

Phylogica Limited

ACN 098 391 961

Appendix 4D

Half-Year Statement

Period ended 31 December 2017

Results for announcement to the market

Operating Performance	% Increase/ (Decrease)	31 Dec 2017 \$,000	31 Dec 2016 \$,000
Revenue from ordinary activities	(96%)	110	2,800
(Loss) from ordinary activities after tax attributable to members	769%	(3,521)	(458)
Net (loss) for the half year attributable to members	769%	(3,521)	(458)

Comment

The increase in net loss compared to the previous half year is due to commercial income received in the half year ended 31 December 2016 and nil this half year. In addition, once off expenditure of \$1.5 million in respect of consulting fees for the company's business development and scientific program strategy for 2018 was incurred in the first half of 2017.

Dividends

There are no dividend or distribution reinvestment plans in operation and there have been no dividend or distribution payments during the financial half year ended 31 December 2016.

Net tangible assets per ordinary security	31 December 2017	31 December 2016
Net tangible assets	\$5,552,960	\$5,452,945
Number of shares on issue at reporting date	2,135,523,317	2,004,138,734
Net tangible assets per ordinary security	0.26 cents	0.27 cents

Control Gained or Lost over Entities

Not applicable

Associates and joint ventures

Not applicable

Foreign Entities Accounting Framework

Not applicable

Audit/Review Status

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

The attached interim financial statements for the half year ended 31 December 2017 form part of this Appendix 4D. This half year report is to be read in conjunction with the Phylogica Limited 2017 annual financial statements and the notes contained therein.



BREAKTHROUGH PEPTIDE THERAPEUTICS

Phylogica Limited

ACN 098 391 961

Condensed Consolidated Interim Financial Statements

For the Half Year Ended 31 December 2017

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Corporate Directory

Directors

Ms Stephanie Unwin
Chief Executive Officer / Chair

Dr Robert Hayes
Chief Scientific Officer

Dr Bernard Hockings
Non-Executive Director

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

Mr Sahm Nasseri
Non-Executive Director

Mr Michael Williams
Non-Executive Director

Company Secretary

Mr Kevin Hart

Share Registry

Security Transfer Registrars Pty Ltd
PO Box 535
Applecross WA 6953
770 Canning Highway
Applecross WA 6153
Telephone: 08 9315 2333
Facsimile: 08 9315 2233
Email: registrar@securitytransfer.com.au

Auditors

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

Registered Office

Suite 8, 7 The Esplanade
Mt Pleasant WA 6053
Telephone: 08 9316 9100
Facsimile: 08 9315 5475

Postal Address

Suite 8, 7 The Esplanade
Mt Pleasant WA 6153

Principal Place of Business

Telethon Kids Institute
100 Roberts Road
Subiaco WA 6008
Telephone: 08 9489 7777
Facsimile: 08 9489 7700

Website

www.phylogica.com

Incorporated in Western Australia:
October 2001

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

Directors' Report

For the Half Year Ended 31 December 2017

The directors present their interim report on Phylogica Limited and its controlled entity (referred to in these financial statements as "the Group" or "Phylogica") together with the financial statements for the half year ended 31 December 2017 and the review report thereon.

DIRECTORS

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

Executive

Ms Stephanie Unwin	Chief Executive Officer / Chair
Dr Robert Hayes	Chief Scientific Officer

Non-Executive

Dr Bernard Hockings	Non-executive Director
Dr Rohan Hockings	(Alternate Director for B Hockings)
Mr Sahn Nasser	Appointed 23 October 2017
Mr Michael Williams	Appointed 3 January 2018
Dr Rick Kendall	Resigned 23 October 2017
Dr Paul Watt	Resigned 24 November 2017

