

Phylogica Limited

ACN 098 391 961

Appendix 4D

Half-Year Statement

Period ended 31 December 2014

Results for announcement to the market

Operating Performance	% Increase/ (Decrease)	31 Dec 2014 \$,000	31 Dec 2013 \$,000
Revenue from ordinary activities	8%	820	760
(Loss) from ordinary activities after tax attributable to members	(66%)	(135)	(393)
Net (loss) for the half year attributable to members	(66%)	(135)	(393)

Comment

Revenue of \$0.76m from one collaborator is reflected in the reduced loss for the half-year.

Dividends

There are no dividend or distribution reinvestment plans in operation and there have been no dividend or distribution payments during the financial half year ended 31 December 2014.

Net tangible assets per ordinary security	31 December 2014	31 December 2013
Net tangible assets	\$3,650,904	\$6,504,592
Number of shares on issue at reporting date	1,002,069,367	601,241,620
Adjusted number of shares ¹	Not Applicable	1,002,069,367
Net tangible assets per ordinary security	0.36 cents	0.65 cents

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

Control Gained or Lost over Entities

Not applicable

Associates and joint ventures

Not applicable

Foreign Entities Accounting Framework

Not applicable

Audit/Review Status

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

The attached interim financial statements for the half-year ended 31 December 2014 form part of this Appendix 4D. This half-year report is to be read in conjunction with the Phylogica Limited 2014 annual financial statements and the notes contained therein.



BREAKTHROUGH PEPTIDE THERAPEUTICS

Phylogica Limited

ACN 098 391 961

Condensed Consolidated Interim Financial Statements

For the Half Year Ended 31 December 2014

Corporate Directory

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Directors

Dr Douglas Wilson
Non-Executive Chairman

Mr Bruce McHarrie
Non-Executive Director

Mr Jeremy Curnock Cook
Non-Executive Director

Dr Bernard Hockings
Non-Executive Director

Dr Richard Hopkins
Chief Executive Officer

Company Secretary

Mr Graeme Boden
Telephone: 08 9384 3284
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Share Registry

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Bankers

Australia and New Zealand Banking Group
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Subiaco
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Registered Office

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Western Australia 6010
Telephone: 08 9384 3284
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Principal Place of Business

Telethon Kids Institute
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Western Australia 6008

Auditors

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

Incorporated in Western Australia:
October 2001

Listed on:

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

Frankfurt Exchange
Code: PH7 ordinary shares

Directors' Report (Continued)

For the Half Year Ended 31 December 2014

The directors present their report on Phylogica Limited and its controlled entity (referred to in these financial statements as "the Group" or "Phylogica") together with the financial statements for the half-year ended 31 December 2014 and the review report thereon.

DIRECTORS

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

Non-Executive

Dr Doug Wilson	Chairman
Mr Bruce McHarrie	
Mr Jeremy Curnock Cook	
Dr Bernard Hockings	

Executive

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

PHYLOGICA OVERVIEW

Phylogica Limited (ASX: PYC) controls access to the world's most structurally diverse source of peptides - called Phylomers. The company specialises in peptide-based drug delivery and discovery solutions to access intractable intracellular cancer targets. Phylogica has developed a proprietary technology referred to as the 'Endosome Escape Trap' to discover new classes of cell penetrating peptides capable of delivering biologics into cells with unprecedented efficiencies. This approach has identified 'best-in-class' cell penetrating peptides capable of delivering peptides with potencies against transcription factor oncoproteins in the mid-nM range. This novel approach to drug delivery promises to unlock the vast landscape of intracellular targets for drug development.

Within the last four years the company has entered into discovery collaborations with Roche, Genentech, MedImmune, Pfizer, Janssen, Cubist Pharmaceuticals and most recently Genentech (novel antimicrobials). Phylogica has also launched a proprietary oncology programme targeting transcription factors such as MYC and STAT5.

OPERATIONAL REVIEW

Highlights

- **Phylogica and Genentech combine to search for new antibiotics to fight superbugs.**
- **Genentech partnership was second biggest licence deal by any ASX listed biotech in 2014.**
- **Recent data confirms Phylogica's cell penetrating peptides are 'Best-in-Class' for delivering biologics drugs inside cells.**
- **Phylogica launches and accelerates its proprietary Oncology discovery programme.**

Genentech Collaboration

Phylogica was delighted to announce it had successfully entered into two research agreements with Genentech, a subsidiary of the Roche group, within the last 6 months. The first deal was a Services Agreement focussed on novel applications of Phylogica's Endosomal Escape Trap – a proprietary

Directors' Report (Continued)

For the Half Year Ended 31 December 2014

screening system designed to identify peptides with the capacity to penetrate cells and deliver their biologically active cargoes via the cells' endosomes. Having successfully delivered on the key technical milestones required for this project, Phylogica then entered in a subsequent Option to Licence Agreement in Dec 2014.

