



Appendix 4E
Preliminary Final Report
Year ended 30 June 2017

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DIRECTORS' COMMENTARY

The principal activity of the Company during the financial year was drug discovery research and development, whether in its own right or in partnership with international pharmaceutical companies, utilising the Company's Phylomer peptide libraries and proprietary screening capabilities.

Strong progress was made during the 2017 financial year with significant progress being made in the Company's drug development program.

Operating Result and Financial Position

The consolidated operating loss after tax for the financial year ended on 30 June 2017 was \$1,950,837 (2016 loss: \$3,978,672). Included in the result for the year is an amount of \$2,760,258 commercial income (2016: Nil) being a milestone payment to extend the exclusivity period under the terms of a Research Collaboration and Licence agreement with Genentech a member of the Roche Group.

The cash position of the Company at 30 June 2017 was \$9.9 million (30 June 2016: \$7.1 million).

Corporate

During the year Stephanie Unwin was appointed Chief Executive Officer, providing significant senior executive and commercial experience to the strategic direction of Phylogica. Dr Robert Hayes was appointed Chief Scientific Officer, bringing extensive experience in biotechnology research and drug development to the commercialisation of Phylogica candidates. Dr Rick Kendall was appointed Non-Executive Director, offering valuable experience in pharmaceutical research and oncology drug development.

In June 2017 the company successfully raised \$5m (before costs) to enhance the pre-clinical validation of Phylogica intracellular delivery technology and proprietary drug cargoes.

Operational

Significant highlights in the Company's cancer drug discovery program include:

- The identification of new Phylomer FPPs with improved ability to deliver a range of biologics inside cells, expansion of the potency of Phylomer FPPs, and extension of in vivo half-life of our FPP cargo conjugates. The Company has completed several in vivo studies that demonstrate that we can significantly extend the half-lives of Phylomer FPPs using protein engineering. Encouragingly these engineered Phylomer FPPs are not trapped in one tissue or location in the animal model, such as the liver or the kidney, but are distributed throughout the body. All of these constitute key milestones in the development of a robust delivery technology that will allow us to deliver biologics targeted towards intracellular therapeutic targets.
- Further progress with iMyc lead optimisation to improve their potency, identification of biomarker signature to track on-target effect of iMyc leads, and confirmation of potent activity of iMyCs across a wide range of blood cancer cell lines.
- Drafting of a new patent application by the Company's patent attorneys to capture IP around variants of two of our lead Phylomer FPP families. This filing which is will allow Phylogica to publicise details around its exciting findings in high impact publications that are currently being prepared as well as at international conferences.
- Collaborations with Genentech and Professor Sir David Lane the Chief Scientist of A*Star, Singapore are both active and proceeding well. The Company has begun new screens for Genentech, which are already yielding encouraging results around the previously reported expansion of our antimicrobial collaboration.

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 2017
 Previous Reporting Period: 30 June 2016

Results for announcement to the market:			Current period (\$A'000)		Previous corresponding period (\$A'000)
Revenues from ordinary activities <i>(item 1.1)</i>	Up 1,479%	To	2,838	From	180
Profit (loss) from ordinary activities after tax attributable to members <i>(item 1.22)</i>	Down 51%	To	(1,951)	From	(3,979)
Net profit (loss) for the period attributable to members <i>(item 1.11)</i>	Down 51%	To	(1,951)	From	(3,979)
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 2017.					
Comments					
During the financial year the Company concluded a placement, raising \$4,686,750, after costs of the issue, from the allotment of 125,000,000 shares at \$0.04 per share.					
Included in revenues from ordinary activities for the year is \$2,760,258 of commercial income (2016: Nil).					
Net tangible assets per ordinary security		30 June 2017		30 June 2016	
Net tangible assets		\$8,859,050		\$5,830,243	
Number of shares on issue at reporting date		2,120,122,067		2,004,138,734	
Net tangible assets per ordinary security		0.418 cents		0.291 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 2017 forms part of this Appendix 4E. The report is based on accounts for the year ended 30 June 2017, 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 2017

