

Appendix 4E

Preliminary final report

Year ended 30 June 2010
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)	Down 50.1%	To	688	From	1,379
Profit (loss) from ordinary activities after tax attributable to members (item 1.22)	Up 1.8%	To	(4,573)	From	(4,490)
Net profit (loss) for the period attributable to members (item 1.11)	Up 1.8%	To	(4,573)	From	(4,490)

Dividends

There are no dividend or distribution reinvestment plans in operation and there have been no dividend or distribution payments during the financial year ended 30 June 2010.

Comments

During the year, Phylogica Limited continued to pursue the discovery and development of its novel technology platform and unique peptide libraries.

During the year ended 30 June 2010 a total of \$2.1 million was raised by the issue of shares (\$2.0 million) and convertible notes (\$0.1 million).

Net tangible assets per ordinary security	30 June 2010	30 June 2009
Net tangible assets	(\$437,080)	\$1,911,244
Number of shares on issue at reporting date	235,751,764	215,751,764
Net tangible assets per ordinary security	(0.19 cents)	0.9 cents

The deficiency in net assets arises because convertible notes of \$1,340,000 face value are required by the accounting standards to be included in the balance sheet as debt. These notes will not be repaid unless the company elects, rather, they will be converted to equity, either before the maturity date, at the noteholders' election, or on the maturity date, automatically.

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 4E and the attached interim financial report are based on accounts which are in the process of being audited.

The attached preliminary consolidated financial report for the year ended 30 June 2010 forms part of this Appendix 4E. This report should be read in conjunction with the Phylogica Limited 2009 annual financial report and the notes contained therein.

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Preliminary Consolidated Statement of Comprehensive Income
For the year ended 30 June 2010

	<i>Note</i>	Consolidated	
		2010	2009
		\$	\$
Continuing Operations			
Commercial income		433,120	1,162
Government grant income		163,136	1,273,780
Net interest income		91,658	104,420
Contract research costs		(1,891,831)	(1,700,902)
Personnel expenses	4	(1,339,211)	(1,279,484)
Depreciation, amortisation & impairment		(66,941)	(1,006,796)
Professional services		(415,768)	(330,719)
Travel and accommodation		(228,940)	(126,221)
Licenses		(17,449)	(20,561)
Intellectual property maintenance		(293,539)	(353,390)
Laboratory consumables		(808,188)	(770,306)
Occupancy costs		(24,110)	(67,916)
Other operating expenses		(174,762)	(213,987)
Profit before income tax expense		(4,572,825)	(4,490,920)
Income tax expense		-	-
Net profit for the period		(4,572,825)	(4,490,920)
Other comprehensive income for the period, net of tax		-	-
Total comprehensive income for the period		(4,572,825)	(4,490,920)
Total comprehensive income for the period attributable to the members of Phylogica Limited		(4,572,825)	(4,490,920)
		Cents	Cents
Basic earnings per share	5	(2.02)	(2.76)
Diluted earnings per share	5	(2.02)	(2.76)

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

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Preliminary Consolidated Statement of Financial Position
For the year ended 30 June 2010

	<i>Note</i>	Consolidated	
		2010	2009
		\$	\$
Current assets			
Cash and cash equivalents	6	1,281,044	3,072,905
Trade and other receivables	7	124,417	341,576
Total current assets		1,405,461	3,414,481
Non-current assets			
Property, plant and equipment	8	164,579	72,740
Total non-current assets		164,579	72,740
Total assets		1,570,040	3,487,221
Current liabilities			
Trade and other payables	9	603,991	439,012
Employee benefits	10	95,303	51,701
Deferred government grants		44,727	44,014
Total current liabilities		744,021	534,727
Non-current liabilities			
Employee benefits	10	25,408	13,457
Interest bearing liabilities	11	1,237,691	1,027,793
Total non-current liabilities		1,263,099	1,041,250
Total liabilities		2,007,120	1,575,977
Net assets		(437,080)	1,911,244
Equity			
Issued capital	12	21,973,323	20,093,323
Reserves	13	1,015,122	670,621
Accumulated losses	14	(23,425,525)	(18,852,700)
Total equity attributable to members of Phylogica Limited		(437,080)	1,911,244

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

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Preliminary Consolidated Statement of Cash Flows
For the year ended 30 June 2010

