PHYLOGICA LIMITED

TRADING AS

PYC THERAPEUTICS

ABN 48 098 391 961

Annual Financial Statements

30 June 2019

Corporate Information

Directors

Mr Alan Tribe
Non-Executive Chair

Dr Rohan Hockings
Chief Executive Officer
Executive Director

Dr Bernard Hockings
Non-Executive Director

Company Secretary
Mr Kevin Hart

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

Auditors
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Level 4
130 Stirling Street
Perth
Western Australia 6000

Website
www.pyctx.com

Incorporated in Western Australia,
October 2001

Contents	**Page**

Registered Office
Suite 8, 7 The Esplanade
Mt Pleasant
Western Australia 6153
Telephone: 08 9316 9100
Facsimile: 08 9315 5475

Postal Address
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Mt Pleasant
Western Australia 6153

Principal Place of Business
Harry Perkins Institute
6 Verdun Street
Nedlands
Western Australia 6009
Telephone: 08 6151 0992
Facsimile: 08 9315 5475

Listed on:

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

The directors present their report on Phylogica Limited ("The Company" or "PYC") together with the financial report for the year ended 30 June 2019 and the audit report thereon.

1. Directors

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

Alan W Tribe Age: 71
Non-Executive Director and Chairman – Appointed 11 April 2018

Mr Tribe has a background in the accounting profession both in the UK and Australia. Moving into industry he became the Managing Director of a group of companies with interests in natural resources in Australia and overseas. The group also included a technology company which grew through both successful product development and acquisitions.

He was closely involved in establishing subsidiary operations in the USA, UK and Singapore to access markets worldwide.

Most recently he was the catalyst for the development of large retail operations in Western and South Australia.

Mr Tribe will contribute his broad experience in successfully commercialising technology internationally. He represents a large shareholding in PYC.

Mr Tribe has held no other Australian listed company directorships in the last three years.

Dr Rohan Hockings Age: 36
M.B.B.S (Hons.), J.D., G.D.L.P
Chief Executive Officer / Executive Director 30 November 2018

Appointed as an Alternate Director for Dr Bernard Hockings on 15 August 2016.

Appointed Chief Executive Officer on 11 April 2018.

Dr Hockings is a founding principal of a private equity fund active in the acquisition of health care assets within Australia. His previous roles include strategy and operational advisory positions with a global management consulting firm, equity capital markets experience as a solicitor with a national law firm and a number of appointments as a medical practitioner. Dr. Hockings has a special interest in both venture capital and private equity within the healthcare industry.

Dr R Hockings has held no other Australian listed company directorships in the last three years.

Dr Bernard Hockings Age: 71
R.F.D., MD (WA), M.B.B.S (WA), F.R.A.C.P., F.C.S.A.N.Z, GAICD
Non-Executive Director

Appointed as a Non-Executive Director on 23 January 2014.

Dr Hockings retired as an Interventional Cardiologist in Private Practice in Western Australia in July 2017. He is a Clinical Associate Professor in Medicine at the University of Western Australia. Previously he was Director of the Coronary Care Unit at Royal Perth Hospital, Chair of the Medical Advisory Committee at the Mount Hospital and Director of Health Reserves (WA) for the Royal Australian Air Force.

Dr Hockings has a lifelong interest in medical research. His Doctoral Thesis involved Vasodilator Therapy in the treatment of heart failure. He has been closely involved with clinical teaching throughout his career. Dr Hockings is a major shareholder in PYC.

Dr B Hockings has held no other Australian listed company directorships in the last three years.

FORMER DIRECTORS

Mr Sahm Nasseri
BChem Eng (Hons), MBA
Non-Executive Director
Appointed as a Non-Executive Director on 20 October 2017 resigned 8 February 2019

Dr Robert Hayes
PhD
Chief Scientific Officer / Executive Director
Appointed as a Director on 18 April 2017, transitioned to Chief Scientific Officer on 17 June 2017, Resigned 30 November 2018.

2. Company Secretary

Mr Kevin Hart **Age: 57**
BComm FCA
Company Secretary/Chief Financial Officer – Appointed 24 July 2017

Kevin holds a Bachelor of Commerce Degree and is a Chartered Accountant. He is a Partner at Endeavour Corporate Pty Ltd, an advisory firm that specialises in the provision of company secretarial and accounting services to ASX listed entities. Kevin has over 30 years of professional experience with the accounting and management of public companies.

3. Directors' Meetings

The number of directors' meetings (including meeting of committees of directors) and the number of meetings attended by each of the directors of the Company during the financial year are:

Director	Directors' Meetings	
	Number of meetings held whilst in office	Meetings attended
A Tribe	8	8
R Hockings	8	8
B Hockings	8	8
R Hayes(i)	3	3
S Nasseri(i)	4	4

(i) Resigned during the financial year.

4. Principal Activities

The principal activity of the Company during the financial year was drug research and development, solving a major challenge in the development of a revolutionary new class of drugs – delivering large drugs into cells.

5. Operating Results and Financial Position

The operating loss after tax for the financial year ended on 30 June 2019 was $4,079,768 (2018 loss: $7,433,997). There was no commercial income included in the result for the year (2018: $nil)

The cash position of the Company at 30 June 2019 was $6.2 million (30 June 2018: $3.1 million).

6. Review of Activities

6.1 Corporate

During the year PYC focussed on transitioning from a drug discovery to a drug development company. A Chief Operating Officer was appointed to lead the Company through formal pre-clinical development and Investigational New Drug (IND)-enabling studies. Dr Robert Hayes resigned as Chief Scientific Officer.

In September 2018 the Company completed a placement of 304 million shares at an issue price of 3 cents per share to raise $9.1 million before costs. The funds were used to accelerate the path to clinical (human) validation of its platform.

On 1 April 2019, the Company moved premises from The Telethon Kids Institute (TKI) to The Harry Perkins Institute of Medical Research. The scientific staff previously employed by TKI and contracted to Phylogica, are now employed by the Company.

6.2 Operations

PYC owns a Cell Penetrating Peptide (CPP) platform that can overcome 'the delivery challenge' and provide access for a wide range of potent and precise drug 'cargoes' to the 'undruggable genome' – the highest value drug targets that exist inside cells. PYC Therapeutics is using its CPP platform to develop a pipeline of novel therapies with an initial focus on blinding diseases of the eye. PYC's technology has been proven to overcome this 'delivery challenge' both in animals and in human cells. We are now on the path to the clinical development of our technology.

The Company has made two strategic choices in electing to develop our delivery technology in the context of:

- Anti-Sense Oligonucleotides (ASOs) as a drug cargo; and
- The eye as a target tissue.

ASOs have been chosen as our flagship drug cargo class because of the tremendous potential of RNA therapeutics and the progress that has recently been made in this field. Exondys-51 (Eteplirsen) and Spinraza (Nusinersen), two ASO drugs recently approved by the United States Food and Drug Administration, grossed approximately US$2 billion in annual sales this year (refer Biogen and Sarepta 2019 Financial Reports).

There is an increasing amount of attention being paid to this class of drugs that sit at the 'sweet spot' of durability and patient convenience and solving the delivery challenge to take these drugs inside cells is currently the rate limiting step in the field.

