

Phylogica Limited

ACN 098 391 961

Appendix 4D

Half-Year Statement

Period ending 31 December 2012

Results for announcement to the market

Operating Performance	% Increase/ (Decrease)	31 Dec 2012 \$,000	31 Dec 2011 \$,000
Revenue from Ordinary Activities	(90.30%)	134	1,382
(Loss) from ordinary activities after tax attributable to members	(18.85%)	(1,158)	(1,427)
Net (Loss) for the half year attributable to members	(18.85%)	(1,158)	(1,427)

Comment

The loss was reduced compared to the previous half year, despite lower revenue, due to a receipt of \$1.879 million Research and Development tax rebate.

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 2012.

Net tangible assets per ordinary security	31 December 2012	31 December 2011
Net tangible assets	\$3,346,966	\$5,019,368
Number of shares on issue at reporting date	466,890,744	445,890,744
Net tangible assets per ordinary security	0.7 cents	1.1 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 2012 form part of this Appendix 4D. This half-year report is to be read in conjunction with the Phylogica Limited 2012 annual financial statements and the notes contained therein.



Phylogica Limited

ACN 098 391 961

Condensed Consolidated Interim Financial Statements

For the Half Year Ended 31 December 2012

Phylogica limited

ACN 098 391 961

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Directors

Dr Douglas Wilson
Chairman

Dr Paul Watt
CEO and Executive Director

Mr Nicolas Woolf
CFO and Executive Director

Mr Bruce McHarrie
Non-Executive Director

Mr Jeremy Curnock Cook
Non-Executive Director

Company Secretary

Mr Graeme Boden
Telephone: 08 9384 3284
Facsimile: 08 9284 3801
Email: gboden@bigpond.net.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

Registered Office

15 Lovegrove Close
Mount Claremont
Perth
Western Australia 6010
Telephone: 08 9384 3284
Facsimile: 08 9284 3801
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:

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

Frankfurt Exchange
Code: PH7 ordinary shares

Directors' Report

For the Half Year Ended 31 December 2012

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 2012 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

Dr Doug Wilson	Chairman
Mr Bruce McHarrie	
Mr Jeremy Curnock Cook	

Executive

Dr Paul Watt	Chief Executive Officer
Mr Nicolas Woolf	Chief Financial Officer

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

PHYLOGICA OVERVIEW

Phylogica Limited (ASX: PYC) is a biotechnology company based in Perth, Australia, with a world-class drug discovery platform harnessing the rich biodiversity of nature to discover novel peptide therapeutics. The Company's Phylomer[®] libraries have been optimised by natural evolutionary selection for peptides with stable drug-like structures. The unique qualities of Phylogica's Phylomer libraries are validated by its partnerships with Roche, MedImmune (the worldwide biologics unit of AstraZeneca), Pfizer and Janssen Biotech (one of the Janssen pharmaceutical companies of Johnson & Johnson).

OPERATIONAL REVIEW

The first half of 2013 has been a mixed period for Phylogica. There has been solid progress with existing partnerships and meaningful enhancements to the Phylomer platform. The Company completed a major upgrade of its platform, such that the new generation Phylomer libraries comprise almost 50-fold more peptides, amounting to over 100 billion unique structures.

The most notable progress to report from existing alliances was with Janssen Biotech, which is the Company's largest and broadest partnership. In January 2013, Janssen extended the collaboration following the encouraging progress achieved since commencing the research. In the first stage, Phylogica successfully constructed customised libraries of Phylomer peptides conjugated to Janssen's proprietary therapeutic cargo. The screening stage has now commenced, in which Phylogica will identify Phylomer-drug conjugates from these libraries as potential drug candidates against a disease cell type of interest to Janssen.

In the first six months of the financial year, Phylogica achieved another first in signing its inaugural cosmetics deal, licensing the Company's skin-repair Phylomer peptide PYC35 to Le Métier de Beauté for use in cosmetic products. Le Métier will use PYC35 in its premium range of Peau Vierge anti-aging creams that will be commercialised initially across the USA through high-end department stores. It is expected that the new cosmetic serums will be launched by the end of 2013.

