



annual report 2015

www.phylogica.com

Corporate Information

Phylogica Limited

ACN 098 391 961

Directors

Dr Doug 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
Executive Director

Company Secretary

Mr Graeme Boden & Ms Natasha Forde
Telephone: +61 8 9286 1219
Facsimile: +61 8 9284 3801
Email: gboden@bigpond.net.au
Email: natashaforde@bigpond.com

Share Registry

Security Transfer Registrars Pty Ltd
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Applecross
Western Australia 6953
770 Canning Highway
Applecross
Western Australia 6153
Telephone: +61 8 9315 2333
Facsimile: +61 8 9315 2233
Email: registrar@securitytransfer.com.au

Bankers

Australia and New Zealand Banking Group
Subiaco Branch
464 Hay Street
Subiaco
Western Australia 6008

Auditors

HLB Mann Judd
Level 4
130 Stirling Street
Perth
Western Australia 6000

Registered Office

15 Lovegrove Close
Mount Claremont
Western Australia 6010
Telephone: +61 8 9286 1219
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Postal Address

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Subiaco East
Western Australia 6008

Principal Place of Business

Telethon Kids Institute
100 Roberts Road
Subiaco
Western Australia 6008
Telephone: +61 8 9489 7777
Facsimile: +61 8 9489 7700

Website

www.phylogica.com

Incorporated in Western Australia, October 2001

Listed on:
Australian Securities Exchange (ASX)
Home Exchange: Perth

Code: PYC ordinary shares

Frankfurt Exchange
Code: PH7 ordinary shares



PHYLOGICA LIMITED

Contents

Corporate Information	2
Executive Report	5
Directors' Report	10
Auditor's Independence Declaration	28
Statement of Comprehensive Income	29
Statement of Financial Position	30
Statement of Cash Flows	31
Statement of Changes in Equity	32
Notes to the Financial Statements	33
Directors' Declaration	53
ASX Additional Information	56



Executive Report

DEAR SHAREHOLDER

Key Highlights

- Announced extension to the research collaboration with Genentech to discover novel antibiotics to treat drug resistant superbugs in a deal potentially worth up to \$142 million.
- Entered into a non-exclusive agreement with Phoremest to provide access to the Phylomer libraries for target discovery.
- Announced exciting data from collaboration with Harry Perkins Institute showing that Phylomer cell penetrating fusions can kill drug resistant cancer cells and are active in an animal model of breast cancer.
- Achieved significant progress with our in-house oncology programme which is aimed at developing fully proprietary drugs against high value intracellular cancer targets including Myc and Stat 5.
- Phylogica recapitalised via a \$10 million fully underwritten entitlement offer, which was successfully completed in August 2015.

Overview

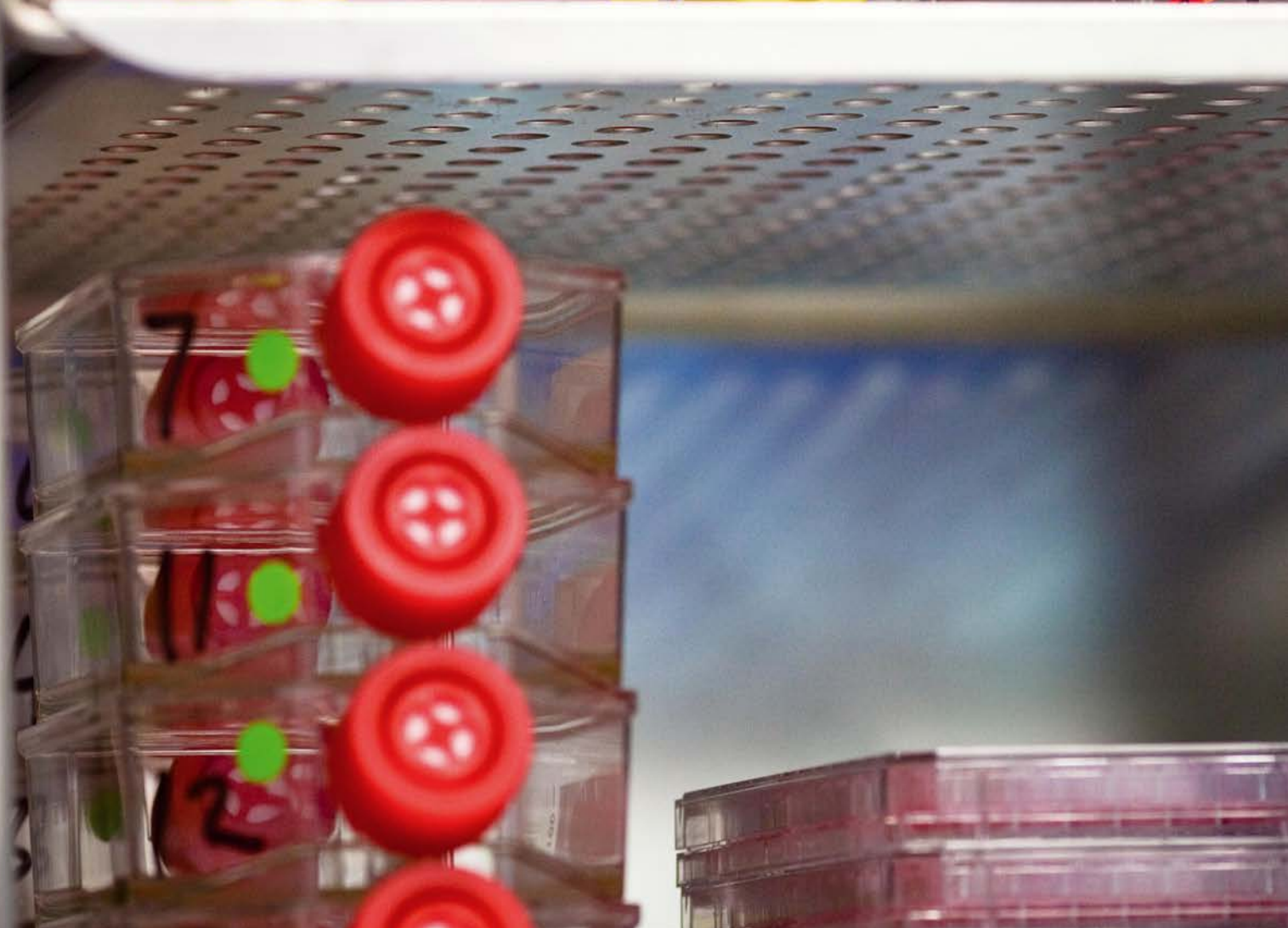
The past year has seen Phylogica re-positioned to become an oncology company focussed on developing a new generation of therapies against cancer targets found inside cells. This is made possible by advances to Phylogica's powerful Phylomer platform which offer three core capabilities:

- A structurally diverse library of peptides selected by nature for the ability to bind and modulate potential drug targets
- A unique platform for discovery of cell penetrating peptides that can deliver drugs inside cells with vastly superior efficacies
- A drug discovery platform that is optimised for generation of potent Phylomer lead molecules against cancer targets found inside cells.

These capabilities create the potential for Phylogica to access the 80% of drug targets found inside cells but which have proven beyond the reach of conventional drugs. By expanding the druggable landscape, the company is aiming to address a major area of unmet medical and commercial need.

The emphasis of the company on its differentiated intracellular expertise has continued to stimulate new commercial opportunities. In December last year, Phylogica announced an extension to its collaboration with Genentech to develop novel antibiotics to treat superbugs. Phylogica also entered a non-exclusive license agreement with Phoremest to screen the Phylomer libraries to identify and novel intracellular targets involved in diseases such as cancer.

The company also continued to re-structure its operations to reduce cost and focus its resources on advancing its proprietary oncology pipeline. Key research activities were further supported by leveraging non-dilutive grant funding and through expanded eligibility for the R&D tax concession



Phylogica signs agreement to extend collaboration with Genentech

In December last year, Phylogica was delighted to announce it had entered in a new 'Option to License' agreement with Genentech to discover novel antibiotics. Under the terms of the agreement, Phylogica received an upfront payment of US\$500,000 (circa AU\$690,000) and is eligible to receive research, development, and commercialization 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 superbugs. A recent report commissioned by the UK's Review of Antimicrobial Resistance predicted that if the spread of antimicrobial resistance continues, it will, lead to 10 million deaths/year and a reduction of 2-3.5% in worldwide GDP by 2050.

This collaboration has progressed well with a number of technical milestones being achieved. Several promising candidates have been identified during the screening process, which is expected to conclude by October, 2015. Genentech will then have up to 12 months to evaluate results before deciding whether to licence or extend its option over the peptides discovered from the collaboration. In either case Phylogica would be eligible to receive a significant milestone payment.

Phylogica signs non-exclusive licensing agreement with Phoremest

In May 2015, Phylogica announced it had entered into a non-exclusive licensing agreement with Phoremest, a private biotechnology company based in the UK. Under this agreement, Phylogica granted to Phoremest a world-wide non-exclusive license to use certain Phylomer libraries solely for phenotypic screening to identify novel targets involved in diseases such as cancer, and then to identify and develop small molecule drugs against these targets.

As consideration for the license Phylogica has obtained an equity stake of approximately 5% (post financing) in PhoreMost together with non-exclusive rights to commercialise any functional Phylomer peptides and associated disease targets that are identified by PhoreMost for peptide therapeutics, along with an option to negotiate exclusive rights for such purpose. If successful, then this outcome could enable Phylogica to replenish its own oncology pipeline with novel cancer targets.

We believe this has potential to unlock value for Phylogica investors. We remain open to engaging in other strategic partnerships aimed at unlocking further value from our proprietary Phylomer platform.

Collaboration with Harry Perkins Institute shows Phylogica cell penetrating peptide fused to Omomyc kills aggressive breast cancer cells

In May, 2015 Phylogica announced encouraging results from a collaboration with Associate Professor Pilar Blancafort, one of Australia's leading breast cancer experts. The overall aim was to show we could inhibit a key cancer target called Myc, which has proven intractable to conventional drugs.