The eye has been chosen as a target tissue for our flagship program because of the complexity of the organ (particularly the retinal tissue which lies at the back of the eye) and the value of therapeutics that can successfully overcome the various barriers that give rise to this complexity.

Following on from successful animal models (see ASX announcements of 27 June and 23 July 2019), PYC has now completed the first assessment of our CPP delivery technology in human cells (see ASX announcement of 6 August 2019). The Company has successfully achieved the two major pre-clinical developmental milestones of a demonstrated ability of our CPPs to deliver an ASO into:

- human cells; and
- into the target cells in the eye in an animal model.

The Company is now on the path to the clinical evaluation of the technology.

Operational highlights during the year and up to the date of this report include:

- Demonstration that PYC's Cell Penetrating Peptides (CPPs) outperform the current CPP benchmark for clinical development (See ASX announcement of 23 July 2019) in animal models.
- Confirmation that the competitive advantages of our CPPs are maintained as we progress from cellular level experiments into the more complex environment of an animal (the critical milestone on the journey to demonstrating efficacy in humans).
- Completion of the first assessment of our Cell Penetrating Peptide (CPP) delivery technology in human cells. Following on from successful animal models, PYC has demonstrated the ability of our CPPs to deliver an Anti-Sense Oligonucleotide (ASO) into human retinal cells.

These read-outs represent the major pre-clinical development milestones on PYC's pathway to developing CPP-ASO treatments for a range of blinding eye diseases.

On 22 August 2019 the Company announced to the ASX that it had successfully completed a time-course evaluation of the effectiveness of a drug incorporating its Cell Penetrating Peptide (CPP) delivery technology in mice over 2 and 3-week time periods. The result demonstrated that the drug (an Anti-Sense Oligonucleotide or 'ASO') continued to achieve its desired effect throughout the full time period of the study evaluated to date.

The result provided a positive indication of the likelihood of achieving an acceptable dosing regimen in humans when using PYC's technology to treat blinding eye diseases because it suggests that effective treatment can be achieved with significant time intervals between drug administration (ie. months between drug dosing). Longer time periods between drug dosing intervals generally increases patient compliance levels and leads to better treatment outcomes.

The result is particularly encouraging because of the low dose of drug that was administered in achieving this outcome (a single dose of 1.6 micrograms per eye which is ~60 times lower than the dose used in similar pre-clinical studies of 'naked' Anti-Sense Oligonucleotides)

6.3 Future Prospects

The Company will now focus on delivery of the final technical milestone in our strategic plan (3D retinal organoids) before initiating Investigational New Drug (IND)-enabling studies to facilitate clinical evaluation of our technology.

7. Significant Changes in the State of Affairs

There were no significant changes in the state of affairs.

8. Dividends

No dividends have been paid or declared by the Company since the end of the previous financial year.

9. Events Subsequent to Reporting Date

There are no matters or circumstances that have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company, in future financial years.

10. Directors' Interests

The relevant interest of each director in the shares and options over shares issued by PYC as notified by the directors to the Australian Securities Exchange in accordance with Section 205G(1) of the Corporations Act 2001, at the date of this report is as follows:

Director	Ordinary Shares	Options
A Tribe	559,566,247	-
R Hockings	-	10,000,000
B Hockings	351,257,519	-

11. Indemnification and Insurance of Directors and Officers

11.1 Directors' and officers' indemnity

The Company has agreed to indemnify each Director and the Company Secretary (Officers) against all liabilities or loss (other than the Company or a related body corporate) that may arise from their position as Officers of the Company, except where the liability arises out of conduct involving a lack of good faith, or indemnification is otherwise not permitted under the Corporations Act. The indemnity stipulates that the Company will meet the full amount of any such liabilities, including costs and expenses, and covers a period of seven years after ceasing to be an Officer of the Company.

The Company has also indemnified the current directors and certain members of its senior management for all liabilities and loss (other than the Company or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving lack of good faith or indemnification is otherwise not permitted under the Corporations Act.

The Company has executed deeds of indemnity, access and insurance in favour of each Officer of the Company.

11.2 Directors' and officers' insurance

The Company has paid insurance premiums for one year of cover in respect of directors' and officers' liability insurance contracts, for Officers of the Company. The insurance cover is on standard industry terms and provides cover for loss and liability for wrongful acts in relation to the relevant person's role as an Officer, except that cover is not provided for loss in relation to Officers gaining any profit or advantage to which they were not legally entitled, or Officers committing any criminal, dishonest, fraudulent or malicious act or omission, or any knowing or wilful violation of any statute or regulation. Cover is also only provided for fines and penalties in limited circumstances and up to a small financial limit.

In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the nature of the liabilities covered by the insurance, the limit of indemnity and the amount of the premium paid under the contract.

12. Non-Audit Services

During the year, HLB Mann Judd, the Company's auditor, did not perform other services in addition to its statutory duties.

13. Options and Unissued Shares Under Convertible Securities

At the date of this report, ordinary shares of the Company under option totalled 20,000,000 as per the following table (2018: 10,000,000 options exercisable $0.06 on or before 30 November 2018).

Number of options	Exercisable at $0.06 Expiring on 30 May 2020	Exercisable at $0.039 Expiring on 16 Nov 2021
Issued	10,000,000	10,000,000
Vested	-	5,000,000

These converting securities do not entitle the holder to participate in any share issue of the Company or any other body corporate.

14. Environmental Regulation and Performance

The Company does not hold any permits in relation to environmental discharge and does not handle or store hazardous materials.

15. Corporate Governance

The Company's corporate governance statement can be found on the Company's website www.pyctx.com

16. Remuneration Report - Audited

Remuneration is referred to as compensation throughout this report.

16.1 Principles of compensation

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company, including directors of the Company and other executives. Key management personnel include all directors, the company secretaries and specific executives of the Company.

Compensation levels for key management personnel of the Company are set competitively to attract and retain appropriately qualified and experienced directors and senior executives. The remuneration committee has researched information from companies of similar size or stage of development in the technology sector to assess the level of compensation which would be competitive, receiving this information by way of a report from independent remuneration consultants.

The compensation structures for executives are designed to attract suitably qualified candidates, reward the achievement of strategic objectives and achieve the broader outcome of the creation of value for shareholders. The compensation structures take into account the executives' capability and experience, level of responsibility and ability to contribute to the Company's performance, including, in particular, the establishment of revenue streams and growth in the Company's share price.

Compensation packages include a mix of fixed and variable compensation and short-and long-term performance-based incentives.

16.2 Fixed remuneration

Fixed compensation consists of a base salary (calculated on a total cost basis, including any fringe benefits tax related to employee benefits) as well as employer contributions to superannuation funds.

Compensation levels are reviewed annually by the Board through a process that considers individual and Company achievement.

16.3 Performance linked remuneration

Performance linked compensation includes short term incentives (STI), in the form of cash bonuses paid upon the achievement of predetermined Key Performance Indicators (KPI), and long-term incentives (LTI) provided as options under the Employee Share Option Plan. In the case of Executive Directors, the number and conditions of the options are approved by the shareholders in general meeting.

16.4 Short term incentive bonus (STI)

The Board has set KPIs in conjunction with each of the Executive Directors and senior management.