While new discovery alliances have taken longer to negotiate than was anticipated at the start of the financial year, multiple discussions are underway, including some at relatively advanced stages. Furthermore, Phylogica recently announced the appointment of advisors to assist with commercialising its family of anti-inflammatory Phylomers, which have broad potential as treatments for stroke and traumatic brain injury, and lung inflammation resulting from acute respiratory distress syndrome (ARDS) and septic shock.

Directors' Report (Continued)

For the Half Year Ended 31 December 2012

FINANCIAL STRENGTH

Phylogica's net cash balance as at 31 December 2012 was \$3.628 million. This figure includes an R&D tax rebate of \$1.879 million, which was received in the second quarter of the financial year. The Company anticipates that a similar quantum will be received in relation to the 2013 financial year. Since the end of the period, Phylogica received an undisclosed financial milestone from Janssen and could receive additional payments before the end of the financial year from existing Pharma collaborators and new prospective partners, pending the successful completion of negotiations. Furthermore, Phylogica has applied for non-dilutive grant funding to support various in-house programs. Some of these grants, if the applications are successful, are due to be announced before the end of the financial year.

OUTLOOK

The Pharma companies that delayed ongoing discussions due to internal restructurings have re-emerged with maintained interest in the Phylomer platform. In addition, the industry's focus on peptides as therapeutics continues to grow significantly, which is evident from the fact that the peptide drug market is growing twice as fast as traditional pharmaceuticals. Having upgraded the platform and continued to invest in its in-house capabilities, Phylogica has built on its industry-leading science in the field. As a result, Phylogica is well positioned to deliver on its objectives over the next 12 months: 1) to drive revenue through discovery alliances; and 2) to establish new out-licensing opportunities by generating value-adding data around its in-house programs.

LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT 2001

The lead auditor's independence declaration is set out on page 4 and forms part of the Directors' report for the half-year ended 31 December 2012.

Signed in accordance with a resolution of the directors:



Bruce McHarrie
Director

Perth
20th February 2013

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the review of the financial report of Phylogica Limited for the half-year ended 31 December 2012, 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
20 February 2013



N G NEILL
Partner, HLB Mann Judd

Phylogica Limited
Condensed Consolidated Statement of Comprehensive Income
For the half year ended 31 December 2012

		Consolidated	
	<i>Note</i>	31 Dec 2012	31 Dec 2011
		\$	\$
Continuing Operations			
Commercial Income	3	-	1,295,474
Government Grant Income		98,056	-
Net Interest Income		35,814	86,936
Contract Research Costs		(1,224,698)	(1,027,443)
Personnel Expenses		(839,619)	(601,932)
Depreciation, Amortisation and Impairment		(137,007)	(83,691)
Professional Services		(325,746)	(299,482)
Travel and Accommodation		(154,976)	(223,050)
Intellectual Property Maintenance		(72,841)	(106,711)
Laboratory Consumables		(276,580)	(331,626)
Occupancy Costs		(12,401)	(16,376)
Other Operating Expenses		(127,132)	(118,899)
Loss Before Income Tax Expense		<u>(3,037,130)</u>	<u>(1,426,800)</u>
Income Tax Benefit		1,879,238	-
Net Loss for the Period		<u>(1,157,892)</u>	<u>(1,426,800)</u>
Other Comprehensive Income for the Period, Net of Tax	3	-	-
Total Comprehensive Loss for the Period		<u>(1,157,892)</u>	<u>(1,426,800)</u>
		Cents	Cents
Basic Loss Per Share	9	(0.25)	(0.35)
Diluted Loss Per Share	9	(0.21)	(0.35)

The condensed consolidated statement of comprehensive income is to be read in conjunction with the notes to the financial statements set out on pages 9 to 14.

Phylogica Limited
Condensed Consolidated Statement of Financial Position
As at 31 December 2012

