Phylogica Limited

ACN 098 391 961

Annual Financial Statements

30 June 2016

Corporate Information

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Directors
Ms Stephanie Unwin
Non-Executive Chair

Dr Doug Wilson
Non-Executive Director

Mr Jeremy Curnock Cook
Non-Executive Director

Dr Bernard Hockings
Non-Executive Director

Dr Rohan Hockings
Alternate Non-Executive Director (B Hockings)

Company Secretaries
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Bankers
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Website
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Incorporated in Western Australia, October 2001

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

Frankfurt Exchange
Code: PH7 ordinary shares

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 2016 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

Ms Stephanie Unwin **Age: 45**
LLB, B Econ, GAICD
Non-Executive Chair

Appointed as a Director on 18 January 2016. Transitioned from Non-Executive Director to Non-Executive Chair on 8 April 2016. Current term ends November 2016.

Ms Unwin is currently an Executive General Manager, Commercial at Synergy - a role she has held since March 2014 which encompasses Strategy and Innovation; Corporate Development; Transformation and Continuous Improvement; Modelling and Analytics; Corporate Affairs; Policy and the Chief Engineer. Stephanie held the role of General Manager Strategy and Business Development with Verve Energy prior to its merger with Synergy on 1 January 2014.

Stephanie's background is in corporate law, and she previously worked with ASIC, Herbert Smith Freehills, Pullinger Readhead Stewart and Maxim Litigation Consultants before joining Verve Energy as its General Counsel and Company Secretary.

Stephanie is a former non-executive director of ASX/TSX listed entity Alacer Gold Corp (December 2001 to August 2013) and ASX listed entity Integra Mining Limited (November 2011 to January 2013). She is currently a director of Vinalco Energy Pty Ltd, Greenough River Solar Farm and Mumbida Wind Farm.

Ms Unwin has held no other Australian public company directorships in the last three years.

Dr Doug Wilson **Age: 79**
MB, ChB, FRACP, FRCPA
Non-Executive Director

Appointed as a Director on 10 December 2007. Transitioned from Non-Executive Chair to Non-Executive Director on 8 October 2015. 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 chair on the board of ASX listed company, Adherium Limited. Dr Wilson has held no other Australian public company directorships in the last three years.

Mr Jeremy Curnock Cook **Age: 67**
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 Chair of private and public biotechnology companies listed on NASDAQ, LSE, TSX and ASX.

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

Mr Curnock Cook serves as a non-executive director on the board of ASX listed companies, Avita Medical Ltd and Adherium Limited. Mr Curnock Cook has held no other Australian public company directorships in the last three years.

Dr Bernard Hockings Age: 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 retired as an Interventional Cardiologist in Private Practice in Western Australia in July 2016. He is a Clinical Associate Professor in Medicine at the University of Western Australia. Previously he was Director of the Coronary Care Unit at Royal Perth Hospital, Chair of the Medical Advisory Committee at the Mount Hospital and Director of Health Reserves (WA) for the Royal Australian Air Force.

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

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

Dr Rohan Hockings Age: 33
M.B.B.S (Hons.), J.D., G.D.L.P
Alternate Non-Executive Director

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

Dr Hockings is a founding principal of a private equity fund active in the acquisition of health care assets within Australia. His previous roles include strategy and operational advisory positions with a global management consulting firm, equity capital markets experience as a solicitor with a national law firm and a number of appointments as a medical practitioner. Dr. Hockings has a special interest in both venture capital and private equity within the healthcare industry and has been a shareholder in Phylogica for more than 5 years.

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

Mr Bruce McHarrie Age: 58
BCom FCA GAICD
Non-Executive Chair

Appointed as a Director on 9 August 2002. Transitioned from Non-Executive Director to Non-Executive Chair on 8 October 2015. Resigned 8 April 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. Mr McHarrie has held no other Australian public company directorships in the last three years.

Executive

Dr Richard Hopkins **Age: 49**
BSc (Hons), PhD
Chief Executive Officer

Appointed as a Director on 19 July 2013. Resigned 18 July 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 Parasitiology.

Dr Hopkins has held no other Australian public company directorships in the last three years.

2. Company Secretaries

Mr Graeme Boden **Age: 67**
BEc (Hons)
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.

Ms Natasha Forde **Age: 28**
Joint Company Secretary

Miss Forde has 9 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.

3. Directors' Meetings

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

Director	Directors' Meetings		Audit Committee		Risk Committee		Remuneration Committee	
	A	B	A	B	A	B	A	B
S Unwin	4	4	-	-	-	-	-	-
D Wilson	8	8	1	1	-	-	1	1
B McHarrie	6	6	1	1	-	-	1	1
J Curnock Cook	8	8	1	1	-	-	1	1
B Hockings	8	8	-	-	-	-	1	1
R Hopkins	8	7	-	-	-	-	-	-

A = Number of meetings held while in office

B = Meetings attended

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 2016 was $3,978,672 (2015 loss: $2,991,479).

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 $52.2 million in capital, reduced to $48.5 million after netting capital raising fees. From this amount the following expenditures have been undertaken (all amounts $ million):

Research & Development:	Prior to 2014	2015	2016	Total
Contract Research	18.09	2.74	3.47	24.30
Personnel (allocation)	6.70	0.54	0.45	7.69
Laboratory Consumables	4.56	0.58	0.66	5.80
	29.35	3.86	4.58	37.79
IP Maintenance	3.16	0.25	0.28	3.69
	32.51	4.11	4.86	41.48

6. Operating and Financial Review

6.1 Business Strategy

Phylogica aims to maximise the value from its promising in-house cancer program and from continuing to validate its differentiated discovery platform and intracellular delivery technology.