To address this, we fused one of our leading cell penetrating Phylomers (CPP) to Omomyc - a potent biologics inhibitor of Myc activity that is unable to get inside cells by itself. Dr Blancaforts team showed that the CPP-Omomyc fusion was able to kill drug resistant cancer cells with unprecedented potencies against Myc. They also showed that the fusion protein improved the efficacy of existing cancer drugs by up to three-fold and in a final pilot study, provided encouraging evidence that the fusion protein could reduce tumour size in an animal model of breast cancer. These studies are being repeated with results expected in Q4 2015.

These outcomes put Phylogica at the forefront of international efforts to develop drugs against one of the most highly prized targets in cancer. More generally, it pioneers the feasibility of using of biologics drugs against traditionally challenging target classes which have so far eluded conventional small molecule therapies.

Oncology Program

Phylogica has taken the strategic decision to combine the company's drug delivery platform with a broader program to investigate the efficacy of Phylomer-based drugs against high-value cancer targets including Myc, STAT5 and YB1. While the initiative will focus on breast cancer, the targets chosen are also relevant to other common malignancies, including colon, lung and pancreatic cancers. Collectively, these represent >60% of cancers diagnosed in Australia.

The initial stages of Phylogica's Oncology Program have progressed rapidly with a number of important milestones achieved in the hit discovery/validation phase. Initial screens identified hundreds of hits against each target. Subsequent efforts have focussed on filtering these hits through a series of functional assays to identify the most potent candidates. Lead hits are currently being expressed as proteins fused to a cell penetrating Phylomer and then tested for activity when delivered as drugs into various cancer cell lines. The overall goal is to identify proprietary leads that function with equivalent or greater potency than Omomyc. Results from these studies will be reported early Q4 2015.

Strengthened Financial Position

In July 2015 Phylogica announced it was undertaking a fully underwritten non-renounceable rights offer to raise \$10 million. The offer was successfully closed in August, 2015.

Together with the refund from the R&D tax rebate, these funds provide the company with an unprecedented capital runway to drive our development program for the next three years. We were delighted by the strong support from new and existing shareholders.

Future Guidance

- The collaboration with Genentech will continue until late 2015. The outcome of the screens will then be forwarded to Genentech for evaluation. Successful delivery on the project objectives could trigger additional payments associated with licensing the Phylomer lead candidates.
- Proceeds from the fund raising will be used to advance the company's cancer programmes towards the clinical development stage.
- Results from expanded animal model studies and efforts to generate proprietary Phylomer hits against Myc are expected to be announced in Q4 2015.
- Where they align with the company's strategic interests, Phylogica will engage with key opinion leaders and collaborators to provide independent validation of Phylogica's ability to discover and deliver proprietary drugs against high-value intracellular disease targets.





Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015

The directors present their report on the consolidated group, comprising Phylogica Limited (referred to in these financial statements as "the Group" or "Phylogica") and its wholly owned subsidiary, together with the financial report for the year ended 30 June 2015 and the audit report thereon.

1. DIRECTORS

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

NON-EXECUTIVE

Dr Doug Wilson 78



MB, ChB, FRACP, FRCPA
Non-Executive Chairman

Appointed as a Director on 10 December 2007. Transitioned from Executive Chairman to Non-Executive Chairman on 1 November 2012. Current term ends November 2017.

Dr Wilson is a New Zealand medical graduate with post graduate experience in London at St Thomas Hospital Medical School, and at Walter and Eliza Hall Institute Melbourne.

Dr Wilson joined the international pharmaceutical industry and became Senior Vice president for Boehringer Ingelheim for Medicine and Regulatory Affairs in the USA, responsible for all dealings with FDA. He moved to Ingelheim and had the same responsibilities world-wide. Dr Wilson headed the company's International Labelling Committee, deputy head of the International Medical Committee which oversaw all drugs in clinical development globally. During his tenure he saw ten drugs approved in the USA.

Dr Wilson is now a consultant and is on the board of a number of other companies and consults widely on biotech and pharmaceutical issues.

Dr Wilson serves as the non-executive chairman on the board of ASX listed company, Adherium Limited.

Mr Bruce McHarrie 57



BCom FCA GAICD
Non-Executive Director

Appointed as a Director on 9 August 2002. Current term ends November 2016.

Mr McHarrie is currently an independent director and consultant with over 20 years' experience in the Health and Life Sciences sectors.

He was formerly with the Telethon Kids Institute in Perth, Western Australia, for 15 years where his roles included Chief Financial Officer, Director of Operations and Director of Strategic Projects.

Prior to joining the Telethon Kids Institute, Mr McHarrie was a Senior Manager at Deloitte in London before moving to Rothschild Asset Management as Assistant Director of the Bioscience Unit, a life sciences private equity group investing in early stage biotechnology/healthcare companies.

Mr McHarrie is a Fellow of the Institute of Chartered Accountants Australia and New Zealand, holds a Bachelor of Commerce degree from the University of Western Australia, and is a graduate member of the Australian Institute of Company Directors.

Mr McHarrie serves as a non-executive director on the board of ASX listed company, Adherium Limited.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015



Mr Jeremy Curnock Cook 66



MA
Non-Executive Director

Appointed as a Director on 29 February 2012. Current term ends November 2017.

He was formerly the head of the life science private equity team at Rothschild Asset Management in the UK and an active investor in the Australian life science sector. At Rothschild, Mr Curnock Cook was responsible for the launch of the first dedicated biotechnology fund for the Australian market.

Over his 40-year career, Mr Curnock Cook has specialised in creating value in emerging biotech enterprises, through active participation with management. He has served on over 40 Boards in various roles, including Chairman, of private and public biotechnology companies listed on NASDAQ, LSE, TSX and ASX.

Mr Curnock Cook serves as a non-executive director on the board of ASX listed company, Avita Medical Ltd and Adherium Limited.

Mr Curnock Cook received his MA in Natural Sciences from Trinity College in Dublin, Ireland.

Dr Bernard Hockings 68



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 Director on 23 January 2014. Current term ends November 2017.

Dr Hockings is an Interventional Cardiologist in Private Practice in Western Australia and 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, Chairman 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 now a major shareholder in Phylogica.

Dr Hockings has no other Australian public company directorships.

EXECUTIVE

Dr Richard Hopkins 48



BSc (Hons), PhD
Chief Executive Officer

Appointed as a Director on 19 July 2013. Current terms ends November 2016.

Dr Hopkins was a founder of Phylogica. His most recent research is focussed on engineering peptide leads for drug development. He has published over 20 peer reviewed papers and is a co-inventor on over 10 patent applications, several of which have been issued in the US and Europe.

Previously, Dr Hopkins carried out postdoctoral research in yeast genetics at the Telethon Institute for Child Health Research, Perth, Western Australia. His research focussed on the development of a novel class of peptides, trademarked by Phylogica as Phylomers® and the methods to integrate them into various high throughput screening platforms such as yeast-two-hybrid and phage display.

Dr Hopkins has a BSc (Hons) and completed a PhD in Molecular Parasitology.

Dr Hopkins has no other Australian public company directorships.



Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015

2. COMPANY SECRETARY

Mr Graeme Boden 66



BEC(Hons) FAICD
Joint Company Secretary
Chief Financial Officer

Mr Boden is an experienced business executive with more than 35 years in senior corporate or financial roles, particularly in the planning and evaluation function of the resources industry and in the finance and administration function of a range of industries, including resources, biotechnology, medical devices and pharmaceuticals. He has more than 25 years experience as a Director or Secretary of ASX listed companies.

Miss Natasha Forde 27

Miss Forde has 8 years' experience, as an employee of Boden Corporate Services Pty Ltd, providing company secretarial and accounting services to a range of ASX listed and unlisted companies.

Joint Company Secretary
(from 26 March 2015)

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:

	Directors' Meetings		Audit Committee		Nomination Committee		Remuneration Committee	
	A	B	A	B	A	B	A	B
D Wilson	12	12	2	2	1	1	1	1
B McHarrie	12	12	2	2	1	1	1	1
J Curnock Cook	12	11	2	1	1	1	1	-
B Hockings	12	8 ⁽¹⁾	-	-	1	1	1	1
R Hopkins	12	12	-	-	1	1	-	-

A = Number of meetings held while in office

B = Meetings attended

- (1) B Hockings recused himself from 4 meetings due to a potential conflict of interest with relation to his position as underwriter of the entitlement issue.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015



4. PRINCIPAL ACTIVITIES

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

5. OPERATING RESULTS

The consolidated operating loss after tax for the financial year ended on 30 June 2015 was \$2,991,479 (2014 loss: \$3,257,695).

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 Australian Accounting Standards. 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, and up to 30 June 2015, Phylogica has raised \$42.2 million in capital, reduced to \$39.6 million after netting capital raising fees. From this amount the following expenditures have been undertaken (all amounts \$ million):

Research & Development:	Prior to 2013	2014	2015	Total
Contract Research	15.42	2.67	2.74	20.83
Personnel (allocation)	6.15	0.56	0.55	7.26
Laboratory Consumables	3.98	0.58	0.58	5.14
	25.55	3.81	3.87	33.23
IP Maintenance	2.79	0.37	0.25	3.41
	28.34	4.18	4.12	36.64

6. OPERATING AND FINANCIAL REVIEW

6.1 BUSINESS STRATEGY

Phylogica is a specialist drug discovery company which aims to add enterprise value principally through internal discovery programmes, focussing on cancer treatment compounds and enhancements to its intellectual property portfolio, which increases potential for further licensing deals and may also make the Company an attractive merger or acquisition candidate.

The Company also continues to offer on a selective basis, peptide discovery services to pharmaceutical companies in exchange for appropriate partnership arrangements, which may include upfront licence fees, milestone payments and a share in revenue arising from any drugs discovered as a result of the Company's research.

6.2 OPERATIONS

During the 2015 financial year the Company pursued its business strategy of applying its Phylomer libraries to create unique compounds for the treatment of cancers. Detailed below are the major activities undertaken to achieve this goal.

Validation of Phylogica's platform for delivering drugs inside cells

Phylogica continued to progress development of its novel intracellular drug delivery platform. This approach is based on Phylogica's endosomal escape technology that has yielded a panel of Phylomer peptides with unique cell penetrating qualities. The overall goal of these studies is to use these cell penetrating reagents as carriers to deliver a far greater range of smart drugs or biologics inside cells to reach important targets involved in diseases such as cancer.



Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015

Initial findings reported in early 2014 showed that Phylogica's cell penetrating Phylomers (CPPs) exhibited superior cell penetrating activity relative to previous gold standard cell penetrating peptides. To further address the needs of our potential partners, we have sought to expand these findings by showing our CPPs can deliver novel drug classes against cancer targets that have proved intractable to traditional small molecule therapies.

One such target we identified is called Myc. This target has long been recognised for its key role in driving many cancers yet it has proved elusive to conventional drugs. We linked one of our cell penetrating Phylomers to a small protein called Omomyc – a potent biologics inhibitor of Myc activity that is unable to get inside cells by itself.

A summary of the key findings with this fusion protein is summarised below:

- The CPP_Omomyc fusion protein was shown to kill 'triple negative breast' cancer cells with potencies in the sub-micromolar range. To our knowledge this is the most potent inhibition of the MYC oncoprotein by a biologics drug yet reported.
- The Omomyc fusion was shown to improve the activity of existing cancer drugs by up to three times.
- A pilot study undertaken in collaboration with Dr Pilar Blancafort, a world-leading cancer expert based at the Harry Perkins Institute, showed the CPP_Omomyc fusion was active in an animal model of breast cancer. Here, a substantial reduction in tumour volume was observed following injection of the fusion protein into the tumour. To our knowledge this is the first example of a biologics drug active against Myc being successfully delivered in an animal model of cancer.
- In a separate series of studies, Phylogica confirmed its CPPs could deliver a range of alternative biologics drugs with superior potency compared to conventional cell penetrating peptides.

These outcomes put Phylogica at the forefront of international efforts to develop drugs against one of the most highly prized targets in cancer. More generally, it pioneers the feasibility of using biologics drugs against traditionally challenging target classes such as the transcription factors, which have so far eluded conventional small molecule therapies.

Oncology Program

Phylogica has taken the strategic decision to combine the company's drug delivery platform with a broader program to investigate the efficacy of Phylomer-based drugs against high-value cancer targets including Myc, STAT5 and YB1. While the initiative will initially focus on breast cancer, the targets chosen are also relevant to other common malignancies, including colon, lung and pancreatic cancers. Collectively, these represent more than 60% of cancers diagnosed in Australia.

The initial stages of Phylogica's Oncology Program have progressed rapidly with a number of important milestones achieved in the hit discovery/validation phase.

Briefly;

- Successfully completed primary Phylomer screens against MYC, STAT5 and YB1, which yielded more than 100 hits/ for each target
- Analysed hits using Phylogica's proprietary bioinformatics suite.
- Hits have been genetically screened for functional activity in appropriate cell-based assays. A number of candidates have been identified that exhibit better activity than gold standard controls such as Omomyc.
- As a final validation step, hits are being assessed for activity in cells when delivered as a CPP_fusion. This step will determine whether the hits exhibit appropriate drug-like behaviour.

Based on these outcomes the company has embarked upon a drug development programme aimed at generating best available therapies to improve treatment outcomes for cancer patients.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015



COMMERCIAL ACTIVITIES

Genentech

In December 2015, Phylogica announced an extension to its research collaboration with Genentech, a subsidiary of the Roche group, to discover novel antibiotics to treat drug resistant superbugs. Under the terms of the 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. The project has made significant progress over the first 6 months and is on-track to conclude in late 2015, after which Genentech has a 12 month evaluation period to continue with the project.

Phoremest

In May 2015, Phylogica announced it had entered into a non-exclusive licensing agreement with Phoremest, a private biotechnology company based in the UK. This outcome was the culmination of a long-standing collaboration with Ashok Venkitaraman's group at Cambridge University.

Under the agreement, Phylogica grants to Phoremest a world-wide non-exclusive license to use certain Phylomer libraries solely for phenotypic screening to identify novel targets involved in diseases such as cancer, and then to identify and develop small molecule drugs against these targets.

As consideration for the license Phylogica obtained a 7.5% equity stake (reduced to 4.5% at 30 June 2015) in PhoreMost together with non-exclusive rights to commercialise any functional Phylomer peptides and associated disease targets that are identified by PhoreMost for peptide therapeutics, along with an option to negotiate exclusive rights for such purpose.

6.3 FINANCIAL POSITION

The cash position of the Company at 30 June 2015 was A\$1.5 million (30 June 2014: A\$4.0 million).

Subsequent to year end Phylogica has successfully completed a fully underwritten non-renounceable entitlement offer to raise A\$8.8 million after costs of the offer. The capital provided is being applied to the further development of its unique drug discovery platform.

In addition, an R&D rebate of a further A\$2.07 million is expected during the first half of the 2016 financial year.

6.4 FUTURE PROSPECTS

Phylogica has made significant progress with its core platform technologies and is now in the process of transitioning to become an oncology company focussed on developing novel therapies to treat cancer.

Upcoming milestones/achievements include:

- In July Phylogica announced that a collaboration with the University of Queensland had been awarded a \$670K grant from the Australian Research Council to develop novel macrocyclic Phylomer libraries.
- In July 2015, the company announcement a fully underwritten entitlement issue to raise \$10 million. The offer was successfully closed in August.
- Proceeds will be used to advance the company's cancer programmes towards the clinical development stage. Funds will also be used to engage with appropriate experts to formalise and accelerate Phylogica's drug development plans.
- The collaboration with Genentech will continue until late 2015. The outcome of the screens will then be forwarded to Genentech for evaluation. Successful delivery on the project objectives could trigger additional payments associated with licensing the Phylomer lead candidates.
- Where they align with Phylogica strategic interests, the company will consider engaging in new collaborations with partners to generate additional revenues in the 2015 financial year.
- Collaborations will be progressed with the University of Queensland to develop and commercialise a Phylomer-based technologies to generate macrocyclic peptides, diagnostic platforms and novel cancer therapies.

As alluded to previously, at the date of this report the Company was in a good position to fund its continuing operations.



Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015

7. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs, other than as referred to in item 9, below.

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 Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity, in future financial years, other than:

On 14 August 2015 the Company completed a fully underwritten entitlement issue by the allotment of 1,002,069,367 shares at an issue price of \$0.01 per share. The net proceeds raised under the offer, after expenses was \$8,811,497.

On 15 August 2015 8,125,000 unlisted options exercisable at \$0.035 per share, expired unexercised.

10. DIRECTORS' INTERESTS

The relevant interest of each director in the shares and options over shares issued by Phylogica 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
D Wilson	1,711,989	584,795
B McHarrie	3,304,576	-
J Curnock Cook	-	-
B Hockings	568,933,332	77,844,256
R Hopkins	28,487,611	7,004,262

11. INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

11.1 DIRECTORS' AND OFFICERS' INDEMNITY

The Group has agreed to indemnify each Director and the Company Secretary (Officers) against all liabilities or loss (other than the Group or a related body corporate) that may arise from their position as Officers of the Group and its controlled entities, 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 Group 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 Group.

The Group has also indemnified the current directors and certain members of its senior management for all liabilities and loss (other than the Group 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 Group has executed deeds of indemnity, access and insurance in favour of each Officer of the Group.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015



11.2 DIRECTORS' AND OFFICERS' INSURANCE

The Group has paid insurance premiums for one year of cover in respect of directors' and officers' liability insurance contracts, for Officers of the Group. 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.

The insurance does not provide cover for the independent auditors of the Group or of a related body corporate of the Group.

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 Group's auditor, did not perform other services in addition to its statutory duties.

Details of the amounts paid or payable to HLB Mann Judd and its related entities for audit services provided during the year are set out below.

	\$
Audit and review of financial reports	33,500

13. INTERESTS IN CONTRACTS OR PROPOSED CONTRACTS WITH THE COMPANY

There are no contracts or proposed contracts with the Company in which any director has an interest, other than a contract of executive employment for Dr R Hopkins.

Details of this contract are outlined in section 22.8 of this report.

14. OPTIONS AND UNISSUED SHARES UNDER CONVERTIBLE SECURITIES

At the date of this report, ordinary shares of the Company under option totalled 198,251,030 exercisable at various dates on or before 23 September 2017 (2014: 172,782,280 options exercisable at various dates on or before 31 March 2016).

Number of options	Exercisable at \$0.09	Exercisable at \$0.025	Total
Issued	164,657,280	33,593,750	198,251,030
Vested	164,657,280	19,856,250	184,513,530

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

15. ENVIRONMENTAL REGULATION AND PERFORMANCE

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



Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015

16. NOMINATION COMMITTEE

The full Board carries out the function of the nomination committee. The Committee did not meet during the reporting period. The committee members' attendance record is disclosed in the table of directors' meetings on page 12.

17. AUDIT COMMITTEE

The audit committee during the year was comprised of:

Mr B McHarrie	Non-Executive (Chairman)
Dr D Wilson	Non-Executive
Mr J Curnock Cook	Non-Executive

The audit committee met twice during the reporting period. The committee members' attendance record is disclosed in the table of directors' meetings on page 12.

The members of the audit committee possess financial expertise by virtue of their academic qualifications or career history in executive roles. Details of their qualifications and experience are set out earlier in the Directors' report.

18. REMUNERATION COMMITTEE

The remuneration committee reviews and makes recommendations to the board on remuneration arrangements and policies applicable to the executive officers of the company and directors themselves. Its responsibility includes employee share option plan administration and entitlements and incentive performance arrangements.

Details of remuneration, including the Company's policy on remuneration, are contained in the "Remuneration Report" which forms part of the Directors' report.

The members of the remuneration committee during the year were:

Mr B McHarrie	Non-Executive (Chairman)
Dr D Wilson	Non-Executive
Mr J Curnock Cook	Non-Executive
Dr B Hockings	Non-Executive

The remuneration committee met once during the year. The committee members' attendance record is disclosed in the table of directors' meetings on page 12.

The remuneration committee charter is available on the company's website

19. RISK COMMITTEE

The full Board carries out the function of the risk committee. During the reporting period, the Board met once to consider matters as the Risk Committee. The committee members' attendance record is disclosed in the table of directors' meetings on page 12.



20. OTHER

20.1 SKILLS, EXPERIENCE, EXPERTISE AND TERM OF OFFICE OF EACH DIRECTOR

A profile of each director containing the skills, experience, expertise and term of office of each director is set out earlier in the Directors' report.