		Consolidated	
	Note	31 Dec 2012	30 June 2012
			\$
Current assets			
Cash and cash equivalents		3,628,654	2,779,090
Trade and other receivables		86,395	237,219
Total current assets		<u>3,715,049</u>	<u>3,016,309</u>
Non-current assets			
Property, plant and equipment	5	465,076	478,715
Total non-current assets		<u>465,076</u>	<u>478,715</u>
Total assets		<u>4,180,125</u>	<u>3,495,024</u>
Current liabilities			
Trade and other payables		563,724	559,613
Employee benefits	10	240,053	216,988
Total current liabilities		<u>803,777</u>	<u>776,601</u>
Non-current liabilities			
Employee benefits	10	29,382	24,565
Total non-current liabilities		<u>29,382</u>	<u>24,565</u>
Total liabilities		<u>833,159</u>	<u>801,166</u>
Net assets		<u>3,346,966</u>	<u>2,693,858</u>
Equity			
Issued capital	2	34,055,506	32,455,506
Reserves		1,384,570	1,173,570
Accumulated losses	2	(32,093,110)	(30,935,218)
Total equity attributable to members of Phylogica Limited		<u>3,346,966</u>	<u>2,693,858</u>

The condensed consolidated statement of financial position is to be read in conjunction with the notes to the financial statements set out on pages 9 to 14.

Phylogica Limited
Condensed Consolidated Statement of Cash Flows
For the half year ended 31 December 2012

		Consolidated	
	Note	31 Dec 2012	31 Dec 2011
			\$
Cash flows from operating activities			
Income received		145,065	-
Cash paid to suppliers and employees		<u>(2,897,737)</u>	(3,240,759)
Cash used in operations		<u>(2,752,672)</u>	(3,240,759)
R&D Tax Rebate		1,879,238	-
Grant Income		98,056	-
Interest received		<u>37,575</u>	91,152
Net cash used in operating activities		<u>(737,803)</u>	(3,149,607)
Cash flows from investing activities			
Acquisition of property, plant and equipment	5	<u>(12,633)</u>	(241,071)
Net cash used in investing activities		<u>(12,633)</u>	(241,071)
Cash flows from financing activities			
Proceeds from the issue of share capital	2	-	2,172,276
Proceeds from the issue of converting notes	2	1,600,000	-
Payment of transaction costs	2	<u>-</u>	(84,158)
Net cash from financing activities		<u>1,600,000</u>	2,088,118
Net (decrease)/increase in cash and cash equivalents		849,564	(1,302,560)
Cash and cash equivalents at 1 July		<u>2,779,090</u>	5,199,473
Cash and cash equivalents at 31 December		<u>3,628,654</u>	3,896,913

This condensed consolidated statement of cash flows is to be read in conjunction with the notes to the financial statements set out on pages 9 to 14.

Phylogica Limited
 Condensed Consolidated Statement of Changes in Equity
 For the half year ended 31 December 2012

	Note	Issued Capital	Accumulated Losses	Reserves	Total
Balance at 1 July 2011		30,367,388	(27,030,694)	1,016,029	4,352,723
Loss attributable to members of parent entity		-	(1,426,800)	-	(1,426,800)
Other comprehensive Income		-	-	-	-
Total comprehensive income/(loss)		-	(1,426,800)	-	(1,426,800)
Shares issued during period		2,172,276	-	-	2,172,276
Share capital transaction costs		(84,158)	-	-	(84,158)
Share based payments		-	-	5,327	5,327
Balance at 31 December 2011		32,455,506	(28,457,494)	1,021,356	5,019,368
Balance at 1 July 2012		32,455,506	(30,935,218)	1,173,570	2,693,858
Loss attributable to members of parent entity		-	(1,157,892)	-	(1,157,892)
Other comprehensive Income		-	-	-	-
Total comprehensive income/(loss)		-	(1,157,892)	-	(1,157,892)
Proceeds from the issue of converting notes	2	1,600,000	-	-	1,600,000
Share based payments		-	-	211,000	211,000
Balance at 31 December 2012		34,055,506	(32,093,110)	1,384,570	3,346,966

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 9 to 14.

Phylogica Limited

Notes to the Condensed Consolidated Financial Statements

For the half year ended 31 December 2012

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 2012 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 2012 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 IAS34: 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 2012 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 2012 were authorised for issue by the directors on 20th February 2013.

(b) Significant Accounting Policies

The accounting policies applied by the Group in the interim financial statements are the same as those applied by the Group in its financial statements as at and for the year ended 30 June 2012.

(c) Adoption of New and Revised Accounting Standards

In the half year ended 31 December 2012, the Directors have 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 2012.

It has been determined by the Directors that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on its 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 half-year ended 31 December 2012. 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 its business and, therefore, no change necessary to Group accounting policies.