Under the terms of the second agreement Phylogica received an upfront payment of US\$500,000 (~AU\$598,000) and is eligible to receive discovery, development, and commercialisation milestone payments totalling up to US\$142 million.

This alliance has the potential to address a critical unmet need for novel antimicrobials to treat bacterial infections including drug-resistant infections known as superbugs. The opportunity to tackle such a challenging problem with a partner of Genentech's stature is testimony to our world-class science. We believe our approach has the potential to identify antimicrobial drugs with completely novel modes of action – the first in more than 30 years. We look forward to fully progressing the commercial and technical opportunities afforded by an alliance with such a highly regarded biopharmaceutical specialist.

The Genentech agreement represents Phylogica's fifth partnership with a leading pharmaceutical company – an unprecedented number for an Australian biotech company within a period of less than five years.

Phylogica's 'Best-in-Class' peptides for delivering biologics drugs inside cells

Phylogica was able to establish that its proprietary cell penetrating peptides (CPPs) are 37-160 times more efficient than the previous gold standard cell penetrating peptides, including the most clinically validated TAT peptide. These exciting results has allowed Phylogica to claim it has identified the world's 'Best in Class' cell penetrating peptides for delivery biologics cargoes inside cells.

Phylogica launches proprietary Oncology programme targeting breast cancer

Phylogica was delighted to officially announce the launch of its proprietary programme to develop Phylomer drugs to treat breast cancer. The goal is to combine our validated intracellular drug delivery solution with Phylogica's unique drug discovery engine, to develop Phylomer-based drugs against high-value cancer targets. While the initiative will initially focus on breast cancer, the targets chosen are also relevant to other common malignancies, including colon, lung, brain and pancreatic cancers.

We have already achieved some important milestones with this program.

Briefly we have:

- Selected several high-value 'Transcription Factor' (definition provided below) targets known to play an important role in many cancers
- Successfully completed primary Phylomer screens, which yielded >100 hits/ for most targets
- Analysed hits using Phylogica's proprietary bioinformatics suite.

We have initiated the next phase to screen the large pool of hits for functional activity in appropriate cell-based assays.

This phase is scheduled for completion during the first half of 2015 and is expected to yield lead candidates that will be assessed for activity in animal models during the second half of the year. More details on the program will be provided in subsequent updates.

Phylogica attracts non-dilutive grant funding to spur research

Phylogica has recently been awarded three grants worth over \$650,000 to fund specific drug delivery and drug discovery projects. They include:

Directors' Report (Continued)

For the Half Year Ended 31 December 2014

ARC Linkage Grant to Develop Drugs Targeting a Novel Cancer Target

The University of Queensland, with Phylogica as a commercial collaborator, was awarded a prestigious ARC linkage grant of \$546,420 to develop drugs against a novel cancer target. This project will focus on another transcription factor called SOX18, which acts as a master regulator controlling the spread of cancer throughout the body.

Two Research in Business Grants

Phylogica has been awarded two grants totalling \$100,000 from the Research in Business scheme – an initiative of Enterprise Connect and the Australian Federal Government. The grants will be used to fund novel applications of the Endosomal Escape Trap, including: discovery of cell-penetrating antimicrobial peptides; discovery of cell-penetrating peptides that can modulate a class of intracellular proteins called G-coupled protein receptors (GPCRs); and new approaches to modulating GPCRs via their intracellular components.

FINANCIAL RESULTS

The consolidated operating loss after tax for the half year ended 31 December 2014 was \$134,913 (31 December 2013: loss after tax \$393,176).

