annual report
for the year ended 30 June 2018

www.phylogica.com

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Corporate Information

Phylogica Limited

ACN 098 391 961

Directors
Mr Alan Tribe
Non-Executive Chair

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

Dr Robert Hayes
Executive Director / Chief Scientific Officer

Dr Bernard Hockings
Non-Executive Director

Mr Sahm Nasseri
Non-Executive Director

Company Secretary
Mr Kevin Hart

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Security Transfer Registrars Pty Ltd
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Western Australia 6153
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Email: registrar@securitytransfer.com.au

Website
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Incorporated in Western Australia, October 2001

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Level 4
130 Stirling Street
Perth
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Registered Office
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Mt Pleasant
Western Australia 6153
Telephone: 08 9316 9100
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Postal Address
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Mt Pleasant
Western Australia 6153

Principal Place of Business
Telethon Kids Institute
Northern Entrance
Perth Children's Hospital
15 Hospital Avenue
Nedlands
Western Australia 6009
Telephone: 08 6319 1000
Facsimile: 08 6319 1777

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

PHYLOGICA LIMITED

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Chief Executive Officer's Letter to Shareholders

Dear Shareholder,

Phylogica has made significant progress in both the development of our Cell Penetrating Peptide (CPP) platform and in defining our path to commercialising this asset over the past year. Our platform developments have been described in the operational updates published throughout the year and the majority of this letter will therefore be focused on setting out what is to come in 2019.

Overview of progress in **FY18**

As a brief recap, major achievements through FY18 included:

1. An investment in our peptide libraries to triple their diversity and therefore richness as a source of drug candidates;
2. Adoption of high throughput screening capability in order to sample the richness of these libraries in identifying our 'second generation' of CPPs; and
3. Validation of our CPP platform *in vivo* (in animals) using our 'first generation' of CPPs with the Cre recombinase cargo to demonstrate effective drug delivery into a range of different tissue types.

Forward view of **2019**

The focus of the Company in FY19 is on clinical validation of our platform. Two phases of drug development are required from our current position in order to achieve approval of an Investigational New Drug (IND) application by the US Food and Drug Administration enabling administration to humans:

i. demonstration of efficacy of a drug molecule in a therapeutic model (an animal model of a human disease process); and

ii. completion of formal IND-enabling studies directed towards evaluation of the safety of a drug molecule.

Over the coming months, Phylogica will deliver a read-out on the efficacy of our CPP delivery technology against the current gold standard delivery approach for a number of drug cargoes. These are the critical pieces of data that provide an indication of the likelihood of translating pre-clinical outcomes in animals into clinical outcomes in humans and are therefore the fundamental drivers of the value of the company's platform technology.