(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) 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.

Phylogica Limited

Notes to the Condensed Consolidated Financial Statements (Continued)

For the half year ended 31 December 2012

Note 1: Significant Accounting Policies (Continued)

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 2012.

(f) Financial Risk Management

The Group's financial risk management objectives and policies are consistent with that disclosed in the financial statements as at and for the year ended 30 June 2012.

(g) Going Concern

The half-year financial statements have 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 half year ended 31 December 2012 the Group has incurred a loss of \$1,157,892 (December 2011: loss of \$1,426,800) and at 31 December 2012 the Company had working capital of \$2,911,272 (June 2012: \$2,239,708) including a cash and cash equivalents balance of \$3,628,654 (June 2012: \$2,779,090). Cash used in operating activities in the December 2012 half-year was \$737,803 (2011: \$3,149,607).

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

- There is capacity for the Company to reduce its operating cost structure.
- 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.
- To the extent that further equity is required the Directors are confident that a sufficient capital raising can be completed, as has previously been demonstrated.

Note 2: Issued Capital, Accumulated Losses and Reserves

	31 Dec 2012	30 June 2012
	\$	\$
(i) Issued and unissued capital:		
466,890,744 ordinary shares fully paid (30 June 2012: 466,890,744)	32,455,506	32,455,506
Shares to be issued on conversion of converting notes	1,600,000	-
	34,055,506	32,455,506

The following movements in ordinary shares were recorded from 1 July 2012:

	Number of shares	\$
Balance brought forward as at 1 July 2012	466,890,744	32,455,506
Shares to be issued on conversion of converting notes	- ¹	1,600,000
	466,890,744	34,055,506

¹See Note 2 (vii).

	31 Dec 2012	30 June 2012
	\$	\$
(ii) Accumulated losses:		
Opening balance as at 1 July	(30,935,218)	(27,030,694)
Loss for the period	(1,157,892)	(3,904,524)
Closing balance as at 31 December 2012 / 30 June 2012	(32,093,110)	(30,935,218)
(iii) Reserves:		
Opening balance as at 1 July	1,173,570	1,016,029
Share based payment expense	211,000	157,541
Closing balance as at 31 December 2012 / 30 June 2012	1,384,570	1,173,570

Phylogica Limited

Notes to the Condensed Consolidated Financial Statements (Continued)

For the half year ended 31 December 2012

Note 2: Issued Capital and Accumulated Losses (Continued)

(iv) Options:

<u>Description</u>	<u>Issued During the Half Year</u>	<u>Options on Issue</u>	<u>Expiry Date</u>	<u>Exercise Price</u>
Unquoted Options	-	7,237,500	31 March 2013	\$0.075
Quoted Options PYCOA	-	71,090,028	30 June 2016	\$0.09
Unquoted Options	8,125,000	8,125,000	15 August 2015	\$0.035
	8,125,000	86,452,528		

No options were issued to Directors during the half year to 31 December 2012.

(v) Loan Funded Shares (LFS):

<u>Description</u>	<u>Issued During the Half Year</u>	<u>LFS on Issue</u>	<u>Expiry Date</u>	<u>Exercise Price</u>
LFS	-	21,000,000	3 June 2018	\$0.064
	-	21,000,000		

No LFS were issued to Directors during the half year to 31 December 2012.

(vi) Zero Exercise Price Options (ZEPOs):

<u>Description</u>	<u>Issued During the Half Year</u>	<u>ZEPOs on Issue</u>	<u>Expiry Date</u>	<u>Exercise Price</u>
ZEPOs	6,000,000	6,000,000	2 December 2013	Nil
	6,000,000	6,000,000		

The ZEPOs will only be able to be exercised upon achievement of both of the following performance milestones:

- the Company has entered into three or more binding research and development collaborations on similar financial terms to the Company's existing agreements with Janssen Biotech or has entered into three or more binding research collaborations which, in aggregate, provide the Company with an equivalent financial outcome to having entered into three or more such collaborations; and
- the average of the daily volume weighted average price of Shares on ASX over the 5 trading days preceding and not including the Conversion Date of the Converting Notes is a minimum of 10 cents,

5,250,000 ZEPOs were issued to Directors during the half year to 31 December 2012.