In late 2015, an externally facilitated review of the company strategy was undertaken, resulting in an enhanced focus on advancing internally-generated oncology candidates towards formal preclinical development. Over 2016, the oncology program comprises building a proof of concept data pack to facilitate earlier discussions with potential partners, followed in 2017 by a definitive data pack to identify a final lead functional penetrating phylomer-iMYC (FPP-iMYC) candidate for formal preclinical development. Other earlier oncology candidates are initially being progressed with the support of external academic collaborations.

In the meantime, selective work continues on advancing Phylogica's FPP intracellular delivery technology and on further realization of the potential of its discovery/screening platform.

The FPP technology is being progressed for use in combination both with the iMYC oncology candidates in Phylogica's internal program, and also for use with other drug cargoes via commercial and academic collaborations.

Phylogica's discovery/screening platform strategy is focused on generating external partnerships on attractive commercial terms, with additional validation of aspects of the platform also being undertaken in order to further increase its value.

6.2 Intellectual Property

Phylogica continues to maintain and extend its dominant patent position over the proprietary Phylomer class of peptides to which it controls access. These patents cover methods of construction and screening of Phylomer libraries as well as the peptides resulting from these screens. Phylogica has renewed its intellectual property around next generation synthetic versions of its Phylomer libraries. The company is also continuing to consolidate intellectual property around the screening of Phylomer libraries for peptides which penetrate cells, enabling them to deliver therapeutic cargoes more efficiently than with conventional means.

6.3 Operations

MYC inhibitor oncology program

In late 2015, results from our academic collaborations with Associate Professor Pilar Blancafort at UWA, and Dr Doug Fairlie at the Olivia Newton John Cancer Research Institute provided further early evidence, intratumoral and in cancer cells respectively, for the concept of combining Phylogica's FPP with a non-proprietary cargo targeted at MYC. The next goal is to show robust tumour inhibition with FPP and proprietary iMYCs intravenously with acceptable pharamacokinetics and pharmacodynamics in an animal model. Iterations of these experiments are underway currently.

During early 2016, much has been achieved in refining the list of iMYC candidates and generating data for the proof of concept iMYC data pack, to be followed by the comprehensive data pack for commencing formal preclinical development.

A group of international drug discovery and preclinical development experts was engaged to review Phylogica's scientific and strategic plans, in order to refine the oncology program. The advice given has led to further refinements of the program in order to optimise chances of success.

STAT 5 and YB1 inhibitors oncology program

Work has continued on Phylogica's STAT5 and YB1 inhibitors in oncology, which are at an earlier stage than the iMYC program.

These efforts have been progressed by collaborating with other specialist researchers, including at the Dana Farber institute in the US, who possess well-established and proven in-house in-vitro and animal models for the blood cancers of interest.

FPP Intracellular Delivery Platform (independent of MYC)

In addition to the internal oncology development program, Phylogica's external partnership strategy is continuing to help independently validate diverse applications of the FPP-based intracellular delivery platform with a range of cargoes.

The Company recently reported data from such a collaboration with Murdoch University, showing that FPPs can effectively deliver oligonucleotide therapy in an animal model. This may be due to improving access to tissues of the remaining therapy that has not been sequestered in the liver. This external validation of the potential use of FPP Phylomers in the emerging field of nucleic acid therapies has catalysed discussions with a number of pharmaceutical and biotechnology companies in this space.

It is hoped that this growing validation of Phylogica's delivery capability will lead to additional licensing opportunities around the use of the FPP platform as a cell penetrating peptide of choice to deliver cargoes of interest to pharma partners.

Discovery/Screening Platform

Our discovery/screening platform has been reinforced by a deepening collaboration with the University of Queensland's Institute of Molecular Biology, to explore identification of macrocyclic peptides from Phylomer libraries. This was supported by a shared Australian Research Council Grant of $670,000 over three years which was awarded in July 2015. In October, Phylogica also filed a new patent to cover new approaches to constrain Phylomers and other peptides within a versatile protein scaffold which can be used to enhance drugs in a modular fashion.

Furthermore, the commercial collaboration with Phoremost around phenotypic screening of Phylomer libraries has progressed well, as outlined below.

6.4 Commercial Activities

Genentech

Collaboration on antimicrobials is progressing, with Genentech continuing to evaluate the leads it has received before determining, by the end of 2016, whether to licence or extend its option over the peptides which have been discovered.

Phoremost

Phenotypic screening, carried out as part of a joint venture with drug target discovery company PhoreMost based in Cambridge UK, has now shown that Phylogica's Phylomer ("PROTEINi") libraries routinely work highly effectively across multiple cancer pathways, yielding high quantity and quality hits in the phenotypic screening process.

Chris Torrance, Phoremost CEO:

"We saw remarkably high hit rates for Phylomers able to reverse cancer 'phenotypes' in different types of cancers. We are highly encouraged by these findings and will be expanding efforts to use these Phylomers as leads to develop small-molecule drugs. In tandem, we will be working with Phylogica to develop Phylomer-based drugs against these novel intracellular targets."

Also within the financial year Phylogica signed a number of non-disclosure agreements with international pharmaceutical companies to discuss various elements of Phylogica's technology portfolio. Although these discussions and collaborations are at an early stage and may not necessarily result in licensing or other types of deals, such engagement signals a growing level of interest in Phylogica's progress.

6.5 Financial Position

The cash position of the Company at 30 June 2016 was $7.1 million (30 June 2015: $1.5 million).

