

Phylogica Limited

ACN 098 391 961

Appendix 4D

Half-Year Statement

Period ending 31 December 2011

Results for announcement to the market

Operating Performance	% Increase/ (Decrease)	31 Dec 2011 \$,000	31 Dec 2010 \$,000
Revenue from Ordinary Activities	(22.05%)	1,382	1,773
(Loss) from ordinary activities after tax attributable to members	(54.77%)	(1,427)	(922)
Net (Loss) for the half year attributable to members	(54.77%)	(1,427)	(922)

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 partnerships with Roche, MedImmune (the worldwide biologics unit of AstraZeneca), Pfizer and Janssen Biotech (one of the Janssen pharmaceutical companies of Johnson & Johnson).

Continued Progress in First Six Months of FY2012

The Company has continued to make good progress in its business model designed to drive revenue growth and build value through drug discovery partnerships. In the first six months of the financial year, the Company generated revenue of US\$1.3 million and signed potentially its largest deal to date with Johnson & Johnson's pharmaceutical unit, Janssen. During the period, Phylogica also announced progress in its collaborations with MedImmune (AstraZeneca) and Pfizer respectively. The Pfizer collaboration reached a key financial milestone in December 2011 following the successful completion of the first stage of research.

Phylogica has now signed partnerships with four major Pharma since initiating its discovery alliance strategy in 2009. The most recent deal with Janssen relates to cell-penetrating peptides and could result in more than ten Phylomer-based drugs being developed by this partner. Janssen paid an upfront fee and is committed to provide research funding over a minimum 18-month period that could be extended to several years. Furthermore, Phylogica could receive substantial milestones and royalties on worldwide sales of any drugs developed and commercialised from the collaborative research.

Financial Strength

Phylogica's net cash balance as at 31 December 2011 was AU\$3.897 million. Since the end of the period, the Company received cumulative receipts from its partners amounting to AU\$1.262 million. The monthly operating costs have remained largely flat through the first half of FY2012 at a monthly rate of approximately AU\$0.453 million. In the second half of the year, Phylogica expects to increase revenue, based on payments related to both existing and new agreements, whilst maintaining the current level of operating expenditure.

Outlook

Phylogica is making good progress towards its goals. In the second half of FY2012, the Company aims to reach more milestones in its existing collaborations in addition to signing new partnerships with leading pharmaceutical or biotech companies. Phylogica is also pursuing new revenue streams through its target discovery and validation unit, known as Phenomica, in conjunction with its collaborators at Cambridge University. Phylogica is well positioned to deliver on the significant opportunities ahead of it, which could make the next 12 months a transformative period for the Company.

Phylogica Limited

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Appendix 4D

Half-Year Statement

Period ending 31 December 2011

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 2011.

Net tangible assets per ordinary security	31 December 2011	31 December 2010
Net tangible assets	\$5,019,368	\$801,010
Number of shares on issue at reporting date	445,890,744	283,426,617
Net tangible assets per ordinary security	1.1 cents	0.3 cents

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 2011 form part of this Appendix 4D. This half-year report is to be read in conjunction with the Phylogica Limited 2011 annual financial statements and the notes contained therein.

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Directors

Dr Douglas Wilson
Executive Chairman

Dr Paul Watt
CEO and Executive Director

Mr Nicolas Woolf
CFO and Executive Director

Mr Bruce McHarrie
Non-Executive Director

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

Phylogica Limited

Directors' Report

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 2011 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 Bruce McHarrie

Executive

Dr Doug Wilson

Chairman

Dr Paul Watt

Chief Executive Officer

Mr Nicolas Woolf

Chief Financial Officer

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

COMPANY REVIEW

Please refer to the Appendix 4D.

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The lead auditor's independence declaration is set out on page 5 and forms part of the Directors' report for the half-year ended 31 December 2011.