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

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

	Prior to 30 June 2013	Year to 30 June 2014	Half Year to 31 December 2014	Total
Research & Development:				
Contract Research	15.42	2.67	1.36	19.45
Personnel (allocation)	6.14	0.56	0.26	6.96
Laboratory Consumables	3.98	0.58	0.35	4.91
	25.54	3.81	1.97	31.32
IP Maintenance	2.79	0.37	0.10	3.26
	28.33	4.18	2.07	34.58

FINANCIAL STRENGTH

The Company's cash position at 31 December 2014 was \$1.63 million, which was augmented in January by revenue of \$0.76 million from a research collaborator and February from the R&D tax offset of \$1.97 million. Expenditure is presently running at the rate of \$0.45 million per month which annualises to \$5.4 million.

OUTLOOK

Phylogica is pursuing a two-armed strategy to commercialise its highly promising drug delivery/discovery platform.

The first is referred to as a 'Value-Adding' approach and is aimed at combining Phylogica's novel delivery technology with existing smart drugs (biologics) to show we can improve their activity by improved intracellular delivery. Phylogica is now engaging with select academic and commercial collaborators to access a broader range of therapeutic cargoes, as well as their established cellular

Directors' Report (Continued)

For the Half Year Ended 31 December 2014

and animal models systems where we can rapidly evaluate functional activity. The overall goal is to show that Phylogica's cell penetrating platform offers a versatile solution for delivering a broad range of therapeutic smart drugs, including proteins and peptides and potentially even nucleic acids (eg siRNA or antisense oligonucleotides), inside diseased cells.

The second arm is focused on Phylogica's proprietary Oncology programme which is aimed at developing a fully integrated drug delivery and drug discovery platform focused on treating breast cancer. This initiative marks an important milestone for the company as it seeks to transition Phylogica's world-class platform technologies into valuable commercial products. The timing of upcoming milestones for this project are detailed in the Operational Review.

Over the past 6 months we've demonstrated that our peptide delivery technology is enabling a far greater range of smart drugs, or biologics, to reach important protein targets inside cells. This is a new frontier in drug development that promises to unlock the potential for smart drugs to treat diseases, such as cancer, more effectively and with fewer side-effects.

In summary, we believe we are well positioned for scientific and commercial success with a promising cancer program, a uniquely differentiated drug delivery system and a major licensing deal struck with a global pharmaceutical company. These are key steps to unlock further investor value and ultimately deliver significant returns

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration under s307C of the Corporations Act 2001 is set out on the following page and forms part of the Directors' report for the half-year ended 31 December 2014.

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



Bruce McHarrie
Director

Perth
27 February 2015

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the consolidated financial report of Phylogica Limited for the half-year ended 31 December 2014, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Perth, Western Australia
27 February 2015



M R W Ohm
Partner

Phylogica Limited
Condensed Consolidated Statement Comprehensive Income
For the half year ended 31 December 2014

		Consolidated	
	<i>Note</i>	31 Dec 2014	31 Dec 2013
		\$	\$
Continuing Operations			
Commercial Income	3	763,378	700,125
Government Grant Income		-	6,500
Interest Income		44,896	12,954
Other Income		12,374	40,613
Contract Research Costs		(1,363,126)	(1,219,907)
Personnel Expenses		(508,537)	(612,606)
Depreciation		(117,518)	(105,050)
Professional Services		(275,888)	(280,079)
Travel and Accommodation		(95,490)	(103,848)
Intellectual Property Maintenance		(98,171)	(186,721)
Laboratory Consumables		(350,225)	(323,302)
Other Operating Expenses		(113,086)	(113,820)
Loss Before Income Tax Expense		(2,101,393)	(2,185,141)
Income Tax Benefit		1,966,480	1,791,965
Net Loss for the Period	3	(134,913)	(393,176)
Other Comprehensive Income for the Period, Net of Tax		-	-
Total Comprehensive Loss for the Period		(134,913)	(393,176)
		Cents	Cents
Basic Loss Per Share	10	(0.01)	(0.08)
Diluted Loss Per Share	10	(0.01)	(0.08)

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

Phylogica Limited

Condensed Consolidated Statement of Financial Position

As at 31 December 2014

		Consolidated	
	<i>Note</i>	31 Dec 2014	30 June 2014
		\$	\$
Current assets			
Cash and cash equivalents		1,627,104	4,021,588
Trade and other receivables	5	2,676,221	172,345
Total current assets		4,303,325	4,193,933
Non-current assets			
Plant and equipment	6	234,688	330,202
Total non-current assets		234,688	330,202
Total assets		4,538,013	4,524,135
Current liabilities			
Trade and other payables		568,104	504,815
Employee benefits	11	313,349	295,156
Total current liabilities		881,453	799,971
Non-current liabilities			
Employee benefits	11	5,656	5,505
Total non-current liabilities		5,656	5,505
Total liabilities		887,109	805,476
Net assets		3,650,904	3,718,659
Equity			
Issued capital	2	39,666,296	39,666,296
Reserves		612,260	545,102
Accumulated losses	2	(36,627,652)	(36,492,739)
Total equity		3,650,904	3,718,659

