributable to members of parent entity		-	(393,176)	-	(393,176)
Other comprehensive income		-	-	-	-
Total comprehensive income/(loss)		-	(393,176)	-	(393,176)
Share capital raised during the period		6,012,417	-	-	6,012,417
Share capital transaction costs	2	(401,627)	-	-	(401,627)
Transfer from option reserve		-	1,139,798	(1,139,798)	-
Share based payments		-	-	92,105	92,105
Balance at 31 December 2013		39,666,296	(33,628,220)	466,516	6,504,592

This condensed consolidated statement of changes in equity is to be read in conjunction with the accompanying notes to the financial statements.

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Phylogica Limited

Notes to the Condensed Consolidated Financial Statements

For the half year ended 31 December 2013

Note 1: Significant Accounting Policies

Phylogica Limited is a company domiciled in Australia. The condensed consolidated interim financial statements of the Company as at and for the six months ended 31 December 2013 comprises the Company and its subsidiary (together referred to as the "Group").

The annual financial statements of the Company as at and for the year ended 30 June 2013 are available upon request from the Company's registered office at the address or at the web site shown earlier in this report.

(a) Statement of Compliance

The interim financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards AASB 134: Interim financial reporting and the Corporations Act 2001. Compliance with AASB 134 ensures compliance with IAS 34: Interim Financial Reporting.

The interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the annual financial statements of the Company as at and for the year ended 30 June 2013 and any public announcements made by the Company during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001 and the ASX Listing Rules.

The interim financial statements of the Group for the six months ended 31 December 2013 were authorised for issue by the directors on 27 February 2014.

(b) Accounting Policies and Methods of Computation

The accounting policies and methods of computation adopted are consistent with those of the previous financial year and corresponding interim reporting period. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

(c) Segment Reporting

Operating segments are reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker has been identified as the board of Phylogica Limited.

(d) Significant Accounting Judgments and Key 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 these interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 30 June 2013.

(e) Financial Risk Management

The Group's financial risk management objectives and policies are consistent with that disclosed in the financial statements as at and for the year ended 30 June 2013.

(f) Going Concern

The half-year financial statements have been prepared on a going concern basis which assumes the settlement of liabilities and the realisation of assets in the normal course of business.

Phylogica Limited

Notes to the Condensed Consolidated Financial Statements (Continued)

For the half year ended 31 December 2013

Note 2: Issued Capital, Accumulated Losses and Reserves

(i) Issued and unissued capital:

	6 Months to 31 Dec 2013 \$	Year to 30 June 2013 \$
601,240,620 ordinary shares fully paid (30 June 2013: 466,890,744)	34,055,056	32,455,506
Shares to be issued on conversion of converting notes	-	1,600,000
Shares to be issued on completion of fully underwritten entitlement issue	6,012,417 ⁽¹⁾	-
Costs of entitlement issue	(401,627)	-
	39,666,296	34,055,506

The following movements in ordinary shares were recorded from 1 July 2013:

	Number of shares	\$
Balance brought forward as at 1 July 2013	466,890,744	34,055,506
Shares issued on conversion of converting notes	140,350,876 ⁽²⁾	-
Shares cancelled under loan funded share plan	(6,000,000)	-
Shares to be issued on completion of entitlement issue	- ⁽¹⁾	6,012,417
Costs of entitlement issue	-	(401,627)
	601,241,620	39,666,296

(ii) Accumulated losses:

	31 Dec 2013 \$	30 June 2013 \$
Opening balance as at 1 July	(34,374,842)	(30,935,218)
Loss for the period	(393,176)	(3,439,624)
Transfer from option reserve	1,139,798	-
Closing balance as at end of period	(33,628,220)	(34,374,842)

(iii) Reserves:

	31 Dec 2013	30 June 2013
Opening balance as at 1 July	1,514,209	1,173,570
Share based payment expense	92,105	340,639
Transfer to accumulated losses	(1,139,798)	-
Closing balance as at end of period	466,516	1,514,209

¹On 8 January 2014, 400,827,747 shares were issued at \$0.015 per share in relation to the \$6,012,417 raised in the fully underwritten entitlement issue.

