



Appendix 4E
Preliminary Final Report
Year ended 30 June 2018

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DIRECTORS' COMMENTARY

The principal activity of the Company during the financial year was research and development. Phylogica owns a delivery platform that enables drug cargoes to reach targets on the inside of cells. The majority of high value drug targets exist inside cells behind the protection offered by the cell membrane. These targets form part of what is known as the 'undruggable genome' because of the difficulty associated with reaching them.

Phylogica's delivery platform is made up of Cell Penetrating Peptides (CPPs) that are capable of crossing the cell membrane and delivering a drug cargo to its target inside the cell. Reaching these 'undruggable' targets opens up the possibility of developing an entirely new class of drugs with both greater effect in treating disease and fewer side effects. Sarepta Therapeutics is a pioneer in this field and is currently progressing a pipeline of CPP delivered drugs through both pre-clinical and clinical evaluation – the revolution has begun.

Phylogica made significant progress in FY2018 towards our objective of creating a CPP delivered therapeutic for human clinical evaluation. Specifically, we have concluded the financial year with:

- libraries that are three times larger through the addition of more organisms' genomes - improving the richness of the peptide pool from which we identify our CPPs;
- enhanced screening capabilities (allowing us to screen the libraries both at scale and with greater accuracy) – improving our ability to identify CPPs; and
- demonstrating that the CPPs that we have already identified are effective both *in vitro* and *in vivo* – proving that the CPPs are capable of delivering their cargo to the target both in cells and in animals.

The end of the financial year leaves us on the cusp of transitioning to building our platform in the context of a therapeutic cargo and making the transition from pre-clinical evaluation in animals to clinical evaluation in humans.

Operating Result and Financial Position

The consolidated operating loss after tax for the financial year ended on 30 June 2018 was \$7,433,997 (2017 loss: \$1,950,837).

The cash position of the Company at 30 June 2018 was \$3 million (30 June 2017: \$10 million).

Corporate

During the year the Company underwent a major organisational structural change with the appointment of a new Chief Executive Officer, Chairperson and Scientific Advisory Board. These changes have brought greater clarity around the translation of the Company's scientific developments into meaningful commercial outcomes. Dr Rohan Hockings was appointed Chief Executive Officer to oversee the transition from 'proof of concept' validation of the platform to 'therapeutic' validation and chart the path from pre-clinical to clinical evaluation of the Company's intracellular drug delivery technology.

Following a strategic review, a renewed focus was placed on the Company's intracellular delivery platform. The context for this prioritisation was largely based on:

- a clear industry trend in which Cell Penetrating Peptides are emerging as the leading delivery technology to address a major unmet need; and
- a need to focus on depth of data generated (demonstrating the utility of the Cell Penetrating Peptides) rather than breadth (across both delivery vehicle and cargo as was previously the case).

Operational

Significant highlights in the development of the Company's intracellular delivery platform include:

- Validating multiple Cell Penetrating Peptides (CPPs) both *in vitro* and *in vivo*. The Company now has multiple CPPs that are more effective than its original lead CPP in delivering cargoes inside cells to their targets. The validation of these additional CPPs demonstrate that the Company owns a true intracellular delivery 'platform' as opposed to a single 'product'.
- Demonstrating the ability of the CPPs to deliver a range of cargoes (including enzymes that require delivery to the nucleus of the cell) into multiple different tissue types.
- Validating the immuno-stimulatory capabilities of our CPP platform *in vivo* through our therapeutic cancer vaccine program.
- Building the capabilities required to identify cell specific CPPs from our libraries as well as CPPs with different properties (enabling delivery of a wider range of cargo classes) and setting the Company up to clearly show the unique benefits of its CPP platform on three important dimensions (efficiency, specificity and diversity) as it moves through formal pre-clinical development
- Collaborations with Genentech and Professor Sir David Lane the Chief Scientist of A*Star, Singapore are both active and progressing well.

RESULTS FOR ANNOUNCEMENT TO THE MARKET

Details of the reporting period

Name of Entity: Phylogica Limited
ABN: 48 098 391 961
Current Reporting Period: 30 June 2018
Previous Reporting Period: 30 June 2017

Results for announcement to the market:			Current period (\$A'000)		Previous corresponding period (\$A'000)
Revenues from ordinary activities (item 1.1)	Down 94%	To	163	From	2,838
Net loss from ordinary activities after tax attributable to members (item 1.22)	Up 284%	To	(7,434)	From	(1,951)
Net loss for the period attributable to members (item 1.11)	Up 284%	To	(7,434)	From	(1,951)
Dividends There are no dividend or distribution reinvestment plans in operation and there have been no dividend or distribution payments during the financial year ended 30 June 2018.					

