

Phylogica Limited

ACN 098 391 961

Appendix 4D

Half-Year Statement

Period ending 31 December 2009

Results for announcement to the market

Operating Performance	% Increase/ (Decrease)	31 Dec 2009 \$,000	31 Dec 2008 \$,000
Revenue for Ordinary Activities	Down 80 %	125	630
(Loss) from ordinary activities after tax attributable to members	Down 17%	(2,384)	(2,858)
Net (Loss) for the half year attributable to members	Down 17%	(2,384)	(2,858)

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 2009.

Comments

Please refer to the Directors Report on page 3 for a company review and key milestones achieved over the last 12 months.

Included in the 31 December accounts is a receivable of \$433,120 (representing an initial payment from Roche under the discovery partnership agreement announced in December for approximately 15 weeks of services by Phylogica). Roche have advised that this payment has been transferred so income will be brought to account during the current March 2010 quarter.

Net tangible assets per ordinary security	31 December 2009	31 December 2008
Net tangible assets	\$1,599,980	\$849,813
Number of shares on issue at reporting date	235,751,764	163,751,764
Net tangible assets per ordinary security	0.7 cents	0.5 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 statement are based on accounts which have been subjected to review. The accounts are not subject to audit dispute or qualification.

The attached interim financial statements for the half-year ended 31 December 2009 form part of this Appendix 4D. This half-year report is to be read in conjunction with the Phylogica Limited 2009 annual financial statements and the notes contained therein.

Directors

Dr Douglas Wilson
Executive Chairman

Mr Harry Karelis
Non-Executive Deputy Chairman

Mr Bruce McHarrie
Non-Executive Director

Mr Anthony Barton
Non-Executive Director

Dr Paul Watt
CEO and Executive Director

Company Secretary

Greg MacMillan
Telephone: 08 9325 8888
Facsimile: 08 9325 8088
Email: gmacmillan@australianheritage.com.au

Share Registry

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

Bankers

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

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Registered Office

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Facsimile: 08 9325 8088
Website: www.phylogica.com

Principal Place of Business

Telethon Institute for Child Health Research
100 Roberts Road
Subiaco
Western Australia 6008

Auditors

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

Incorporated in Western Australia, October 2001
Listed on the Australian Stock Exchange (ASX)
Home Exchange: Perth

Code: PYC Ordinary Shares

Phylogica Limited

Directors' Report

The directors present their report on Phylogica Limited and its controlled entity (referred to in these financial statements as "the Group" or "Phylogica") together with the financial statements for the half-year ended 31 December 2009 and the review report thereon.

DIRECTORS

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

Non-executive

Mr Harry Karelis
Mr Bruce McHarrie
Mr Anthony Barton

Executive

Dr Doug Wilson
Dr Paul Watt

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

COMPANY REVIEW

Phylogica is a specialist drug discovery company engaged in the identification of peptide-based biopharmaceuticals. Biopharmaceuticals belong to the fastest growing sector of drugs – known as 'biologics' – which include peptides and proteins. Approximately one third of drugs in development are biologics, which are expected to account for more than half of drug sales by the year 2015.

Phylogica has discovered a unique library of biologic or peptide-based product pipeline comprising an extensive collection of naturally stable protein segments, called Phylomers. Phylomers consist of billions of potential drug candidates suitable for targeting and disrupting disease causing proteins. The Company has a very strong patent position in the arena of the more stable, naturally sourced protein fragments as opposed to its peers who use random peptide libraries. Phylogica is the first company to exploit the concept of making biologics libraries spanning thousands of structural families (as opposed to variations on single structural families, such as the antibody libraries). This is why Phylomer libraries are quite literally the most structurally diverse libraries for the discovery of biologics (see below)

Phylogica uses its proprietary Phylomer® peptide libraries to target proteins and their interactions found within cells (intracellular interactions), on the cell surface or in the extracellular space (extracellular interactions). The Company aims at developing innovative, cost-effective therapies for diseases where there are significant unmet needs or where the current treatment regimes, such as small molecules or antibodies, result in adverse side-effects.

Phylomers offer competitive advantages as therapeutic agents over antibodies. Phylomer Libraries have many inherent qualities that make them a far superior source of drug leads as compared to random peptide libraries. Phylogica's proprietary Phylomer Libraries are collections of billions of Phylomer peptides that represent a rich source of drug leads for a broad range of disease targets. Phylomers are sufficiently small to allow synthetic production as well as more patient-friendly delivery by means other than injection.