In addition, an R&D rebate of approximately $2 million (2016: $2.07 million) is expected to be received during the first half of the 2017 financial year.

6.6 Future Prospects

The next 12 months is anticipated to see completion of the iMYC proof of concept data pack and substantial progress on the definitive data pack. Further results are also expected from external academic and commercial collaborations on Phylogica's oncology candidates, FPP intracellular delivery platform and discovery/screening platform. The Company will proactively increase its external partnering efforts as increasingly compelling data becomes available.

7. Significant Changes in the State of Affairs

There were no significant changes in the state of affairs, 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 were $8,789,780.

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

On 30 June 2016, 164,657,280 PYCOA listed options exercisable at $0.09 per share, expired unexercised.

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:

Dr Richard Hopkins tendered his resignation as a director effective from 18 July 2016. Further, Dr Hopkins provided notice of his resignation in the role of Chief Executive Officer and will complete his employment with Phylogica on 14 October 2016.

Dr Rohan Hockings was appointed as an Alternate Non-Executive Director for Dr Bernard Hockings on 15 August 2016.

The Board has resolved to seek shareholder approval for the issue of options to the Non-Executive Chair, Ms Stephanie Unwin.

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
S Unwin	-	-
D Wilson	1,711,989	-
J Curnock Cook	-	-
B Hockings	568,933,332	-
R Hockings	6,527,553	-

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.

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 which terminates on 14 October 2016, pursuant to the notice of resignation received from Mr 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 33,593,750 exercisable at various dates on or before 23 September 2017 (2015: 198,251,030 options exercisable at various dates on or before 23 September 2017).

Number of options	Exercisable at $0.025	Total
Issued	33,593,750	33,593,750
Vested	19,856,250	19,856,250

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.

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 in section 3 of this report.

17. Audit Committee

The audit committee during the year was comprised of:

Mr B McHarrie	Non-Executive (Chair)(Resigned 8 April 2016)
Dr D Wilson	Non-Executive
Mr J Curnock Cook	Non-Executive

The audit committee met once during the reporting period. The committee members' attendance record is disclosed in the table of directors' meetings in section 3 of this report.

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 of part of the Directors' report.

The members of the remuneration committee during the year were:

Mr B McHarrie	Non-Executive (Chair)(Resigned 8 April 2016)
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 in section 3 of this report.

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 in section 3 of this report.

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 is the only one 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/articles/Investors---Corporate-Governance/Corporate-Governance-393/160829-PYC-Corporate-Governance-Statement.pdf

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 2016 and the 2015 financial years due to the Company's financial situation.

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, no options were granted under the ESOP (2015:33,593,750). 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 2016, 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 [1]	Dr Paul Watt
Position	Chief Executive Officer	Chief Scientific Officer
Term Expiring [2]	-	-
Salary	$262,500 pa	$220,500 pa
Shares[3]	6,000,000	9,000,000
Options [4]	6,500,000	3,500,000

1) Mr Hopkins has submitted his resignation as Chief Executive Officer and will end employment with the company on 14 October 2016.
2) There are no formal signed contracts, with a set term, as at the date of this report.
3) Loan Funded Shares issued 3 April 2012 after approval at the annual general meeting held on 24 November 2011 (see note 17).
4) Unlisted Options issued as incentive during the year ended 30 June 2016.

Dr Doug Wilson held the position of Non-Executive Chair to 8 October 2015, after which he became a Non-Executive Director. Mr Bruce McHarrie served as Non-Executive Chair until 8 April 2016, after which he was replaced by Ms Stephanie Unwin. All persons had been paid a fixed fee of $70,000 pa (inclusive of superannuation) as remuneration for the role of Non-Executive Chair.

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 by 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 no options over ordinary shares in the Company were granted as compensation to key management personnel (2015: 10,000,000).

No options vested during the reporting period ended 30 June 2016. Details of options vested during the previous 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 Nov 2014	$0.0835	$0.025	23 Sept 2017	3,700,000
Executive						
Dr P Watt	3,500,000	23 Sept 2014	$0.0867	$0.025	23 Sept 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 (2015: 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:

Key management person	Options granted		Vested in year (%)	Forfeited in year (%)	Financial years in which grant vests	Value yet to vest	
	Number	Date				Minimum ($)	Maximum ($)
Dr R Hopkins	6,500,000	27 Nov 2014	-	-	TBA (1)	9,352	9,352
Dr P Watt	3,500,000	23 Sept 2014	-	-	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

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

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 $555,895. The charge incurred for the 2015-16 financial year was $38,105.

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.

Year ended 30 June 2016	Note	Short Term Benefits Salary & Fees $	Long Term Benefits Long Service Leave $	Post-Employment Benefits Superannuation $	Share-Based Payments Value of Options/ Loan Funded Shares $	Total $	Value of Options/ Loan Funded Shares as proportion of Remuneration %
Non-Executive Directors							
Mr Bruce McHarrie	1	43,384	-	4,122	-	47,506	-
Mr Jeremy Curnock Cook		43,800	-	-	-	43,800	-
Dr Bernard Hockings		43,800	-	-	-	43,800	-
Dr Doug Wilson	2	70,150	-	-	-	70,150	-
Ms Stephanie Unwin	3	23,622	-	2,244	-	25,866	-
Executive Directors							
Dr Richard Hopkins		262,500	5,133	19,308	18,542	305,483	6.07
Management:							
Dr Paul Watt		220,500	4,446	19,308	24,891	269,145	9.25
Total Key Management Personnel		**707,756**	**9,579**	**44,982**	**43,433**	**805,750**	**5.39**
Company Secretaries:							
Mr Graeme Boden	4	96,871	-	-	235	97,106	-
Ms Natasha Forde	5	-	-	-	181	181	-
Total Company Secretaries		**96,871**	**-**	**-**	**416**	**97,287**	**-**