Comments

There was no commercial income included in revenues from ordinary activities for the year (2017: \$2,760,258).

Net tangible assets per ordinary security	30 June 2018	30 June 2017
Net tangible assets	1,647,277	\$8,859,050
Number of shares on issue at reporting date	2,138,856,650	2,120,122,067
Net tangible assets per ordinary security	0.077 cents	0.418 cents

Audit/Review Status

This Appendix 4E is based on un-audited accounts attached to this notice.

The attached financial report for the year ended 30 June 2018 forms part of this Appendix 4E. The report is based on accounts for the year ended 30 June 2018, which are in the process of being audited. Whilst the audit has not been completed at this time, it is anticipated that the independent audit report will not contain a modified opinion.

Consolidated Statement of Profit & Loss and Other Comprehensive Income
For the year ended 30 June 2018

	Note	2018 \$	2017 \$
Continuing Operations			
Commercial income	2	-	2,760,258
Net interest income		114,876	75,864
Other income		48,460	2,475
Contract research costs	3	(5,421,564)	(3,467,469)
Personnel expenses	4	(1,151,759)	(623,063)
Depreciation	5	(81,298)	(55,255)
Professional services		(1,159,497)	(1,037,561)
Travel and accommodation		(258,388)	(184,841)
Intellectual property maintenance		(216,289)	(211,366)
Laboratory consumables	3	(1,324,787)	(993,169)
Occupancy costs		(10,747)	(6,587)
Other operating expenses		(143,818)	(435,028)
Loss before income tax expense		(9,604,811)	(4,175,742)
Income tax benefit	6	2,170,814	2,224,905
Net loss for the year		(7,433,997)	(1,950,837)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		(7,433,997)	(1,950,837)
Total comprehensive loss for the year attributable to the members		(7,433,997)	(1,950,837)
		Cents	Cents
Basic loss per share		(0.35)	(0.10)
Diluted loss per share		(0.35)	(0.10)

The accompanying notes form part of these financial statements

Consolidated Statement of Financial Position
As at 30 June 2018

	<i>Note</i>	2018 \$	2017 \$
Current assets			
Cash and cash equivalents	7	3,147,306	9,939,943
Trade and other receivables	8	128,344	192,206
Total current assets		3,275,650	10,132,149
Non-current assets			
Plant and equipment	9	143,404	216,109
Total non-current assets		143,404	216,109
Total assets		3,419,054	10,348,258
Current liabilities			
Trade and other payables	10	1,771,777	1,489,208
Total current liabilities		1,771,177	1,489,208
Total liabilities		1,771,777	1,489,208
Net assets		1,647,277	8,859,050
Equity			
Issued capital	13	53,334,289	53,209,076
Reserves	14	1,160,712	1,063,701
Accumulated losses	15	(52,847,724)	(45,413,727)
Total equity		1,647,277	8,859,050

The accompanying notes form part of these financial statements

Consolidated Statement of Cash Flows
For the year ended 30 June 2018

		2018	2017
	<i>Note</i>	\$	\$
Cash flows from operating activities			
Commercial income received		-	2,760,258
Cash paid to suppliers and employees		(9,045,901)	(6,942,210)
Cash used in operations		(9,045,901)	(4,181,952)
R&D tax rebate		2,170,814	2,224,905
Interest received		119,354	73,911
Government grants received		48,460	-
Net cash used in operating activities	12	(6,707,273)	(1,883,136)
Cash flows from investing activities			
Proceeds from the sale of property, plant and equipment		-	1,073
Acquisition of property, plant and equipment		(210,577)	(4,535)
Net cash used in investing activities		(210,577)	(3,462)
Cash flows from financing activities			
Proceeds from the issue of share capital	13	135,031	5,066,250
Payment of transaction costs	13	(9,818)	(313,250)
Net cash from financing activities		125,213	4,753,000
Net increase/(decrease) in cash and cash equivalents		(6,792,637)	2,866,402
Cash and cash equivalents at the beginning of the year	7	9,939,943	7,073,541
Cash and cash equivalents at the end of the year		3,147,306	9,939,943