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

REVIEW OF OPERATIONS

Phylogica is a developer of a leading intracellular drug delivery platform technology. The Company's key objective is to significantly expand the validation of the intracellular delivery technology and its ability to carry a diverse range of cargo types into different tissue and cell types, *both in vitro* and *in vivo*. The launch and implementation of the company's corporate strategy "Pivot to Platform" focuses the Company's resources on additional validation of its unique drug delivery platform. The company has de-prioritised all internal drug development programs including iMyc, Stat5 and YB1 in favour of the commercialisation of the full FPP intracellular delivery platform. Key operational achievements during the period include the following:

- Identification of additional Functional Penetrating Peptides (FPP) from the company's Phylomer libraries to expand the number of FPPs with intracellular delivery features and understand their characteristics.
- Continued work to optimise the drug like properties of our FPPs - providing not only improved performance of our leading FPP candidates, but also proof of concept that these optimisation techniques are able to be applied to future generations of FPPs.
- Successful delivery of cancer immunotherapy peptide vaccine using Phylogica's FPP, showing that with PHYC's FPP delivery system, the survival of mice with melanoma was extended by an average of ~100% compared to a vaccination without the FPP for the life of the experiment. This is an area of significant interest for biopharmaceutical companies with the highly effective results, warranting further internal investment across 2018.
- Expansion of intellectual property portfolio with joint filing of Australian patent (AU2018900032) by Phylogica and Telethon Kids Institute for cancer vaccine conjugates inducing an immune response.
- Granting of a US patent covering the identification of Phylomers with the ability to enter specific endothelial cells in the brain.
- Development and successful application of an assay that shows FPP-mediated delivery of green fluorescent protein (eGFP) to tumor cells at the site of injection in mice. This data validated the delivery of a protein cargo further building out Phylogica's validation matrix. This novel assay also provides information on which cells are transformed with an FPP, and the effect and *in vivo* properties of the molecule.

Directors' Report (Cont.)

For the Half Year Ended 31 December 2017

FINANCIAL RESULTS

The consolidated operating loss after tax for the half year ended 31 December 2017 was \$3,520,673 (31 December 2016: loss after tax \$458,134).

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

Since incorporation, Phylogica has raised \$57.3 million in capital, reduced to \$53.3 million after netting capital raising fees. From this amount the following expenditures have been undertaken (all amounts \$ million, excluding the impact of tax):

	Prior to 30 June 2016	Year to 30 June 2017	Half Year to 31 December 2017	Total
Research & Development:				
Contract Research	24.30	3.44	2.11	29.85
Personnel (allocation)	7.69	-	-	7.69
Laboratory Consumables	5.80	0.99	0.72	7.51
	37.79	4.43	2.83	45.05
IP Maintenance	3.69	0.21	0.09	3.99
	41.48	4.64	2.92	49.04

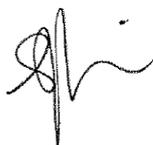
Financial Position

The Company's cash position at 31 December 2017 was \$4.9 million. Expenditure for the half year was \$5.8 million, which included one off expenditure of \$1.5 million in respect of consulting fees for the development of the company's platform strategy and detailed review of existing research and development to then construct the validation work forming the core scientific program across 2018. Since the end of the half year reporting period the Company has received a \$2.17m cash refund under the Federal Government's R&D Tax Incentive Scheme.

AUDITOR'S INDEPENDENCE DECLARATION

The lead auditor's independence declaration under s307C of the Corporations Act 2001 is set out on the following page and forms part of the Directors' report for the half-year ended 31 December 2017.

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



Ms Stephanie Unwin
Director
28 February 2018

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the consolidated financial report of Phylogica Limited for the half-year ended 31 December 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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



Perth, Western Australia
28 February 2018

M R Ohm
Partner

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  International, a world-wide organisation of accounting firms and business advisers