Short Term Incentives are usually in the form of cash bonuses calculated based on achievement of Key Performance Indicators (KPI's).

16.5 2019 Financial Year Short Term Incentives

Chief Executive Officer – Dr R Hockings	A payment of up to $198,000 (including superannuation) for agreed scientific and corporate milestones.

No bonuses were paid in relation to the 2018 and the 2019 financial years due to the Company's financial situation.

16.6 Long term incentives (LTI)

The Employee Share Option Plan (ESOP) was established during the 2006 financial year and is open to all employees and contractors. The ESOP was last renewed at the annual general meeting held 27 November 2014. Options are granted for no consideration and have a three-year term. One half of those options allocated will vest immediately and, unless agreed by the Directors, one half will vest on the subsequent anniversary of issue.

During the year, 10,000,000 options were granted under the ESOP (2018: 20,000,000). 5,000,000 options vested on 24 November 2018, 5,000,000 will vest on 24 November 2019 and 5,000,000 on 30 June 2020. 5,000,000 options issued during the year vested on 30 June 2019.

16.7 Short-term and long-term incentive structure

The Company has not established a causal relationship between compensation structure and shareholder returns. The directors consider that the Company's progress to date and external remuneration levels provide support for the premise that the compensation structure is appropriate, given the objectives set out earlier in this report.

16.8 Consequences of performance on shareholders' wealth

The Board has regard to a broad range of factors in considering the Company's performance and how best to generate shareholder value. These include financial factors, securing new drug discovery partnerships and others that relate to meeting the objectives of existing discovery alliances, scientific progress of the Company's in-house projects, grants awarded, staff development etc. The Board has some, but not absolute regard to the Company's result and cash consumption during the year. It does not utilise earnings per share as a performance measure nor does it contemplate consideration of any dividends in the short to medium term, given that efforts are being expended to build the business and generate self-sustaining revenue streams. The Company is of the view that any adverse movement in the Company's share price should not be taken into account in assessing the performance of employees, unless such a measure is agreed with the executive as a KPI.

16.9 Service agreements

At 30 June 2019, the senior executives of the Company who are full time employees, had conditions of employment as set out below.

Name	Dr Rohan Hockings[1]
Position	Chief Executive Officer
Term Expiring	30 June 2020
Salary	$395,000
Options	10,000,000
Termination Notice	If terminated by the Company twelve months- notice and two months-notice by the individual.

1) Dr Rohan Hockings was appointed as Chief Executive Officer on 11 April 2018.

Company Secretarial services are provided by a contractor with no financial commitment by the Company other than a monthly fee, payable in arrears, for services rendered by employees of the service company, including the company secretary.

16.10 Non-executive directors

The aggregate remuneration of all non-executive directors was set at $300,000 per annum at the annual general meeting held on 27 November 2014. The base fee for a non-executive director has been $40,000 per annum since 1 July 2011. The Company makes contributions at the statutory minimum rate to superannuation funds nominated by directors, in addition to the base fee.

Directors' fees cover all main board activities and committee memberships.

16.11 Equity instruments

16.11.1 Options

All options refer to options over ordinary shares of PYC Limited which are exercisable on a one-for-one basis.

(a) Options and rights over equity instruments granted as compensation

During the reporting period, 10,000,000 options over ordinary shares in the Company were granted as compensation to key management personnel (2018: 20,000,000).

Key management person	Number of options outstanding at 30 June 2019	Grant date	Fair value per option at grant date ($)	Exercise price per option ($)	Expiry date	Number of options vested during 2019
CEO Rohan Hockings	10,000,000	16 Nov 2018	$0.01263	$0.039	16 November 2021	5,000,000
Former Director Robert Hayes	10,000,000	20 Nov 2017	$0.0112	$0.06	30 May 2020	5,000,000

The methodology used to arrive at a fair value of the options issued during the current financial year is set out in Note 17 of the financial report.

(b) Modification of terms of equity-settled share-based payment transactions

No terms of equity-settled share-based payment transactions (including options granted as compensation to a key management person) have been altered or modified by the Company during the reporting period or the prior period.

(c) Exercise of options granted as compensation

During the reporting period, no options previously granted as compensation were exercised (2018: 13,333,333).

(d) Analysis of options and rights over equity instruments granted as compensation

Details of vesting profiles of the options granted as remuneration to executive directors of the Company and the named Company executive are detailed as follows:

Key management person	Options granted		Vested in year (%)	Forfeited in year (%)	Financial years in which grant vests	Value yet to vest	
	Number	Date				Minimum ($)	Maximum ($)
Dr R Hockings	10,000,000	16 Nov 2018	5,000,000	-	2020	63,129	63,129
Dr R Hayes	10,000,000	24 Nov 2017	5,000,000	-	2019	55,600	55,600

(1) The unvested options vest 50% on 24 November 2019 and 50% on 30 June 2020.

(e) Analysis of Movements in options

Other than the above there were no movements during the reporting period of options over ordinary shares in the Company held by Company directors and other Key Management Personnel.

16.12 Directors' and executive officers' remuneration

Details of the nature and amount of each major element of remuneration of each director and each of the executives of the Company (Key Management Personnel) are as set out on the following page.

Year ended 30 June 2019	Note	Short Term Benefits Salary & Fees $	Long Term Benefits Long Service Leave $	Post-Employment Benefits Superannuation $	Share-Based Payments Value of Options $	Total $	Performance based as proportion of Remuneration %
Executive Director							
Dr Rohan Hockings	1	395,000	-	-	87,336	482,336	-
Non-executive Directors							
Mr Alan Tribe	2	61,139	-	5,808	-	66,947	-
Dr Bernard Hockings		43,800	-	-	-	43,800	-
Former Non-Executive Directors							
Mr Sahm Nasseri	3	26,513	-		-	26,513	-
Dr Robert Hayes	4	272,767	-	1,729	27,724	302,220	-
Total Key Management Personnel		**799,219**	**-**	**7,537**	**115,060**	**921,816**	**-**

Note

1) Dr Rohan Hockings was appointed Chief Executive Officer on 11 April 2018 and Executive Director on 30 November 2018.
2) Mr A Tribe was appointed Non-Executive Chairman on 11 April 2018
3) Mr Sahm Nasseri was appointed Non-Executive Director on 20 October 2017 and resigned on 8 February 2019
4) Dr Robert Hayes resigned on 30 November 2018
5) The Company pays an insurance premium for company reimbursement and directors' and officers' liability insurance as a combined amount. The portion of the premium which relates to directors and officers has not been included as part of remuneration.