20.2 IDENTIFICATION OF INDEPENDENT DIRECTORS

In considering independence of directors, the Board refers to the criteria for independence as recommended by ASX. To the extent that it is necessary for the Board to consider issues of materiality, the Board refers to the thresholds for qualitative and quantitative materiality as adopted by the Board and contained in the Statement of Board and Management Functions, which is disclosed in full on the Company's website.

Applying the independence criteria, Mr Curnock Cook and Mr Bruce McHarrie are the only two of the present directors who are classified as independent.

20.3 STATEMENT CONCERNING AVAILABILITY OF INDEPENDENT PROFESSIONAL ADVICE

If a director considers it necessary to obtain independent professional advice to properly discharge the responsibility of his office as a director, then, provided the director first obtains approval for incurring such expense from the chairperson, the Company will pay the reasonable expenses associated with obtaining such advice.

20.4 CONFIRMATION WHETHER PERFORMANCE EVALUATION OF THE BOARD AND ITS MEMBERS HAVE TAKEN PLACE AND HOW CONDUCTED

An evaluation of the performance of the board and its members was last carried out during the 2012 reporting period. The evaluation process was an internal self- assessment based on questions and analysis of answers with round table discussions. All members of the Board participated in the assessment. No assessments have been undertaken since.

20.5 EXISTENCE AND TERMS OF ANY SCHEMES FOR RETIREMENT BENEFITS FOR NON-EXECUTIVE DIRECTORS

There are no terminations or retirement benefits for non-executive directors, other than the statutory superannuation contribution paid, where applicable, in relation to directors' fees

21. CORPORATE GOVERNANCE

The Company's corporate governance statement can be found at the following URL:
<http://phylogica.com/media/i.-PYC-Corporate-Governance-Statement.pdf>



Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015

22. REMUNERATION REPORT - AUDITED

Remuneration is referred to as compensation throughout this report.

22.1 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 includes 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.

22.2 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 remuneration committee through a process that considers individual and company achievement.

22.3 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 either shares under a Loan Funded Share Plan or options under the Employee Share Option Plan. In the case of Executive Directors, the number and conditions of the options or loan funded shares are approved by the shareholders in general meeting.

22.4 SHORT TERM INCENTIVE BONUS (STI)

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

Each of the Company's employees is set KPIs and a bonus is payable on achievement of these KPIs. This is either an amount equal to between 0% and 25% of the base salary or a fixed sum per KPI determined at the beginning of the financial year. The objectives include such targets as successful negotiation of commercial deals; delivering on the research objectives specified by a pharmaceutical customer; achieving project milestones for internal programmes; publications of significance in scientific journals; and successful fund raising.

At the end of the year, the remuneration committee assesses the extent to which KPIs have been achieved and the aggregate achievement of all set KPIs for the individual to determine the bonus to be paid.

No bonuses were paid in relation to the 2014 and the 2015 financial years due to the Company's financial situation.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015



22.5 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, 33,593,750 options were granted under the ESOP (2014: Nil). 19,856,250 Options vested on grant and 13,737,500 will vest when the Company's share price reaches 6 cents, as measured on a 5 day Volume Weighted Average basis

During June 2011 the Board resolved to implement a Loan Funded Share Plan ("Plan") for Key Management Personnel. The Loan Funded Share Plan was approved by shareholders at the annual general meeting of held on 24 November 2011. Participants of the plan acquire ordinary shares at market value and the purchase price of the shares will be 100% funded by a loan provided by the Company. Repayment of the loan will be made from sale of the shares and the recourse for repayment will be limited to the shares. The shares will be subject to vesting conditions which will, in turn, be subject to continuing employment with the Company. If the vesting conditions are not met, the Plan shares will be reacquired by the Company and the loan offset against the share value so the participants receive no benefit from the Plan for unvested shares.

22.6 SHORT-TERM AND LONG-TERM INCENTIVE STRUCTURE

The Company has not established a causal relationship between compensation structure and shareholder returns. The remuneration committee and 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.

22.7 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.

22.8 SERVICE AGREEMENTS

At 30 June 2015, the senior executives of the Company who are full time employees, had conditions of employment as set out below. Either party may terminate their agreement without cause by giving written notice of three months. There is no termination fee payable other than during the term of notice.

Name	Dr Richard Hopkins	Dr Paul Watt
Position	Chief Executive Officer	Chief Scientific Officer
Term Expiring ¹	-	-
Salary	\$262,500 pa	\$220,500 pa
Shares ²	6,000,000	9,000,000
Options ³	6,500,000	3,500,000



Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015

- 1 There are no formal signed contracts, with a set term, as at the date of this report.
- 2 Loan Funded Shares issued 3 April 2012 after approval at the annual general meeting held on 24 November 2011 (see note 17).
- 3 Unlisted Options issued as incentive during the year ended 30 June 2015.

The Non-Executive Chairman, Dr Doug Wilson, is a contractor, with a fixed fee set at \$70,000 per annum.

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

22.9 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.

22.10 EQUITY INSTRUMENTS

22.10.1 OPTIONS

All options refer to options over ordinary shares of Phylogica 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 (2014: Nil).

5,700,000 options vested during the reporting period ending 30 June 2015. Details of options in relation to the reporting period are as follows:

Key management person	Number of options outstanding at 30 June 2015	Grant date	Fair value per option at grant date (\$)	Exercise price per option (\$)	Expiry date	Number of options vested during 2015
Director						
Dr R Hopkins	6,500,000	27 November 2014	\$0.0835	\$0.025	23 September 2017	3,700,000
Executives						
Dr P Watt	3,500,000	23 November 2014	\$0.0867	\$0.025	2 December 2017	2,000,000

(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 (2014: Nil).

(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:

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015



	Options Granted		Vested in year (%)	Forfeited in year (%)	Financial years in which grant vests	Value yet to vest	
	Number	Date				Minimum (\$)	Maximum (\$)
Directors							
Dr R Hopkins	6,500,000	27 November 2014	56.9	-	TBA ⁽¹⁾	9,352	9,352
Dr P Watt	3,500,000	23 September 2014	57.1	-	TBA ⁽¹⁾	12,138	12,138

- 1 The unvested options will not vest until the Company's share price reaches 6 cents, as measured on 5 day Volume Weighted Average basis.

(e) Analysis of Movements in options

The only movements during the reporting period of options over ordinary shares in the Company held by Company directors and other Key Management Personnel were the grant of 10,000,000 options which were unexercised at the balance date.

Number of Options	Exercise Price	Expiry Date
10,000,000	\$0.025	23 September 2017

22.10.2 LOAN FUNDED SHARE PLAN

During June 2011 the Board resolved to implement a Loan Funded Share Plan ("Plan") for Key Management Personnel. Offers of allocations under the plan were made to three key management personnel on 3 June 2011 and acceptances were received from all key management personnel.

The offers accepted were as follows:

- (a) Term of the loan: 7 years (3 June 2018) or cessation of employment, whichever is earlier.
- (b) Purchase price of shares funded by loan is 6.4 cents.
- (c) 33% of the shares vested on 3 June 2014, 33% on 3 June 2015 and 34% on 3 June 2016.
- (d) Loan funded shares remaining on issue are:

Dr P Watt:	9,000,000 shares, \$576,000 loan
Dr R Hopkins	6,000,000 shares, \$384,000 loan

A valuation of these shares at the date of shareholder approval, using the Black & Scholes option pricing model totalled \$594,000, which is being allocated over the vesting period as a share based payment. The charges as remuneration of these executives in previous financial years, amounted to \$462,358. The charge incurred for the 2014-15 financial year was \$93,537.

22.11 PAYMENTS TO PERSONS BEFORE TAKING OFFICE

During the reporting period no payment was made to a person before the person took office as part of the consideration for the person agreeing to hold office.

22.12 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.



Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015

DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION

Directors	Year	Short Term Benefits		Long Term Benefits	Post-Employment Benefits	Share-Based Payments	Total	Proportion of remuneration performance related	Value of Options/ Loan Shares as proportion of Remuneration
		Salary & Fees	Cash Bonus						
		\$	\$	\$	\$	\$	\$	%	%
Non-Executive									
Mr B McHarrie	2015	40,000	-	40,000	-	3,800	-	43,800	-
	2014	40,000	-	40,000	-	3,700	-	43,700	-
Mr J Curnock Cook	2015	43,800	-	43,800	-	-	-	43,800	-
	2014	43,700	-	43,800	-	-	-	43,800	-
Dr Bernard Hockings	2015	19,266	-	19,266	-	-	-	19,266	-
	2014	-	-	-	-	-	-	-	-
Dr D Wilson - Chairman	2015	70,000	-	70,000	-	-	-	70,000	-
	2014	82,000	-	70,000	-	-	-	70,000	-
Executive									
Dr R Hopkins - Chief Executive Officer	2015	262,500	-	262,500	6,936	18,783	64,056	352,275	-
	2014	248,652	-	248,652	4,865	17,790	68,276	339,583	-
Management									
Dr P Watt - Chief Scientific Officer	2015	220,500	-	220,500	4,394	18,783	56,122	299,799	-
	2014	248,444	-	248,444	8,619	17,790	102,415	377,268	-
Total Key Management Personnel	2015	680,600	-	680,600	11,330	41,366	120,178	853,474	-
	2014	670,062	-	670,062	13,484	39,280	170,691	893,517	-
Company Secretaries									
Mr G Boden ⁽³⁾	2015	104,370	-	104,370	-	-	1,719	106,089	-
	2014	145,626	-	145,626	-	-	-	145,626	-
Ms N Forde ⁽⁴⁾	2015	-	-	-	-	-	1,323	1,323	-
	2014	-	-	-	-	-	-	-	-

Notes in relation to the table of directors' and executive officers' remuneration

- (1) The fair values of the options and loan funded shares are calculated at the date of grant using a Black-Scholes pricing model and allocated to each reporting period in accordance with the vesting profile of the options/ loan funded shares. The value recognised is the portion of the fair value of the options or loan funded shares allocated to the reporting period. In valuing the options and loan funded shares, market conditions have been taken into account.
- (2) 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.
- (3) 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, including Ms N Forde who was appointed as a Company Secretary on 26 March 2015.
- (4) Payments for the services provided by Ms N Forde, both before and after appointment as a Secretary, are included in the remuneration shown against Mr G Boden.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015



22.13 ANALYSIS OF BONUSES INCLUDED IN REMUNERATION

No bonuses were awarded in relation to the 2015 financial year as the key performance criterion of financial sustainability was not met.