Condensed Consolidated Statement of Comprehensive Income

For the half year ended 31 December 2017

		Consolidated	
	<i>Note</i>	31 Dec 2017	31 Dec 2016
		\$	\$
Continuing Operations			
Commercial Income	3	-	2,760,258
Interest Income		71,493	39,328
Other Income		40,000	-
Contract Research Costs		(2,110,601)	(1,737,109)
Personnel Expenses		(667,793)	(342,522)
Depreciation		(41,456)	(36,290)
Professional Services		(1,921,448)	(447,601)
Travel and Accommodation		(146,833)	(81,021)
Intellectual Property Maintenance		(87,993)	(69,208)
Laboratory Consumables		(724,985)	(410,948)
Occupancy costs		(5,566)	(7,087)
Other Operating Expenses		(96,305)	(125,934)
Loss Before Income Tax Expense		<u>(5,691,487)</u>	<u>(458,134)</u>
Income Tax Benefit		2,170,814	-
Net Loss for the Period	3	<u>(3,520,673)</u>	<u>(458,134)</u>
Other Comprehensive Income for the Period, Net of Tax		-	-
Total Comprehensive Loss for the Period		<u>(3,520,673)</u>	<u>(458,134)</u>
		Cents	Cents
Basic Loss Per Share	9	(0.17)	(0.02)
Diluted Loss Per Share	9	(0.17)	(0.02)

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

Condensed Consolidated Statement of Financial Position

As at 31 December 2017

	Consolidated	
Note	31 Dec 2017	30 June 2017
	\$	\$
Current assets		
Cash and cash equivalents	4,888,816	9,939,943
Trade and other receivables	5 2,275,582	192,206
Total current assets	<u>7,164,398</u>	<u>10,132,149</u>
Non-current assets		
Plant and equipment	183,068	216,109
Total non-current assets	<u>183,068</u>	<u>216,109</u>
Total assets	<u>7,347,466</u>	<u>10,348,258</u>
Current liabilities		
Trade and other payables	10 1,794,506	1,489,208
Total current liabilities	<u>1,794,506</u>	<u>1,489,208</u>
Total liabilities	<u>1,794,506</u>	<u>1,489,208</u>
Net assets	<u>5,552,960</u>	<u>8,859,050</u>
Equity		
Issued capital	2 53,344,107	53,209,076
Reserves	2 1,143,253	1,063,701
Accumulated losses	2 (48,934,400)	(45,413,727)
Total equity	<u>5,552,960</u>	<u>8,859,050</u>

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

Condensed Consolidated Statement of Cash Flows

For the half year ended 31 December 2017

	Consolidated	
Note	31 Dec 2017	31 Dec 2016
	\$	\$
Cash flows from operating activities		
Other income received	40,000	-
Cash paid to suppliers and employees	(5,072,258)	(3,658,245)
Cash used in operations	(5,032,258)	(3,658,245)
Interest received	56,175	41,999
Net cash used in operating activities	(4,976,083)	(3,616,246)
Cash flows from investing activities		
Acquisition of property, plant and equipment	(210,075)	(3,927)
Net cash used in investing activities	(210,075)	(3,927)
Cash flows from financing activities		
Proceeds from the issue of share capital	2 135,031	-
Net cash provided by financing activities	135,031	-
Net decrease in cash and cash equivalents	(5,051,127)	(3,620,173)
Cash and cash equivalents at 1 July	9,939,943	7,073,541
Cash and cash equivalents at 31 December	4,888,816	3,453,368

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

Condensed Consolidated Statement of Changes in Equity

For the half year ended 31 December 2017

		Consolidated			
	Issued Capital	Accumulated Losses	Reserves	Total	
<i>Note</i>	\$	\$	\$	\$	
Balance at 1 July 2016	48,456,076	(43,462,890)	837,057	5,830,243	
Loss attributable to members of the consolidated entity	-	(458,134)	-	(458,134)	
Other comprehensive income	-	-	-	-	
Total comprehensive loss	-	(458,134)	-	(458,134)	
Share based payments	-	-	80,836	80,836	<i>11</i>
Balance at 31 December 2016	48,456,076	(43,921,024)	917,893	5,452,945	
Balance at 1 July 2017	53,209,076	(45,413,727)	1,063,701	8,859,050	
Loss attributable to members of the consolidated entity	-	(3,520,673)	-	(3,520,673)	
Other comprehensive income	-	-	-	-	
Total comprehensive loss	-	(3,520,673)	-	(3,520,673)	
Shares issued	135,031	-	-	135,031	
Share based payments	-	-	79,552	79,552	<i>11</i>
Balance at 31 December 2017	53,344,107	(48,934,400)	1,143,253	5,552,960	