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

Phylogica Limited
Condensed Consolidated Statement of Cash Flows
For the half year ended 31 December 2014

		Consolidated	
	<i>Note</i>	31 Dec 2014	31 Dec 2013
		\$	\$
Cash flows from operating activities			
Commercial income received		164,813	-
Other income received		12,374	40,613
Cash paid to suppliers and employees		(2,587,836)	(2,950,530)
Cash used in operations		(2,410,648)	(2,909,917)
R&D tax rebate		-	1,791,965
Grant income		-	6,500
Interest received		52,692	12,358
Net cash used in operating activities		(2,357,956)	(1,099,094)
Cash flows from investing activities			
Acquisition of property, plant and equipment		(36,528)	(75,908)
Net cash used in investing activities		(36,528)	(75,908)
Cash flows from financing activities			
Proceeds from the issue of share capital	2	-	4,417,732
Payment of transaction costs	2	-	(397,569)
Net cash provided by financing activities		-	4,020,163
Net (decrease)/increase in cash and cash equivalents		(2,394,484)	2,845,161
Cash and cash equivalents at 1 July		4,021,588	1,806,905
Cash and cash equivalents at 31 December		1,627,104	4,652,066

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

Notes to the Condensed Consolidated Statement of Changes in Equity

For the half year ended 31 December 2014

		Issued Capital \$	Consolidated Accumulated Losses \$	Reserves \$	Total \$
Note					
	Balance at 1 July 2013	34,055,506	(34,374,842)	1,514,209	1,194,873
	Loss attributable to members of the consolidated entity	-	(393,176)	-	(393,176)
	Other comprehensive income	-	-	-	-
	Total comprehensive income/(loss)	-	(393,176)	-	(393,176)
	Share capital raised during the period	6,012,417	-	-	6,012,417
	Share capital transaction costs	(401,627)	-	-	(401,627)
2	Transfer from option reserve	-	1,139,798	(1,139,798)	-
	Share based payments	-	-	92,105	92,105
	Balance at 31 December 2013	39,666,296	(33,628,220)	466,516	6,504,592
	Balance at 1 July 2014	39,666,296	(36,492,739)	545,102	3,718,659
	Loss attributable to members of the consolidated entity	-	(134,913)	-	(134,913)
	Other comprehensive income	-	-	-	-
	Total comprehensive income/(loss)	-	(134,913)	-	(134,913)
	Share based payments	-	-	67,158	67,158
	Balance at 31 December 2014	39,666,296	(36,627,652)	612,260	3,650,904

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

Notes to the Condensed Consolidated Financial Statements

For the half year ended 31 December 2014

Note 1: Significant Accounting Policies

Phylogica Limited is a company domiciled in Australia. The condensed consolidated interim financial statements of the Company as at and for the six months ended 31 December 2014 comprises the Company and its subsidiary (together referred to as the "Group").

The annual financial statements of the Company as at and for the year ended 30 June 2014 are available upon request from the Company's registered office at the address or at the web site shown earlier in this report.

(a) Statement of Compliance

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

The interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the annual financial statements of the Company as at and for the year ended 30 June 2014 and any public announcements made by the Company during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001 and the ASX Listing Rules.

The interim financial statements of the Group for the six months ended 31 December 2014 were authorised for issue by the directors on 26 February 2015.

(b) Basis of preparation

The half-year financial report has been prepared on a historical cost basis, except for the revaluation of certain financial instruments to fair value. Cost is based on the fair value of the consideration given in exchange for assets. The company is domiciled in Australia and all amounts are presented in Australian dollars, unless otherwise noted.

(c) Accounting Policies and Methods of Computation

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

(d) Segment Reporting

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

(e) Significant Accounting Judgments and Key Estimates

The preparation of an interim financial report in conformity with AASB 134 *Interim Financial Reporting* requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. These estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

In preparing these interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 30 June 2014.