22.14 MOVEMENTS IN SHARE AND OPTIONS HOLDINGS

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

22.14.1 OPTIONS OVER EQUITY INSTRUMENTS

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

	Balance 1 July 2014	Granted As Compensation	Exercised	Other Changes	Balance 30 June 2015	Vested During The Year	Vested & Exercisable 30 June 2015
Directors							
Dr D Wilson	584,795	-	-	-	584,795	-	584,795
Dr R Hopkins	504,262	6,500,000	-	-	504,262	3,700,000	4,204,262
Dr B Hockings	77,844,256	-	-	-	77,844,256	-	77,844,256
Executives							
Dr P Watt	461,864	3,500,000	-	-	3,961,864	2,000,000	2,461,864
Secretaries							
Mr G Boden	-	406,250	-	-	406,250	243,750	243,750
Ms N Forde	-	312,500	-	-	312,500	187,500	187,500

	Balance 1 July 2013	Granted As Compensation	Exercised	Other Changes	Balance 30 June 2014	Vested During The Year	Vested & Exercisable 30 June 2014
Directors							
Dr D Wilson	-	-	-	584,795	584,795	584,795	584,795
Dr R Hopkins ⁽¹⁾	211,864	-	-	292,398	504,262	504,262	504,262
Dr B Hockings ⁽²⁾	n/a	-	-	-	77,844,256	77,844,256	77,844,256
Mr N Woolf ⁽³⁾	423,728	n/a	n/a	n/a	n/a	n/a	n/a
Executives							
Dr P Watt ⁽⁴⁾	169,466	-	-	292,398	461,864	292,398	461,864

(1) Dr Richard Hopkins was appointed as a director on 19 July 2013.

(2) Dr Bernard Hockings was appointed as a director on 23 January 2014.

(3) Mr Nick Woolf resigned as a director on 19 July 2013.

(4) Dr Paul Watt ceased to be a director on 19 July 2013. He remained an executive of the company.



Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015

22.14.2 EQUITY HOLDINGS AND TRANSACTIONS

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

	Balance 1 July 2014	Purchases	Other Changes	Granted As Compensation	Sales	Balance 30 June 2014
Directors						
Dr D Wilson	1,711,989	-	-	-	-	1,711,989
Mr B McHarrie	3,304,576	-	-	-	-	3,304,576
Dr B Hockings ^{(1) (2)}	225,406,101	30,062,081	-	-	125,000,000	130,468,182
Dr R Hopkins ^{(1) (2)}	16,487,611	-	-	-	-	16,487,611
Executives						
Dr P Watt	21,480,660	-	-	-	-	21,480,660
Secretary						
Mr G Boden ⁽¹⁾	2,500,000	-	-	-	-	2,500,000

Note:

(1) Shareholdings have changed materially at the conclusion of the entitlement issue on 14 August 2015.

(2) See Item 10 for details of shareholdings at the date of this report.

	Balance 1 July 2013	Purchases	Other Changes	Granted As Compensation	Sales	Balance 30 June 2014
Directors						
Dr D Wilson	250,000	584,796	877,193	-	-	1,711,989
Mr B McHarrie	2,304,576	1,000,000	-	-	-	3,304,576
Dr B Hockings ⁽¹⁾	n/a	-	-	-	-	225,406,101
Dr R Hopkins ⁽²⁾	9,623,461	6,425,554	438,596	-	-	16,487,611
Mr N Woolf ⁽³⁾	8,471,956	n/a	n/a	n/a	n/a	n/a
Executives						
Dr P Watt ⁽⁴⁾	16,758,730	4,283,334	438,596	-	-	21,480,660
Secretary						
Mr G Boden	422,917	2,077,083	-	-	-	2,500,000

(1) Dr Bernard Hockings was appointed as a director on 23 January 2014.

(2) Dr Richard Hopkins was appointed as a director on 19 July 2013.

(3) Mr Nick Woolf resigned as a director on 19 July 2013.

(4) Dr Paul Watt ceased to be a director on 19 July 2013. He remained an executive of the company.

Directors' Report

FOR THE YEAR ENDED 30 JUNE 2015



22.15 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 Group 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.

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

Key management persons	Transaction	Note	2015	2014
			\$	\$
Mr B McHarrie	Contract research services	(a)	2,119,811	3,302,802
Mr G Boden	Corporate services	(b)	104,370	145,625

(a) The Telethon Kids Institute, of which Mr McHarrie was the Director of Operations, has signed a Research and Development agreement with the Group for provision of research and development services in relation to the Group's technology. Service fees were billed based on normal market rates for such services and were due and payable under normal payment terms. Mr McHarrie ceased to be a related party of the Institute from 27 February 2015.

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

Amounts payable to key management personnel at reporting date arising from these contract services were as set below:

	Consolidated	
	2015	2014
Current payables:	\$	\$
Trade and other payables	8,392	306,951
	<u>8,392</u>	<u>306,951</u>

23. 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.

24. AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is set out on page 18 and forms part of the Directors' report for the year ended 30 June 2015.

Signed in accordance with a resolution of the directors:

Bruce McHarrie

Director

Perth

29 September 2015



Accountants | Business and Financial Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of Phylogica Limited for the year ended 30 June 2015, 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.

Perth, Western Australia
29 September 2015

A handwritten signature in black ink, appearing to read 'M R W Ohm'.

M R W Ohm
Partner

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2015



		Consolidated	
	Note	2015	2014
		\$	\$
Continuing Operations			
Commercial income	5(ii)	763,378	692,150
Government grant income	5(i)	50,000	6,500
Net interest income		75,319	86,478
Other income		15,741	40,741
Contract research costs		(2,744,150)	(2,670,032)
Personnel expenses	7	(1,088,816)	(1,111,135)
Depreciation	8	(212,235)	(214,256)
Professional services		(541,460)	(433,957)
Travel and accommodation		(211,054)	(241,959)
Intellectual property maintenance		(253,036)	(372,946)
Laboratory consumables		(581,264)	(576,475)
Occupancy costs		(14,428)	(14,888)
Other operating expenses		(215,954)	(239,881)
Loss before income tax expense		(4,957,959)	(5,049,660)
Income tax benefit	9	1,966,480	1,791,965
Net loss for the period		(2,991,479)	(3,257,695)
Other comprehensive income for the period, net of tax		-	-
Total comprehensive loss for the period		(2,991,479)	(3,257,695)
Total comprehensive loss for the period attributable to the members of Phylogica Limited	18(iii)	(2,991,479)	(3,257,695)
		Cents	Cents
Basic loss per share	19	(0.30)	(0.44)
Diluted loss per share	19	(0.30)	(0.44)

This statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 33 to 52.



Statement of Financial Position

FOR THE YEAR ENDED 30 JUNE 2015

		Consolidated	
	Note	2015	2014
		\$	\$
Current assets			
Cash and cash equivalents		1,475,869	4,021,588
Trade and other receivables	10	119,455	172,345
Prepayments		27,943	-
Total current assets		1,623,267	4,193,933
Non-current assets			
Plant and equipment	11	162,572	330,202
Total non-current assets		162,572	330,202
Total assets		1,785,839	4,524,135
Current liabilities			
Trade and other payables	13	500,031	504,815
Employee benefits	17	323,774	295,156
Total current liabilities		823,805	799,971
Non-current liabilities			
Employee benefits	17	-	5,505
Total non-current liabilities		-	5,505
Total liabilities		823,805	805,476
Net assets		962,034	3,718,659
Equity			
Issued capital	18(i)	39,666,296	39,666,296
Reserves	18(ii)	779,956	545,102
Accumulated losses	18(iii)	(39,484,218)	(36,492,739)
Total equity		962,034	3,718,659

This statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 33 to 52.

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2015



		Consolidated	
	Note	2015	2014
		\$	\$
Cash flows from operating activities			
Commercial income received		763,378	692,150
Government grants received		50,000	6,500
Other income		12,546	40,741
Cash paid to suppliers and employees		(5,360,431)	(5,806,258)
Cash used in operations		(4,534,507)	(5,066,867)
R&D tax rebate		1,966,480	1,791,965
Interest received		86,781	74,611
Net cash used in operating activities	20	(2,481,246)	(3,200,291)
Cash flows from investing activities			
Acquisition of property, plant and equipment		(64,473)	(195,816)
Net cash used in investing activities		(64,473)	(195,816)
Cash flows from financing activities			
Proceeds from the issue of share capital	18(i)	-	6,012,417
Payment of transaction costs	18(i)	-	(401,627)
Net cash from financing activities		-	5,610,790
Net increase/(decrease) in cash and cash equivalents		(2,545,719)	2,214,683
Cash and cash equivalents at 1 July		4,021,588	1,806,905
Cash and cash equivalents at 30 June		1,475,869	4,021,588

This statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 33 to 52.



Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2015

		Consolidated			
	Note	Issued Capital	Accumulated Losses	Reserves	Total
		\$	\$	\$	\$
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		-	(3,257,695)	-	(3,257,695)
Other comprehensive income		-	-	-	-
Total comprehensive income/(loss)		-	(3,257,695)	-	(3,257,695)
Shares issued during the year	18(i)	6,012,417	-	-	6,012,417
Share capital transaction costs	18(i)	(401,627)	-	-	(401,627)
Transfer from option reserve		-	1,139,798	(1,139,798)	-
Share-based payments	18(ii)	-	-	170,691	170,691
Balance at 30 June 2014		39,666,296	(36,492,739)	545,102	3,718,659
Balance at 1 July 2014		39,666,296	(36,492,739)	545,102	3,718,659
Loss attributable to members of the consolidated entity		-	(2,991,479)	-	(2,991,479)
Other comprehensive income		-	-	-	-
Total comprehensive income/(loss)		-	(2,991,479)	-	(2,991,479)
Share-based payments	18(ii)	-	-	234,854	234,854
Balance at 30 June 2015		39,666,296	(39,484,218)	779,956	962,034

This statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 33 to 52.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015



1. REPORTING ENTITY

Phylogica is a listed public company incorporated and operating in Australia. The financial report of the Consolidated Entity comprising the Company and its wholly owned subsidiary for the financial year ended 30 June 2015 was authorised for issue by the directors on 29 September 2015. The Company is primarily involved in the provision of peptide drug discovery services to the pharmaceutical industry.