Note

1) Mr McHarrie transitioned from Non-Executive Director to Non-Executive Chair on 8 October 2015. Mr McHarrie resigned as a director on 8 April 2016.
2) Dr Wilson transitioned from Non-Executive Chair to Non-Executive Director on 8 October 2015.
3) Ms Unwin was appointed a Non-Executive Director on 18 January 2016. Ms Unwin transitioned to Non-Executive Chair on 8 April 2016.
4) 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 Joint Company Secretary on 26 March 2015.
5) 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.
6) 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.
7) The Company pays an insurance premium for company reimbursement and directors' and officers' liability insurance as a combined amount. The portion of the premium which relates to directors and officers has not been included as part of remuneration.

Year ended 30 June 2015	Note	Short Term Benefits Salary & Fees $	Long Term Benefits Long Service Leave $	Post-Employment Benefits Superannuation $	Share-Based Payments Value of Options/ Loan Funded Shares $	Total $	Value of Options/ Loan Funded Shares as proportion of Remuneration %
Non-Executive Directors							
Mr Bruce McHarrie		40,000	-	3,800	-	43,800	-
Mr Jeremy Curnock Cook		43,800	-	-	-	43,800	-
Dr Bernard Hockings		43,800	-	-	-	43,800	-
Dr Doug Wilson – Chair		70,000	-	-	-	70,000	-
Executive Directors							
Dr Richard Hopkins		262,500	6,936	18,783	64,056	352,275	18.18
Management:							
Dr Paul Watt		220,500	4,394	18,783	56,122	299,799	18.72
Total Key Management Personnel		**680,600**	**11,330**	**41,366**	**120,178**	**853,474**	**14.08**
Company Secretaries:							
Mr Graeme Boden	1	104,370	-	-	1,719	106,089	-
Ms Natasha Forde	2	-	-	-	1,323	1,323	-
Total Company Secretaries		**104,370**	**-**	**-**	**3,042**	**107,412**	**-**

Note

1) 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.
2) 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.
3) 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.
4) 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.

22.13 Analysis of bonuses included in remuneration

No bonuses were awarded in relation to the 2016 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:

Key Management Personnel	Balance 1 July 2015	Granted as Compensation	Sold	Other Changes(1)	Balance 30 June 2016	Vested During The Year	Vested & Exercisable 30 June 2016
Directors							
Dr D Wilson	584,795	-	-	(584,795)	-	-	-
Dr R Hopkins	7,004,262	-	-	(504,262)	6,500,000	-	3,700,000
Dr B Hockings	77,844,256	-	(77,844,256)	-	-	-	-
Executives							
Dr P Watt	3,961,864	-	-	(461,864)	3,500,000	-	2,000,000
Secretaries							
Mr G Boden	406,250	-	-	-	406,250	-	243,750
Ms N Forde	312,500	-	-	-	312,500	-	187,500

Key Management Personnel	Balance 1 July 2014	Granted as Compensation	Sold	Other Changes	Balance 30 June 2014	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	-	-	7,004,262	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

Note
1) These options expired unexercised on the expiry date 30 June 2016.

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:

Key Management Personnel	Balance 1 July 2015	Purchases	Other Changes	Granted As Compensation	Sales	Balance 30 June 2016
Directors						
Dr D Wilson	1,711,989	-	-	-	-	1,711,989
Mr B McHarrie(1)	3,304,576	-	-	-	-	3,304,576
Dr B Hockings	255,468,182	457,933,332	-	-	(144,468,182)	568,933,332
Dr R Hopkins	16,487,611	12,000,000	-	-	-	28,487,611
Executives						
Dr P Watt	21,480,660	5,236,537	-	-	(3,200,000)	23,517,197
Secretary						
Mr G Boden	2,500,000	2,500,000	-	-	-	5,000,000

Note

1) Mr McHarrie ceased to be a key management person on his resignation as a director on 8 April 2016. This holding is at the date of his resignation.

Key Management Personnel	Balance 1 July 2014	Purchases	Other Changes	Granted As Compensation	Sales	Balance 30 June 2015
Directors						
Dr D Wilson	1,711,989	-	-	-	-	1,711,989
Mr B McHarrie	3,304,576	-	-	-	-	3,304,576
Dr B Hockings	225,406,101	30,062,081	-	-	-	255,468,182
Dr R Hopkins	16,487,611	-	-	-	-	16,487,611
Executives						
Dr P Watt	21,480,660	-	-	-	-	21,480,660
Secretary						
Mr G Boden	2,500,000	-	-	-	-	2,500,000

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	2016 $	2015 $
Mr B McHarrie	Contract research services	(a)	-	2,119,811
Mr G Boden	Corporate services	(b)	96,871	104,370

(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:

	2016 $	2015 $
Current payables:		
Trade and other payables	5,809	8,392
	5,809	8,392

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 20 and forms part of the Directors' report for the year ended 30 June 2016.