(f) Financial Risk Management

The Group's financial risk management objectives and policies are consistent with that disclosed in the financial statements as at and for the year ended 30 June 2014.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the half year ended 31 December 2014

(g) Going Concern

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

For the half-year ended 31 December 2014 the Company has incurred a loss after tax of \$134,913 (half-year ended 31 December 2013: loss of \$393,176). At half-year end the Company had working capital of \$3,421,872 (30 June 2014: \$3,393,962) including a cash and cash equivalents balance at 31 December 2014 of \$1,627,104 (30 June 2014: \$4,021,588). Cash used in operating activities in during the half-year to 31 December 2014 was \$2,357,956 (31 December 2013: \$1,099,094).

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

- There is capacity for the Company to reduce its cash burn rate via reduction of overheads and selective variable cost reductions.
- The Company has received an R&D rebate of \$1,966,480 during the first quarter of the 2015 calendar year.
- The Directors are confident that a sufficient capital raising can be completed, to fund its activities for the period of twelve months from the date of approval of these financial statements should it be required.

Note 2: Issued Capital, Accumulated Losses and Reserves

(i) Issued and unissued capital:

	Six Months to 31 Dec 2014 \$	Year to 30 June 2014 \$
1,002,069,367 ordinary shares fully paid (30 June 2014: 1,002,069,367)	39,666,296	34,055,506
Shares issued on completion of fully underwritten entitlement issue	-	6,012,417
Costs of entitlement issue	-	(401,627)
	<u>39,666,296</u>	<u>39,666,296</u>

There have been no movements in ordinary shares on issue for the half year ended 31 December 2014.

(ii) Accumulated losses:

Opening balance as at 1 July	(36,492,739)	(34,374,842)
Loss for the period	(134,913)	(3,257,695)
Transfer from option reserve	-	1,139,798
Closing balance as at end of period	<u>(36,627,652)</u>	<u>(36,492,739)</u>

(iii) Reserves:

Opening balance as at 1 July	545,102	1,514,209
Share based payment expense	67,158	170,691
Transfer to accumulated losses	-	(1,139,798)
Closing balance as at end of period	<u>612,260</u>	<u>545,102</u>

Notes to the Condensed Consolidated Financial Statements (Continued)

For the half year ended 31 December 2014

Note 2: Issued Capital, Accumulated Losses and Reserves (Continued)

(iv) Options:

Description	Movement During the Half Year	Number of Options	Expiry Date	Exercise Price
Quoted Options PYCOA	-	164,657,280	30 June 2016	\$0.090
Unquoted Options	-	8,125,000	15 August 2015	\$0.035
Unquoted Options	6,500,000	6,500,000	23 September 2017	\$0.025
	6,500,000	179,282,280		

6,500,000 options were issued to a Director during the half year to 31 December 2014.

(v) Loan Funded Shares (LFS):

Description	Movement During the Half Year	Number of LFS	Expiry Date	Exercise Price
LFS	-	15,000,000	3 June 2018	\$0.064

No LFS were issued to Directors during the half year to 31 December 2014.

Note 3: Net Loss for the Period

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

	31 Dec 2014	31 Dec 2013
	\$	\$
Commercial Income	763,378	700,125
Income Tax Benefit – R&D Tax Rebate	1,966,480	1,791,965

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

Note 4: Future Income Tax Expense/ Benefit

Deferred tax assets have not been recognised as at 31 December 2014 because, at this stage of the Group's development, it cannot be considered as "probable" that future taxable profits will be available against which the Group can utilise the benefits.

Note 5: Trade and Other Receivables

	31 Dec 2014	30 June 2014
	\$	\$
Commercial income receivable	598,565	-
Accrued Interest	4,687	12,483
GST refunds receivable	96,305	96,627
Other	10,184	63,235
R&D Rebate	1,966,480	-
	2,676,221	172,345

Note 6: Property, Plant and Equipment

Acquisitions and disposals

During the six months ended 31 December 2014, the Group acquired assets with a cost of \$22,003 (six months ended 31 December 2013: \$67,442).

Notes to the Condensed Consolidated Financial Statements (Continued)

For the half year ended 31 December 2014

Note 7: Segment information

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

Note 8: Events Subsequent to Balance Date

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

Note 9: Contingent Liabilities and Contingent Assets

Phylogica has a research services contract with the Telethon Kids Institute. If this contract was to be terminated Phylogica would be responsible to reimburse the Telethon Kids Institute for the payout of severance and annual leave for the staff terminated as a consequence of the terminated contract.