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 (IFRS) 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 are been prepared on a historical cost basis and are presented in Australian dollars.

(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 18(viii) – share based payments amount expensed for 2015 is \$234,854 (2014: \$ 170,691).
- Note 17 – employee benefits, where the rate of pay may change between balance date and payment and where long service leave utilisation may change.

(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 2015 the Company has incurred a loss of \$2,991,479 (2014: loss of \$3,257,695) and at year end the Company had working capital of \$799,462 (2014: \$3,393,962) including a cash and cash equivalents balance of \$1,475,869 (2014: \$4,021,588). Cash used in operating activities in 2015 was \$2,481,246 (2014: \$3,200,291).

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

- Subsequent to the balance date the Company has completed a fully underwritten entitlement issue to raise \$8,761,838 after the expenses of the offer.
- The Company expects to receive an R&D rebate of approximately \$2,067,000 during the first half of the 2016 financial year.

The following accounting policies have been applied consistently to all periods presented in these financial statements.



Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

2. BASIS OF PREPARATION (CONT.)

(e) Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of the subsidiary of Phylogica Limited ('company' or 'parent entity') as at 30 June 2015 and the results of its subsidiary for the year then ended.

Phylogica Limited and its subsidiary are referred to in this financial report as the Group or the consolidated entity.

The financial statements of the subsidiary are prepared for the same reporting period as the parent entity, using consistent accounting policies. The subsidiary was dormant during the 2015 financial year.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control exists where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing when the Group controls another entity.

Unrealised gains or transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES

(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 Group 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 Group 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 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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015



3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(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 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

Financial assets in the scope of AASB 139 *Financial Instruments: Recognition and Measurement* are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end. All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss:

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

(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.

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.



Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

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) Long-term service benefits

The Company's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The obligation is calculated using expected future increases in wage and salary rates including related on-costs and expected settlement dates, and is discounted using the rates attached to the Commonwealth Government bonds at the reporting date which have maturity dates approximating to the terms of the Company's obligations.

(ii) 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.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015



3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(iii) 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 Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

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 comprehensive income as incurred.

(k) Provisions

A provision is recognised in the statement of financial position when the Group 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 Group 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 received net of the amount of Goods and Services Tax (GST) payable to the taxation authority.

(n) 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 Group will comply with the conditions attaching to it. Commercial income which compensates the Group 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.

(o) 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 Group'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.

(p) 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 Group will comply with the conditions attaching to it. Grants that compensate the Group for expenses incurred are recognised as revenue in the statement of comprehensive income on a systematic basis in the same periods in which the related expenses are incurred.



Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(q) Expenses

Operating lease payments

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

(r) 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 Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group 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 Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group'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.

(s) Income tax

Income tax in the statement of comprehensive income for the periods presented comprises current and deferred tax. Income tax is recognised in the statement of 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.

(t) Segment reporting

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 statement of comprehensive income and statement of financial position.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015



3. SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(u) 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.

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.

(v) New standards and interpretations not yet adopted

In the year ended 30 June 2015, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group's operations and effective for the current annual reporting period.

It has been determined by the Directors that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the Groups business and, therefore, no change is necessary to Group 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 2015. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the Group's business and therefore, no change necessary to Group accounting policies.

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. The Board has delegated to the Audit Committee, the responsibility 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 Audit Committee 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.



Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

4. FINANCIAL RISK MANAGEMENT (CONT.)

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 Group had no material credit risk at 30 June 2015 or 2014.

Cash investments

The Group 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 Group will not be able to meet its financial obligations as they fall due. The Group'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 Group's reputation.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group'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 Group does not presently use financial derivatives as a risk management tool.

Currency risk

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

Interest rate risk

The Group does not have any borrowings. The Group invests temporarily idle funds at call 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 Group to hold between five and ten percent of the Group's ordinary shares as performance incentives. At present employees hold approximately 2% of fully diluted issued capital, assuming that all outstanding share options and loan funded shares vest and / or are exercised.

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015



5. INCOME

(i) Government grant income

The Group had been awarded a government grant which was recognised as revenue in the statement of comprehensive income in the same period as which the related expenses are incurred. The amount of \$50,000 (2014: \$6,500) was recognised in the year ended 30 June 2015.

(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. A total of \$763,378 was received from contract payments during the year (2014: \$692,150).

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 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 \$39.6 million after netting capital raising fees. From this amount the following expenditures have been undertaken (all amounts \$ million):

Research & Development:	Prior to 2013	2014	2015	Total
Contract Research	15.42	2.67	2.74	20.83
Personnel (allocation)	6.15	0.56	0.55	7.26
Laboratory Consumables	3.98	0.58	0.58	5.14
	25.55	3.81	3.87	33.23
IP Maintenance	2.79	0.37	0.25	3.41
	28.34	4.18	4.12	36.64

7. PERSONNEL EXPENSES

Wages and salaries
Other associated staff costs
Contributions to defined contribution superannuation funds
Increase in annual leave accrual
Share based compensation - note 18

Consolidated	
2015	2014
\$	\$
779,943	880,303
9,530	4,010
48,489	51,690
16,000	4,441
234,854	170,691
1,088,816	1,111,135

8. DEPRECIATION

Depreciation of equipment

212,235	214,256
212,235	214,256



Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

9. INCOME TAX

(i) Income tax benefit

The prima facie tax on the operating loss is reconciled to the income tax provided in the accounts as follows:

	2015	2014
	\$	\$
Prima facie tax benefit on operating loss before income tax at 30%	1,487,388	1,514,898
Tax effect of permanent differences	13,370	16,017
Current period tax losses and temporary differences not brought to account	(1,500,758)	(1,530,915)
R&D income tax incentive received relating to prior year	1,966,480	1,791,965
Income tax benefit	1,966,480	1,791,965

(ii) Unrecognised deferred tax asset

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

Deductible/(Assessable) temporary differences	(10,913)	(215)
R&D refundable tax offset receivable in relation to current year	2,067,248	1,966,480
Tax losses	9,598,469	9,000,785
	11,654,702	10,967,050

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

GST receivable	116,009	96,627
Accrued Interest	1,021	12,483
Other receivables	2,425	63,235
	119,455	172,345

11. PLANT AND EQUIPMENT

Office and research equipment at cost	1,298,085	1,370,457
Accumulated depreciation	(1,135,513)	(1,040,255)
	162,572	330,202

Reconciliation:

Carrying amount at the beginning of the year	330,202	336,858
Acquisitions	46,884	208,950
Disposals	(2,279)	(19,148)
Depreciation	(212,235)	(196,458)
	162,572	330,202

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015



12. OTHER FINANCIAL ASSETS

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

The shares were received as consideration for the granting of a non-exclusive license to Phoremest for the phenotypic screening on Phylomer libraries to discover small molecule drugs. The value of the shares cannot be reliably estimated, and there is no liquid market.

13. TRADE AND OTHER PAYABLES

	2015	2014
	\$	\$
Trade payables ⁽¹⁾	444,458	411,398
Accrued expenses	39,438	74,974
Other	16,151	18,443
	<u>500,047</u>	<u>504,815</u>

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

14. 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.

15. 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 Consolidated Entity, the results of those operations or the state of affairs of the Consolidated Entity, in future financial years, other than:

On 14 August 2015 the Company completed a fully underwritten entitlements issue by the allotment of 1,002,069,367 shares at an issue price of \$0.01 per share. The net proceeds raised under the offer, after expenses was \$8,761,838.

On 15 August 2015 8,125,000 unlisted options exercisable at \$0.035 per share, expired unexercised.

16. CONTINGENT LIABILITIES

Phylogica has a research services contract with the Telethon Kids Institute. If this contract were 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 2015 it was estimated this cost would be \$365,000 for 22 employees.



Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

17. EMPLOYEE BENEFITS

Current:

Liability for annual leave
Liability for long service leave

Non-Current:

Liability for long service leave

Consolidated	
2015	2014
\$	\$
209,765	193,765
114,009	101,391
323,774	295,156
-	5,505
-	5,505

Remuneration for all employees other than non-executive directors includes an at risk performance component.

Consolidated:

Balance as 1 July 2014
Payments made
Charges raised or written back
Balance as 30 June 2015

Long Service Leave	Annual Leave
\$	\$
106,896	193,765
-	(35,138)
7,113	51,138
114,009	209,765

(i) Share-based payments

(a) ESOP

In 2007 the Group established an employee share option programme (ESOP) that entitles key management personnel and senior employees to purchase shares in the Group. The ESOP was renewed at the Annual General Meeting in November 2014.

27,093,750 options were granted under the ESOP during the year ended 30 June 2015 (2014: Nil).

(b) Loan Funded Shares

A scheme under which shares may be issued by the Group to directors or employees for no cash consideration was approved by shareholders at the Annual General Meeting held on 24 November 2011.

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

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

These loans are to be made on the following terms:

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

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015



17. EMPLOYEE BENEFITS (CONT.)

During the year ended 30 June 2012 a total of 21 million shares were issued under the Plan to key management personnel. The offers, which were accepted, were as follows:

- a) Term of the loan: 7 years (3 June 2018) or cessation of employment, whichever is earlier.
- b) Purchase price of shares funded by loan is 6.4 cents.
- c) 33% of the shares will vest on 3 June 2014, 33% on 3 June 2015 and 34% on 3 June 2016.
- d) Allocations have been made to:

Dr P Watt	9,000,000 shares
Mr N Woolf	6,000,000 shares
Dr R Hopkins	6,000,000 shares

Mr N Woolf ceased employment with the Company on 31 July 2013. Consequently the 6,000,000 shares awarded to him were cancelled in accordance with the terms of the Plan.

No loan funded shares were issued under the Plan during the years ended 30 June 2014 and 30 June 2015.

(c) Zero Exercise Price Options (ZEPOs)

During the year ended 30 June 2013 6,000,000 ZEPOs were issued. The ZEPOs had a nil exercise price and expired on 2 December 2013 unexercised as they did not meet the exercise conditions.