²See Note 2 (vii).

(iv) Options:

Description	Movement During the Half Year	Options on Issue	Expiry Date	Exercise Price
Quoted Options PYCOA	93,567,252	164,657,280	30 June 2016	\$0.090
Unquoted Options	-	8,125,000	15 August 2015	\$0.035
	93,567,280	172,782,280		

No options were issued to Directors during the half year to 31 December 2013.

(v) Loan Funded Shares (LFS):

Description	Movement During the Half Year	LFS on Issue	Expiry Date	Exercise Price
LFS	(6,000,000)	15,000,000	3 June 2018	\$0.064

No LFS were issued to Directors during the half year to 31 December 2013.

6,000,000 LFS held by Mr Woolf (ceased employment 31 July 2013) were cancelled.

Phylogica Limited

Notes to the Condensed Consolidated Financial Statements (Continued)

For the half year ended 31 December 2013

Note 2: Issued Capital and Accumulated Losses (Continued)

(vi) Zero Exercise Price Options (ZEPOs):

<u>Description</u>	<u>Movement During the Half Year</u>	<u>ZEPOs on Issue</u>	<u>Expiry Date</u>	<u>Exercise Price</u>
ZEPOs	(6,000,000)	-	2 December 2013	Nil

All 6,000,000 ZEPOs expired unexercised on the expiry date as they did not meet the vesting conditions.

(vii) Converting Notes:

<u>Description</u>	<u>Movement During the Half Year</u>	<u>Converting Notes on Issue</u>	<u>Conversion Date</u>
Conversion of Notes	(16,000)	-	2 December 2013

In accordance with the conditions of the Converting Notes, holders were issued 140,350,876 shares and 93,567,252 PYCOA options upon conversion during the half year.

Note 3: Net Loss for the Period

The following items are relevant in explaining the financial performance for the half year:

	31 Dec 2013	31 Dec 2012
	\$	\$
Commercial Income	700,125	-
Income Tax Benefit – R&D Tax Rebate	1,791,965	1,879,238

Commercial income is dependent upon the execution of collaboration agreements with pharmaceutical companies, the timing of which is irregular.

Note 4: Future Income Tax Expense/ Benefit

Deferred tax assets have not been recognised as at 31 December 2013 because, at this stage of the Group's development, it cannot be considered as "probable" that future taxable profit will be available against which the Group can utilise the benefits.

Note 5: Trade and Other Receivables

	31 Dec 2013	30 June 2013
	\$	\$
Commercial income receivable	700,125	-
Entitlement issue	1,594,685 ⁽¹⁾	-
Accrued Interest	1,215	616
GST refunds receivable	102,822	80,961
Other	6,552	37,121
	<u>2,405,399</u>	<u>118,698</u>

1. Equals to the balance of the entitlement issue receivable. The entitlement issue was fully underwritten and the receivable of \$1,594,685 was subsequently received by 7 January 2014.

Phylogica Limited

Notes to the Condensed Consolidated Financial Statements (Continued)

For the half year ended 31 December 2013

Note 6: Property, Plant and Equipment

Acquisitions and disposals

During the six months ended 31 December 2013, the Group acquired assets with a cost of \$67,442 (six months ended 31 December 2012: \$123,368).

Note 7: Segment information

The Group 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 statement of comprehensive income and statement of financial position.

Note 8: Events Subsequent to Balance Date

There have been no other events subsequent to the balance date which are sufficiently material to warrant disclosure, other than:

- The completion of the entitlement issue to shareholders by the allotment of 400,827,747 ordinary shares on 8 January 2014.
- The appointment of Dr Bernard Hockings as a non-executive director on 23 January 2014.