	Note	Consolidated	
		2010 \$	2009 \$
<i>Cash flows from operating activities</i>			
Commercial income received		433,120	1,162
Government grants received		204,947	1,153,324
Cash paid to suppliers and employees		(4,480,722)	(5,130,926)
Cash generated from operations		<u>(3,842,655)</u>	<u>(3,976,440)</u>
Interest received		90,893	97,333
Income taxes refunded		123,078	-
<i>Net cash used in operating activities</i>	15	<u>(3,628,684)</u>	<u>(3,879,107)</u>
<i>Cash flows from investing activities</i>			
Acquisition of property, plant and equipment		(158,780)	(5,418)
Proceeds from sale of property, plant and equipment		15,603	-
Loan to subsidiary		-	-
<i>Net cash used in investing activities</i>		<u>(143,177)</u>	<u>(5,418)</u>
<i>Cash flows from financing activities</i>			
Cash acquired on acquisition of subsidiary		-	80,107
Proceeds from the issue of convertible notes		100,000	1,240,000
Proceeds from the issue of share capital		2,000,000	2,600,000
Payment of transaction costs		(120,000)	(194,750)
<i>Net cash from financing activities</i>		<u>1,980,000</u>	<u>3,725,357</u>
Net increase/ (decrease) in cash and cash equivalents		(1,791,861)	(159,168)
Cash and cash equivalents at 1 July		3,072,905	3,232,073
<i>Cash and cash equivalents at 30 June</i>	6	<u>1,281,044</u>	<u>3,072,905</u>

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

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Preliminary Consolidated Statement of Changes in Equity
For the year ended 30 June 2010

		Consolidated			
<i>Note</i>	Share Capital	Accumulated Losses	Reserves	Total	
	\$	\$	\$	\$	
	16,675,573	(14,361,780)	380,845	2,694,638	
Loss attributable to members of the consolidated entity	-	(4,490,920)	-	(4,490,920)	
Other comprehensive income	-	-	-	-	
Total comprehensive income/(loss)	-	(4,490,920)	-	(4,490,920)	
Shares issued during the year	12 3,612,500	-	-	3,612,500	
Share capital transaction costs	12 (194,750)	-	-	(194,750)	
Share-based payments	13 -	-	77,569	77,569	
Convertible notes equity component	13 -	-	212,207	212,207	
Balance at 30 June 2009	20,093,323	(18,852,700)	670,621	1,911,244	
	20,093,323	(18,852,700)	670,621	1,911,244	
Loss attributable to members of the consolidated entity	-	(4,572,825)	-	(4,572,825)	
Other comprehensive income	-	-	-	-	
Total comprehensive income/(loss)	-	(4,572,825)	-	(4,572,825)	
Shares issued during the year	12 2,000,000	-	-	2,000,000	
Share capital transaction costs	12 (120,000)	-	-	(120,000)	
Share-based payments	13 -	-	454,399	454,399	
Convertible notes equity component	13 -	-	(109,898)	(109,898)	
Balance at 30 June 2010	21,973,323	(23,425,525)	1,015,122	(437,080)	

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

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Notes to the Financial Statements

Note 1: Basis of Preparation

For the year ended 30 June 2010 the Company has incurred a loss of \$4,572,825 (2009: \$4,490,920) and at year end the Company had working capital of \$661,440 (2009: \$2,746,184) including a cash and cash equivalents balance of \$1,281,044 (2009: \$3,072,905). The Company had a net asset deficiency of \$0.437 million at 30 June 2010, caused by the accounting standards requirement that convertible notes be included as debt of \$1.238 million.

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

- The convertible notes will only be repaid if that is the best outcome for the Company, otherwise they will convert to equity.
- 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 and/ or further capital is raised.
- The Company has announced an agreement with MedImmune whereby a total of US\$1.5 million will be received during the 2011 financial year.
- To the extent that further equity is required the Directors are confident that a sufficient capital raising can be completed. A fully underwritten rights issue will commence on 31 August 2010, to raise \$2.4 million.

In the event that sufficient revenue or additional equity is not received by the Company and operating costs are not sufficiently reduced there would be significant uncertainty as to whether the Company will be able to continue as a going concern and therefore whether it will be able to realise its assets and extinguish its liabilities in the normal course of business and the amounts stated in the financial report.

	2010	2009
	\$	\$
Note 2: Income from ordinary activities		
Grants received	163,136	1,273,780
Commercial income	433,120	1,162
Interest Income	91,658	104,420
	687,914	1,379,362
Note 3: Loss from ordinary activities		
Loss from ordinary activities before income tax expense has been arrived at after charging the following items:		
Depreciation of equipment	66,941	114,030
Impairment	49,743	892,766
Note 4: Personnel expenses		
Wages & salaries	790,386	1,104,177
Other associated staff costs	14,558	40,766
Superannuation contributions	49,187	106,326
(Decrease)/Increase in annual leave liability	30,681	(49,354)
Equity settled transactions	454,399	77,569
	1,339,211	1,279,484
Note 5: Earnings per share		
Net Loss used in the calculation of basic earnings per share	(4,572,825)	(4,490,920)
	Number	Number
Weighted average number of ordinary shares used in the calculation of basic earnings per share	226,107,928	163,073,682

Diluted earnings per share is not disclosed as the result of exercise of options would be anti-dilutive in nature.