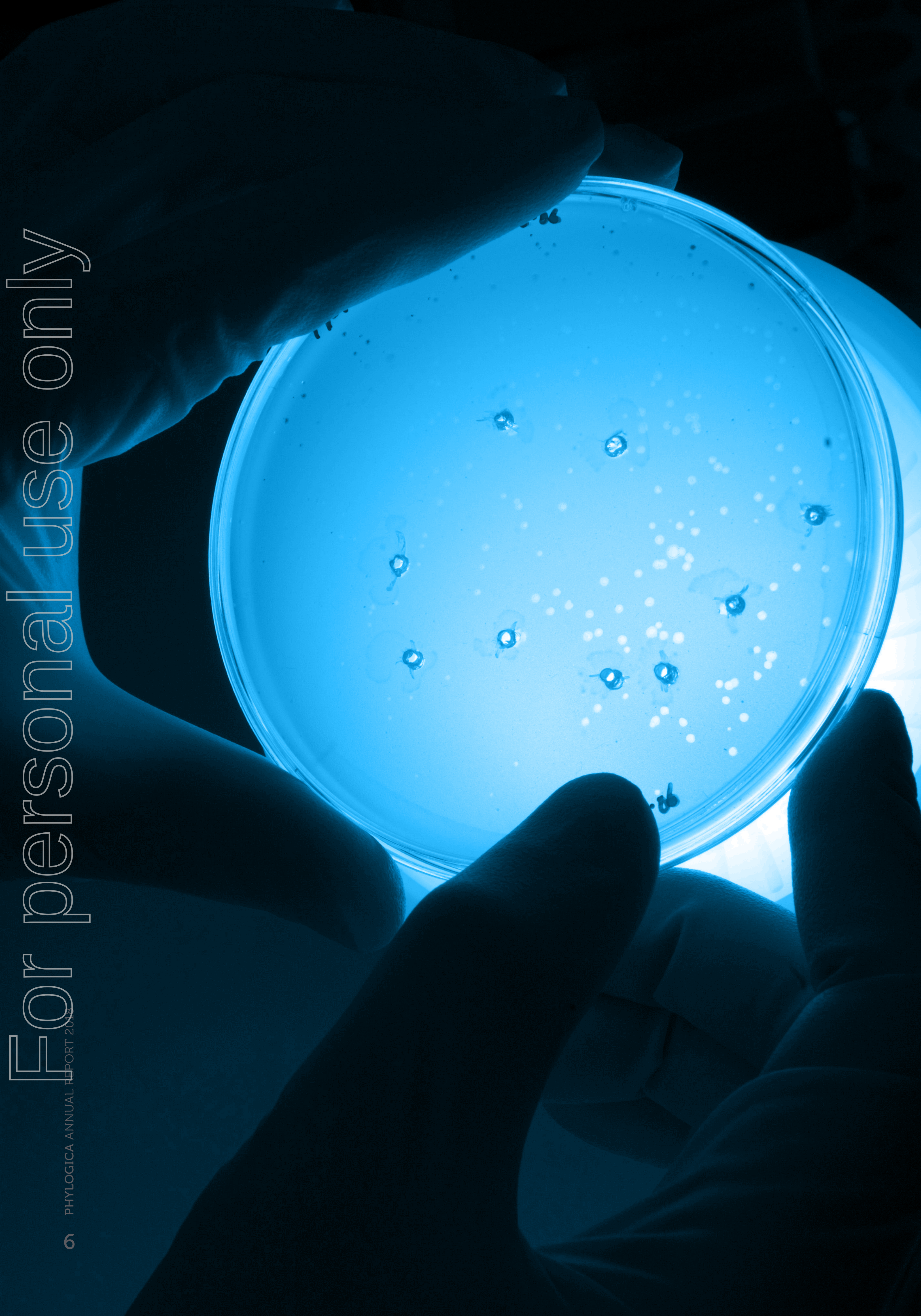
The cargo classes that have been identified as being of particular interest to Phylogica in progressing into the clinic include:

i. Anti-Sense Oligonucleotides;

ii. CRISPR/Cas9; and

iii. Peptide vaccines.

We will deliver the competitive read-out relevant to an exemplar cargo from within each class in FY19. We will also initiate IND-enabling studies for CPP-cargoes in which we can demonstrate out-performance of the current gold standard putting us within reach of the clinic.



Re-capitalisation and commercial **outlook**

Phylogica's recent capital raising positions the company to take the lead role in pre-clinical development of CPP delivered cargoes and consequently the commercial development of these assets. This enables us to take a dual approach to commercialisation including:

i. Out-licensing the platform to third parties for progression of the CPP-cargo molecule by the third party; and

ii. In-licensing of the cargo for 'flagship' programs for Phylogica to progress into the clinic independently.

Given the scalability of Phylogica's platform, realising clinical validation (dosing humans) through either approach will be transformative for the company. Phylogica currently has a number of Materials Transfer Agreements (MTAs) in place with commercial counter-parties (including for the cargoes identified above) that enable the counter-parties to evaluate the ability of our CPPs to deliver their cargoes into their target tissues of interest in their own hands. These agreements are set move to the next stage in CY19 with successful outcomes expected to translate into licensing agreements as described in the former development category outlined above.