Year ended 30 June 2018	Note	Short Term Benefits Salary & Fees $	Long Term Benefits Long Service Leave $	Post-Employment Benefits Superannuation $	Share-Based Payments Value of Options $	Total $	Performance based as proportion of Remuneration %
Executive Director							
Dr Robert Hayes	1	402,706	-	9,294	72,280	484,280	-
Non-executive Directors							
Mr Alan Tribe	2	16,994	-	1,614	-	18,608	-
Dr Bernard Hockings		43,800	-	-	-	43,800	-
Mr Sahm Nasseri	3	29,200	-	-	-	29,200	-
Executive Personnel							
Dr Rohan Hockings	4	84,000	-	-	-	84,000	-
Former Executive Director							
Ms Stephanie Unwin	5	380,518	-	36,149	17,778	434,445	-
Former Non-Executive Directors							
Dr Paul Watt	6	21,900	-	-	60,632	82,532	-
Dr Rick Kendall	7	19,832	-	-	-	19,832	-
Mr Michael Williams	8	7,300	-	-	-	7,300	-
Total Key Management Personnel		**1,006,250**	**-**	**47,057**	**150,690**	**1,203,997**	**-**
Company Secretary:							
Mr Graeme Boden (resigned 24.07.17)	9	8,138	-	-	-	8,138	-
Total Company Secretaries		**163,762**	**-**	**-**	**-**	**163,762**	**-**

Note

1) Dr Robert Hayes was appointed Chief Scientific Officer on 17 June 2017.
2) Mr A Tribe was appointed Non-Executive Chairman on 11 April 2018
3) Mr Sahm Nasseri was appointed Non-Executive Director on 20 October 2017
4) Dr Rohan Hockings was appointed Chief Executive officer on 11 April 2018
5) Ms Stephanie Unwin resigned as Chief Executive Officer on 27 April 2018
6) Dr Paul Watt resigned as Non-executive Director on 24 November 2017
7) Dr Rick Kendall Resigned as Non-Executive Director on 20 October 2017
8) Mr Michael Williams was appointed as Non-Executive Director on 3 January 2018 and resigned on 11 April 2018
9) Payments made to Boden Corporate Services Pty Ltd (BCS) include time spent on Company activities, including accounting and administration by G Boden and other employees of BCS
10) The Company pays an insurance premium for company reimbursement and directors' and officers' liability insurance as a combined amount. The portion of the premium which relates to directors and officers has not been included as part of remuneration.

16.13 Analysis of bonuses included in remuneration

No bonuses were awarded in relation to the 2019 financial year as the key performance criterion of financial sustainability was not met.

16.14 Movements in share and options holdings

Movements in Key Management Personnel equity holdings during the period are set out below.

16.14.1 Options over equity instruments

The movement during the reporting period in the number of options over ordinary shares in the Company held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

Year ended 30 June 2019

Key Management Personnel	Balance 1 July 2018	Granted as Compensation	Exercised(i)	Other Changes(ii)	Balance 30 June 2019	Vested During the Year	Vested & Exercisable 30 June 2019
Directors							
Dr R Hockings	-	10,000,000	-	-	10,000,000	5,000,000	5,000,000
Mr A Tribe	-	-	-	-	-	-	-
Dr B Hockings	-	-	-	-	-	-	-
Former Directors					-	-	-
Dr R Hayes	10,000,000	-	-	-	10,000,000	5,000,000	5,000,000
Dr Sahm Nasseri	-	-	-	-	-	-	-

(i) Options exercised
(ii) Options expired unexercised

Year ended 30 June 2018

Key Management Personnel	Balance 1 July 2017	Granted as Compensation	Exercised(i)	Other Changes(ii)	Balance 30 June 2018	Vested During the Year	Vested & Exercisable 30 June 2019
Directors							
Dr R Hayes	-	10,000,000	-	-	10,000,000	-	-
Mr A Tribe	-	-	-	-	-	-	-
Dr B Hockings	-	-	-	-	-	-	-
Mr S Nasseri	-	-	-	-	-	-	-
Executives							
Dr R Hockings	-	-	-	-	-	-	-
Former Non-Executive Directors							
Dr P Watt(ii)	20,000,000	-	(10,000,000)	(10,000,000)	-	-	-
Dr R Kendall	-	-	-	-	-	-	-
Mr Michael Williams	-	-	-	-	-	-	-
Former Executive Directors							
Ms S Unwin(i)	6,666,667	10,000,000	(3,333,333)	(13,333,334)	-	-	-
Former Company Secretary / CFO							
Mr G Boden	406,250	-	(243,750)	(162,500)	-	-	-

(i) Options exercised
(ii) Options expired unexercised

16.14.2 Shareholdings

The movement during the reporting period in the number of ordinary shares in the Company held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

Year ended 30 June 2019

Key Management Personnel	Balance 1 July 2018	Purchases	Other Changes	Granted as Compensation	Sales	Balance 30 June 2019
Directors						
Mr A Tribe	425,766,247	133,800,000(i)	-	-	-	559,566,247
Dr R Hockings	-	-	-	-	-	-
Dr B Hockings	317,924,185	33,333,334**(ii)**				351,257,519
Former Executives						
Dr R Hayes	-	-	-	-	-	-

(i) 124,500,000 shares purchased pursuant to the placement, 9,300,000 shares purchased on market.

(ii) 33,33,334 shares purchased pursuant to the placement.

Year ended 30 June 2018

Key Management Personnel	Balance 1 July 2017	Purchases	Other Changes	Granted as Compensation	Sales	Balance 30 June 2018
Directors						
Mr Alan Tribe(i)	-	-	425,766,247	-	-	425,766,247
Dr R Hayes	-	-	-	-	-	-
Dr B Hockings	582,924,185				(265,000,000)	317,924,185
Mr S Nasseri	-	-	-	-	-	-
Executives						
Dr R Hockings	-	-	-	-	-	-
Former Non-Executive Directors						
Dr P Watt(i)(ii)	14,517,197	-	(14,517,197)	-	-	-
Dr R Kendall	-	-	-	-	-	-
Mr Michael Williams	-	-	-	-	-	-
Former Executive Directors						
Ms S Unwin(ii)	3,333,333	3,333,334	(6,666,667)	-	-	-
Former Company Secretary / CFO						
Mr G Boden(ii)	5,000,000	-	(5,000,000)	-	-	-

(i) Shares held at date of appointment
(ii) Shares held at date of resignation

16.15 Key management personnel transactions

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Company in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

The aggregate amounts recognised during the year relating to key management personnel and their related parties were as follows:

Key management persons	Transaction	Note	2019 $	2018 $
Mr G Boden	Corporate services	(a)	-	8,138

(a) Boden Corporate Services Pty Ltd, of which Mr Boden is a director, provided services in the prior year in company secretarial, accounting and administration roles for which services fees were billed based on normal market rates, and were due and payable under normal payment terms. These fees are included in the remuneration table above for the year ended 30 June 2018.

There were no amounts payable to key management personnel at reporting date arising from these contract services.

17.Proceedings on behalf of the Company

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

18. Auditor's Independence Declaration

The auditor's independence declaration is set out on page 16 and forms part of the Directors' report for the year ended 30 June 2019.

Signed in accordance with a resolution of the directors:

Alan Tribe
Chairman
Perth
17th September 2019

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the financial report of Phylogica Limited for the year ended 30 June 2019, 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 audit; and

b) any applicable code of professional conduct in relation to the audit.

B M'Veigh.

Perth, Western Australia
17 September 2019

B G McVeigh
Partner

hlb.com.au

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HLB Mann Judd (WA Partnership) is a member of HLB International, the global advisory and accounting network.