Signed in accordance with a resolution of the directors:

Stephanie Unwin
Chair
Perth
30th August 2016

HLB Mann Judd

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 2016, 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
30 August 2016

M R W Ohm
Partner

HLB Mann Judd (WA Partnership) ABN 22 193 232 714
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Email: hlb@hlbwa.com.au. Website: http://www.hlb.com.au

Consolidated Statement of Profit & Loss and Other Comprehensive Income
For the year ended 30 June 2016

	Note	2016 $	2015 $
Continuing Operations			
Commercial income	*5(ii)*	-	763,378
Government grant income	*5(i)*	-	50,000
Net interest income		178,678	75,319
Other income		1,076	15,741
Contract research costs		(3,465,057)	(2,744,150)
Personnel expenses	*7*	(897,691)	(1,088,816)
Depreciation	*8*	(122,115)	(212,235)
Professional services		(315,810)	(541,460)
Travel and accommodation		(203,996)	(211,054)
Intellectual property maintenance		(282,065)	(253,036)
Laboratory consumables		(658,178)	(581,264)
Occupancy costs		(6,067)	(14,428)
Other operating expenses		(274,695)	(215,954)
Loss before income tax expense		(6,045,920)	(4,957,959)
Income tax benefit	*9*	2,067,248	1,966,480
Net loss for the year		(3,978,672)	(2,991,479)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		(3,978,672)	(2,991,479)
Total comprehensive loss for the year attributable to the members	*18(iii)*	**(3,978,672)**	**(2,991,479)**
		Cents	**Cents**
Basic loss per share	*19*	(0.21)	(0.30)
Diluted loss per share	*19*	(0.21)	(0.30)

This statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 25 to 42.

Consolidated Statement of Financial Position
As at 30 June 2016

	Note	2016 $	2015 $
Current assets			
Cash and cash equivalents		7,073,541	1,475,869
Trade and other receivables	*10*	125,657	119,455
Prepayments		-	27,943
Total current assets		7,199,198	1,623,267
Non-current assets			
Plant and equipment	*11*	66,568	162,572
Total non-current assets		66,568	162,572
Total assets		7,265,766	1,785,839
Current liabilities			
Trade and other payables	*13*	1,099,841	500,031
Employee benefits	*17*	335,682	323,774
Total current liabilities		1,435,523	823,805
Total liabilities		1,435,523	823,805
Net assets		**5,830,243**	**962,034**
Equity			
Issued capital	*18(i)*	48,456,076	39,666,296
Reserves	*18(ii)*	837,057	779,956
Accumulated losses	*18(iii)*	(43,462,890)	(39,484,218)
Total equity		**5,830,243**	**962,034**

This statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 25 to 42.

Consolidated Statement of Cash Flows
For the year ended 30 June 2016

	Note	2016 $	2015 $
Cash flows from operating activities			
Commercial income received		-	763,378
Government grants received		-	50,000
Other income		-	12,546
Cash paid to suppliers and employees		(5,408,536)	(5,360,431)
Cash used in operations		(5,408,536)	(4,534,507)
R&D tax rebate		2,067,248	1,966,480
Interest received		174,559	86,781
Net cash used in operating activities	*20*	**(3,166,729)**	**(2,481,246)**
Cash flows from investing activities			
Proceeds from the sale of property, plant and equipment		1,402	-
Acquisition of property, plant and equipment		(26,781)	(64,473)
Net cash used in investing activities		**(25,379)**	**(64,473)**
Cash flows from financing activities			
Proceeds from the issue of share capital	*18(i)*	10,020,694	-
Payment of transaction costs	*18(i)*	(1,230,914)	-
Net cash from financing activities		**8,789,780**	**-**
Net increase/(decrease) in cash and cash equivalents		5,597,672	(2,545,719)
Cash and cash equivalents at the beginning of the year		1,475,869	4,021,588
Cash and cash equivalents at the end of the year		**7,073,541**	**1,475,869**

This statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 25 to 42.

Consolidated Statement of Changes in Equity
For the year ended 30 June 2016

	Note	Issued Capital $	Accumulated Losses $	Reserves $	Total $
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)
Transfer from option reserve					
Share-based payments	*18(ii)*	-	-	234,854	234,854
Balance at 30 June 2015		**39,666,296**	**(39,484,218)**	**779,956**	**962,034**
Balance at 1 July 2015		39,666,296	(39,484,218)	779,956	962,034
Loss attributable to members of the consolidated entity		-	(3,978,672)	-	(3,978,672)
Other comprehensive income		-	-	-	-
Total comprehensive income/(loss)		-	(3,978,672)	-	(3,978,672)
Shares issued during the year	*18(i)*	10,020,694	-	-	10,020,694
Share capital transaction costs	*18(i)*	(1,230,914)	-	-	(1,230,914)
Share-based payments	*18(ii)*	-	-	57,101	57,101
Balance at 30 June 2016		**48,456,076**	**(43,462,890)**	**837,057**	**5,830,243**

This statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 25 to 42.

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 2016 was authorised for issue by the directors on 30th August 2016. 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 (AIFRS) adopted by the Australian Accounting Standards Board (AASB), and the Corporations Act 2001. Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS's).

(b) Basis of measurement

The financial statements 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 2016 is $57,101 (2015: $ 234,854).
- 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 2016 the Company has incurred a loss of $3,978,672 (2015: loss of $2,991,479) and at year end the Company had working capital of $5,763,675 (2015: $799,462) including a cash and cash equivalents balance of $7,073,541 (2015: $1,475,869). Cash used in operating activities in 2016 was $3,166,729 (2015: $2,481,246).

The Directors believe that it is appropriate to prepare the financial report on a going concern basis because the Company expects to receive an R&D rebate of approximately $2 million during the first half of the 2017 financial year, and with the opening cash balance, the budgeted expenditure for 2017 is more than covered.

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 2016 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 2016 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.

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.

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.

(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.

3. Significant accounting policies *(Cont.)*

(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.

(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.

3. Significant accounting policies *(Cont.)*

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.

(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 2016, 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.

3. Significant accounting policies *(Cont.)*

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 2016. 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.

