Appendix 4E

Preliminary final report
Year ended 30 June 2006

PHYLOGICA LIMITED ACN 098 391 961

Results for announcement to the market

			Current period ($A'000)		Previous corresponding period ($A'000)
Revenues from ordinary activities ***(item 1.1)***	Up 340 %	To	721	From	164
Profit (loss) from ordinary activities after tax attributable to members (*item 1.22*)	Down 143 %	To	(3,991)	From	(1,645)
Net profit (loss) for the period attributable to members ***(item 1.11)***	Down 143 %	To	(3,991)	From	(1,645)

Comments:
The current period reflects the loss arising from a full year of funded research and business development activities with an increased staff complement. In the prior year, activities were funded on a limited basis until the company was listed on ASX in March 2005.

Dividends

It is not proposed to pay dividends.

Net Tangible Assets per Security	2.0 cents		5.4 cents

Phylogica Limited
Income Statement
For the year ended 30 June 2006

	Note	2006	2005
		$	$
Revenues from ordinary activities	1	720,523	163,850
Research contractors costs		(1,376,369)	(317,104)
Personnel expenses	3	(1,500,624)	(752,081)
Depreciation, Amortisation & Impairment	2	(484,413)	(42,302)
Professional services		(314,712)	(324,889)
Travel & accommodation		(352,625)	(196,745)
Intellectual property maintenance		(300,057)	(56,179)
Licences		(154,876)	-
Laboratory consumables		(137,232)	-
Office Occupancy expenses		(86,061)	(16,249)
Other expenses		(291,042)	(103,297)
Loss from ordinary activities before income tax expense	2	(4,277,488)	(1,644,996)
Income tax (expense) / benefit relating to ordinary activities		286,013	-
Loss from ordinary activities after income tax		(3,991,475)	(1,644,996)
Basic earnings/(loss) per share	4	(3.69) cents	(2.60) cents
Diluted earnings/(loss) per share	4	(2.87) cents	(2.60) cents

The accompanying notes form an integral part of these financial statements.

Phylogica Limited
Balance Sheet
As at 30 June 2006

	Note	2006	2005
		$	$
Current Assets			
Cash & cash equivalents	5	2,638,872	5,505,128
Trade & other receivables	6	77,427	50,407
Other	7	41,517	22,388
Total Current Assets		2,757,816	5,577,923
Non Current Assets			
Property, plant & equipment	8	74,397	40,294
Intangible Assets	9	-	466,278
Total Non Current Assets		74,397	506,572
Total Assets		2,832,213	6,084,495
Current Liabilities			
Trade & other payables	10	370,749	227,296
Non-interest bearing liabilities	11	12,704	28,709
Employee benefits	12	189,270	14,757
Deferred government grants		145,187	32,851
Total Current Liabilities		717,909	303,613
Total Liabilities		717,909	303,613
Net Assets		2,114,304	5,780,882
Equity			
Issued Capital & Reserves	13	8,103,459	7,778,562
Accumulated Losses	14	(5,989,155)	(1,997,680)
Total Equity		2,114,304	5,780,882

The accompanying notes form an integral part of these financial statements.

Phylogica Limited
Statement of Cash Flows
For the year ended 30 June 2006

	Note	2006	2005
		$	$
Cash Flow From Operating Activities			
Grants received		601,035	85,408
Cash paid to suppliers & employees		(3,911,470)	(1,556,811)
Cash generated from operations		(3,310,435)	(1,471,403)
Interest received		216,092	140,003
Income taxes rebated		286,013	-
Net cash flows from operating activities	15	(2,808,330)	(1,331,400)
Cash Flow From Investing Activities			
Acquisition of property, plant & equipment		(52,489)	(41,297)
Acquisition of other investments		-	(183,414)
Net cash flows used in investing activities		(52,489)	(224,711)
Cash Flow From Financing Activities			
Proceeds from issue of shares		52,083	7,428,500
Repayment of borrowings		(5,000)	(552,145)
Payment of transaction costs		(52,520)	(606,343)
Net cash flows from financing activities		(5,437)	6,270,012
Net increase / (decrease) in cash & cash equivalents		(2,866,256)	4,713,901
Cash and cash equivalents at 1 July		5,505,128	791,227
Cash and cash equivalents at 30 June	5	2,638,872	5,505,128

The accompanying notes form an integral part of these financial statements.

Phylogica Limited
Statement of Changes in Equity
For the year ended 30 June 2006

	Note	2006 $	2005 $
Total equity at the beginning of the year		5,780,882	546,048
Net income recognised directly in equity		225,334	57,673
Share based payments expense for the period		(225,334)	(57,673)
Total recognised income and expense for the period		(3,766,141)	(1,587,323)
Loss for the period		(3,991,475)	(1,644,996)
Issue of share capital		152,083	7,425,000
Share capital transaction costs		(52,520)	(602,843)
Total equity at the end of the year		2,114,304	5,780,882

	2006	2005
	$	$
Note1: Revenues from ordinary activities		
Grants received	488,702	52,556
Interest Income	231,821	111,294
	720,523	163,850

Note 2: Loss from ordinary activities

Loss from ordinary activities before income tax expense has been arrived at after charging the following items:

	2006	2005
Depreciation of equipment	18,135	5,036
Impairment of patents	466,278	-
Amortisation of patents	-	37,266
Write off of trademarks	-	19,938