Statement of Profit or Loss and Other Comprehensive Income
For the year ended 30 June 2019

	Note	2019 $	2018 $
Continuing Operations			
Net interest revenue		117,963	114,876
Other income		250	48,460
Contract research costs		(2,675,984)	(5,421,564)
Personnel expenses	*7*	(1,770,983)	(1,151,759)
Depreciation	*8*	(130,556)	(81,298)
Professional services		(409,789)	(1,159,497)
Travel and accommodation		(50,550)	(258,388)
Intellectual property maintenance		(78,323)	(216,289)
Laboratory consumables		(1,837,418)	(1,324,787)
Occupancy costs		(57,345)	(10,747)
Other operating expenses		(91,153)	(143,818)
Loss before income tax benefit		(6,983,888)	(9,604,811)
Income tax benefit	*9*	2,904,120	2,170,814
Net loss for the year		(4,079,768)	(7,433,997)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		(4,079,768)	(7,433,997)
Total comprehensive loss for the year attributable to the members		**(4,079,768)**	**(7,433,997)**

	Note	Cents	Cents
Basic loss per share	*19*	(0.17)	(0.35)
Diluted loss per share	*19*	(0.17)	(0.35)

This statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to the financial statements.

Statement of Financial Position
As at 30 June 2019

	Note	2019 $	2018 $
Current assets			
Cash and cash equivalents		6,181,403	3,147,306
Trade and other receivables	*10*	10,827	128,344
Prepayments		26,143	-
Total current assets		6,218,373	3,275,650
Non-current assets			
Plant and equipment	*11*	482,869	143,404
Total non-current assets		482,869	143,404
Total assets		6,701,242	3,419,054
Current liabilities			
Trade and other payables	*13*	359,569	1,771,777
Employee benefits	*14*	42,305	-
Total current liabilities		401,874	1,771,777
Total liabilities		401,874	1,771,777
Net assets		**6,299,368**	**1,647,277**
Equity			
Issued capital	*18(i)*	61,951,088	53,334,289
Reserves	*18(ii)*	1,275,772	1,160,712
Accumulated losses		(56,927,492)	(52,847,724)
Total equity		**6,299,368**	**1,647,277**

This statement of financial position is to be read in conjunction with the notes to the financial statements.

Statement of Cash Flows
For the year ended 30 June 2019

	Note	2019 $	2018 $
Cash flows from operating activities			
Cash paid to suppliers and employees		(8,139,284)	(9,045,901)
Cash used in operations		(8,139,284)	(9,045,901)
R&D tax rebate		2,904,120	2,170,814
Interest received		109,751	119,354
Government grants received		-	48,460
Net cash used in operating activities	*20*	**(5,125,413)**	**(6,707,273)**
Cash flows from investing activities			
Proceeds from the sale of property, plant and equipment		250	-
Acquisition of property, plant and equipment		(457,539)	(210,577)
Net cash used in investing activities		**(457,289)**	**(210,577)**
Cash flows from financing activities			
Proceeds from the issue of share capital	*18(i)*	9,120,000	135,031
Payment of transaction costs	*18(i)*	(503,201)	(9,818)
Net cash from financing activities		**8,616,799**	**125,213**
Net increase/(decrease) in cash and cash equivalents		3,034,097	(6,792,637)
Cash and cash equivalents at the beginning of the year		3,147,306	9,939,943
Cash and cash equivalents at the end of the year		**6,181,403**	**3,147,306**

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

Statement of Changes in Equity
For the year ended 30 June 2019

	Note	Issued Capital $	Accumulated Losses $	Reserves $	Total $
Balance at 1 July 2017		**53,209,076**	**(45,413,727)**	**1,063,701**	**8,859,050**
Loss attributable to members of the parent entity		-	(7,433,997)	-	(7,433,997)
Other comprehensive income		-	-	-	-
Total comprehensive loss		-	(7,433,997)	-	(7,433,997)
Shares issued during the year	*18(i)*	135,031	-	-	135,031
Share capital transaction costs	*18(i)*	(9,818)	-	-	(9,818)
Share-based payments	*18(ii)*	-	-	97,011	97,011
Balance at 30 June 2018		**53,334,289**	**(52,847,724)**	**1,160,712**	**1,647,277**
Balance at 1 July 2018		**53,334,289**	**(52,847,724)**	**1,160,712**	**1,647,277**
Loss attributable to members of the parent entity		-	(4,079,768)	-	(4,079,768)
Other comprehensive income		-	-	-	-
Total comprehensive loss		-	(4,079,768)	-	(4,079,768)
Shares issued during the year	*18(i)*	9,120,000	-	-	9,120,000
Share capital transaction costs	*18(i)*	(503,201)	-	-	(503,201)
Share-based payments	*18(ii)*	-	-	115,060	115,060
Balance at 30 June 2019		**61,951,088**	**(56,927,492)**	**1,275,772**	**6,299,368**

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

1. Reporting Entity

PYC is a listed public company incorporated and operating in Australia. The financial report of the Company for the financial year ended 30 June 2019 was authorised for issue by the directors on 17 September 2019. The Company is primarily involved in the development of new pharmaceutical products within the pharmaceutical industry. For the purpose of preparing the financial statements, the Company is a for-profit entity.

2. Basis of Preparation

(a) Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASB's) which includes Australian equivalents to International Financial Reporting Standards (AIFRS) adopted by the Australian Accounting Standards Board (AASB), and the Corporations Act 2001. Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS's).

(b) Basis of measurement

The financial statements have been prepared on a historical cost basis and are presented in Australian dollars. All figures presented in the financial report are rounded to the nearest dollar.

(c) Use of estimates and judgements

The preparation of a financial report requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The 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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The areas of estimation and uncertainty where judgement is used in applying accounting principles and where there may be an impact in the accounting revenue or expense are described in the following notes:

- Note 11 – useful lives of plant and equipment
- Note 17 – share based payments
  The fair value of options granted is measured using a valuation model taking into account the share price at the grant date, exercise price, expected option life and the expected volatility of the share price traded on the ASX.

(d) Going Concern

The financial report has 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 year ended 30 June 2019 the Company has incurred a loss of $4,079,768 (2018: loss of $7,433,997) and at year end the Company had working capital of $5,816,500 (2018: $1,503,873) including a cash and cash equivalents balance of $6,181,403 (2018: $3,147,306). Cash used in operating activities in 2019 was $5,125,413 (2018: $6,707,273).

The Directors believe that it is appropriate to prepare the financial report on a going concern basis. The Company expects to receive an R&D rebate of approximately $2.5 million during the first half of the 2020 financial year, and with the opening cash balance, the Directors are of the view that this will be sufficient to cover expenditure for the period of 12 months from the date of approval of this financial report. The Company also has the option of selectively reducing expenditure where necessary.

3. Significant accounting policies

The accounting policies detailed below have been consistently applied to all years presented unless otherwise stated.

(a) Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction.

(b) Property, plant and equipment

(i) Recognition and measurement

The Company holds no property. Items of plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses - see note 3(g). Cost includes expenditures that are directly attributable to the acquisition of the asset.

(ii) Leased assets

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. The Company has no finance leases. Leases other than finance leases are classified as operating leases and are accounted for as described in note 3(q).

(iii) Depreciation

Depreciation is charged to the statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment. The estimated useful lives in the current and comparative periods are as follows:

Office and research equipment 2-13 years

The residual value, depreciation method and useful lives if significant, are reassessed annually.