(i) Fair value and assumptions

(a) Options

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

In 2015 27,093,750 options were granted under the ESOP and 6,500,000 options were granted to a key management person after approval at the annual general meeting held 27 November 2014 (2014: Nil).

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 2015:

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 at 30 June 2015
27,093,750	23/09/14	23/09/17	\$0.086	\$0.025	\$0.016	2.76	100	16,156,250
6,500,000	27/11/14	23/09/17	\$0.083	\$0.025	\$0.016	2.44	100	3,700,000

In the table above, the following vesting profiles have been adopted:

- a) 19,856,250 options vested immediately upon grant; and
- b) 13,737,500 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.

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 (2014: Nil).



Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

17. EMPLOYEE BENEFITS (CONT.)

(b) Loan Funded Shares

All shares issued under the Plan with limited recourse loans are valued in a similar way to options and the fair value of shares issued under the Plan is determined as detailed below.

Fair value of shares issued under the plan during 2015 was Nil (2014: Nil).

The assessed fair value at grant date of shares issued under the plan during the year ended 30 June 2012 was 3.96 cents per share. The fair value at grant date is determined using a Black-Scholes pricing model that takes into account the exercise price, the term of the loan, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the loan giving a total value of \$831,600. The fair value of the LFS on issue has been reduced to \$594,000 due to the cancellation of 6,000,000 loan funded shares during the year ended 30 June 2014. In accordance with accounting standards, the allocations amortised over the vesting periods would lead to the following expense and corresponding increase in the Share Based Payment Reserve:

	\$
Financial years prior to 2015	462,358
2015 financial year	93,537
2016 financial year	38,106
	<u>594,000</u>

Granted during 2012 and outstanding at 30 June 2015:

Number of Loan Funded Shares	Grant Date	Expiry Date	Fair Value per Loan Funded Share	Exercise Price	Share Price on Grant Date	Risk Free Interest Rate (%)	Estimated Volatility (%)	Number Vested at 30 June 2015
15,000,000	24/11/11	03/06/18	\$0.049	\$0.064	\$0.06	5.2	100	9,900,000

18. CAPITAL AND ACCUMULATED LOSSES

(i) Issued, unissued and paid up capital

1,002,069,367 (2014: 1,002,069,367) ordinary shares fully paid.

	Consolidated 2015	Consolidated 2014
	\$	\$
	39,666,296	39,666,296
	<u>39,666,296</u>	<u>39,666,296</u>

Movements in capital during the year:

	Consolidated 2015 Shares	Consolidated 2015 \$	Consolidated 2014 Shares	Consolidated 2014 \$
Ordinary Shares				
Opening balance	1,002,069,367	39,666,296	466,890,744	34,055,506
Shares issued during the year:				
Issued at \$0.015	-	-	400,827,747	6,012,417
Share issue costs	-	-	-	(401,627)
Shares issued on conversion of converting notes ⁽¹⁾	-	-	140,350,876	-
Shares cancelled ⁽²⁾	-	-	(6,000,000)	-
Closing balance	<u>1,002,069,367</u>	<u>39,666,296</u>	<u>1,002,069,367</u>	<u>39,666,296</u>

(1) 16,000 converting notes were converted for 140,350,876 ordinary shares and 93,567,252 PYCOA. See note 18(vii).

(2) 6,000,000 loan funded shares previously issued to an executive, were cancelled upon the cessation of employment. See note 18(v)

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015



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

The shares have no par value.

(ii) Reserves

Opening balance
Share based payments for the period
Transfer to accumulated losses
Balance at the end of the year

Consolidated	
2015	2014
\$	\$
545,102	1,514,209
234,854	170,691
-	(1,139,798)
779,956	545,102

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 17 and the Remuneration Report for further details of these plans.

(iii) Accumulated losses

Opening balance
Loss for the period
Transfer from option reserve
Balance at the end of the year

Consolidated	
2015	2014
\$	\$
(36,492,739)	(34,374,842)
(2,991,479)	(3,257,695)
-	1,139,798
(39,484,218)	(36,492,739)

(iv) Options

Options on issue at end of the year:

(a) Options exercisable at \$0.035 on or before 15 August 2015: ⁽¹⁾
Balance at beginning of year
Issued during the year
Lapsed
Balance at end of year

Weighted Av. Exercise Price 2015	Number of Options 2015	Weighted Av. Exercise Price 2014	Number of Options 2014
\$0.035	8,125,000	\$0.035	8,125,000
-	-	-	-
-	-	-	-
\$0.035	8,125,000	\$0.035	8,125,000

(b) Options exercisable at \$0.09 on or before 30 June 2016:

Balance at beginning of year
Issued during the year
Lapsed
Balance at end of year

\$0.09	164,657,280	\$0.09	71,090,028
-	-	\$0.09	93,567,252
-	-	-	-
\$0.09	164,657,280	\$0.09	164,657,280

(c) Options exercisable at \$0.025 on or before 23 September 2017:

Balance at beginning of year
Issued during the year
Lapsed
Balance at end of year

-	-	-	-
\$0.025	33,593,750	-	-
-	-	-	-
\$0.025	33,593,750	-	-

(1) Subsequent to year end these options all lapsed unexercised on the expiry date of 15 August 2015.



Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

18. CAPITAL AND ACCUMULATED LOSSES (CONT.)

(d) Fair value:

The options outstanding at 30 June 2015 have exercise prices of \$0.025, \$0.035 or \$0.09. No options were exercised during the year ended 30 June 2015 (2014: Nil).

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

93,567,252 share options were granted on conversion of 16,000 converting notes during the year ended 30 June 2014 (2015: Nil).

(v) Loan Funded Shares

<i>Loan funded shares on issue at the end of the year:</i>	Weighted Av. Exercise Price 2015	Number of Shares 2015	Weighted Av. Exercise Price 2014	Number of Shares 2014
(a) LFS exercisable at \$0.064 on or before 3 June 2018:				
Balance at beginning of year	\$0.064	15,000,000	\$0.064	21,000,000
Issued during the year	-	-	-	-
Lapsed	-	-	-	-
Cancelled ⁽¹⁾	-	-	\$0.064	(6,000,000)
Balance at end of year	\$0.064	15,000,000	\$0.064	15,000,000

(1) 6,000,000 LFS held by Mr Woolf (ceased employment 31 July 2013) were cancelled.

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

Key Management Personnel

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

(vi) Zero Exercise Price Options (ZEPOs)

<i>Zero exercise price options on issue at the end of the year:</i>	Weighted Av. Exercise Price 2015	Number of Options 2015	Weighted Av. Exercise Price 2014	Number of Options 2014
(a) ZEPOs on or before 2 December 2013:				
Balance at beginning of year	-	-	-	6,000,000
Issued during the year	-	-	-	-
Lapsed	-	-	-	(6,000,000)
Balance at end of year	-	-	-	-

(vi) Converting Notes

(a) Converting notes on issue at the end of the year:

	Number of Notes 2015	2014
Balance at beginning of year	-	16,000
Issued during the year	-	-
Converted	-	(16,000)
Balance at end of year	-	-

(b) Terms

In accordance with the conditions of the Converting Notes, holders were issued 140,350,876 shares and 93,567,252 PYCOA options upon conversion during the year ended 30 June 2014.

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015



18. CAPITAL AND ACCUMULATED LOSSES (CONT.)

(vii) Employee Expense

	2015	2014
	\$	\$
Equity – settled share-based payments issued		
In FY15	141,317	-
In FY12	93,537	170,691
Total recognised as employee expense	234,854	170,691

19. EARNINGS PER SHARE

(i) Loss attributable to ordinary shareholders

Loss for the period:

Basic earnings	(2,991,479)	(3,257,695)
Diluted earnings*	(2,991,479)	(3,257,695)

(ii) Weighted average number of ordinary shares

	Number	Number
Weighted average number of shares used for basic earnings per share	1,002,069,367	740,016,387

*As the Group incurred a loss for the year ended 30 June 2015, 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

	Consolidated	
	2015	2014
	\$	\$
Reconciliation of loss for the year to net cash used in operating activities:		
Loss for the year	(2,991,479)	(3,257,695)
Depreciation, amortisation & impairment	212,235	214,256
Share based payment expense	234,854	170,691
Proceeds from the sale of fixed assets	(3,195)	-
Increase/(decrease) in provisions for employee benefits	(23,392)	11,507
Increase/(decrease) in payables	34,166	(285,403)
(Increase)/decrease in receivables	55,565	(53,647)
Net cash used in operating activities	(2,481,246)	(3,200,291)

21. COMMITMENTS

Payable within one year	125,000	179,875
Payable after one year but not more than five years	55,000	65,000
	180,000	244,875

Research Collaboration Commitment:

Phylogica is collaborating on two projects (2014: one 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 project 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. This arrangement concluded during 2015.



Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

22. FINANCIAL INSTRUMENTS

(i) Interest rate risk profile:

At reporting date the interest rate profile of the Group's interest bearing financial instrument was:

Variable rate instruments:

- Financial assets

Consolidated	
2015	2014
\$	\$
1,475,869	4,021,588

Fair value sensitivity analysis for fixed rate instruments:

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

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 2014.

	Consolidated			
	2015		2014	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Variable rate instruments	14,758	(14,758)	40,216	(40,216)

(ii) Fair value

The financial assets and financial liabilities of the Group are all current and therefore fair value is equal to carrying value. Consequently the Group does not make any adjustments through the statement of 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 Group undertakes due diligence prior to entering into any collaboration, co-development or licensing agreement with a counterparty that exposes the Group to credit risk.

No receivables are past due or considered impaired in 2015 or 2014.

(iv) Foreign exchange risk

The Group 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.