Note 3: Personnel expenses

	2006	2005
Wages & salaries	1,102,428	610,743
Other associated staff costs	64,170	26,331
Superannuation contributions	80,891	42,577
Increase in annual leave liability	27,801	14,757
Equity settled transactions	225,334	57,673
	1,500,624	752,081

Note 4: Earnings per share

	2006	2005
Net Loss used in the calculation of:		
- basic earnings per share	(3,991,475)	(1,644,996)
- diluted earnings per share	(3,701,022)	(1,644,996)
	Number	Number
Weighted average number of ordinary shares used in the calculation of:		
- basic earnings per share	108,150,011	63,302,446
- diluted earnings per share	129,097,770	63,302,446

	2006	2005
	$	$
Note 5: Cash and cash equivalents		
Bank balances	338,872	205,128
Bank bills	2,300,000	5,300,000
	2,638,872	5,505,128
Note 6: Trade & other receivables		
GST receivable (net)	66,177	37,511
Sundry debtors	11,250	12,896
	77,427	50,407
Note 7: Other current assets		
Prepayments	41,517	22,388
Note 8: Property, plant and equipment		
Office and laboratory equipment at cost	99,294	47,292
Accumulated depreciation	(24,897)	(6,998)
	74,397	40,294
Movements in the carrying value of the single class of fixed asset presently held by the Company, between the beginning and end of the financial year were:		
Balance at beginning of year	40,294	4,033
Additions	52,489	41,297
Disposals	(251)	-
Depreciation	(18,135)	(5,036)
Balance at end of year	74,397	40,294
Note 9: Intangible Assets		
Patents and patent applications at cost	514,766	514,766
Accumulated Amortisation	(48,488)	(48,488)
Impairment	(466,278)	-
	-	466,278
Note 10: Trade & other payables		
Trade payables	220,909	17,024
Accrued expenses	123,594	175,772
Other	26,246	34,500
	370,749	227,296

	2006	2005
	$	$
Note 11: Non Interest Bearing Liabilities		
Unearned interest income	12,704	28,709

Note 12: Employee Benefits

	2006	2005
Liability for annual leave	42,558	14,757
Incentive entitlements	146,712	-
	189,270	14,757

	Annual Leave	Incentive Provision
	$	$
Balance at 1 July	14,757	-
Payments made	(47,327)	(53,412)
Charges raised	75,128	200,124
	42,558	146,712

Note 13: Issued capital

	2006	2005
108,572,271ordinary shares fully paid (2005: 107,863,938)	7,820,452	7,720,889

Movements in issued capital during the year

Ordinary Shares

Shares issued during the year	2006 Shares	2006 $	2005 Shares	2005 $
Opening balance	107,863,938	7,720,889	43,592,479	898,732
Shares converted from Class A Performance Shares			7,604,792	-
Shares issued at $0.075			31,000,000	2,325,000
Shares issued at $0.15			666,667	100,000
Shares issued at $0.20			25,000,000	5,000,000
Option premium				3,500
Shares issued for technology licence	500,000	100,000		
Share options exercised	208,333	52,083		
Share issue costs		(52,520)		(606,343)
	108,572,271	7,820,452	107,863,938	7,720,889
Share based payment reserve		283,007		57,673
Issued Capital & Reserves		8,103,459		7,778,562

Note 14: Accumulated Losses	2006 $	2005 $
Opening balance	(1,997,680)	(352,684)
Loss for period	(3,991,475)	(1,644,996)
Accumulated losses at the end of the period	(5,989,155)	(1,997,680)

Note 15: Statement of cash flows

Reconciliation of loss after income tax
to net cash used in operating activities:

Operating loss after income tax	(3,991,475)	(1,644,996)
Depreciation	18,135	5,036
Amortisation	-	37,266
Impairment loss	466,278	-
Trade mark write off	-	19,938
Share based payment expense	225,334	57,673
Share issue in exchange for licence	100,000	-
Increase provisions for employee entitlements	174,513	14,757
Increase/(decrease) in payables	245,034	213,479
(Increase)/decrease in receivables	(46,149)	(34,553)
Net cash used in operating activities	(2,808,330)	(1,331,400)

Dividends

There were no dividends declared or paid during the period or planned to be declared in relation to the period..

There are no dividend reinvestment plans in operation.

Details of entities

There are no entities over which control has been gained or lost during the period.

Details of associates and joint venture entities

There were no associated companies in which equity was held nor joint ventures in which the group participated.

Commentary

Phylogica's science continued to progress rapidly, with the past 12 months seeing important validation of the technology and promising research results.

Highlights of the period included:

- Approval of Phylomer® patents in the major markets of the USA and Europe.
- Establishment of a pipeline of drug candidates for diabetes, asthma, stroke, burns injury and development of candidates for rheumatoid arthritis and other inflammatory diseases.
- Granting of $2.3 million to Phylogica by the Australian Government through its Commercial Ready Grant programme, which will enable the acceleration of its rheumatoid arthritis project in collaboration with world experts at the University of Melbourne.
- Collaborations with internationally renowned scientists including former Australian of the Year Dr Fiona Wood.
- Exciting results from the collaboration with the McComb Foundation on a new drug to accelerate the healing process and reduce scarring from burns.
- Commercial collaboration signed in March 2006 with Opsona Therapeutics, a leader in the immunology field.
- Fee for service agreement with Johnson and Johnson Research to develop novel compounds.

Audit Status

The accounts upon which the information in this Appendix 4E report is based are in the process of being audited.

Perth
13th September 2006

G R Boden
Company Secretary