Signed in accordance with a resolution of the directors:



Bruce McHarrie
Director

Perth
24th February 2012

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Phylogica Limited for the half-year ended 31 December 2011, 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
24 February 2012

N G Neill
Partner, HLB Mann Judd

Phylogica Limited

Condensed Consolidated Statement of Comprehensive Income

For the half year ended 31 December 2011

	Consolidated	
<i>Note</i>	31 Dec 2011	31 Dec 2010
	\$	\$
Continuing Operations		
Commercial Income	1,295,474	1,687,585
Government Grant Income	-	44,727
Net Interest Income	86,936	40,203
Contract Research Costs	(1,027,443)	(1,011,813)
Personnel Expenses	(601,932)	(657,015)
Depreciation, Amortisation and Impairment	(83,691)	(52,108)
Professional Services	(299,482)	(328,864)
Travel and Accommodation	(223,050)	(210,035)
Intellectual Property Maintenance	(106,711)	(95,918)
Laboratory Consumables	(331,626)	(223,585)
Occupancy Costs	(16,376)	(16,141)
Other Operating Expenses	(118,899)	(98,590)
Loss Before Income Tax Expense	(1,426,800)	(921,554)
Income Tax Expense	-	-
Net Loss for the Period	(1,426,800)	(921,554)
Other Comprehensive Income for the Period, Net of Tax	-	-
Total Comprehensive Loss for the Period	(1,426,800)	(921,554)
	Cents	Cents
Basic Loss Per Share	<i>9</i> (0.35)	(0.37)

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

The condensed consolidated statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 10 to 15.

Phylogica Limited
Condensed Consolidated Statement of Financial Position
As at 31 December 2011

		Consolidated	
	<i>Note</i>	31 Dec 2011	30 June 2011
		\$	\$
Current assets			
Cash and cash equivalents		3,896,913	5,199,473
Trade and other receivables		1,372,211	112,844
Prepayments		9,937	62,216
Total current assets		5,279,061	5,374,533
Non-current assets			
Property, plant and equipment	4	355,928	286,544
Total non-current assets		355,928	286,544
Total assets		5,634,989	5,661,077
Current liabilities			
Trade and other payables		405,536	712,095
Employee benefits	10	148,558	546,598
Total current liabilities		554,094	1,258,693
Non-current liabilities			
Employee benefits	10	61,527	49,661
Total non-current liabilities		61,527	49,661
Total liabilities		615,621	1,308,354
Net assets		5,019,368	4,352,723
Equity			
Issued capital	2	32,455,506	30,367,388
Reserves		1,021,356	1,016,029
Accumulated losses	2	(28,457,494)	(27,030,694)
Total equity attributable to members of Phylogica Limited		5,019,368	4,532,723

The condensed consolidated statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 10 to 15.

Phylogica Limited
 Condensed Consolidated Statement of Cash Flows
 For the half year ended 31 December 2011

	Consolidated	
<i>Note</i>	31 Dec 2011	31 Dec 2010
	\$	\$
Cash flows from operating activities		
Income received	-	1,248,338
Cash paid to suppliers and employees	<u>(3,240,759)</u>	<u>(2,830,094)</u>
Cash used in operations	<u>(3,240,759)</u>	<u>1,581,756)</u>
Interest received	<u>91,152</u>	<u>40,968</u>
Net cash used in operating activities	<u>(3,149,607)</u>	<u>(1,540,788)</u>
Cash flows from investing activities		
Acquisition of property, plant and equipment	<u>4 (241,071)</u>	<u>(100,580)</u>
Net cash used in investing activities	<u>(241,071)</u>	<u>(100,580)</u>
Cash flows from financing activities		
Proceeds from the issue of share capital	<u>2 2,172,276</u>	<u>2,357,517</u>
Payment of transaction costs	<u>2 (84,158)</u>	<u>(201,876)</u>
Net cash from financing activities	<u>2,088,118</u>	<u>2,155,641</u>
Net (decrease)/increase in cash and cash equivalents	<u>(1,302,560)</u>	<u>514,273</u>
Cash and cash equivalents at 1 July	<u>5,199,473</u>	<u>1,281,044</u>
Cash and cash equivalents at 31 December	<u>3,896,913</u>	<u>1,795,317</u>

This condensed consolidated statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 10 to 15.