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Notes to the Financial Statements (Continued)

	2010	2009
Note 6: Cash and cash equivalents	\$	\$
Bank balances	1,281,044	3,072,905
	<u>1,281,044</u>	<u>3,072,905</u>
Note 7: Trade & other receivables		
GST receivable (net)	78,883	128,744
Sundry debtors	-	15,603
Income taxes refunded	-	123,078
Government grant refund	-	74,151
Accrued Interest	765	-
Other receivables	44,769	-
	<u>124,417</u>	<u>341,576</u>
Note 8: Property, plant and equipment		
Office and laboratory equipment at cost	383,377	224,597
Accumulated depreciation	(218,798)	(151,857)
	<u>164,579</u>	<u>72,740</u>
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	72,740	195,537
Additions	158,780	5,148
Disposals	-	(13,915)
Depreciation	(66,941)	(114,030)
Balance at end of year	<u>164,579</u>	<u>72,740</u>
Note 9: Trade & other payables		
Trade payables	561,261	329,574
Accrued expenses	26,567	18,000
Other	16,163	91,438
	<u>603,991</u>	<u>439,012</u>
Note 10: Employee Benefits		
<i>Current</i>		
Liability for annual leave	82,382	51,701
Superannuation payable	12,921	-
	<u>95,303</u>	<u>51,701</u>
<i>Non-Current</i>		
Long service leave provision	<u>25,408</u>	<u>13,457</u>
	Long Service Leave Provision	Annual Leave
	\$	\$
Balance at 1 July	13,457	51,701
Payments made	-	(24,244)
Charges raised	11,951	54,925
	<u>25,408</u>	<u>82,382</u>
Note 11: Interest bearing liabilities – non-current	2010	2009
	\$	\$
Convertible note face value	1,340,000	1,240,000
Transferred to equity reserve	(102,309)	(212,207)
Interest bearing liabilities	<u>1,237,691</u>	<u>1,027,793</u>

The convertible notes were issued at an interest rate of nil and mature on 30 April 2011. The notes have been discounted at a rate of 10% pa to calculate fair value at each balance date. The notes are redeemable by the Company by payment of \$1,675,000, are convertible by noteholders before the maturity date at \$0.05 per share or convert at maturity at \$0.04 per share.

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Notes to the Financial Statements (Continued)

Note 12: Issued capital	2010	2009
	\$	\$
235,751,764 ordinary shares fully paid (2009 215,751,764)	<u>21,973,323</u>	<u>20,305,530</u>

Movements in issued capital during the year:

	2010	2010	2009	2009
	Shares	\$	Shares	\$
Shares issued during the year				
Opening balance	215,751,764	20,093,323	143,501,764	16,675,573
Share options exercised at \$0.25	-	-	-	-
Shares issued to acquire Dynamic Microbials	-	-	20,250,000	1,012,500
Shares issued at \$0.05	-	-	52,000,000	2,600,000
Shares issued at \$0.10	20,000,000	2,000,000		
Share issue costs	-	(120,000)	-	(194,750)
Closing balance	<u>235,751,764</u>	<u>21,973,323</u>	<u>215,751,764</u>	<u>20,093,323</u>

Note 13: Reserves	2010	2009
	\$	\$
Opening balance	670,621	380,845
Share based payments for the period	454,399	77,569
Equity component of convertible note	(109,898)	212,207
Closing balance	<u>1,015,122</u>	<u>670,621</u>

Note 14: Accumulated Losses		
Opening balance	(18,852,700)	(14,361,780)
Loss for period	(4,572,825)	(4,490,920)
Accumulated losses at the end of the period	<u>(23,425,525)</u>	<u>(18,852,700)</u>

Note 15: Statement of cash flows		
Reconciliation of loss after income tax to net cash used in operating activities:		
Operating loss after income tax	(4,572,825)	(4,490,920)
Depreciation, amortisation and impairment	66,941	1,006,796
Share based payment expense	454,399	77,569
Increase/(decrease) provisions for employee entitlements	55,553	(253,223)
Increase/(decrease) in payables	165,692	(192,075)
(Increase)/decrease in receivables	201,556	(27,254)
Net cash used in operating activities	<u>(3,628,684)</u>	<u>(3,879,107)</u>