The accompanying notes form part of these financial statements

Consolidated Statement of Changes in Equity
For the year ended 30 June 2018

	<i>Note</i>	Issued Capital \$	Accumulated Losses \$	Reserves \$	Total \$
Balance at 1 July 2016		48,456,076	(43,462,890)	837,057	5,830,243
Loss attributable to members of the consolidated entity		-	(1,950,837)	-	(1,950,837)
Other comprehensive income		-	-	-	-
Total comprehensive income/(loss)		-	(1,950,837)	-	(1,950,837)
Shares issued during the year		5,066,250	-	-	5,066,250
Share capital transaction costs		(313,250)	-	-	(313,250)
Share-based payments		-	-	226,644	226,644
Balance at 30 June 2017		53,209,076	(45,413,727)	1,063,701	8,859,050
Balance at 1 July 2017		53,209,076	(45,413,727)	1,063,701	8,859,050
Loss attributable to members of the consolidated entity		-	(7,433,997)	-	(7,433,997)
Other comprehensive income		-	-	-	-
Total comprehensive income/(loss)		-	(7,433,997)	-	(7,433,997)
Shares issued during the year	13	125,213	-	-	125,213
Share-based payments	14	-	-	97,011	97,011
Balance at 30 June 2018		53,334,289	(52,847,724)	1,160,712	1,647,277

The accompanying notes form part of these financial statements

OTHER REPORTS

DIVIDENDS PAID OR PROVIDED FOR

No dividends were declared for the year ended 30 June 2018.

DIVIDEND REINVESTMENT PLAN

No dividends or distribution reinvestment plans were in operation during the period ended 30 June 2018

NET TANGIBLE ASSETS PER SHARE

Details of the net tangible asset backing are set out in the results summary

CONTROL GAINED OR LOST OVER ENTITIES HAVING MATERIAL EFFECT

No acquisitions or disposals for the year ended 30 June 2018

DETAILS OF ASSOCIATES AND JOINT VENTURES

Not applicable

OTHER SIGNIFICANT INFORMATION

At the date of this Appendix 4E, there were no matters of a significant nature.

ACCOUNTING STANDARDS FOR FOREIGN ENTITIES

Not applicable for Phylogica Limited

COMMENTARY ON THE RESULTS FOR THE YEAR

Refer to Directors Commentary and Results for Announcement to the market.

COMPLIANCE STATEMENT

The report has been prepared in accordance with Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board ('AASB'). This report, and the accounts upon which the report is based, use the same accounting policies as used in previous reporting periods.



Kevin Hart

Company Secretary

31 August 2018

NOTES TO THE PRELIMINARY FINAL REPORT

Note 1. Basis of preparation

This preliminary final report has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX and Appendix 4E. The report covers the consolidated group of Phylogica Limited and controlled entities.

The accounting policies adopted in the preparation of the preliminary final report have been applied consistently to all periods presented in this report and are consistent with those disclosed in the 2017 Annual Financial Report and the December 2017 Interim Financial Report.

Where required by Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

Note 2. Revenue

(i) Government grant income

\$48,460 grant income was recognised in the year ended 30 June 2018 (2017: nil).

(ii) Commercial income

Commercial income is derived from contracts to fund research and is based upon a mixture of funding full time equivalent research salaries and milestone payments. No commercial income was recognised during the year ended 30 June 2018 (2017: \$2,760,258).

Note 3. Research and development expenditure

The accounting standards do not permit the capitalisation of development expenditure in circumstances where the company cannot demonstrate sustainable revenue generation derived from the results of the expenditure. Research expenditure must be expensed under accounting standards. The expenditure incurred in relation to obtaining and maintaining patent protection is allowed to be capitalised under the accounting standards but the Company has adopted a policy of expensing such expenditure as it is incurred.

Since incorporation, Phylogica has raised \$57.4 million in capital, reduced to \$53.3 million after netting capital raising fees. From this amount, the following expenditures have been undertaken (all amounts \$ million):

Research & Development:	Prior to 2016	2017	2018	Total
Contract Research	24.30	3.44	5.42	33.16
Personnel (allocation)	7.69	-	-	7.69
Laboratory Consumables	5.80	0.99	1.32	8.11
	37.79	4.43	6.74	48.96
IP Maintenance	3.69	0.21	0.22	4.12
	41.48	4.64	6.96	53.08