Note 9: Contingent Liabilities and Contingent Assets

There are no known significant liabilities or contingent assets as at the date of these statements.

Note 10: Loss Per Share

Basic loss per share

The calculation of basic loss per share for the six months ended 31 December 2013 was based on the loss attributable to ordinary shareholders of \$393,176 (six months ended 31 December 2012: \$1,157,892) and a weighted average number of ordinary shares outstanding during the six months ended 31 December 2013 of 483,411,740 (six months ended 31 December 2012: 466,890,744), calculated as follows:

	31 Dec 2013	31 Dec 2012
	\$	\$
(i) Loss attributable to ordinary shareholders:		
Loss for the period:		
Basic loss	(393,176)	(1,157,892)
(ii) Weighted average number of ordinary shares:		
Number of ordinary shares at 30 June	466,890,744	466,890,744
Effect of shares issued	16,520,996	-
Weighted average number of ordinary shares at 31 December	483,411,740	466,890,744
(iii) Diluted number of shares		
Weighted average number of ordinary shares at 31 December	483,411,740	466,890,744
Effect of conversion of converting notes ⁽¹⁾	-	106,666,667
	483,411,740	573,557,411

¹See Note 2(vii).

Phylogica Limited
Notes to the Condensed Consolidated Financial Statements
(Continued)

For the half year ended 31 December 2013

Note 11: Employee Benefits

(i) Details of total employee benefits as at balance date:	31 Dec 2013	30 June 2013
<i>Current</i>	\$	\$
Liability for annual leave	193,884	189,324
Liability for long service leave	89,418	80,432
Superannuation contributions	-	900
<i>Non-Current</i>		
Liability for long service leave	16,410	18,498
Total employee benefits	<u>299,712</u>	<u>289,154</u>

(ii) Share based payments:

The following share based payments were raised during the six months to 31 December 2013:

Security	Grant Date	Share Based Expense
15,000,000 Loan funded shares	24 November 2011	<u>92,105</u>
		<u>92,105</u>

(iii) Fair value of share options and assumptions for the six months ended 31 December 2013:

No options were granted as remuneration during the half year ended 31 December 2013.

(iv) Loan funded share plan:

No loan funded shares were granted as remuneration during the half year ended 31 December 2013.

Note 12: Key Management Personnel Expense

Key management personnel receive compensation in the form of short-term employee benefits, post-employment benefits and equity compensation benefits. Key management personnel received total compensation of \$461,418 for the six months ended 31 December 2013 (six months ended 31 December 2012: \$ 477,405).

Note 13: Related Parties

Arrangements with related parties continue to be in place. For details of these arrangements, refer to the 30 June 2013 annual financial statements.

Note 14: Financial Instruments

The Directors consider that the carrying value of the financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

Note 15: Commitments

Phylogica has entered into a collaboration with the University of Queensland. Under this collaboration the project, to be administered by the University of Queensland, will receive a government grant of \$402,614. Phylogica is committed to provide funding to the University as set out below:

Year 1: \$50,000
Year 2: \$50,000
Year 3: \$65,000

It is anticipated that the year one payment will be due towards the end of 2014.

Phylogica Limited

Directors' Declaration

In the opinion of the directors of Phylogica Limited and its controlled entity (the Group):

1. the financial statements and notes set out on pages 6 to 14 are in accordance with the Corporations Act 2001 including:
 - (a) giving a true and fair view of the financial position of the Group as at 31 December 2013 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:



Bruce McHarrie
Director

Perth
28th February 2014

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INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Phylogica Limited

Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Phylogica Limited ("the company") which comprises the condensed statement of financial position as at 31 December 2013, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half year financial report that is free from material misstatement, whether due to fraud or error.

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 a 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 consolidated entity's financial position as at 31 December 2013 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*. As the auditor of the company, 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*.

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 consolidated entity's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants



M R W Ohm
Partner

Perth, Western Australia
28 February 2014

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