Phylogica Limited

Condensed Consolidated Statement of Changes in Equity

For the half year ended 31 December 2011

	<i>Note</i>	Issued Capital	Accumulated Losses	Reserves	Total
Balance at 1 July 2010		21,973,323	(23,425,525)	1,015,122	(437,080)
Loss attributable to members of parent entity		-	(921,554)	-	(921,554)
Other comprehensive Income		-	-	-	-
Total comprehensive income/(loss)		-	(921,554)	-	(921,554)
Shares issued during period		2,399,477	-	-	2,399,477
Share capital transaction costs		(201,876)	-	-	(201,876)
Convertible notes equity component		-	-	(60,406)	(60,406)
Share based payments		-	-	22,449	22,449
Balance at 31 December 2010		24,170,924	(24,347,079)	977,165	801,010
Balance at 1 July 2011		30,367,388	(27,030,694)	1,016,029	4,352,723
Loss attributable to members of parent entity		-	(1,426,800)	-	(1,426,800)
Other comprehensive Income		-	-	-	-
Total comprehensive income/(loss)		-	(1,426,800)	-	(1,426,800)
Shares issued during period	2	2,172,276	-	-	2,172,276
Share capital transaction costs	2	(84,158)	-	-	(84,158)
Share based payments		-	-	5,327	5,327
Balance at 31 December 2011		32,455,506	(28,457,494)	1,021,356	5,019,368

This condensed consolidated statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 10 to 15.

Phylogica Limited

Notes to the Condensed Consolidated Financial Statements

For the half year ended 31 December 2011

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 2011 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 2011 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 IAS34: 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 2011 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 2011 were authorised for issue by the directors on 24th February 2012.

(b) Significant Accounting Policies

The accounting policies applied by the Group in the interim financial statements are the same as those applied by the Group in its financial statements as at and for the year ended 30 June 2011.

(c) Adoption of New and Revised Accounting Standards

In the half year ended 31 December 2011, the Group has reviewed all of the new and revised Standards and interpretations issued by the AASB that are relevant to its operation and effective for annual reporting periods beginning on or after 1 July 2011.

It has been determined by the Group that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change is necessary to Group accounting policies.

The Group has also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the half-year ended 31 December 2011. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its business and, therefore, no change necessary to Group accounting policies.

(d) 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.

(e) 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

Phylogica Limited

Notes to the Condensed Consolidated Financial Statements (Continued)

For the half year ended 31 December 2011

Note 1: Significant Accounting Policies (Continued)

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 2011.

(f) 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 2011.

(g) 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.

For the half year ended 31 December 2011 the Group has incurred a loss of \$1,426,800 (December 2010: loss of \$921,554) and at 31 December 2011 the Company had working capital of \$4,724,967 (June 2011: \$4,115,840) including a cash and cash equivalents balance of \$3,896,913 (June 2011: \$5,199,473). Cash used in operating activities in the December 2011 half-year was \$3,149,607 (2010: \$1,540,788).

The Directors believe that it is appropriate to prepare the financial report on a going concern basis because:

- There is capacity for the Company to reduce its operating cost structure.
- Cash flow forecasts for the next twelve months demonstrate the ability of the Company to continue as a going concern on the basis that expected revenue is received and/ or further capital is raised.
- To the extent that further equity is required the Directors are confident that a sufficient capital raising can be completed.

Note 2: Issued Capital and Accumulated Losses

	31 Dec 2011 \$	30 June 2011 \$
(i) Issued and paid up capital:		
445,890,744 ordinary shares fully paid (30 June 2011: 405,197,346)	32,455,506	30,367,388

The following movements in ordinary shares were recorded from 1 July 2011:

	Number of shares	\$
Balance brought forward as at 1 July 2011	405,197,346	30,367,388
Shares issued at \$0.150	160,065	24,010
Shares issued at \$0.053	40,533,333	2,148,266
Capital raising transaction costs	-	(84,158)
	445,890,744	32,455,506

	31 Dec 2011 \$	30 June 2011 \$
(ii) Accumulated losses:		
Opening balance as at 1 July	(27,030,694)	(23,425,525)
Loss for the period	(1,426,800)	(3,605,169)
Closing balance as at 31 December 2011 / 30 June 2011	(28,457,494)	(27,030,694)

Phylogica Limited

Notes to the Condensed Consolidated Financial Statements (Continued)

For the half year ended 31 December 2011

Note 2: Issued Capital and Accumulated Losses (Continued)

(iii) Options:

No options were issued to Directors during the half year to 31 December 2011.