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

Notes to the Condensed Consolidated Financial Statements

For the half year ended 31 December 2017

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Phylogica Limited is a company domiciled in Australia. The condensed consolidated interim financial statements of the Company as at and for the six months ended 31 December 2017 comprises the Company and its subsidiary (together referred to as the "Group").

The annual financial statements of the Company as at and for the year ended 30 June 2017 are available upon request from the Company's registered office at the address or at the web site shown earlier in this report.

(a) Statement of Compliance

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

The interim financial statements do not include all of the information required for full annual financial statements, and should be read in conjunction with the annual financial statements of the Company as at and for the year ended 30 June 2017 and any public announcements made by the Company during the half-year in accordance with continuous disclosure requirements arising under the Corporations Act 2001 and the ASX Listing Rules.

The interim financial statements of the Group for the six months ended 31 December 2017 were authorised for issue by the directors on 28 February 2018.

(b) Basis of preparation

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

For the purpose of preparing the interim financial statements, the half year has been treated as a discrete reporting period.

(c) Accounting Policies and Methods of Computation

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

(d) Segment Reporting

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

(e) Significant Accounting Judgments and Key Estimates

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

In preparing these interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the financial statements as at and for the year ended 30 June 2017.

(f) Financial Risk Management

The Group's financial risk management objectives and policies are consistent with those disclosed in the financial statements as at and for the year ended 30 June 2017.

Notes to the Condensed Consolidated Financial Statements (Cont.)

For the half year ended 31 December 2017

(g) Adoption of New and Revised Standards

Standard and Interpretations applicable to 31 December 2017

In the half year ended 31 December 2017, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Company and effective for the half year reporting periods beginning on or after 1 July 2017. As a result of this review, the Directors have determined that there is no material impact of the new and revised Standards and Interpretations on the Company and therefore no material change is necessary to Group accounting policies.

Standards and Interpretations In Issue not yet adopted

The Directors have also reviewed all of the new and revised Standards and Interpretations in issue not yet adopted that are relevant to the Company and effective for the half year reporting periods beginning on or after 1 January 2018.

As a result of this review, the Director have determined that there is no material impact of the new and revised Standards and Interpretation in issue not yet adopted on the Company and therefore no material change is necessary to Group accounting policies.

(h) Going Concern

The half year financial statements have been prepared on the going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The Directors have reviewed the Group's financial position and are of the opinion that the use of the going concern basis is appropriate. The Group received an R&D refund of \$2.2million in January 2018 and the Directors expect the Group will be able to raise additional funds if required. However, in the absence of such funding, the Group is able to curtail expenditure to continue as a going concern for at least a period of twelve months from the date of approval of these financial statements.

For the half year ended 31 December 2017 the Company has incurred a loss after tax of \$3,520,673 (half year ended 31 December 2016: loss of \$458,134). At half year end the Company had working capital of \$5,369,892 (30 June 2017: \$8,642,942) including a cash and cash equivalents balance at 31 December 2017 of \$4,888,816 (30 June 2017: \$9,939,943). Cash used in operating activities during the half year to 31 December 2017 was \$4,976,083 (31 December 2016: \$3,616,246). \$1.5 million of the cash outflow in the current period related to a one-off consulting expense.