Phylogica owns the most comprehensive collection of Phylomer peptides structures found in nature. The Company's Phylomer Libraries consist of a collection of billions of Phylomers which can be screened for potential drug candidates. These libraries represent the inherent diversity within virtually all the classes of natural protein scaffolds, in contrast to antibodies, which instead represent the structural diversity compatible with only one particular scaffold class.

Phylogica Limited

Directors' Report (continued)

The Company has developed a strong intellectual property portfolio around its proprietary Phylomer peptide technology with 16 patent families comprising multiple granted/ allowed patents covering key global markets such as the US and Europe. Given that Phylomer peptides are fragments of naturally occurring proteins sourced from ancient bacteria, they have a different origin than antibodies and are therefore not bound by traditional antibody patents.

Phylogica has designed the technologies of Phylomer libraries and Blocker Trap to accelerate the discovery of drugs that are more patient friendly and have fewer side effects than existing alternatives. Phylomers, which are naturally stable protein segments, have the ability to bind tightly to target proteins and render them inactivate.

Currently, Phylogica is holding discussions with over 15 major Pharma companies to provide services that would accelerate those Pharma companies' drug development programs.

Phylogica's proprietary libraries are validated as world class with numerous partnering discussions underway to discovery Phylomer hits against third party targets including several major Pharma companies already engaged with new offering and the recent agreement with Roche to evaluate Phylogica's proprietary Phylomer® technology in transporting large molecules to attack disease targets within cells.

Phylogica's technology is mature and the company is engaged in revenue-generating, out-licensing deals and discovery alliances. Phylogica is applying its platform against a range of targets and disease models and to incrementally grow its contract discovery business.

In order to earn fees for services and milestone payments, Phylogica emphasizes on working with the top tier pharmaceutical and biotech companies where the prospects and value of ongoing commercial relationships and collaborations are much higher. The Company's business model is based on up-front payments received for identifying potentially therapeutic peptides for clients who have their own drug targets.

There is a huge opportunity for the Company in the growing biologics drug space. Phylogica's proprietary Phylomer libraries give the Company unparalleled capability in biologic (peptide-based) product discovery and development.

Phylogica has established a strong presence in this growing biologic drug space and as such is part of the ground swell of new technologies used to identify and create new biologic therapeutic drugs. Over the past year, the company has been focusing on its strengths in biologics as a peptide discovery company, earning fees for services and milestones rather than operating as a full-scale drug development company where drugs are taken into the clinic with substantial risks and sizable, ongoing capital demands.

The Company is working with major Pharma companies to provide them with services that would accelerate those companies' drug development programs. Generally, timelines to complete contracts in the pharmaceutical industry evolve over many months. To manage this process, Phylogica has established a wide spectrum of interactions with prospective partners, placing major efforts into those transactions closer to consummation and spacing out the time commitments for both closing deals and for planning work packages.

Phylogica's current emphasis has been on working with the top tier companies where the prospects and value of ongoing commercial relationships and collaborations are much higher.

Recently, Phylogica achieved a major breakthrough in its effort to collaborate with major Pharma / biotech companies to work on new frontiers of drug development based on its proprietary Phylomer technology.

The Company reached an agreement with Roche, an innovative company in the pharmaceuticals and diagnostics space, to use Phylogica's proprietary Phylomer technology for transporting large molecules to attack disease targets within cells. Phylogica will be working at the cutting edge of drug discovery in a space which could open up an enormous range of new targets and potentially lead to new treatment options for patients.

Phylogica Limited

Directors' Report (continued)

With this collaboration, a new avenue has opened for the Company, wherein Phylogica along with Roche would be working on targeting macromolecules to the intracellular matrix. While there has been great success with these drugs in hitting the disease targets outside of cells, this joint initiative will be working to hit the plethora of potential targets that exist within cells with biologics. This area is of interest to Roche, given that they are the largest player in the biologics space globally, following their acquisition of US based biologics giant Genentech. Roche is the largest Pharmaceutical company in Europe and is the world's biggest biologics company, with 75,000 employees and annual revenue of more than 40 billion Swiss Francs.