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 2016 or 2015.

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.

4. Financial risk management *(Cont.)*

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 for terms of up to three months at variable interest rates.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board's target is for employees and directors of the 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.

5. Income

(i) Government grant income

The Group previously had been awarded a government grant which was recognised as revenue in the statement of comprehensive income in the same period as which the related expenses are incurred. No grant income was recognised in the year ended 30 June 2016 (2015: $50,000).

(ii) Commercial income

Commercial income is derived from contracts to fund research and is based upon a mixture of funding full time equivalent research salaries and milestone payments. No commercial income was recognised during the year ended 30 June 2016 (2015: $763,378).

6. Research and development expenditure

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

Since incorporation, Phylogica has raised $52.2 million in capital, reduced to $48.5 million after netting capital raising fees. From this amount the following expenditures have been undertaken (all amounts $ million):

Research & Development:	Prior to 2014	2015	2016	Total
Contract Research	18.09	2.74	3.47	24.30
Personnel (allocation)	6.70	0.54	0.45	7.69
Laboratory Consumables	4.56	0.58	0.66	5.80
	29.35	3.86	4.58	37.79
IP Maintenance	3.16	0.25	0.28	3.69
	32.51	4.11	4.86	41.48

7. Personnel expenses

	2016 $	2015 $
Wages and salaries	772,211	779,943
Other associated staff costs	16,792	9,530
Contributions to defined contribution superannuation funds	50,677	48,489
Increase in annual leave accrual	910	16,000
Share based compensation - note 18	57,101	234,854
	897,691	1,088,816

8. Depreciation

	2016 $	2015 $
Depreciation of equipment	122,115	212,235

9. Income Tax

	2016 $	2015 $
(i) Income tax benefit		
The prima facie tax on the operating loss is reconciled to the income tax provided in the accounts as follows:		
Prima facie tax benefit on operating loss before income tax at 30%	1,813,776	1,487,388
Tax effect of permanent differences	81,662	13,370
Current period tax losses and temporary differences not brought to account	(1,895,438)	(1,500,758)
R&D income tax incentive received relating to prior year	2,067,248	1,966,480
Income tax benefit	2,067,248	1,966,480

(ii) Unrecognised deferred tax asset

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

	2016 $	2015 $
Deductible/(Assessable) temporary differences	(281)	(10,913)
R&D refundable tax offset receivable in relation to current year	2,587,500	2,067,248
Tax losses	9,910,786	9,598,469
	12,498,005	11,654,702

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

	2016 $	2015 $
GST receivable	120,517	116,009
Accrued Interest	5,140	1,021
Other receivables	-	2,425
	125,657	119,455

11. Plant and equipment

	2016 $	2015 $
Office and research equipment at cost	1,320,079	1,298,085
Accumulated depreciation	(1,253,511)	(1,135,513)
	66,568	162,572
Reconciliation:		
Carrying amount at the beginning of the year	162,572	330,202
Acquisitions	26,993	46,884
Disposals	(882)	(2,279)
Depreciation	(122,115)	(212,235)
Carrying amount at the end of the year	66,568	162,572

12. Other financial assets

On 2 April 2015, Phylogica received 7,710 Class B shares in Phoremost 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 licence to Phoremost 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

	2016 $	2015 $
Trade payables [1]	1,056,757	444,458
Accrued expenses	24,300	39,422
Other	18,784	16,151
	1,099,841	500,031

[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:

Dr Richard Hopkins tendered his resignation as a director effective from 18 July 2016. Further, Dr Hopkins provided notice of his resignation in the role of Chief Executive Officer and will complete his employment with Phylogica on 14 October 2016.

Dr Rohan Hockings was appointed as an Alternate Non-Executive Director for Dr Bernard Hockings on 15 August 2016.

The Board has resolved to seek shareholder approval for the issue of options to the Non-Executive Chair, Ms Stephanie Unwin.

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 2016, it was estimated this cost would be $462,000 for 24 employees (2015: $365,000 for 22 employees).

17. Employee benefits

	2016 $	2015 $
Current:		
Liability for annual leave	210,676	209,765
Liability for long service leave	125,006	114,009
	335,682	323,774

	Long Service Leave $	Annual Leave $
Balance as 1 July 2015	114,009	209,765
Payments made	-	(44,494)
Charges raised or written back	10,997	45,405
Balance as 30 June 2016	125,006	210,676

(i) Share-based payments

(a) ESOP

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

No options were granted under the ESOP during the year ended 30 June 2016 (2015: 33,593,750).

(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.

17. Employee benefits *(Cont.)*

At 30 June 2016, a total of 15 million shares were issued under the Plan to key management personnel during previous financial years. Details of issues under the plan are 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) Allocations been made and outstanding at 30 June 2016 and 30 June 2015 were:

Dr P Watt	9,000,000 shares
Dr R Hopkins	6,000,000 shares

No loan funded shares were issued under the Plan during the years ended 30 June 2016 and 30 June 2015.

(ii) 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.

No options were granted during the year ended 30 June 2016. 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.

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 as at 30 June 2016
27,093,750	23/09/2014	23/09/2017	$0.086	$0.025	$0.016	2.76	100	16,156,250
6,500,000	27/11/2014	23/09/2017	$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 (2015: Nil).