NOTE 2: ISSUED CAPITAL, ACCUMULATED LOSSES AND RESERVES

(i) Issued capital:	Six Months to 31 Dec 2017	Year to 30 June 2017
	\$	\$
2,135,523,317 ordinary shares fully paid 30 June 2017:		
2,120,122,067)	53,344,107	53,209,076
	<u>53,344,107</u>	<u>53,209,076</u>

Movements in capital during the year:

	Six months to December 2017		Year to June 2017	
	2017 Shares	2017 \$	Shares	\$
Ordinary Shares				
Balance at the beginning of the period	2,120,122,067	53,209,076	2,004,138,734	48,456,076
Shares issued during the period:				
- Issued at \$0.04	-	-	125,000,000	5,000,000
- Issued at \$0.25	5,401,250	135,031	2,650,000	66,250
- Issued for nil consideration	-	-	3,333,333	-
- Issued on exercise of options	10,000,000	-	-	-
- Loan funded shares cancelled	-	-	(15,000,000)	-
- Share issue costs	-	-	-	(313,250)
Balance at the end of the year	<u>2,135,523,317</u>	<u>53,344,107</u>	<u>2,120,122,067</u>	<u>53,209,076</u>

Notes to the Condensed Consolidated Financial Statements (Cont.)
For the half year ended 31 December 2017

NOTE 2: ISSUED CAPITAL, ACCUMULATED LOSSES AND RESERVES continued

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.

	6 months to 31 Dec 2017 \$	Year to 30 June 2017 \$
(ii) Accumulated losses:		
Opening balance as at 1 July	(45,413,727)	(43,462,890)
Loss for the period	(3,520,673)	(1,950,837)
Closing balance as at end of period	<u>(48,934,400)</u>	<u>(45,413,727)</u>
(iii) Reserves:		
Opening balance as at 1 July	1,063,701	837,057
Share based payment expense	79,552	262,364
Expiry of options	-	(35,720)
Closing balance as at end of period	<u>1,143,253</u>	<u>1,063,701</u>

(iv) Options:

Description	Number at 30 June 2017	Movement During the Half Year	Number of Options as at 31 December 2017	Expiry Date	Exercise Price
Unquoted Options	17,718,750	(11,113,750)	6,605,000	23 September 2017	\$0.025
Unquoted Options	6,666,667	-	6,666,667	30 November 2019	Nil
Unquoted Options	20,000,000	(10,000,000)	10,000,000	30 June 2018	Nil
Unquoted Options	-	20,000,000	20,000,000	30 May 2020	\$0.06
	<u>44,385,417</u>	<u>(1,113,750)</u>	<u>43,271,667</u>		

During the half year to 31 December 2017, 20,000,000 unlisted options were issued on 24 November 2017 to key management personnel (refer Note 11).

NOTE 3: NET LOSS FOR THE PERIOD

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

	31 Dec 2017 \$	31 Dec 2016 \$
Commercial Income	-	2,760,258
R&D Tax incentive	2,170,814	-

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

	31 Dec 2017 \$	31 Dec 2016 \$
Corporate consulting fees	1,540,000	-

Consulting fees included one off expenditure of \$1.5 million in respect of consulting fees for the company's business development strategy.

Notes to the Condensed Consolidated Financial Statements (Cont.)

For the half year ended 31 December 2017

NOTE 4: FUTURE INCOME TAX BENEFIT

Deferred tax assets have not been recognised as at 31 December 2017 because, at this stage of the Group's development, it cannot be considered as "probable" that future taxable profits will be available against which the Group can utilise the benefits.

NOTE 5: TRADE AND OTHER RECEIVABLES

	31 Dec 2017	30 June 2017
	\$	\$
GST receivable	63,835	184,789
R&D Tax Incentive	2,170,814	-
Accrued Interest	22,411	7,093
Trade debtors	18,522	324
	<u>2,275,582</u>	<u>192,206</u>

NOTE 6: SEGMENT INFORMATION

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

NOTE 7: EVENTS SUBSEQUENT TO BALANCE DATE

The Group received an R&D refund of \$2.2million in January 2018.

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

NOTE 8: CONTINGENT LIABILITIES AND CONTINGENT ASSETS

There are no contingent liabilities or contingent assets as at 31 December 2017.