KEY MILESTONES

The key milestones that the company has focused on achieving in the last 12 months are listed below:

- Commercial validation through discovery partnership with Roche
- Demonstrated ability to interact with extracellular targets with high affinity (low nM to pM)
- Demonstrated ability to increase potency of hits from proprietary libraries (eg. CD40L hits)
 - Different external & internal programs employing a number of approaches to affinity maturation (multimerisation and mutagenesis)
- Demonstrated functional blockade of biological pathways of inflammation (eg. CD40L, Mal)
- Demonstrated improved PK properties
 - Different external & internal programs (HSA binder, PEGylation etc)
- Demonstrated ability to interact with intracellular targets
 - PYC35 (burns/wound healing program)
 - PYC36 (stroke/brain trauma program)
 - Adaptors in TLR pathway (Opsona program)
- Demonstrated platform applicability to other disease areas
 - Validation of Phylomer® antimicrobial hits against multi-resistant clinical isolates from hospital acquired infections

In December 2009 Phylogica completed a capital raising of \$2 million to provide additional working capital for the ongoing development of its proprietary Phylomer® peptide libraries, its intellectual property portfolio protection and working with major Pharma companies.

The Directors do not consider that forecasting future performance is anything other than speculative, as it will depend upon the success of the Company's further development and commercialisation of its intellectual property into drug candidates or licensing opportunities.

Phylogica Limited

Directors' Report (continued)

Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

The lead auditor's independence declaration is set out on page 7 and forms part of the Directors' report for the half-year ended 31 December 2009.

Signed in accordance with a resolution of the directors:

A handwritten signature in black ink, appearing to read 'Bruce McHarrie', with a horizontal line underneath it.

Bruce McHarrie
Director

Perth
23rd February 2010

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Phylogica Limited for the half-year ended 31 December 2009, I declare that to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Phylogica Limited.

Perth, Western Australia
23rd February 2010


N G NEILL
Partner, HLB Mann Judd

Phylogica Limited
Condensed Consolidated Statement of Comprehensive Income
For the half year ended 31 December 2009

		Consolidated	
	Note	31 Dec 2009	31 Dec 2008
		\$	\$
Continuing Operations			
Commercial Income		1,198	105
Government Grant Income		79,749	558,469
Net Interest Income		43,786	71,879
Contract Research Costs		(850,904)	(996,864)
Personnel Expenses		(706,908)	(640,087)
Depreciation, Amortisation and Impairment		(27,119)	(937,592)
Professional Services		(116,681)	(220,186)
Travel and Accommodation		(114,488)	(71,373)
Licenses		(7,449)	(9,815)
Intellectual Property Maintenance		(148,172)	(203,173)
Laboratory Consumables		(385,528)	(246,954)
Occupancy Costs		(13,348)	(36,189)
Other Operating Expenses		(137,706)	(126,586)
Profit Before Income Tax Expense		(2,383,570)	(2,858,366)
Income Tax Expense		-	-
Net Profit for the Period		(2,383,570)	(2,858,366)
Other Comprehensive Income for the Period, Net of Tax		-	-
Total Comprehensive Income for the Period		(2,383,570)	(2,858,366)
Total Comprehensive Income for the Period Attributable to the Members of Phylogica Limited		(2,383,570)	(2,858,366)
		Cents	Cents
Basic Loss Per Share	8	(1.1)	(1.7)

Diluted loss per share is not shown because potential ordinary shares on issue at the comparative balance dates are not considered dilutive.

The condensed consolidated statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 12 to 15.

Phylogica Limited
Condensed Consolidated Statement of Financial Position
As at 31 December 2009

		Consolidated	
	<i>Note</i>	31 Dec 2009	30 June 2009
		\$	\$
Current assets			
Cash and cash equivalents		3,073,478	3,072,905
Trade and other receivables		507,338	341,576
Total current assets		3,580,816	3,414,481
Non-current assets			
Property, plant and equipment	4	66,418	72,740
Total non-current assets		66,418	72,740
Total assets		3,647,234	3,487,221
Current liabilities			
Trade and other payables		312,708	439,012
Employee benefits	9	68,206	51,701
Deferred government grants and unearned income		465,347	44,014
Total current liabilities		846,261	534,727
Non-current liabilities			
Employee benefits		20,530	13,457
Interest bearing liabilities		1,180,463	1,027,793
Total non-current liabilities		1,200,993	1,041,250
Total liabilities		2,047,254	1,575,977
Net assets		1,599,980	1,911,244
Equity			
Issued capital	2	21,973,323	20,093,323
Reserves		862,927	670,621
Accumulated losses	2	(21,236,270)	(18,852,700)
Total equity attributable to members of Phylogica Limited		1,599,980	1,911,244

The condensed consolidated statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 12 to 14.