(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 2016 was Nil (2015: 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:

17. Employee benefits *(Cont.)*

	$
Financial years prior to 2015	462,358
2015 financial year	93,537
2016 financial year	38,105
	594,000

Granted during 2012 and outstanding at 30 June 2016:

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 as at 30 June 2016
15,000,000	24/11/2011	03/06/2018	$0.049	$0.064	$0.06	5.2	100	15,000,000

18. Capital and accumulated losses

(i) Issued, unissued and paid up capital

	2016 $	2015 $
2,004,138,734 (2015: 1,002,069,367) ordinary shares fully paid.	48,456,076	39,666,296

Movements in capital during the year:

Ordinary Shares	2016 Shares	2016 $	2015 Shares	2015 $
Balance at the beginning of the year	1,002,069,367	39,666,296	1,002,069,367	39,666,296
Shares issued during the year:				
- Issued at $0.01	1,002,069,367	10,020,694	-	-
- Share issue costs	-	(1,230,914)	-	-
Balance at the end of the year	2,004,138,734	48,456,076	1,002,069,367	39,666,296

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

	2016 $	2015 $
Balance at the beginning of the year	779,956	545,102
Share based payments for the year	57,101	234,854
Balance at the end of the year	837,057	779,956

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

	2016 $	2015 $
Balance at the beginning of the year	(39,484,218)	(36,492,739)
Loss for the year	(3,978,672)	(2,991,479)
Balance at the end of the year	(43,462,890)	(39,484,218)

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

(iv) Options

Options on issue during the year	Weighted Av. Exercise Price 2016	Number of Options 2016	Weighted Av. Exercise Price 2015	Number of Options 2015
(a) Options exercisable at $0.035 on or before 15 August 2015:				
Balance at beginning of year	$0.035	8,125,000	$0.035	8,125,000
Lapsed	$0.035	(8,125,000)	-	-
Balance at end of year	-	-	$0.035	8,125,000
(b) Options exercisable at $0.09 on or before 30 June 2016:				
Balance at beginning of year	$0.09	164,657,280	$0.09	164,657,280
Lapsed	$0.09	(164,657,280)	-	-
Balance at end of year	-	-	$0.09	164,657,280
(c) Options exercisable at $0.025 on or before 23 September 2017:				
Balance at beginning of year	$0.025	33,593,750	-	-
Issued during the year	-	-	$0.025	33,593,750
Lapsed	-	-	-	-
Balance at end of year	$0.025	33,593,750	$0.025	33,593,750

(d) Fair value:

The options outstanding at 30 June 2016 have an exercise price of $0.025. No options were exercised during the year ended 30 June 2016 (2015: 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.

(v) Loan Funded Shares

Loan funded shares on issue during the year	Weighted Av. Exercise Price 2016	Number of Shares 2016	Weighted Av. Exercise Price 2015	Number of Shares 2015
(a) LFS exercisable at $0.064 on or before 3 June 2018:				
Balance at beginning of year	$0.064	15,000,000	$0.064	15,000,000
Issued during the year	-	-	-	-
Lapsed	-	-	-	-
Balance at end of year	$0.064	15,000,000	$0.064	15,000,000

(b) Fair value of loan funded shares and assumptions:	**Key Management Personnel**
Grant date	24 November 2011
Fair value at grant date	$0.049
Share price	$0.060
Exercise price	$0.064
Expected volatility (weighted average)	100%
Option life (expected weighted average)	6.53 years
Risk free interest rate (based on government bonds)	5.15%

(viii) Employee Expense

	2016 $	2015 $
Equity – settled share-based payments issued:		
In FY15	18,996	141,317
In FY12	38,105	93,537
Total recognised as employee expense	57,101	234,854

19. Earnings per share

(i) Loss attributable to ordinary shareholders

	2016 $	2015 $
Loss for the year:		
Basic earnings	(3,978,672)	(2,991,479)
Diluted earnings*	(3,978,672)	(2,991,479)

(ii) Weighted average number of ordinary shares

	Number	Number
Weighted average number of shares used for basic earnings per share	1,883,341,331	1,002,069,367

*As the Group incurred a loss for the year ended 30 June 2016, 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

	2016 $	2015 $
Reconciliation of loss for the year to net cash used in operating activities:		
Loss for the year	(3,978,672)	(2,991,479)
Depreciation, amortisation & impairment	122,115	212,235
Share based payment expense	57,101	234,854
Proceeds from the sale of fixed assets	(968)	(3,195)
Disposal of fixed assets	798	-
Increase/(decrease) in provisions for employee benefits	14,558	(23,392)
Increase/(decrease) in payables	624,891	34,166
(Increase)/decrease in receivables	(6,552)	55,565
Net cash used in operating activities	(3,166,729)	(2,481,246)

21. Commitments

	2016 $	2015 $
Payable within one year	55,000	125,000
Payable after one year but not more than five years	154,500	55,000
	209,500	180,000

Research Collaboration Commitment:

Phylogica is collaborating on two projects (2015: two projects) with the University of Queensland. Under the collaborations, Phylogica has a cash contribution payable to the University of Queensland over three years.

During the year one collaboration with the University of Queensland was completed and a new three year collaboration commenced.

Research Contract:

Phylogica had contracted a research project from the University of Western Australia which concluded during 2015.

22. Financial instruments

(i) Interest rate risk profile:

	2016 $	2015 $
At reporting date the interest rate profile of the Group's interest bearing financial instrument was:		
Variable rate instruments:		
- Financial assets	7,073,541	1,475,869

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 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 2015.

	2016		2015	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Variable rate instruments	70,735	(70,735)	14,758	(14,758)

(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 2016 or 2015.