(v) Capital management

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

(vi) Liquidity risk

The following are the contractual maturities of the Group's financial liabilities

	Carrying Amount	Contractual Cash Flows	6 months or less
	\$	\$	\$
Trade and other payables:			
at 30 June 2015	500,047	(500,047)	(500,047)
at 30 June 2014	504,815	(504,815)	(504,815)

Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015



23. RELATED PARTIES

(i) Key management personnel compensation

Non-Executive Directors **Executive Directors**

Mr B McHarrie Dr R Hopkins (Chief Executive Officer)

Mr J Curnock Cook

Dr D Wilson

Dr B Hockings

Executives

Dr P Watt (Chief Scientific Officer)

Mr G Boden (Chief Financial Officer & Company Secretary)

Ms N Forde (Company Secretary)

The key management personnel compensation included in 'personnel

- expenses' (see note 7) is as follows:

- Short-term employee benefits

- Post-employment benefits

- Long term employee benefits

- Share based payments

Total compensation

	2015	2014
	\$	\$
- Short-term employee benefits	680,600	670,062
- Post-employment benefits	41,366	39,280
- Long term employee benefits	11,330	13,484
- Share based payments	120,178	170,691
Total compensation	853,474	893,517

(ii) Key management personnel transactions

Apart from details disclosed in this note, no director has entered into a material contract with the Group 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 Group 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.

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

			2015	2014
Key management persons	Transaction	Note	\$	\$
Mr B McHarrie	Contract research services	(a)	2,119,811	3,302,802
Mr G Boden	Corporate services	(b)	104,370	145,625

- (a) The Telethon Kids Institute, of which Mr McHarrie was the Director of Operations, has signed a Research and Development agreement with the Group for provision of research and development services in relation to the Group's technology. Service fees were billed based on normal market rates for such services and were due and payable under normal payment terms. Mr McHarrie ceased to be a related party of the Institute from 27 February 2015.

- (b) Boden Corporate Services Pty Ltd, of which Mr Boden is a director, has provided services in company secretarial, accounting and administration roles, including Ms N Forde as Company Secretary, for which services fees were billed based on normal market rates, and were due and payable under normal payment terms.

Amounts payable to key management personnel at reporting date arising from these contract services were as set below:

	Consolidated
	2015 2014
	\$ \$
Current payables:	
Trade and other payables	8,392 306,951
	8,392 306,951



Notes to the Financial Statements

FOR THE YEAR ENDED 30 JUNE 2015

(iii) Subsidiaries

The consolidated financial statements include the financial statements of Phylogica Limited and the subsidiaries listed in the following table.

Name	Country of Incorporation	Equity Interest (%)		Investment (\$)	
		2015	2014	2015	2014
Dynamic Microbials Limited	Australia	100	100	1,012,500	1,012,500

Phylogica Limited is the ultimate Australian parent entity and ultimate parent of the Group.

24. AUDITOR'S REMUNERATION

Audit services

- Audit and review of financial reports
- Other regulatory audit services

Non audit services

Consolidated	
2015	2014
\$	\$
31,500	31,495
-	-
31,500	31,495
-	-
31,500	31,495

25. PARENT ENTITY DISCLOSURES

(i) Financial position

Assets

- Current assets
- Non-current assets
- Total assets

Liabilities

- Current liabilities
- Non-current liabilities
- Total liabilities

Equity

- Issued capital
- Accumulated losses
- Reserves - Share-based payments
- Total equity

2015	2014
\$	\$
1,623,267	4,193,933
162,572	330,202
1,785,839	4,524,135
823,805	799,971
-	5,505
823,805	805,476
39,666,296	39,666,296
(39,484,218)	(36,492,739)
779,956	545,102
962,034	3,718,659

(ii) Financial performance

- (Loss) for the year
- Other comprehensive income
- Total comprehensive loss

Year Ended	
30 June 2015	30 June 2014
\$	\$
(2,991,479)	(3,257,695)
-	-
(2,991,479)	(3,257,695)

.....

Directors' Declaration

FOR THE YEAR ENDED 30 JUNE 2015

.....



1. In the opinion of the directors of Phylogica Limited (the Company):
 - (a) the financial statements and notes and the audited remuneration disclosures that are contained in the Remuneration Report in the Directors' Report, set out on pages 10 to 27, are in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of the Group as at 30 June 2015 and of its performance, as represented by the results of operations and its cash flows, for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001, professional reporting requirements and other mandatory requirements; and
 - (b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2 (a); and
 - (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The directors have been given the declarations by the chief executive officer and chief financial officer for the financial year ended 30 June 2015 pursuant to Section 295A of the Corporations Act 2001.

Dated at Perth this 29th day of September 2015

Signed in accordance with a resolution of the directors:

Mr Bruce McHarrie
Director

INDEPENDENT AUDITOR'S REPORT

To the members of Phylogica Limited

Report on the Financial Report

We have audited the accompanying financial report of Phylogica Limited ("the company"), which comprises the consolidated statement of financial position as at 30 June 2015, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for the consolidated entity. The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility 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 is free from material misstatement, whether due to fraud or error.

In Note 2(a) the directors also state, in accordance with Accounting Standard AASB 101: *Presentation of Financial Statements*, that the financial report complies with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial report 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 internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Independence

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



Accountants | Business and Financial Advisers

Auditor's opinion

In our opinion:

- (a) the financial report of Phylogica Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 2(a).

Report on the Remuneration Report

We have audited the remuneration report included in the directors' report for the year ended 30 June 2015. 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.

Auditor's opinion

In our opinion the remuneration report of Phylogica Limited for the year ended 30 June 2015 complies with section 300A of the *Corporations Act 2001*.

HLB Mann Judd

A handwritten signature in black ink, appearing to read 'M R W Ohm'.

HLB Mann Judd
Chartered Accountants

M R W Ohm
Partner

Perth, Western Australia
29 September 2015



ASX Additional Information

FOR THE YEAR ENDED 30 JUNE 2015

1. Quoted Securities

The security holder information set out below was applicable as at 14 September 2015.

(a) Distribution of Security Numbers

Category (size of holding)	Ordinary Shares		Quoted Options	
	Shareholders	Shares	Optionholders	Options
1 – 1,000	99	22,419	4	103
1,001 – 5,000	84	267,600	1	4,000
5,001 – 10,000	135	1,172,828	-	-
10,001 – 100,000	797	38,546,446	31	1,975,656
100,001 and over	878	1,964,129,441	104	162,677,521
Total	1,993	2,004,138,734	140	164,657,280

There are 719 shareholders holding less than a marketable parcel at a price of \$0.012, totalling 10,910,129 shares.

There are 78 optionholders holding less than a marketable parcel at a price of \$0.001, totalling 13,101,211 options.

(b) Voting Rights

On a show of hands every person present who is a member or a proxy, attorney or representative of a member has one vote and upon a poll every person present who is a member or a proxy, attorney or representative of a member shall have one vote for each share held.

(c) Twenty Largest Security Holders

The names of the twenty largest holders of ordinary shares are listed below:

Name	Number of Ordinary Shares	% of Issued Capital
HOCKINGS B E + D C	568,933,332	28.39
SIETSMA HOLDINGS PTY LTD	116,115,122	5.79
ANDREW SWIFT	57,805,726	2.88
JOHN BAIRD	36,966,860	1.84
NAVIGATOR AUSTRALIA LTD	32,000,000	1.60
ELIZABETH ANNE SIETSMA	31,578,948	1.58
DAVID ARIE SIETSMA	31,578,947	1.58
ALEXANDRA HOCKINGS	31,000,000	1.55
CUSTOM BINDERS PTY LTD	28,191,226	1.41
WITTENON SURVIVAL SUPER	26,886,526	1.34
SALVATORE BONADDIO	25,930,273	1.29
COLBERN FIDUCIARY NOMINEES PTY LTD	25,091,315	1.25
RICHARD MILES HOPKINS	22,932,631	1.14
ADAM BONADDIO	22,513,597	1.12
TELETHON INSTITUTE FOR CHILD HEALTH RESEARCH	20,605,501	1.03
PATRICK SIMON HASSETT	20,491,035	1.02
HARVEY SPRINGS ESTATE PTY LTD	20,000,008	1.00
HSBC CUSTODY NOMINEES AUSTRALIA LIMITED	16,485,423	0.82
GDM SERVICES PTY LTD	14,791,530	0.74
P M WATT & M ENRIQUEZ-WATT	14,517,197	0.72
Total	1,164,415,197	58.09

ASX Additional Information

FOR THE YEAR ENDED 30 JUNE 2015



The names of the twenty largest holders of listed options are listed below:

Name	Number of Listed Options	% of Issued Capital
BERNARD HOCKINGS	55,000,000	33.40
JA & MH JELBART	8,773,811	5.33
STEFAN MARK BOITCHEFF	6,000,000	3.64
PATRICK SIMON HASSETT	5,847,953	3.55
COMPUTER VISIONS PTY LTD	5,000,000	3.04
K D & S J BOITCHEFF	5,000,000	3.04
PATRICIA ANNE BROOKFIELD	5,000,000	3.04
CUSTOM BINDERS PTY LTD	4,385,965	2.66
JOHN BAIRD	2,923,977	1.78
DEREK RONALD SLANEY	2,556,567	1.55
M B & L K BARRINGTON	2,500,000	1.52
M R & J E WOODHAMS	2,273,793	1.38
KEITH RICHARD DONOUGH	2,130,000	1.29
SACCO DEVELOPEMENTS AUSTRALIA PTY LTD	2,000,000	1.21
HAMISHEH BAHAR JHINET	1,660,607	1.01
CADEX PETROLEUM PTY LTD	1,606,900	0.98
GREGORY STEWART MCDONALD	1,500,000	0.91
INFINITY CORPORATION PTY LTD	1,489,882	0.90
SEBASTIAN WOJNAR	1,410,000	0.86
ANTHONY KEVIN DALBOSCO	1,402,667	0.85
Total	118,462,122	71.94

(d) Substantial Shareholders

The names of the substantial shareholders listed in the Company's share register as at 14 September 2015 were:

Name	Number of Ordinary Shares	% of Issued Capital
B Hockings Superannuation Fund	568,933,332	28.39
D Sietsma	179,273,017	8.95
Total	748,206,349	37.34

(e) On Market Buy Back

There is no on-market buy-back scheme in operation for the company's quoted shares or quoted options.

2. Unquoted Security Holder Information

The information on unquoted securities set out below was applicable as at 14 September 2015.

(a) Unquoted Option Holders

(i) Distribution of unquoted option holder numbers.

Category (size of holding)	No of Option Holders	No of Options
100,001 and over	26	33,593,750
Total	26	33,593,750

(ii) Voting Rights.

Unlisted options do not entitle the holder to any voting rights.

(iii) Holders of more than 20% of unquoted options.

There are no holders, holding more than 20% of the unquoted options on issue.

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