Phylogica Limited
Condensed Consolidated Statement of Cash Flows
For the half year ended 31 December 2009

		Consolidated	
	<i>Note</i>	31 Dec 2009	31 Dec 2008
		\$	\$
Cash flows from operating activities			
Income received		90,198	786,269
Cash paid to suppliers and employees		(2,231,295)	(2,617,126)
Cash used in operations		(2,141,097)	(1,830,857)
Interest received		43,786	66,061
Income taxes refunded		123,078	-
Net cash from operating activities		(1,974,233)	(1,764,796)
Cash flows from investing activities			
Acquisition of property, plant and equipment	4	(20,797)	(4,619)
Proceeds from sale of property, plant and equipment		15,603	-
Net cash from investing activities		(5,194)	(4,619)
Cash flows from financing activities			
Proceeds from the issue of share capital	2	2,000,000	-
Payment of transaction costs	2	(120,000)	-
Proceeds from borrowings		100,000	-
Cash acquired on acquisition of subsidiary		-	80,107
Net cash from financing activities		1,980,000	80,107
Net increase/ (decrease) in cash and cash equivalents		573	(1,689,308)
Cash and cash equivalents at 1 July		3,072,905	3,232,073
Cash and cash equivalents at 31 December		3,073,478	1,542,765

This condensed consolidated statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 12 to 15.

Phylogica Limited
Condensed Consolidated Statement of Changes in Equity
For the half year ended 31 December 2009

	Note	Share Capital	(Accumulated Losses)	Reserves	Total
Balance at 1 July 2008		16,675,573	(14,361,780)	380,845	2,694,638
Loss attributable to members of parent entity		-	(2,858,366)	-	(2,858,366)
Other comprehensive Income		-	-	-	-
Total comprehensive income/(loss)		-	(2,858,366)	-	(2,858,366)
Shares issued during period	2	1,012,500	-	-	1,012,500
Share based payments		-	-	1,041	1,041
Balance at 31 December 2008		17,688,073	(2,858,366)	381,886	849,813
Balance at 1 July 2009		20,093,323	(18,852,700)	670,621	1,911,244
Loss attributable to members of parent entity		-	(2,383,570)	-	(2,383,570)
Other comprehensive Income		-	-	-	-
Total comprehensive income/(loss)		-	(2,383,570)	-	(2,383,570)
Shares issued during period	2	2,000,000	-	-	2,000,000
Share capital transaction costs	2	(120,000)	-	-	(120,000)
Convertible notes equity component		-	-	(52,670)	(52,670)
Share based payments		-	-	244,976	244,976
Balance at 31 December 2009		21,973,323	(21,236,270)	862,927	1,599,980

This condensed consolidated statement of changes in equity is to be read in conjunction with the notes to the financial statements set out on pages 12 to 15.

Phylogica Limited

Notes to the Condensed Consolidated Financial Statements

For the half year ended 31 December 2009

Note 1: Significant Accounting Policies

Phylogica Limited is a company domiciled in Australia. The condensed consolidated interim financial statement of the Company as at and for the six months ended 31 December 2009 comprises the Company and its subsidiary (together referred to as the "Group").

The annual financial statement of the Company as at and for the year ended 30 June 2009 is 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 statement is a general purpose financial statement which has 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 IAS34: Interim Financial Reporting.

The interim financial statement does not include all of the information required for a full annual financial statement, and should be read in conjunction with the annual financial statement of the Company as at and for the year ended 30 June 2009.

The interim financial statement of the Group for the six months ended 31 December 2009 was authorised for issue by the directors on 23rd February 2010.

(b) Significant Accounting Policies

The accounting policies applied by the Group in this interim financial statement are the same as those applied by the Group in its financial statement as at and for the year ended 30 June 2009.

(c) Adoption of New and Revised Accounting Standards

In the half year ended 31 December 2009, the Group has reviewed all of the new and revised Standards and interpretations issued by the AASB that are relevant to its operation and effective for annual reporting periods beginning on or after 1 July 2009.