NOTE 9: LOSS PER SHARE

Basic loss per share

The calculation of basic loss per share for the six months ended 31 December 2017 was based on the loss attributable to ordinary shareholders of \$3,520,673 (six months ended 31 December 2016: \$458,134) and a weighted average number of ordinary shares outstanding during the six months ended 31 December 2017 of 2,123,968,731 (six months ended 31 December 2016: 2,004,138,734), calculated as follows:

	Half Year to	
	31 Dec 2017	31 Dec 2016
	\$	\$
(i) Loss attributable to ordinary shareholders:		
Loss for the period:		
- Basic loss	(3,520,673)	(458,134)
(ii) Weighted average number of ordinary shares:		
Number of ordinary shares at 30 June	2,120,122,067	2,004,138,734
Effect of shares issued	3,846,664	-
Weighted average number of ordinary shares at 31 December	<u>2,123,968,731</u>	<u>2,004,138,734</u>

NOTE 10: TRADE AND OTHER PAYABLES

	31 Dec 2017	30 June 2017
	\$	\$
Current		
Trade payables (1)	1,657,111	1,446,153
Accrued expenses	91,609	17,000
Other	45,786	26,055
	<u>1,794,506</u>	<u>1,489,208</u>

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

Notes to the Condensed Consolidated Financial Statements (Cont.)

For the half year ended 31 December 2017

NOTE 11: SHARE BASED PAYMENTS

- i. The following share-based payments arrangements existed at 31 December 2017:

Security	Grant Date	Share Based Expense \$
6,500,000 Unquoted options	27 November 2014	1,650
10,000,000 Unquoted options	25 November 2016	58,760
20,000,000 Unquoted options	29 November 2017	19,142
		<u>79,552</u>

ii. Fair value of share options and assumptions for the six months ended 31 December 2017:

During the half year to 31 December 2017, 20,000,000 unlisted options were issued on 29 November 2017 to key management personnel.

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

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 the period:

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 31 December 2017
20,000,000	29/11/2017	30/05/2020	\$0.0112	\$0.06	\$0.039	1.92	65	-

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.

All loan funded shares fully vested during the June 2017 financial year.

NOTE 12: KEY MANAGEMENT PERSONNEL EXPENSE

Key management personnel receive compensation in the form of short-term employee benefits, post-employment benefits and equity compensation benefits. Key management personnel received total compensation of \$591,770 for the six months ended 31 December 2017 (six months ended 31 December 2016: \$503,495).

NOTE 13: COMMITMENTS

	31 Dec 2017 \$	30 June 2017 \$
Payable within one year	88,250	66,250
Payable after one year but not more than five years	-	88,250
	<u>88,250</u>	<u>154,500</u>

Research Collaboration Commitment:

Phylogica is collaborating on two projects with the University of Queensland. Phylogica has a cash contribution payable to the University of Queensland over three years. The contribution outstanding for these collaborations is \$88,250 due within one year.

Notes to the Condensed Consolidated Financial Statements (Cont.)

For the half year ended 31 December 2017

NOTE 14: FINANCIAL INSTRUMENTS

The method and valuation techniques used for the purpose of measuring fair values are unchanged compared to the previous reporting period.

The carrying amounts of the current receivables and current payables are considered to be a reasonable approximation of their fair values.

Directors' Declaration

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

1. the financial statements and notes set out on pages 5 to 14 are in accordance with the Corporations Act 2001 including:
 - (a) giving a true and fair view of the financial position of the Group as at 31 December 2017 and of its performance, as represented by the results of its operations and cash flows for the half-year ended on that date; and
 - (b) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and
2. there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors:



Ms Stephanie Unwin
Director

Perth
28 February 2018

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Phylogica Limited

Report on the Condensed Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Phylogica Limited ("the company") which comprises the condensed consolidated statement of financial position as at 31 December 2017, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory notes, and the directors' declaration, for the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the company, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

HLB Mann Judd (WA Partnership) ABN 22 193 232 714

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

Independence

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

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

Perth, Western Australia
28 February 2018



M R Ohm
Partner