In addition to the high priority cargo classes identified here, Phylogica is positioned to pursue three additional cargo classes in partnership with third parties as 'secondary' priorities. These include:

i. Scaffolds;

ii. Protein degradation cargoes; and

iii. RNA therapeutics.

We have existing collaborations and MTAs relevant to some of these cargo classes that will yield 'proof of concept' results in CY19.

The company's collaboration on antimicrobials with Genentech will see Genentech either extend the exclusivity period through the payment of a milestone to Phylogica or relinquish exclusive rights to CPPs related to the collaboration in 2019.

The year ahead is an exciting one for the company with a series of milestones that have the potential to have a major impact on the value of the company's platform. I look forward to updating you as we progress through those milestones and towards the clinic.

Sincerely,

Rohan Hockings

Director’s Report
FOR THE YEAR ENDED 30 JUNE 2018

The directors present their report on the consolidated group, comprising Phylogica Limited (referred to in these financial statements as “the Group” or “Phylogica”) and its wholly owned subsidiary, together with the financial report for the year ended 30 June 2018 and the audit report thereon.

1. DIRECTORS

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

EXECUTIVE

Dr Robert Hayes
Age: 59

PhD

Chief Scientific Officer / Executive Director

Appointed as a Director on 18 April 2017, transitioned to Chief Scientific Officer on 17 June 2017.

Dr Hayes was previously Head of Biologics at multinational biopharmaceutical company Amgen (NASDAQ:AMGN), responsible for the leadership, strategic direction and operational management of the company’s biologics preclinical discovery and biotherapeutics pipeline. This included bioreagent generation, large molecule lead identification, biologics optimisation, and the transition to upstream process development and manufacturing.

Prior to Amgen, Dr Hayes spent seven years as Vice President & Venture Leader of a biotech company within Janssen R&D that focused on developing and exploiting small alternative scaffold proteins. He was also a Senior Director of Protein Engineering at Johnson and Johnson, one of the world’s largest healthcare companies, for over three years.

With over 20 years’ experience in biotech start-ups and large pharmaceutical companies, Dr Hayes has a proven track record in building teams around new scientific ideas and technologies. He also has significant experience in forming partnerships between biotech companies and university partners to advance the development and application of novel therapeutic platforms.

Dr Hayes holds a Ph.D. from the Imperial College London, where he was the Royal College of Science Scholar and a Royal Society University Research Fellow. He also completed postdoctoral research at Imperial and University California at Berkeley.

Dr R Hayes has held no other Australian listed company directorships in the last three years.

NON-EXECUTIVE

Mr Alan W Tribe
Age: 70

Non-Executive Director and Chairman

Appointed 11 April 2018.

Mr Tribe has a background in the accounting profession both in the UK and Australia. Moving into industry he became the Managing Director of a group of companies with interests in natural resources in Australia and overseas. The group also included a technology company which grew through both successful product development and acquisitions.

He was closely involved in establishing subsidiary operations in the USA, UK and Singapore to access markets worldwide.

Most recently he was the catalyst for the development of large retail operations in Western and South Australia.

Mr Tribe will contribute his broad experience in successfully commercialising technology internationally. He represents a large shareholding in Phylogica.

Mr Tribe has held no other Australian listed company directorships in the last three years.

Dr Rohan Hockings
Age: 34

M.B.B.S (Hons.),
J.D., G.D.L.P

Chief Executive Officer / Alternate Non-Executive Director

Appointed as an Alternate Director for Dr Bernard Hockings on 15 August 2016.

Appointed Chief Executive Officer on 11 April 2018.