During the current period, certain accounting policies have changed as a result of new or revised accounting standards which became operative for the annual reporting period commencing on 1 July 2009.

The affected policy and standard is:

- Segment Reporting- new AASB 8 *Operating Segments*.

(d) Segment Reporting

The Group has applied AASB 8 *Operating Segments* from 1 July 2009. AASB 8 requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes.

Operating segments are now 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) 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 this interim financial statement, 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 statement as at and for the year ended 30 June 2009.

(f) Financial Risk Management

The Group's financial risk management objectives and policies are consistent with that disclosed in the financial statement as at and for the year ended 30 June 2009.

Phylogica Limited

Notes to the Condensed Consolidated Financial Statements (continued)

For the half year ended 31 December 2009

(g) Going Concern

The half-year financial statement 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 31 December 2009 the Group has incurred a loss of \$2,383,570 (December 2008: loss of \$2,858,366) and at 31 December 2009 the Company had working capital of \$2,734,555 (June 2009: \$2,879,754) including a cash and cash equivalents balance of \$3,073,478 (June 2009: \$3,072,905). Cash used in operating activities in the December 2009 half-year was \$1,974,233 (2008: \$1,764,796).

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

- Cash flow forecasts for the next twelve months demonstrate the ability of the Company to continue as a going concern on the basis that expected revenue is received and further capital is raised.
- To the extent that further equity is required, the Directors are confident that a sufficient capital raising can be completed. In the event that further capital is not available within the required time frame, there is also the ability of the Group to suspend R&D activity until further capital is raised.

Note 2: Issued Capital and Accumulated Losses

	31 Dec 2009	30 June 2009
	\$	\$
(i) Issued and paid up capital		
235,751,764 ordinary shares fully paid (30 June 2009: 215,751,764)	21,973,323	20,093,323

The following movements in ordinary shares were recorded from 1 July 2009:

	Number of shares	\$
Balance brought forward as at 1 July 2009	215,751,764	20,093,323
20,000,000 Shares issued at \$0.10	20,000,000	2,000,000
Capital raising transaction costs	-	(120,000)
	235,751,764	21,973,323

	31 Dec 2009	30 June 2009
	\$	\$
(ii) Accumulated losses		
Opening balance as at 1 July	(18,852,700)	(14,361,780)
Loss for the period	(2,383,570)	(4,490,920)
Closing balance as at 31 December 2009 / 30 June 2009	(21,236,270)	(18,852,700)

(iii) Options

Options to acquire ordinary shares were issued to directors during the half year ended 31 December 2009, 4,806,164 options were issued to directors during the half year. 3,000,000 options were issued to Dr P Watt, 618,337 options issued to Dr D Wilson, 368,700 options issued to Mr B McHarrie, 368,700 options issued to Mr H Karelis and 450,427 options issued to Mr A von Roy. Of these options 50% vested immediately on grant and 50% vest 31 March 2010.

Total number of options on issue as at 31 December 2009 was 17,940,164:

Description	Options on Issue	Expiry Date	Exercise Price
Unquoted Options	6,650,000	30 June 2010	\$0.25
Unquoted Options	784,000	31 July 2010	\$0.25
Unquoted Options	400,000	31 July 2011	\$0.25
Unquoted Options	5,300,000	31 March 2012	\$0.075
Unquoted Options	4,806,164	31 March 2012	\$0.075

Note 3: Income Tax Expense/ Benefit

Deferred tax assets have not been recognised as at 31 December 2009 because, at this stage of the Group's development, it cannot be considered as "probable" that future taxable profit will be available against which the Group can utilise the benefits.

Phylogica Limited

Notes to the Condensed Consolidated Financial Statements (continued)

For the half year ended 31 December 2009

Note 4: Property, Plant and Equipment

Acquisitions and disposals

During the six months ended 31 December 2009, the Group acquired assets with a cost of \$20,797 (six months ended 31 December 2008: \$4,619).

Note 5: 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 income and balance sheet statements.

Note 6: Events Subsequent to Balance Date

Subsequent to the interim balance sheet and up to the date of this report, there has not arisen any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Group, to affect significantly the operations of the Group, the results of those operations, or the state of the affairs of the Group in future financial years.