	Note	2017 \$	2016 \$
Continuing Operations			
Commercial income	2	2,760,258	-
Net interest income		75,864	178,678
Other income		2,475	1,076
Contract research costs	3	(3,467,469)	(3,465,057)
Personnel expenses	4	(623,063)	(897,691)
Depreciation	5	(55,255)	(122,115)
Professional services		(1,037,561)	(315,810)
Travel and accommodation		(184,841)	(203,996)
Intellectual property maintenance		(211,366)	(282,065)
Laboratory consumables	3	(993,169)	(658,178)
Occupancy costs		(6,587)	(6,067)
Other operating expenses		(435,028)	(274,695)
Loss before income tax expense		(4,175,742)	(6,045,920)
Income tax benefit	6	2,224,905	2,067,248
Net loss for the year		(1,950,837)	(3,978,672)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		(1,950,837)	(3,978,672)
Total comprehensive loss for the year attributable to the members		(1,950,837)	(3,978,672)
		Cents	Cents
Basic loss per share		(0.10)	(0.21)
Diluted loss per share		(0.10)	(0.21)

The accompanying notes form part of these financial statements

Consolidated Statement of Financial Position
As at 30 June 2017

	<i>Note</i>	2017 \$	2016 \$
Current assets			
Cash and cash equivalents	7	9,939,943	7,073,541
Trade and other receivables	8	192,206	125,657
Total current assets		<u>10,132,149</u>	<u>7,199,198</u>
Non-current assets			
Plant and equipment	9	216,109	66,568
Total non-current assets		<u>216,109</u>	<u>66,568</u>
Total assets		<u>10,348,258</u>	<u>7,265,766</u>
Current liabilities			
Trade and other payables	10	1,489,208	1,099,841
Employee benefits		-	335,682
Total current liabilities		<u>1,489,208</u>	<u>1,435,523</u>
Total liabilities		<u>1,489,208</u>	<u>1,435,523</u>
Net assets		<u>8,859,050</u>	<u>5,830,243</u>
Equity			
Issued capital	13	53,209,076	48,456,076
Reserves	14	1,063,701	837,057
Accumulated losses	15	(45,413,727)	(43,462,890)
Total equity		<u>8,859,050</u>	<u>5,830,243</u>

The accompanying notes form part of these financial statements

Consolidated Statement of Cash Flows
For the year ended 30 June 2017

		2017	2016
	<i>Note</i>	\$	\$
Cash flows from operating activities			
Commercial income received		2,760,258	-
Cash paid to suppliers and employees		(6,942,210)	(5,408,536)
Cash used in operations		(4,181,952)	(5,408,536)
R&D tax rebate		2,224,905	2,067,248
Interest received		73,911	174,559
Net cash used in operating activities	12	(1,883,136)	(3,166,729)
Cash flows from investing activities			
Proceeds from the sale of property, plant and equipment		1,073	1,402
Acquisition of property, plant and equipment		(4,535)	(26,781)
Net cash used in investing activities		(3,462)	(25,379)
Cash flows from financing activities			
Proceeds from the issue of share capital	13	5,066,250	10,020,694
Payment of transaction costs	13	(313,250)	(1,230,914)
Net cash from financing activities		4,753,000	8,789,780
Net increase/(decrease) in cash and cash equivalents		2,866,402	5,597,672
Cash and cash equivalents at the beginning of the year	7	7,073,541	1,475,869
Cash and cash equivalents at the end of the year		9,939,943	7,073,541

The accompanying notes form part of these financial statements

Consolidated Statement of Changes in Equity

For the year ended 30 June 2017

	<i>Note</i>	Issued Capital \$	Accumulated Losses \$	Reserves \$	Total \$
Balance at 1 July 2015		39,666,296	(39,484,218)	779,956	962,034
Loss attributable to members of the consolidated entity		-	(3,978,672)	-	(3,978,672)
Other comprehensive income		-	-	-	-
Total comprehensive income/(loss)		-	(3,978,672)	-	(3,978,672)
Shares issued during the year		10,020,694	-	-	10,020,694
Share capital transaction costs		(1,230,914)	-	-	(1,230,914)
Share-based payments		-	-	57,101	57,101
Balance at 30 June 2016		48,456,076	(43,462,890)	837,057	5,830,243
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	13	5,066,250	-	-	5,066,250
Share capital transaction costs	13	(313,250)	-	-	(313,250)
Share-based payments	14	-	-	226,644	226,644
Balance at 30 June 2017		53,209,076	(45,413,727)	1,063,701	8,859,050

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 2017.