Note 4. Personnel expenses

	2018	2017
	\$	\$
Wages and salaries	1,009,899	393,502
Other associated staff costs	(2,209)	4,202
Contributions to defined contribution superannuation funds	47,058	22,965
Decrease in Long Service Leave accrual	-	(14,575)
Increase/(Decrease) in annual leave accrual	-	(9,675)
Share based compensation - note 18	97,011	226,644
	<u>1,151,759</u>	<u>623,063</u>

Note 5. Depreciation

	2018	2017
	\$	\$
Depreciation of equipment	81,298	55,255

Note 6. Income Tax

	2018	2017
	\$	\$
<i>(i) Income tax benefit</i>		
The prima facie tax on the operating loss is reconciled to the income tax provided in the accounts as follows:		
Prima facie tax benefit on operating loss before income tax at 27.5%	2,641,323	1,190,086
Tax effect of permanent differences	(65,849)	224,826
Current period tax losses and temporary differences not brought to account	(2,575,474)	(1,414,912)
R&D income tax incentive received relating to prior year	2,170,814	2,224,905
Income tax benefit	<u>2,170,814</u>	<u>2,224,905</u>

(ii) Unrecognised deferred tax asset

Deferred tax assets have not been recognised in respect of the following items:

Deductible/(Assessable) temporary differences	1,656	110,633
R&D refundable tax offset receivable in relation to current year	2,904,120	2,007,225
Tax losses	10,015,376	10,021,137
	<u>12,921,152</u>	<u>12,138,995</u>

Tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it cannot yet be considered probable that future taxable profit will be available against which the Company can utilise the benefits thereof.

Note 7. Cash and cash equivalents

	2018	2017
	\$	\$
Cash and cash equivalents	3,147,306	9,939,943

Cash at the end of the financial year as shown is the summation of operating bank accounts.

Note 8. Trade and other receivables

	2018	2017
	\$	\$
GST receivable	107,272	184,789
Accrued Interest	2,616	7,093
Other receivables	18,456	324
	<u>128,344</u>	<u>192,206</u>

Note 9. Plant and equipment

	2018	2017
	\$	\$
Office and research equipment at cost	1,522,207	1,513,615
Accumulated depreciation	(1,378,803)	(1,297,506)
	<u>143,404</u>	<u>216,109</u>
Reconciliation		
Carrying amount at the beginning of the year	216,109	66,568
Acquisitions	8,593	204,796
Disposals	-	-
Depreciation	(81,298)	(55,255)
	<u>143,404</u>	<u>216,109</u>

Note 10. Trade and other payables

	2018	2017
	\$	\$
Trade payables	1,684,261	1,446,153
Accrued expenses	44,833	17,000
Other	42,683	26,055
	<u>1,771,777</u>	<u>1,489,208</u>

Note 11. Segment Information

The Company comprises a single business segment being the provision of drug discovery services to the international pharmaceutical industry utilising the Company's Phylomer® peptide libraries and proprietary screening capabilities; and a single geographical location being Australia. The segment details are therefore fully reflected in the results and balances reported in the statement of comprehensive income and statement of financial position.

Note 12. Note to the statement of cash flows

	2018 \$	2017 \$
Reconciliation of loss for the year to net cash used in operating activities:		
Loss for the year	(7,433,997)	(1,950,837)
Depreciation, amortisation & impairment	81,298	55,255
Share based payment expense	97,011	226,644
Proceeds from the sale of fixed assets	-	(1,398)
Increase/(decrease) in provisions for employee benefits	72,448	(335,712)
Increase/(decrease) in payables	489,622	189,136
(Increase)/decrease in receivables	(13,655)	(66,224)
Net cash used in operating activities	<u>(6,707,273)</u>	<u>(1,883,136)</u>

Note 13. Issued Equity**Movements in capital during the year:**

	2018 Shares	2018 \$	2017 Shares	2017 \$
Ordinary Shares				
Balance at the beginning of the year	2,120,122,067	53,209,076	2,004,138,734	48,456,076
Shares issued during the year:				
- Issued at \$0.04	-	-	125,000,000	5,000,000
- Issued at \$0.25	5,401,250	135,031	2,650,000	66,250
- Issued for nil consideration	13,333,333	-	3,333,333	-
- Loan funded shares cancelled	-	-	(15,000,000)	-
- Share issue costs	-	(9,818)	-	(313,250)
Balance at the end of the year	<u>2,138,856,650</u>	<u>53,334,289</u>	<u>2,120,122,067</u>	<u>53,209,076</u>

Terms and Conditions:

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Group, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation. The shares have no par value.