(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 2016	1,099,841	(1,099,841)	(1,099,841)
at 30 June 2015	500,031	(500,031)	(500,031)

23. Related parties

(i) Key management personnel compensation

Non–Executive Directors		***Executive Directors***	
Mr B McHarrie	Resigned 8 April 2016	Dr R Hopkins	(Chief Executive Officer) (Resigned 18 July 2016)
Mr J Curnock Cook			
Dr D Wilson		***Executives***	
Dr B Hockings		Dr P Watt	(Chief Scientific Officer)
Ms S Unwin	Appointed 18 January 2016	Mr G Boden	(Chief Financial Officer & Company Secretary)
		Ms N Forde	(Company Secretary)

	2016 $	2015 $
The key management personnel compensation included in 'personnel expenses' (see note 7) is as follows:		
- Short-term employee benefits	707,756	680,600
- Post-employment benefits	44,982	41,366
- Long term employee benefits	9,579	11,330
- Share based payments	43,433	120,178
Total compensation	805,750	853,474

(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:

Key management persons	Transaction	Note	2016 $	2015 $
Mr B McHarrie	Contract research services	(a)	-	2,119,811
Mr G Boden	Corporate services	(b)	96,871	104,370

(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, for this purpose, 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:

	2016 $	2015 $
Current payables:		
Trade and other payables	5,809	8,392
	5,809	8,392

23. Related parties *(Cont.)*

(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 ($)	
		2016	2015	2016	2015
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

	2016 $	2015 $
Audit services		
Audit and review of financial reports	33,500	31,500
Other regulatory audit services	-	-
	33,500	31,500
Non audit services	-	-
	33,500	31,500

25. Parent Entity Disclosures

(i) Financial position

	2016 $	2015 $
Assets		
Current assets	7,199,198	1,623,267
Non-current assets	66,568	162,572
Total assets	7,265,766	1,785,839
Liabilities		
Current liabilities	1,435,523	823,805
Total liabilities	1,435,523	823,805
Equity		
Issued capital	48,456,076	39,666,296
Accumulated losses	(43,462,890)	(39,484,218)
Reserves - Share-based payments	837,057	779,956
Total equity	5,830,243	962,034

(ii) Financial performance

	Year Ended 30 June 2016 $	 30 June 2015 $
(Loss) for the year	(3,978,672)	(2,991,479)
Other comprehensive income	-	-
Total comprehensive loss	(3,978,672)	(2,991,479)

Directors' Declaration

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 11 to 18, 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 2016 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 2016 pursuant to Section 295A of the Corporations Act 2001.

Dated at Perth this 30th day of August 2016

Signed in accordance with a resolution of the directors:

Ms Stephanie Unwin
Chair

HLB Mann Judd

Accountants | Business and Financial Advisers

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 2016, the consolidated statement of profit and loss and other 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 of the Group comprising 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 gives a true and fair view and 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*, the consolidated financial statements comply 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 about 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 Group's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's and its controlled entities' 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*.

HLB Mann Judd (WA Partnership) ABN 22 193 232 714
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Liability limited by a scheme approved under Professional Standards Legislation

HLB Mann Judd (WA Partnership) is a member of HLB International, a worldwide organisation of accounting firms and business advisers.

HLB Mann Judd

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 Group's financial position as at 30 June 2016 and 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 2016. 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 2016 complies with section 300A of the *Corporations Act 2001*.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

M R W Ohm
Partner

Perth, Western Australia
30 August 2016

ASX Additional Information

1. Quoted Securities

The security holder information set out below was applicable as at 19 August 2016.

(a) Distribution of Security Numbers

Category (size of holding)	Ordinary Shares Shareholders	Ordinary Shares Shares
1 – 1,000	99	21,100
1,001 – 5,000	81	256,000
5,001 – 10,000	131	1,132,337
10,001 – 100,000	756	36,628,731
100,001 and over	815	1,966,100,566
Total	**1,882**	**2,004,138,734**

There are 576 shareholders holding less than a marketable parcel at a price of $0.017, totalling 6,467,646 shares.

(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
B E +D C HOCKINGS	525,918,626	26.24
SIETSMA HOLDINGS PTY LTD	130,732,133	6.52
ANDREW SWIFT	57,805,726	2.88
MASALI PTY LTD	56,000,000	2.79
B E HOCKINGS	43,014,706	2.15
JOHN BAIRD	36,966,860	1.84
ALEXANDRA HOCKINGS	32,258,172	1.61
NAVIGATOR AUSTRALIA LTD	32,000,000	1.60
CUSTOM BINDERS PTY LTD	28,191,226	1.41
A P + C H BARTON	28,000,000	1.40
HARVEY SPRINGS ESTATE PTY LTD	27,500,000	1.37
WITTENOON SURVIVAL SUPER	26,886,526	1.34
BONADDIO SALVATORE	25,030,273	1.25
RICHARD MILES HOPKINS	22,932,631	1.14
ADAM BONADDIO	21,763,597	1.09
TELETHON INSTITUTE FOR CHILD HEALTH RESEARCH	20,605,501	1.03
PATRICK SIMON HASSETT	20,491,035	1.02
HEATHER SOUCIK	17,520,230	0.87
LONGFELLOW NOMINEES PTY LTD	16,333,333	0.81
HSBC CUSTODY NOMINEES AUSTRALIA LTD	15,344,087	0.77
Total	**1,185,294,662**	**59.13**

(d) Substantial Shareholders

The names of the substantial shareholders listed in the Company's share register as at 19 August 2016 were:

Name	Number of Ordinary Shares	% of Issued Capital
B E & DC Hockings	568,933,332	28.39
D Sietsma	183,500,000	9.16
Total	**752,433,332**	**37.55**

(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 Option Holder Information

The information on unquoted securities set out below was applicable as at 19 August 2016.

(a) 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**

(b) Voting Rights.

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

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

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