(c) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the statement of profit or loss and other comprehensive income as an expense as incurred. The Company does not currently undertake development activities as defined in AASB 138 Intangible Assets and therefore has not capitalised development expenditure.

(d) Trade and other receivables

Trade and other receivables are initially measured at fair value and are subsequently measured at their amortised cost less any impairment losses (see note 3(g)). Trade receivables are due for settlement in no more than 30 days and the nominal amount is deemed to reflect fair value.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with an original maturity of three months or less.

(f) Financial assets

Recognition and derecognition

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with AASB 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable).

3. Significant accounting policies *(Cont.)*

For the purpose of subsequent measurement, financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- amortised cost
- fair value through profit or loss (FVTPL)
- equity instruments at fair value through other comprehensive income (FVOCI)
- debt instruments at fair value through other comprehensive income (FVOCI).

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

The classification is determined by both:

- the entity's business model for managing the financial asset
- the contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within other expenses.

Subsequent measurement of financial assets

Financial assets at fair value through profit or loss (FVTPL)

Financial assets that are held within a different business model other than 'hold to collect' or 'hold to collect and sell' are categorised at fair value through profit and loss. Further, irrespective of business model financial assets whose contractual cash flows are not solely payments of principal and interest are accounted for at FVTPL. All derivative financial instruments fall into this category, except for those designated and effective as hedging instruments, for which the hedge accounting requirements apply.

The category also contains an equity investment. The Group accounts for the investment at FVTPL and did not make the irrevocable election to account for the investment in unlisted and listed equity securities at fair value through other comprehensive income (FVOCI). The fair value was determined in line with the requirements of AASB 9, which does not allow for measurement at cost.

Assets in this category are measured at fair value with gains or losses recognised in profit or loss.

The fair values of financial assets in this category are determined by reference to active market transactions or using a valuation technique where no active market exists.

(g) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

(ii) Non- Financial Assets

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

3. Significant accounting policies *(Cont.)*

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit”). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

(iii) Calculation of recoverable amount

The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(iv) Reversals of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. In respect of other assets, an impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the asset’s carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(h) Earnings per share

Basic earnings per share (EPS) is calculated by dividing the income or loss attributable to the members of the Company for reporting period, after exclusion of any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the half year, adjusted for any bonus elements.

Diluted EPS adjusts the figures used in the determination of basic EPS to take into account the after-tax effect of interest recognised associated with the dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares adjusted for any bonus elements.

(i) Transaction costs

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax.

(j) Employee benefits

(i) Share based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

(ii) Wages, salaries, annual leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees’ services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Company expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

3. Significant accounting policies *(Cont.)*

No provision is made for non-vesting sick leave as the anticipated pattern of future sick leave taken indicates that accumulated non-vesting sick leave will never be paid.

(iv) Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the statement of profit or loss and comprehensive income as incurred.

(k) Provisions

A provision is recognised in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event that can be measured reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

(l) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently measured at their amortised cost. These amounts represent liabilities for goods and services provided to the Company prior to the end of the financial year which are unpaid. The amounts are unsecured and normally settled within 30 days of recognition.

(m) Revenue

Goods sold and services rendered

Revenues are recognised at fair value of the consideration receivable net of the amount of Goods and Services Tax (GST) payable to the taxation authority.

(i) Commercial income

Commercial income is recognised in the statement of financial position initially as deferred income when there is reasonable assurance that it will be received and that the Company will comply with the conditions attaching to it. Commercial income which compensates the Company for expenses incurred is recognised as revenue in the statement of comprehensive income on a systematic basis in the same periods in which the related expenses are incurred.

(ii) Finance income and expense

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date. Finance expenses comprise interest expense on borrowings.

(iii) Government grants

Government grant income is recognised in the statement of financial position initially as deferred income when there is reasonable assurance that it will be received and that the Company will comply with the conditions attaching to it. Grants that compensate the Company for expenses incurred are recognised as revenue in the statement of profit or loss and other comprehensive income on a systematic basis in the same periods in which the related expenses are incurred.

(n) Expenses

Operating lease payments

Payments made under operating leases are recognised in the statement of profit or loss and other comprehensive income on a straight-line basis over the term of the lease.

3. Significant accounting policies *(Cont.)*

(o) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables. Non-derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

A financial instrument is recognised if the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Company's contractual rights to the cash flows from the financial assets expire or if the Company transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Company commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Company's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits.

Accounting for finance income and expense is discussed in note 3(o).

Other non-derivative financial instruments are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

(ii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributed to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(p) Income tax

Income tax in the statement of profit or loss and other comprehensive income for the periods presented comprises current and deferred tax. Income tax is recognised in the statement of profit or loss and other comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(q) Segment reporting

The Company comprises a single business segment comprising discovery and development of novel therapeutics and a single geographical location being Australia. The segment details are therefore fully reflected in the results and balances reported in the statement of comprehensive income and statement of financial position.

(r) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the statement of financial position.

3. Significant accounting policies *(Cont.)*

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

(s) Standards and Interpretations applicable to 30 June 2019

In the year ended 30 June 2019, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Company and effective for the current annual reporting period. As a result of this review, the Directors have determined that there was no material impact of the new and revised Standards and Interpretations on the Company and, therefore, no material change is necessary to Company accounting policies.

(t) Standards and Interpretations in issue not yet adopted

The Directors have also reviewed all of the new and revised Standards and Interpretations in issue not yet adopted for the year ended 30 June 2019. As a result of this review the Directors have determined that there is no material impact of the Standards and Interpretations in issue not yet adopted on the Company and, therefore, no change is necessary to Company accounting policies

The Directors have also reviewed all new Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2019. Those which may have a material impact on the Company are set out below.

AASB 16 Leases

AASB 16 replaces AASB 117 *Leases*. AASB 16 removes the classification of leases as either operating leases of finance leases-for the lessee – effectively treating all leases as finance leases.

AASB 16 is applicable to annual reporting periods beginning on or after 1 July 2019.

Impact on operating leases

AASB 16 will change how the Company accounts for leases previously classified as operating leases under AASB 117, which were off-balance sheet. On initial application of AASB 16, for all leases (except as noted below), the Company will:

- Recognise right-of-use assets and lease liabilities in the statement of financial position, initially measured at the present value of the future lease payments.
- Recognise depreciation of right-of-use assets and interest on lease liabilities in the statement of profit or loss.
- Separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the cash flow statement.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under AASB 117 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under AASB 16, right-of-use assets will be tested for impairment in accordance with AASB 136 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Company will opt to recognise a lease expense on a straight-line basis as permitted by AASB 16.

The Company has elected not to early adopt AASB 16 but has conducted an assessment of the impact of the new standard based in the facts and circumstances that existed at that date and have concluded that the initial application of AASB 16 will have the following impact on the Company's leases as regards classification and measurement.

As at 30 June 2019, the Company has non-cancellable operating lease commitments of $ 496,375.

3. Significant accounting policies *(Cont.)*

A preliminary assessment indicates that the book value of these arrangements relating to leases other than short-term leases and leases of low-value assets amounts to $240,705, and hence the Company will recognise a right-of-use asset of $421,683 and a corresponding lease liability of $240,705 in respect of all these leases.