DIVIDEND REINVESTMENT PLAN

No dividends or distribution reinvestment plans were in operation during the period ended 30 June 2017

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 2017

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 2017

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 2016 Annual Financial Report and the December 2016 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

The Group previously had been awarded a government grant which was recognised as revenue in the statement of comprehensive income in the same period as which the related expenses are incurred. No grant income was recognised in the year ended 30 June 2017 (2016: 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. \$2,760,258 commercial income was recognised during the year ended 30 June 2017 (2016: Nil).

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 \$57.2 million in capital, reduced to \$53.2 million after netting capital raising fees. From this amount, the following expenditures have been undertaken (all amounts \$ million):

Research & Development:	Prior to 2015	2016	2017	Total
Contract Research	20.83	3.47	3.44	27.74
Personnel (allocation)	7.24	0.45	-	7.70
Laboratory Consumables	5.14	0.66	0.99	6.79
	33.21	4.58	4.43	42.23
IP Maintenance	3.41	0.28	0.21	3.91
	36.62	4.86	4.64	46.14

Note 4. Personnel expenses

	2017	2016
	\$	\$
Wages and salaries	393,502	772,211
Other associated staff costs	4,202	16,792
Contributions to defined contribution superannuation funds	22,965	50,677
Decrease in Long Service Leave accrual	(14,575)	-
Increase/(Decrease) in annual leave accrual	(9,675)	910
Share based compensation - note 18	226,644	57,101
	<u>623,063</u>	<u>897,691</u>

Note 5. Depreciation

	2017	2016
	\$	\$
Depreciation of equipment	55,255	122,115

Note 6. Income Tax

	2017	2016
	\$	\$
<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 30%	397,078	1,813,776
Tax effect of permanent differences	236,659	81,662
Current period tax losses and temporary differences not brought to account	(633,737)	(1,895,438)
R&D income tax incentive received relating to prior year	2,224,905	2,067,248
Income tax benefit	<u>2,224,905</u>	<u>2,067,248</u>

(ii) Unrecognised deferred tax asset

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

Deductible/(Assessable) temporary differences	101,997	(281)
R&D refundable tax offset receivable in relation to current year	2,007,225	2,587,500
Tax losses	9,308,090	9,910,786
	<u>11,417,312</u>	<u>12,498,005</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

	2017	2016
	\$	\$
Cash and cash equivalents	9,939,943	7,073,541

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

Note 8. Trade and other receivables

	2017 \$	2016 \$
GST receivable	184,789	120,517
Accrued Interest	7,093	5,140
Other receivables	324	-
	<u>192,206</u>	<u>125,657</u>

Note 9. Plant and equipment

	2017 \$	2016 \$
Office and research equipment at cost	1,513,615	1,320,079
Accumulated depreciation	(1,297,506)	(1,253,511)
	<u>216,109</u>	<u>66,568</u>
Reconciliation		
Carrying amount at the beginning of the year	66,568	162,572
Acquisitions	204,796	26,993
Disposals	-	(882)
Depreciation	(55,255)	(122,115)
	<u>216,109</u>	<u>66,568</u>

Note 10. Trade and other payables

	2017 \$	2016 \$
Trade payables	1,446,153	1,056,757
Accrued expenses	17,000	24,300
Other	26,055	18,784
	<u>1,489,208</u>	<u>1,099,841</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

	2017 \$	2016 \$
Reconciliation of loss for the year to net cash used in operating activities:		
Loss for the year	(1,950,837)	(3,978,672)
Depreciation, amortisation & impairment	55,255	122,115
Share based payment expense	226,644	57,101
Proceeds from the sale of fixed assets	(1,398)	(968)
Disposal of fixed assets	-	798
Increase/(decrease) in provisions for employee benefits	(335,712)	14,558
Increase/(decrease) in payables	189,136	624,891
(Increase)/decrease in receivables	(66,224)	(6,552)
Net cash used in operating activities	1,883,136	(3,166,729)