Note 14. Reserves

	2018 \$	2017 \$
Balance at the beginning of the year	1,063,701	837,057
Share based payments for the year	97,011	226,644
Balance at the end of the year	<u>1,160,712</u>	<u>1,063,701</u>

Nature and purpose of reserves:**Share based payments reserve**

This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration.

Note 15. Accumulated losses

	2018 \$	2017 \$
Balance at the beginning of the year	(45,413,727)	(43,462,890)
Loss for the year	(7,433,997)	(1,950,837)
Balance at the end of the year	(52,847,724)	(45,413,727)

Note 16. Options

Options on issue during the year	Weighted Av. Exercise Price 2018	Number of Options 2018	Weighted Av. Exercise Price 2017	Number of Options 2017
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(a) Options exercisable at \$0.025 on or before 23 September 2017:

Balance at beginning of year	\$0.025	17,718,750	\$0.025	33,593,750
Exercised during the year	\$0.025	(5,401,250)	\$0.025	(2,650,000)
Lapsed / cancelled	\$0.025	(12,317,500)	\$0.025	(13,225,000)
Balance at end of year		-	\$0.025	17,718,750

(b) Options exercisable at \$0.00 on or before 30 November 2019:

Balance at beginning of year	\$0.00	6,666,667	-	-
Issued during the year		-	\$0.00	10,000,000
Exercised during the year	\$0.00	(3,333,333)	\$0.00	(3,333,333)
Lapsed/ cancelled	\$0.00	(3,333,334)	-	-
Balance at end of year		-	\$0.00	6,666,667

(c) Options exercisable at \$0.00 on or before 30 May 2020:

Balance at beginning of year	\$0.00	20,000,000	-	-
Issued during the year	\$0.00	-	\$0.00	20,000,000
Exercised during the year	\$0.00	(10,000,000)		
Lapsed / cancelled	\$0.00	(10,000,000)	-	-
Balance at end of year	\$0.00	-	\$0.00	20,000,000

(d) Options exercisable at \$0.06 on or before 30 May 2020:

Balance at beginning of year	\$0.00	-	-	-
Issued during the year	\$0.00	20,000,000	-	-
Lapsed / cancelled	\$0.00	(10,000,000)	-	-
Balance at end of year	\$0.00	10,000,000	-	-

Fair value:

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using the Black – Scholes option pricing formula.

Note 17. Loan funded shares

Loan funded shares on issue during the year	Weighted Av. Exercise Price 2018	Number of Shares 2018	Weighted Av. Exercise Price 2017	Number of Shares 2017
(a) LFS exercisable at \$0.064 on or before 3 June 2018:				
Balance at beginning of year		-	\$0.064	15,000,000
Lapsed		-	-	(15,000,000)
Balance at end of year		-	-	-

(b) Fair value of loan funded shares and assumptions: Key Management Personnel

Grant date	24 November 2011
Fair value at grant date	\$0.049
Share price	\$0.060
Exercise price	\$0.064
Expected volatility (weighted average)	100%
Option life (expected weighted average)	6.53 years
Risk free interest rate (based on government bonds)	5.15%

Note 18. Share based payments

	2018 \$	2017 \$
Equity – settled share-based payments issued:		
In FY15	825	3,300
In FY12	(54,503)	(20,024)
In FY 17	78,409	243,368
In FY 18	72,280	-
Total recognised as employee expense	97,011	226,644

Fair value of share options and assumptions for the year ended 30 June 2018:

On 29 November 2017, 20,000,000 unlisted options were issued to key management personnel. 10,000,000 of the options lapsed during the year upon cessation of employment.

All options refer to options over ordinary shares of Phylogica Ltd which are exercisable on a one for one basis.

The fair value of the options is calculated at grant date using a Black–Scholes pricing model and allocated to each reporting period in accordance with the vesting profile of the options.

The value recognised is the portion of the fair value of the options allocated to the reporting period.

Note 18. Share based payments (continued)

The factors and assumptions used in determining the fair value on grant date of options issued during the financial year as follows:

Granted during the year:

Number of Options	Grant Date	Expiry Date	Fair Value per Option	Exercise Price	Share Price on Grant Date	Risk Free Interest Rate (%)	Estimated Volatility (%)	Number Vested as at 30 June 2018
20,000,000	29/11/2017	30/05/2020	\$0.0112	\$0.06	\$0.039	1.78	65	-

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

10,000,000 of the options lapsed during the year upon cessation of employment.