The impact on profit or loss is to decrease other expenses by $496,375, to increase depreciation by $240,705 and to increase interest expense by $255,670.

Under AASB 117, all lease payments on operating leases are presented as part of cash flows from operating activities. The impact of the changes under AASB 16 would be to reduce the cash generated by operating activities by $496,375 and to increase net cash used in financing activities by the same amount.

4. Financial risk management

Overview

The Company has exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Company's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework and for developing and monitoring risk management policies.

Risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

The Company, through their training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board oversees how management monitors compliance with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Company.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company receivables and cash investments.

Trade and other receivables

The Company had no material credit risk at 30 June 2019 or 2018.

Cash investments

The Company limits its exposure to credit risk by banking only with Australia and New Zealand Banking Group. Given that bank's credit rating, management does not expect it to fail to meet its obligations.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

4. Financial risk management *(Cont.)*

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Company does not presently use financial derivatives as a risk management tool.

Currency risk

The Company is exposed to currency risk on some purchases that are denominated in a currency other than the functional currency of the Company, the Australian dollar (AUD). As the exposure is immaterial in value and of short-term duration, the Company does not employ any hedging strategies for foreign currency risk management.

Interest rate risk

The Company does not have any borrowings. The Company invests temporarily idle funds for terms of up to three months at variable interest rates.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board's target is for employees and directors of the Company to hold between five and ten percent of the Company's ordinary shares as performance incentives. At present employees hold approximately 2% of fully diluted issued capital, assuming that all outstanding share options are exercised.

There were no changes in the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

5. Revenue

(i) Government grant income

The Company previously had been awarded a government grant which was recognised as revenue in the statement of profit or loss and other comprehensive income in the same period as which the related expenses are incurred. No grant income was recognised in the year ended 30 June 2019 (2018: $48,460).

(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 2019 (2018: Nil).

6. 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.

7. Personnel expenses

	2019 $	2018 $
Wages and salaries	1,475,406	1,009,899
Other associated staff costs	5,132	(2,209)
Contributions to defined contribution superannuation funds	71,630	47,058
Payroll tax	61,358	-
Increase/(Decrease) in annual leave accrual	42,397	-
Share based compensation - note 17	115,060	97,011
	1,770,983	1,151,759

8. Depreciation

	2019 $	2018 $
Depreciation of equipment	130,556	81,298

9. Income Tax

	2019 $	2018 $
(i) Income tax benefit		
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%	1,920,569	2,641,323
Tax effect of permanent differences	(53,828)	(65,849)
Current period tax losses and temporary differences not brought to account	(1,866,741)	(2,575,474)
R&D income tax incentive received relating to prior year	2,904,120	2,170,814
Income tax benefit	2,904,120	2,170,814

(ii) Unrecognised deferred tax asset

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

	2019	2018
Deductible/(Assessable) temporary differences	1,243	1,656
R&D refundable tax offset receivable in relation to current year	2,812,705	2,904,120
Tax losses	10,204,411	10,015,376
	13,018,359	12,921,152

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.

10. Trade and other receivables

	2019 $	2018 $
Trade receivables	-	18,456
GST receivable	-	107,272
Accrued interest	10,827	2,616
	10,827	128,344

11. Plant and equipment

	2019 $	2018 $
Office and research equipment at cost	1,707,141	1,522,207
Accumulated depreciation	(1,224,272)	(1,378,803)
	482,869	143,404
Reconciliation:		
Carrying amount at the beginning of the year	143,404	216,109
Acquisitions	470,021	8,593
Depreciation	(130,556)	(81,298)
Carrying amount at the end of the year	482,869	143,404

12. Other financial assets

On 2 April 2015, PYC received 7,710 Class B shares in Phoremost Limited, a private company registered in the UK, and not quoted on any market.

As there is no ready market available in relation to the sale of Phoremost shares and as PYC is currently unable to obtain any value from its shareholding from dividends, the value attributed to the B class shares held in Phoremost Limited is nil.

13. Trade and other payables

	2019 $	2018 $
Trade payables (1)	193,742	1,684,260
Accrued expenses	24,000	44,833
GST payable	38,945	-
Payroll tax	36,431	
PAYG withholding	57,468	-
Other	8,983	42,684
	359,569	1,771,777

(1) Trade payables are non-interest bearing and are normally settled on 30-day terms.

14. Employee benefits

	2019 $	2018 $
Annual leave accrued	42,305	-
	42,305	-

15. 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.

16. Events subsequent to balance date

There are no matters or circumstances that have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company, in future financial years.

17. Employee benefits

(i) Share-based payments

(a) ESOP

At the Annual General Meeting held in November 2014, the Company renewed an employee share option programme (ESOP) that entitles key management personnel and senior employees to purchase shares in the Company.

No options were granted under the ESOP during the year ended 30 June 2019 (2018: 20,000,000).

(ii) Fair value and assumptions

(a) Options

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

During the year ended 30 June 2019, 10,000,000 options were granted to key management personnel (2018: 20,000,000).

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

Granted during 2019:

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 2019
10,000,000	16/11/2018	16/11/2021	$0.0126	$0.039	$0.03	2.15	73	5,000,000

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.

No dividends have been assumed to be paid during the life of the options. No employee options were exercised during the year (2018: 5,401,250) and 12,317,500 were forfeited upon termination of employment during the 2018 financial year.

18. Capital and accumulated losses

(i) Issued, unissued and paid up capital

	2019 $	2018 $
2,442,856,658 (2018: 2,138,856,650) ordinary shares fully paid.	61,951,088	53,334,289

Movements in capital during the year:

Ordinary Shares	2019 Shares	2019 $	2018 Shares	2018 $
Balance at the beginning of the year	2,138,856,650	53,334,289	2,120,122,067	53,209,076
Shares issued during the year:				
- Issued at $0.03	304,000,008	9,120,000	-	-
- Issued at $0.25	-	-	5,401,250	135,031
- Issued for nil consideration	-	-	13,333,333	-
- Share issue costs	-	(503,201)	-	(9,818)
Balance at the end of the year	2,442,856,658	61,951,088	2,138,856,650	53,334,289

18. Capital and accumulated losses *(Cont.)*

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 Company, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

The shares have no par value.

(ii) Reserves

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. Refer to Note 16 and the Remuneration Report for further details of these plans.

(iii) Options

Options on issue during the year	Weighted Av. Exercise Price 2019	Number of Options 2019	Weighted Av. Exercise Price 2018	Number of Options 2018
(a) Options exercisable at $0.025 on or before 23 September 2017:				
Balance at beginning of year	-	-	$0.025	17,718,750
Exercised during the year	-	-	$0.025	(5,401,250)
Lapsed / cancelled	-	-	$0.025	(12,317,500)
Balance at end of year	-	-	-	-
(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	-	-		-
Exercised during the year	-	-	$0.00	(3,333,333)
Lapsed/ cancelled	-	-	$0.00	(3,333,334)
Balance at end of year	-	-	-	-
(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	-
Exercised during the year	-	-	$0.00	(10,000,000)
Lapsed / cancelled	-	-	$0.00	(10,000,000)
Balance at end of year	-	-	-	-
(d) Options exercisable at $0.06 on or before 30 May 2020:				
Balance at beginning of year	$0.00	10,000,000	$0.00	-
Issued during the year	$0.00	-	$0.00	20,000,000
Lapsed / cancelled	$0.00	-	$0.00	(10,000,000)
Balance at end of year	-	10,000,000	-	10,000,000
(e) Options exercisable at $0.039 on or before 16 Nov 2021:				
Balance at beginning of year	$0.00	-	-	-
Issued during the year	$0.00	10,000,000	-	-
Lapsed / cancelled	$0.00	-	-	-
Balance at end of year	-	10,000,000	-	-

(iii) Options continued

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.