Dr Hockings is a founding principal of a private equity fund active in the acquisition of health care assets within Australia. His previous roles include strategy and operational advisory positions with a global management consulting firm, equity capital markets experience as a solicitor with a national law firm and a number of appointments as a medical practitioner. Dr. Hockings has a special interest in both venture capital and private equity within the healthcare industry and has been a shareholder in Phylogica for more than 5 years.

Dr R Hockings has held no other Australian listed company directorships in the last three years.

Mr Sahm Nasseri
Age: 34

BChem Eng (Hons), MBA
Non-Executive Director

Appointed as a Non-Executive Director on 20 October 2017.

Mr Nasseri is currently a Director in Global Strategy and marketing of HPV Vaccines at Merck & Co based in New York, USA. He started at Merck in the Australian subsidiary where he was Strategy and Business Development lead, reporting to the Managing Director and sitting on the local country leadership team.

Prior to joining Merck, Sahm was a management consultant with McKinsey & Company based in the Sydney office. During his 4 years at McKinsey, Sahm was involved in leading Strategy and Operations programs across several clients in healthcare, pharma, telecommunications, retail and mining. He has broad strategy, marketing, commercial deal-making and policy experience in the healthcare space across Asia Pacific and the US.

Sahm holds an MBA through a combined program at Columbia University in New York and the London Business School and has a Bachelors in Chemical Engineering (Hons) from the University of New South Wales.

Mr S Nasseri has held no other Australian listed company directorships in the last three years.

Dr Bernard Hockings
Age: 70

R.F.D., MD (WA), M.B.B.S (WA), F.R.A.C.P., F.C.S.A.N.Z, GAICD
Non-Executive Director

Appointed as a Non-Executive Director on 23 January 2014.

Dr Hockings retired as an Interventional Cardiologist in Private Practice in Western Australia in July 2017. He is a Clinical Associate Professor in Medicine at the University of Western Australia. Previously he was Director of the Coronary Care Unit at Royal Perth Hospital, Chair of the Medical Advisory Committee at the Mount Hospital and Director of Health Reserves (WA) for the Royal Australian Air Force.

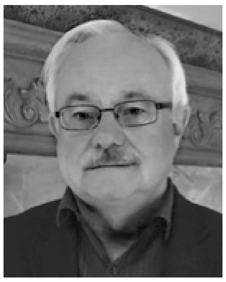
Dr Hockings has a lifelong interest in medical research. His Doctoral Thesis involved Vasodilator Therapy in the treatment of heart failure. He has been closely involved with clinical teaching throughout his career. Dr Hockings is now a major shareholder in Phylogica.

Dr B Hockings has held no other Australian listed company directorships in the last three years.