(vii) Converting Notes:

<u>Description</u>	<u>Issued During the Half Year</u>	<u>Converting Notes on Issue</u>	<u>Conversion Date</u>
Converting Notes	16,000	16,000	2 December 2013
	16,000	16,000	

Under the Converting Notes, holders will be issued a number of shares and a number of new PYCOA options.

The number of Shares to be issued on conversion of the Converting Notes will depend on the Company's prevailing Share price leading into the date that the Shares are issued on conversion of the Converting Notes (2 December 2013) and also on the Company achieving its objectives of signing new drug discovery alliances and revenue generation.

The minimum number of shares to be issued is 30,188,679 at a value of \$0.053 per share.

Phylogica Limited

Notes to the Condensed Consolidated Financial Statements (Continued)

For the half year ended 31 December 2012

Note 2: Issued Capital and Accumulated Losses (Continued)

The number of share which would be issued with the maximum discount applied to the market share price of \$0.025 at 31 December 2012 would be 106,666,667 shares at an issue price of \$0.015.

The number of PYCOA Options to be issued on the conversion of a Converting Note will be two PYCOA Options for every three Shares issued on conversion.

250 converting notes were issued to Directors during the half year to 31 December 2012.

Note 3: Net Loss for the Period

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

	31 Dec 2012	31 Dec 2011
	\$	\$
Commercial Income	-	1,295,474
Income Tax Benefit	1,879,238	-

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

A new Federal Government research and development scheme commenced with effect from 1 July 2011 and the first income tax rebate under the scheme was received during the December 2012 half year. Phylogica had been ineligible for a refund under the previous scheme because its R & D expenditure exceeded the maximum threshold of \$1 million.

Note 4: Future Income Tax Expense/ Benefit

Deferred tax assets have not been recognised as at 31 December 2012 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.

Note 5: Property, Plant and Equipment

Acquisitions and disposals

During the six months ended 31 December 2012, the Group acquired assets with a cost of \$123,368 (six months ended 31 December 2011: \$153,076).

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

There have been no other events subsequent to the balance date which are sufficiently material to warrant disclosure, other than the extension of the Janssen collaboration, as discussed to ASX on 31 January 2013.

Note 8: Contingent Liabilities and Contingent Assets

There are no known significant liabilities or contingent assets as at the date of these statements.

Phylogica Limited

Notes to the Condensed Consolidated Financial Statements (Continued)

For the half year ended 31 December 2012

Note 9: Loss Per Share

Basic loss per share

The calculation of basic loss per share for the six months ended 31 December 2012 was based on the loss attributable to ordinary shareholders of \$1,157,892 (six months ended 31 December 2011: \$1,426,800) and a weighted average number of ordinary shares outstanding during the six months ended 31 December 2012 of 466,890,744 (six months ended 31 December 2011: 406,366,858), calculated as follows:

	31 Dec 2012	31 Dec 2011
	\$	\$
(i) Loss attributable to ordinary shareholders:		
Loss for the period:		
Basic loss	(1,157,892)	(1,426,800)
(ii) Weighted average number of ordinary shares:		
Number of ordinary shares at 30 June	466,890,744	405,197,346
Effect of shares issued	-	1,169,512
Weighted average number of ordinary shares at 31 December	<u>466,890,744</u>	<u>406,366,858</u>
(iii) Diluted number of shares		
Weighted average number of ordinary shares at 31 December	466,890,744	406,366,858
Effect of conversion of converting notes ¹	106,666,667	-
Effect of ZEPOs ²	-	-
	<u>573,557,411</u>	<u>406,366,858</u>

¹ See Note 2(vii).

² The ZEPOs conditions were not met at 31 December 2012.

Note 10: Employee Benefits

	31 Dec 2012	30 June 2012
	\$	\$
(i) Details of total employee benefits as at balance date:		
<i>Current</i>		
Liability for annual leave	191,162	157,429
Liability for long service leave	48,891	43,553
Superannuation contributions	-	16,006
<i>Non-Current</i>		
Liability for long service leave	29,382	24,565
Total employee benefits	<u>269,435</u>	<u>241,553</u>

(ii) Share based payments:

The following share based payments were raised during the six months to 31 December 2012:

Security	Grant Date	Share Based Expense
21,000,000 Loan funded shares	24 November 2011	128,947
8,125,000 Options	15 November 2012	77,653
6,000,000 Zero exercise price options	22 November 2012	4,400
		<u>211,000</u>

(iii) Fair value of share options and assumptions for the six months ended 31 December 2012:

8,125,000 options and 6,000,000 zero exercise price options (ZEPOs) were granted as remuneration during the half year ended 31 December 2012.