(iv) Employee Expense

	2019 $	2018 $
Equity – settled share-based payments issued:		
In FY15	-	825
In FY12	-	(54,503)
In FY 17	-	78,409
In FY 18	27,724	72,280
In FY 19	87,336	-
Total recognised as employee expense	115,060	97,011

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 in FY2017.

19. Earnings per share

(i) Loss attributable to ordinary shareholders

	2019 $	2018 $
Loss for the year:		
Basic earnings	(4,079,768)	(7,433,997)
Diluted earnings*	(4,079,768)	(7,443,997)

(ii) Weighted average number of ordinary shares

	Number	Number
Weighted average number of shares used for basic earnings per share	2,343,458,483	2,137,944,643

*As the Company incurred a loss for the year ended 30 June 2019, the options on issue have an antidilutive effect, therefore the diluted earnings per share is equal to the basic earnings per share.

20. Note to the statement of cash flows

	2019 $	2018 $
Reconciliation of loss for the year to net cash used in operating activities:		
Loss for the year	(4,079,768)	(7,433,997)
Depreciation, amortisation & impairment	130,556	81,298
Share based payment expense	115,060	97,011
Proceeds from the sale of fixed assets	(250)	-
Increase/(decrease) in provisions for employee benefits	59,184	72,448
Increase/(decrease) in payables	(1,334,364)	489,622
(Increase)/decrease in receivables	(15,831)	(13,655)
Net cash used in operating activities	(5,125,413)	(6,707,273)

21. Commitments

Research Collaboration Commitment:

PYC has no collaboration commitments as at 30 June 2019 (2018: one project with the University of Queensland. Under the collaboration, PYC paid a final cash contribution of $88,250 to the University of Queensland during the 2018 financial year.)

21. Commitments *(Cont.)*

Non-cancellable Operating Lease Commitment:

	2019 $	2018 $
Payable within one year	180,500	-
Payable after one year but not more than 5 years	315,875	-
	496,375	-

Operating lease commitments relate to a commercial lease of business premises.

22. Financial instruments

(i) Interest rate risk profile:

	2019 $	2018 $
At reporting date the interest rate profile of the Company's interest bearing financial instrument was:		
Variable rate instruments:		
- Financial assets	6,181,403	3,147,306

Fair value sensitivity analysis for fixed rate instruments:

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit and loss.

(i) Interest rate risk profile continued:

Cash flow sensitivity analysis for variable rate instruments:

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2018.

	2019		2018	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Variable rate instruments	61,814	(61,814)	31,473	(31,473)

(ii) Fair value

The financial assets and financial liabilities of the Company are all current and therefore fair value is equal to carrying value. Consequently, the Company does not make any adjustments through the statement of profit or loss and other comprehensive income or on the statement of financial position to restate the carrying value of the financial assets and liabilities.

(iii) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Company undertakes due diligence prior to entering into any collaboration, co-development or licensing agreement with a counterparty that exposes the Company to credit risk.

No receivables are past due or considered impaired in 2019 or 2018.

(iv) Foreign exchange risk

The Company is exposed to foreign currency risk on purchases that are denominated in a currency other than the AUD. Management does not consider the value of transactions is sufficient to warrant entering into forward currency contracts.

22. Financial instruments *(Cont.)*

(v) Capital management

The operations of the Company are not presently cash positive and the Company is reliant upon developing additional revenue and raising further capital. The Company's policy on capital management is set out in note 4.

(vi) Liquidity risk

The following are the contractual maturities of the Company's financial liabilities.

	Carrying Amount $	Contractual Cash Flows $	6 months or less $
Trade and other payables:			
at 30 June 2019	359,569	(359,569)	(359,569)
at 30 June 2018	1,771,777	(1,771,777)	(1,771,777)

23. Related parties

(i) Key management personnel compensation

Executive Directors

Dr R Hockings (Chief Executive Officer - Appointed 11 April 2018)
(Alternate Director to B Hockings)

Non-executive Directors

Mr A Tribe (Non-executive Chairman – Appointed 11 April 2018)
Dr B Hockings (Non-executive Director)

Former Non-executive Directors

Mr S Nasseri (Non-executive Director – Appointed 20 October 2017)

Former Executive Director

Dr R Hayes (Chief Scientific Officer – Resigned 30 November 2018

	2019 $	2018 $
The key management personnel compensation is as follows:		
- Short-term employee benefits	799,219	1,006,250
- Post-employment benefits	7,537	47,057
- Long term employee benefits	-	-
- Share based payments	115,060	150,690
Total compensation	921,816	1,203,997

(ii) Key management personnel transactions

Apart from details disclosed in this note, no director has entered into a material contract with the Company since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Company or its subsidiaries in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

23. Related parties *(Cont.)*

(ii) Key management personnel transactions continued

The aggregate amounts recognised during the year relating to key management personnel and their related parties were as follows:

Key management persons	**Transaction**	**Note**	**2019 $**	**2018 $**
Mr G Boden	Corporate services	(a)	-	8,138

a) Boden Corporate Services Pty Ltd, of which Mr Boden is a director, has provided services in company secretarial, accounting and administration roles, for which services fees were billed based on normal market rates, and were due and payable under normal payment terms.

24. Auditor's remuneration

	2019 $	**2018 $**
Audit services		
Audit and review of financial reports	36,470	36,000
Non-audit services	-	-
	36,470	36,000

Directors' Declaration

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

a. The accompanying financial statements and notes are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the Company's financial position as at 30 June 2019 and of its performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001, professional reporting requirements and other mandatory requirements;

b. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

c. the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.

2 This declaration has been made after receiving the declarations required to be made to the Directors in accordance with the financial Section 295A of the Corporations Act 2001.

This declaration has been signed in accordance with a resolution of the directors:

Dated at Perth this 17th day of September 2019

Mr Alan Tribe
Chairman

HLB MANN JUDD
ADVISORY AND ACCOUNTING

INDEPENDENT AUDITOR'S REPORT

To the members of Phylogica Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Phylogica Limited ("the Company") which comprises the statement of financial position as at 30 June 2019, the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Company is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Company's financial position as at 30 June 2019 and of its financial performance for the year then ended; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Company in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* ("the Code") that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. We have determined that there are no key audit matters to communicate in our report.

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's annual report for the year ended 30 June 2019, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the 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 financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the remuneration report

We have audited the Remuneration Report included within the directors' report for the year ended 30 June 2019.

In our opinion, the Remuneration Report of Phylogica Limited for the year ended 30 June 2019 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

B McVeigh
Partner

Perth, Western Australia
17 September 2019