FORMER DIRECTORS

Ms Stephanie Unwin Age: 47  LLB, B Econ, GAICD Chief Executive Officer / Executive Chair	Appointed as a Director on 18 January 2017. Transitioned from Non-Executive Director to Non-Executive Chair on 8 April 2017. Transitioned to Chief Executive Officer, and Executive Chair on 17 June 2018. Resigned 27 April 2018. Ms Unwin was previously the Executive General Manager, Commercial at Synergy - a role she held since March 2014 which encompasses Strategy and Innovation; Corporate Development; Transformation and Continuous Improvement; Modelling and Analytics; Corporate Affairs; Policy and the Chief Engineer. Stephanie held the role of General Manager Strategy and Business Development with Verve Energy from 2012 prior to its merger with Synergy on 1 January 2014. Stephanie's background is in corporate law, and she previously worked with ASIC, Herbert Smith Freehills, Pullinger Readhead Stewart and Maxim Litigation Consultants before joining Verve Energy as its General Counsel and Company Secretary. Stephanie is a former non-executive director of ASX/TSX listed entity Alacer Gold Corp (December 2001 to August 2013) and ASX listed entity Integra Mining Limited (November 2011 to January 2013). She is currently a director of Vinalco Energy Pty Ltd, Greenough River Solar Farm and Mumbida Wind Farm. Ms Unwin has held no other Australian listed company directorships in the last three years.
Dr Paul Watt Age: 53  BSc(Hons), PhD Non-Executive Director	Appointed 12 September 2016, resigned 24 November 2017. Adjunct Professor Watt is the founder of Phylogica and is the principal inventor of Phylogica's drug discovery technologies. Prior to his appointment as a Non-Executive Director, Professor Watt held the position of Chief Scientific Officer of Phylogica, where he continued to provide strategic scientific services to the group as its Chief Scientific Advisor, bringing more than 15 years of experience in the biotechnology industry. Professor Watt has published 57 peer reviewed papers, and has filed 25 patent applications many of which are granted in the US and Europe. Specialising in drug discovery biotechnology and molecular biology, he has attracted over A$10 million in research funding from Australia and the United States to develop the technology underpinning Phylogica. Previously Professor Watt founded InfaMed Ltd, which became by Avita Medical Ltd, and commercialised an FDA-approved /CE-marked paediatric drug delivery device that he invented, which was marketed internationally. He was appointed Adjunct Professor at the School of Paediatrics and Child Health at the University of Western Australia and is now Director of Research Services and Innovation at the Telethon Kids Institute, and head of its Drug Discovery Unit where Phylogica's discovery research is carried out under contract. Professor Watt carried out postdoctoral research in yeast genetics at Harvard and Oxford Universities, where he discovered and characterised proteins involved in maintaining genome stability and cancer. He has a doctorate in Molecular Biology from Oxford University and BSc (Hons) from the University of Western Australia.

Dr Rick Kendall
Age: 64



PhD
Non-Executive Director

Appointed as a Non-Executive Director on 18 April 2017, resigned 20 October 2017.

Based in California, Dr Kendall is currently Vice President Research at Kite Pharma, responsible for the company's research pipeline and developing CAR-T technology.

Previously, Dr Kendall was Executive Director of Oncology Research at Amgen, where he directed a group of 90+ scientists, and was responsible for the development of the Amgen cancer franchise strategy aligning research with other functions including Chemistry, Protein Sciences, Medical Translational Sciences, Development and Commercial. Results included 17 clinical candidate molecules made up of 9 small molecules and 8 protein therapeutics. Dr Kendall holds an associate adjunct professor position in the Department of Molecular, Cellular and Developmental Biology, at the University of California at Santa Barbara.

Dr Kendall has consulted to Phylogica previously on the development of the Group's assets including the iMyc oncology program and Functional Penetrating Phylomer (FPP) intracellular drug delivery technology.

Mr Michael Williams
Age: 58

BA (Hons), CEDEP
Non-Executive Director

Appointed as a Non-Executive Director on 3 January 2018, resigned 11 April 2018.

Mr Williams is a senior pharmaceutical executive with significant global experience, most recently as Chief Operating Officer at Intarcia Therapeutics. Prior to Intarcia Therapeutics Mr Williams was Head of Global Marketing at Takeda Pharmaceuticals. Before joining Takeda, he was Vice President, Global Commercial Development for Pfizer's Primary Care Global Business Unit. He also played a significant leadership role in Pfizer's acquisition of King Pharmaceuticals and on alliances with Bristol Myers Squibb, Boehringer Ingelheim, Janssen and Eisai. During his time at Bristol Myers Squibb, he assumed roles of increasing responsibility notably Regional Business lead for HIV where he was responsible for the commercial performance of the HIV franchise as well as Vice President for European Marketing and Operations.

2. COMPANY SECRETARY

Mr Kevin Hart
Age: 56

BComm, FCA
Company Secretary/Chief Financial Officer

Appointed 24 July 2017.

Kevin holds a Bachelor of Commerce Degree and is a Chartered Accountant. He is a Partner at Endeavour Corporate Pty Ltd, an advisory firm that specialises in the provision of company secretarial services to ASX listed entities. Kevin has over 27 years of professional experience with various public companies, mostly in the exploration and mining industry.