On 21 December 2011, 27,022,226 PYCOA quoted options were issued in conjunction with the capital raising which saw 40,533,333 shares issued at \$0.053 raising \$2,064,108 net of fees.

The total number of options on issue as at 31 December 2011 was 93,183,692:

<u>Description</u>	<u>Issued During the Half Year</u>	<u>Options on Issue</u>	<u>Expiry Date</u>	<u>Exercise Price</u>
Unquoted Options	-	5,050,000	31 March 2012	\$0.075
Unquoted Options	-	4,806,164	31 March 2012	\$0.075
Unquoted Options	-	2,500,000	31 March 2012	\$0.075
Unquoted Options	-	2,500,000	31 March 2012	\$0.10
Unquoted Options	-	7,237,500	31 March 2013	\$0.075
Quoted Options PYCOA	27,022,226	71,090,028	30 June 2016	\$0.09
	<u>27,022,226</u>	<u>93,183,692</u>		

Note 3: Income Tax Expense/ Benefit

Deferred tax assets have not been recognised as at 31 December 2011 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 4: Property, Plant and Equipment

Acquisitions and disposals

During the six months ended 31 December 2011, the Group acquired assets with a cost of \$241,071 (six months ended 31 December 2010: \$100,580).

Note 5: 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 6: Events Subsequent to Balance Date

Subsequent to balance date 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 Group, to affect significantly the operations of the Group, the results of those operations, or the state of the affairs of the Group in future financial years.

Note 7: Loan Funded Share Plan

A scheme under which shares may be issued by the Group to directors or employees for no cash consideration was approved by shareholders at the 2011 Annual General Meeting.

Participants of the Plan are determined by the Board and can be directors or employees of the Company or a subsidiary. The Board considers length of service, seniority, responsibilities, potential contribution and any other relevant matters in determining eligibility of potential participants.

Phylogica Limited

Notes to the Condensed Consolidated Financial Statements (Continued)

For the half year ended 31 December 2011

Note 7: Loan Funded Share Plan (Continued)

The issue price for the shares issued under the Plan is the share price on the day of the offer to the participant. A participant who is invited to subscribe for shares under the Plan will be invited to apply for a loan up to the amount payable in respect of the shares accepted by the participant. These loans are to be made on the following terms:

- Interest free;
- Applied directly against the issue price of the shares to be acquired under the Plan;
- For a term to be determined by the Board;
- Repayable to the extent of the lesser of the issue price of the relevant shares issued, less any cash dividends applied against the outstanding principal; and the last market sale price of the shares on the date of repayment of the loan;
- The loan must be repaid in full prior to expiry of the loan;
- The Company will have a lien over the shares in respect of which a loan is outstanding;
- Shares issued under the Plan are not transferable while a loan amount in respect of those shares remains payable; and
- Shares issued under the Plan will not be quoted on a publicly traded stock market while a loan amount in respect of those shares remains payable.

All shares issued under the Plan with limited recourse loans are considered to be options. Therefore, the fair value of shares issued under the Plan is determined in the same way as options would be, as detailed below.

Fair value of shares issued under the plan

The assessed fair value at grant date of shares to be issued under the plan during the half-year ended 31 December 2011 was 3.96 cents per share. The fair value at grant date is determined using a Black-Scholes pricing model that takes into account the exercise price, the term of the loan, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the loan.

A total of 21 million shares has been offered under the plan, giving a total value of \$831,600. In accordance with accounting standards, the allocations amortised over the vesting periods would lead to the following expense and corresponding increase in the Share Based Payment Reserve:

	\$
2012 financial year	150,408
2013 financial year	257,842
Three years 2014 to 2016	<u>423,350</u>
	<u>831,600</u>

Note 8: Contingent Liabilities and Contingent Assets

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

Note 9: Loss Per Share

Basic loss per share

The calculation of basic loss per share for the six months ended 31 December 2011 was based on the loss attributable to ordinary shareholders of \$1,426,800 (six months ended 31 December 2010: \$921,554) and a weighted average number of ordinary shares outstanding during the six months ended 31 December 2011 of 406,366,858 (six months ended 31 December 2010: 246,936,412), calculated as follows:

Phylogica Limited

Notes to the Condensed Consolidated Financial Statements (Continued)

For the half year ended 31 December 2011

Note 9: Loss Per Share (Continued)

	31 Dec 2011	31 Dec 2010
	\$	\$
(i) Loss attributable to ordinary shareholders:		
Loss for the period:		
Basic loss	(1,426,800)	(921,554)
(ii) Weighted average number of ordinary shares:		
Number of ordinary shares at 30 June	405,197,346	235,751,764
Effect of shares issued	1,169,512	11,184,648
Weighted average number of ordinary shares at 31 December	<u>406,366,858</u>	<u>246,936,412</u>

Note 10: Employee Benefits

	31 Dec 2011	30 June 2011
	\$	\$
(i) Details of total employee benefits as at balance date:		
<i>Current</i>		
Liability for annual leave	148,558	144,543
Incentive provision	-	377,977
<i>Non-Current</i>		
Liability for long service leave	61,527	49,661
Total employee benefits	<u>210,085</u>	<u>572,181</u>

(ii) Share-based payments:

No share based payments were raised during the half year ended 31 December 2011.

(iii) Fair value of share options and assumptions for the six months ended 31 December 2011:

No options were granted as remuneration during the half year ended 31 December 2011.

(iv) Loan funded share plan:

Refer to note 7 for details.

Note 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. Key management personnel received total compensation of \$465,354 for the six months ended 31 December 2011 (six months ended 31 December 2010: \$429,720).

Note 12: Related Parties

Arrangements with related parties continue to be in place. For details of these arrangements, refer to the 30 June 2011 annual financial statements.

Note 13: Accumulated Expenditure Capitalised

The accounting standards do not permit the capitalisation of research and development expenditure in circumstances where the Company cannot demonstrate sustainable revenue generation 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 \$34.5 million in capital, reduced to \$32.5 million after netting capital raising fees. From this amount the following expenditures have been undertaken (all amounts \$ million):

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

For the half year ended 31 December 2011

Note 13: Accumulated Expenditure Capitalised (Continued)

	<u>Prior to 2009</u>	<u>2010</u>	<u>2011</u>	<u>Half Year to 31 December 2011</u>	<u>Total</u>
Research & Development:					
Contract Research	6.71	1.89	2.25	1.03	11.88
Personnel (allocation)	3.27	0.67	0.75	0.30	4.99
Laboratory Consumables	1.51	0.81	0.50	0.33	3.15
	<u>11.49</u>	<u>3.37</u>	<u>3.50</u>	<u>1.66</u>	<u>20.02</u>
IP Maintenance	1.36	0.29	0.28	0.11	2.04
	<u>13.11</u>	<u>3.68</u>	<u>3.79</u>	<u>1.77</u>	<u>22.06</u>

Hence, if the company had been able to capitalise research and development expenditure, the net assets of the company would be as set out below.

	30 June 2011		31 December 2011	
	<u>\$ million</u>	<u>Cents/ Share</u>	<u>\$ million</u>	<u>Cents/ Share</u>
Reported Net Assets	4.35	1.5	5.02	1.1
Research & Development	18.36	6.3	20.02	4.6
	<u>22.71</u>	<u>7.8</u>	<u>25.04</u>	<u>5.7</u>

The situation with IP maintenance is not as clear as only expenditures on currently held patents could be capitalised and the expenditures would need to be amortised over the patent life.

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 15 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 2011 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
24th February 2012

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 2011, 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 information, 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 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 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 2011 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*.

Matters relating to the electronic presentation of the reviewed half-year financial report

This review report relates to the half-year financial report of the consolidated entity for the half-year ended 31 December 2011 included on the company's website. The company's directors are responsible for the integrity of the company's website. We have not been engaged to report on the integrity of this website. The review report refers only to the half-year financial report identified above. It does not provide an opinion on any other information which may have been hyperlinked to/from the half-year financial report. If users of the half-year financial report are concerned with the inherent risks arising from publication on a website they are advised to refer to the hard copy of the reviewed half-year financial report to confirm the information contained in this website version of the half-year financial 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 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 2011 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
Chartered Accountants



N G NEILL
Partner

Perth, Western Australia
24 February 2012