At 30 June 2014 it was estimated this cost would be \$396,536 for 21 employees.

There are no contingent assets.

Note 10: Loss Per Share

Basic loss per share

The calculation of basic loss per share for the six months ended 31 December 2014 was based on the loss attributable to ordinary shareholders of \$134,913 (six months ended 31 December 2013: \$393,176) and a weighted average number of ordinary shares outstanding during the six months ended 31 December 2014 of 1,002,069,367 (six months ended 31 December 2013: 483,411,740), calculated as follows:

	Half Year to	
	31 Dec 2014	31 Dec 2013
	\$	\$
(i) Loss attributable to ordinary shareholders:		
Loss for the period:		
Basic loss	(134,913)	(393,176)
(ii) Weighted average number of ordinary shares:		
Number of ordinary shares at 30 June	1,002,069,367	466,890,744
Effect of shares issued	-	16,520,996
Weighted average number of ordinary shares at 31 December	1,002,069,367	483,411,740

Note 11: Employee Benefits

	Six Months to	Year to
	31 Dec 2014	30 June 2014
	\$	\$
(i) Details of total employee benefits as at balance date:		
<i>Current</i>		
Liability for annual leave	204,534	193,765
Liability for long service leave	108,815	101,391
<i>Non-Current</i>		
Liability for long service leave	5,656	5,505
Total employee benefits	319,005	300,661

(ii) Share based payments:

The following share based payments were raised during the six months to 31 December 2014:

Notes to the Condensed Consolidated Financial Statements (Continued)

For the half year ended 31 December 2014

Note 11: Employee Benefits (Continued)

Security	Grant Date	Share Based Expense
15,000,000 Loan funded shares	24 November 2011	51,549
6,500,000 Unquoted options	27 November 2014	15,609
		<u>67,158</u>

(iii) Fair value of share options and assumptions for the six months ended 31 December 2014:

6,500,000 options were granted as remuneration during the half year ended 31 December 2014. 3,700,000 options vest on 28 February 2015 and the remaining 2,800,000 options will vest if the volume weighted average price reaches six cents (\$0.06) per share for any consecutive twenty days on which Phylogica shares trade on the ASX.

Number of Security	Grant Date	Expiry Date	Fair Value Per Security	Exercise Price	Share Price at Grant Date	Risk Free Interest Rate	Estimated Volatility	Number Vested at 31/12/14
3,700,000	27/11/14	23/09/17	\$0.007	\$0.025	\$0.016	2.44%	100%	Nil
2,800,000	27/11/14	23/09/17	\$0.003	\$0.025	\$0.016	2.44%	100%	Nil

(iv) Loan funded share plan:

No loan funded shares were granted as remuneration during the half year ended 31 December 2014.

Note 12: Key Management Personnel Expense

Key management personnel receive compensation in the form of short-term employee benefits, post-employment benefits and equity compensation benefits. Key management personnel received total compensation of \$434,822 for the six months ended 31 December 2014 (six months ended 31 December 2013: \$461,418).

Note 13: Related Parties

Arrangements with related parties continue to be in place. For details of these arrangements, refer to the 30 June 2014 annual financial statements.

Note 14: Financial Instruments

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

Note 15: Commitments

	31 Dec 2014	30 June 2014
	\$	\$
Payable within one year	104,626	179,875
Payable after one year but not more than five years	65,000	65,000
	<u>169,626</u>	<u>244,875</u>

Research Collaboration Commitment:

Phylogica is collaborating on a project with the University of Queensland. Phylogica has a cash contribution payable to the University of Queensland over three years.

Research Contract:

Phylogica has contracted a research from the University of Western Australia for a term of 11 months. Phylogica has a commitment to pay placement fees as well as the salary expenses of the researcher to the University of Western Australia. This commitment is payable within one year.

Directors' Declaration

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

1. the financial statements and notes set out on pages 7 to 15 are in accordance with the Corporations Act 2001 including:
 - (a) giving a true and fair view of the financial position of the Group as at 31 December 2014 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and
 - (b) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:



Bruce McHarrie
Director

Perth
27 February 2015

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Phylogica Limited

Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Phylogica Limited ("the company") which comprises the condensed statement of financial position as at 31 December 2014, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Phylogica Limited is not in accordance with the *Corporations Act 2001* including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2014 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants



M R W Ohm
Partner

Perth, Western Australia
27 February 2015