Note 7: Contingent Liabilities and Contingent Assets

There are no known significant liabilities or contingent assets as at the date of this statement.

Note 8: Earning Per Share

Basic earnings per share

The calculation of basic earnings per share for the six months ended 31 December 2009 was based on the loss attributable to ordinary shareholders of \$2,838,570 (six months ended 31 December 2008: \$2,858,366) and a weighted average number of ordinary shares outstanding during the six months ended 31 December 2009 of 216,190,120 (six months ended 31 December 2008: 163,751,764), calculated as follows:

	31 Dec 2009	31 Dec 2008
	\$	\$
(i) Profit attributable to ordinary shareholders		
Loss for the period:		
Basic earnings	(2,383,570)	(2,858,366)
(ii) Weighted average number of ordinary shares		
Number of ordinary shares	215,751,764	143,501,764
Effect of shares issued	869,565	4,072,011
Weighted average number of ordinary shares at 31 December	<u>216,621,329</u>	<u>163,751,764</u>

Note 9: Employee Benefits

(i) Details of total employee benefits as at balance sheet date

Current

Liability for annual leave	68,206	78,351
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Non Current

Liability for long service leave	20,530	23,299
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Total employee benefits	<u>88,736</u>	<u>101,650</u>
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(ii) Share-based payments

In 2005 the Company established an employee share option programme (ESOP) that entitles key management personnel and senior employees to purchase shares in the Company. The terms and conditions of the share option programme are disclosed in the ESOP rules approved by the General Meeting of shareholders held in November 2006. During the December 2009 half year a further 2,541,083 options (previously granted under the ESOP) vested. At 31 December 2009 a further 5,053,083 options remain to vest.

Phylogica Limited

Notes to the Condensed Consolidated Financial Statements (continued)

For the half year ended 31 December 2009

During the six months ended 31 December 2009, 4,806,164 options were granted to directors with the approval of share holders at the general meeting held 30 September 2009.

The terms and conditions of the grants made during the six months ended 31 December 2009 are as follows:

Grant date	Number of instruments	Vesting conditions	Contractual life of options
Option grant at 30 September 2009	2,403,083	31 September 2009	2.50 years
Option grant at 30 September 2009	2,403,083	31 March 2010	2.50 years

(iii) Fair value of share options and assumptions for the six months ended 31 December 2009:

Number of Options	Grant Date	Expiry Date	Fair Value Per Option	Exercise Price	Price of Shares on grant date	Risk Free Interest Rate (%)	Estimated Volatility (%)	Number Vested at 31/12/09
4,806,164	30 Sept 09	31 Mar 12	\$0.06	\$0.075	\$0.11	4.8	100	2,403,083

2,403,083 options vested immediately, the remaining 2,403,083 options will vest 31 March 2010.

Note 10: 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 \$477,229 for the six months ended 31 December 2009 (six months ended 31 Dec 2008: \$412,854).

Note 11: Related Parties

Arrangements with related parties continue to be in place. For details of these arrangements, refer to the 30 June 2009 annual financial statements.

Directors' declaration

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

1. the financial statements and notes set out on pages 8 to 15 are in accordance with the Corporations Act 2001 including:
 - (a) giving a true and fair view of the financial position of the Group as at 31 December 2009 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:

A handwritten signature in black ink, appearing to read 'Bruce McHarrie', with a horizontal line underneath it.

Bruce McHarrie
Director

Perth
23rd February 2010

INDEPENDENT AUDITOR'S REVIEW REPORT**To the members of****PHYLOGICA LIMITED****Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report, which comprises the condensed statement of financial position as at 31 December 2009, the condensed statement of comprehensive income, condensed statement of changes in equity, condensed statement of cash flows and notes to the financial statements for the half-year ended on that date, and the directors' declaration, of Phylogica Limited and the entities it controlled during the half-year ended 31 December 2009 ("consolidated entity").

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation and fair presentation of the half-year financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of the half-year financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 Interim and Other Financial Reports 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 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 2009 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 Phylogica Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

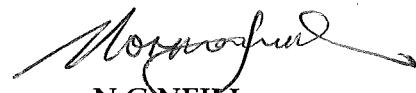
Conclusion

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

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2009 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.


HLB MANN JUDD
Chartered Accountants

Perth, Western Australia
23rd February 2010


N G NEILL
Partner