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

	2017 Shares	2017 \$	2016 Shares	2016 \$
Ordinary Shares				
Balance at the beginning of the year	2,004,138,734	48,456,076	1,002,069,367	39,666,296
Shares issued during the year:				
- Issued at \$0.04	125,000,000	5,000,000	-	-
- Issued at \$0.25	2,650,000	66,250	-	-
- Issued for nil consideration	3,333,333	-	-	-
- Issued at \$0.01	-	-	1,002,069,367	10,020,694
- Loan funded shares cancelled	(15,000,000)	-	-	-
- Share issue costs	-	(313,250)	-	(1,230,914)
Balance at the end of the year	2,120,122,067	53,209,076	2,004,138,734	48,456,076

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

	2017 \$	2016 \$
Balance at the beginning of the year	837,057	779,956
Share based payments for the year	226,644	57,101
Balance at the end of the year	1,063,701	837,057

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

	2017	2016
	\$	\$
Balance at the beginning of the year	(43,462,890)	(39,484,218)
Loss for the year	(1,950,837)	(3,978,672)
Balance at the end of the year	(45,413,727)	(43,462,890)

Note 16. Options

Options on issue during the year	Weighted Av. Exercise Price 2017	Number of Options 2017	Weighted Av. Exercise Price 2016	Number of Options 2016
(a) Options exercisable at \$0.035 on or before 15 August 2015:				
Balance at beginning of year	-	-	\$0.035	8,125,000
Lapsed	-	-	\$0.035	(8,125,000)
Balance at end of year	-	-	-	-
(b) Options exercisable at \$0.09 on or before 30 June 2016:				
Balance at beginning of year	-	-	\$0.09	164,657,280
Lapsed	-	-	\$0.09	(164,657,280)
Balance at end of year	-	-	-	-
(c) Options exercisable at \$0.025 on or before 23 September 2017:				
Balance at beginning of year	\$0.025	33,593,750	\$0.025	33,593,750
Exercised during the year	\$0.025	(2,650,000)	-	-
Lapsed	\$0.025	(13,225,000)	-	-
Balance at end of year	\$0.025	17,718,750	\$0.025	33,593,750
(d) Options exercisable at \$0.00 on or before 30 November 2019:				
Balance at beginning of year	-	-	-	-
Issued during the year	\$0.00	10,000,000	-	-
Exercised during the year	\$0.00	(3,333,333)	-	-
Lapsed	-	-	-	-
Balance at end of year	\$0.00	6,666,667	-	-
(e) Options exercisable at \$0.00 on or before 30 June 2018:				
Balance at beginning of year	-	-	-	-
Issued during the year	\$0.00	20,000,000	-	-
Lapsed	-	-	-	-
Balance at end of year	\$0.00	20,000,000	-	-

Note 16. Options (continued)

Fair value:

The options outstanding at 30 June 2017 have an exercise price of \$0.025. 2,650,000 were exercised during the year ended 30 June 2017 (2016: Nil) and 13,225,000 were cancelled (2016: Nil). 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

ded shares on issue during the year	Weighted Av. Exercise Price 2017	Number of Shares 2017	Weighted Av. Exercise Price 2016	Number of Shares 2016
(a) LFS exercisable at \$0.064 on or before 3 June 2018:				
Balance at beginning of year	\$0.064	15,000,000	\$0.064	15,000,000
Lapsed	-	(15,000,000)	-	-
Balance at end of year	-	-	\$0.064	15,000,000

(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

	\$	\$
Equity – settled share-based payments issued:		
In FY15	3,300	18,996
In FY12	(20,024)	38,105
In FY 17	243,368	-
Total recognised as employee expense	226,644	57,101

Following cessation of employment of R Hopkins and P Watts, the rights in relation to the employee loan funded shares were not exercised and the shares were consequently cancelled.