Number of Security	Grant Date	Expiry Date	Fair Value Per Security	Exercise Price	Share Price at Grant Date	Risk Free Interest Rate (%)	Estimated Volatility (%)	Number Vested at 31/12/12
8,125,000 ¹	15/11/2012	15/08/2015	\$0.015	\$0.035	\$0.024	2.775	100	7,500,000
6,000,000 ²	22/11/2012	02/12/2013	\$0.018	Nil	\$0.022	2.785	100	-

Phylogica Limited

Notes to the Condensed Consolidated Financial Statements (Continued)

For the half year ended 31 December 2012

Note 10: Employee Benefits (Continued)

1. Unlisted options
2. Zero exercise price options.

(iv) Loan funded share plan:

No loan funded shares were granted as remuneration during the half year ended 31 December 2012.

Note 11: 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 \$477,405 for the six months ended 31 December 2012 (six months ended 31 December 2011: \$465,354).

Note 12: Related Parties

Arrangements with related parties continue to be in place. For details of these arrangements, refer to the 30 June 2012 annual financial statements.

Note 13: Accumulated Expenditure Capitalised

The accounting standards do not permit the capitalisation of research and development expenditure in circumstances where the Company cannot demonstrate sustainable revenue generation 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 \$34.5 million in capital, reduced to \$32.5 million after netting capital raising fees. From this amount the following expenditures have been undertaken (all amounts \$ million, excluding the impact of tax):

	<u>Prior to</u> <u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Half Year to</u> <u>31 /12/2012</u>	<u>Total</u>
Research & Development:					
Contract Research	8.60	2.25	2.14	1.22	14.21
Personnel (allocation)	3.94	0.75	0.68	0.44	5.81
Laboratory Consumables	2.32	0.50	0.61	0.28	3.71
	<u>14.86</u>	<u>3.50</u>	<u>3.43</u>	<u>1.94</u>	<u>23.73</u>
IP Maintenance	1.93	0.29	0.29	0.07	2.58
	<u>16.79</u>	<u>3.79</u>	<u>3.72</u>	<u>2.01</u>	<u>26.31</u>

Hence, if the company had been able to capitalise research and development expenditure, the net assets of the company would be as set out below.

	<u>30 June 2012</u>		<u>31 December 2012</u>	
	<u>\$ million</u>	<u>Cents/ Share</u>	<u>\$ million</u>	<u>Cents/ Share</u>
Reported Net Assets	2.69	0.6	3.35	0.7
Research & Development	21.79	4.7	23.73	5.1
	<u>24.48</u>	<u>5.3</u>	<u>27.08</u>	<u>5.8</u>

The situation with IP maintenance is not as clear as only expenditures on currently held patents could be capitalised and the expenditures would need to be amortised over the patent life.

Phylogica Limited

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 6 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 2012 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:



Bruce McHarrie
Director

Perth
20th February 2013

INDEPENDENT AUDITOR'S REVIEW REPORT

To the members of Phylogica Limited

Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Phylogica Limited ("the company") which comprises the condensed statement of financial position as at 31 December 2012, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed 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 of 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.

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 controls as the directors determine is necessary to enable the preparation of the half year financial report that 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 financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2012 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.

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*.

Matters relating to the electronic presentation of the reviewed half-year financial report

This review report relates to the half-year financial report of the consolidated entity for the half-year ended 31 December 2012 included on the company's website. The company's directors are responsible for the integrity of the company's website. We have not been engaged to report on the integrity of this website. The review report refers only to the half-year financial report identified above. It does not provide an opinion on any other information which may have been hyperlinked to/from the half-year financial report. If users of the half-year financial report are concerned with the inherent risks arising from publication on a website they are advised to refer to the hard copy of the reviewed half-year financial report to confirm the information contained in this website version of the half-year financial report.

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 2012 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



N G NEILL
Partner

Perth, Western Australia
20 February 2013