3. DIRECTORS' MEETINGS

The number of directors' meetings (including meeting of committees of directors) and the number of meetings attended by each of the directors of the group during the financial year are:

	Directors' Meetings	
Director	Number of meetings held whilst in office	Meetings attended
A Tribe[(i)]	2	2
R Hockings (Alt BH)	9	9
R Hayes	9	9
S Nasseri[(i)]	6	5
B Hockings	9	7
S Unwin[(ii)]	8	8
P Watt[(ii)]	3	3
R Kendall[(ii)]	2	2
M Williams[(ii)]	2	2

(i) Appointed during the financial year.

(ii) Resigned during the financial year.

4. PRINCIPAL ACTIVITIES

The principal activity of the Group during the financial year was drug discovery research and development, whether in its own right or in partnership with international pharmaceutical companies, utilising the Group's Phylomer peptide libraries and proprietary screening capabilities.

5. OPERATING RESULTS AND FINANCIAL POSITION

The consolidated operating loss after tax for the financial year ended on 30 June 2018 was $7,433,997 (2017 loss: $1,950,837). There was no commercial income included in the result for the year (2017: $2,760,258 being a milestone payment to extend the exclusivity period under the terms of a Research Collaboration and Licence agreement with Genentech a member of the Roche Group.)

The accounting standards do not permit the capitalisation of development expenditure in circumstances where the Group cannot demonstrate sustainable revenue generation derived from the results of the expenditure. Research expenditure must be expensed under accounting standards. The expenditure incurred in relation to obtaining and maintaining patent protection is allowed to be capitalised under the standards but the Group has adopted a policy of expensing such expenditure as it is incurred.

Since incorporation, Phylogica has raised $57.4 million in capital, reduced to $53.3 million after netting capital raising fees. From this amount the following expenditures have been undertaken (all amounts $ million):

Research & Development:	Prior to 2016	2017	2018	Total
Contract Research	24.30	3.44	5.42	33.16
Personnel (allocation)	7.69	-	-	7.70
Laboratory Consumables	5.80	0.99	1.32	8.11
	37.79	4.43	6.74	48.96
IP Maintenance	3.69	0.21	0.22	4.12
	41.48	4.64	6.96	53.08

The cash position of the Group at 30 June 2018 was $3.1 million (30 June 2017: $9.9 million).

6. REVIEW OF ACTIVITIES

6.1 CORPORATE

During the year the Group underwent a major organisational structural change with the appointment of a new Chief Executive Officer, Chairperson and Scientific Advisory Board. These changes have brought greater clarity around the translation of the Group's scientific developments into meaningful commercial outcomes. Dr Rohan Hockings was appointed Chief Executive Officer to oversee the transition from 'proof of concept' validation of the platform to 'therapeutic' validation and chart the path from pre-clinical to clinical evaluation of the Group's intracellular drug delivery technology.

Following a strategic review, a renewed focus was placed on the Group's intracellular delivery platform. The context for this prioritisation was largely based on:

- a clear industry trend in which Cell Penetrating Peptides are emerging as the leading delivery technology to address a major unmet need; and
- a need to focus on depth of data generated (demonstrating the utility of the Cell Penetrating Peptides) rather than breadth (across both delivery vehicle and cargo as was previously the case).

6.2 OPERATIONS

The principal activity of the Group during the financial year was research and development. Phylogica owns a delivery platform that enables drug cargoes to reach targets on the inside of cells. The majority of high value drug targets exist inside cells behind the protection offered by the cell membrane. These targets form part of what is known as the 'undruggable genome' because of the difficulty associated with reaching them.

Phylogica's delivery platform is made up of Cell Penetrating Peptides (CPPs) that are capable of crossing the cell membrane and delivering a drug cargo to its target inside the cell. Reaching these 'undruggable' targets opens up the possibility of developing an entirely new class of drugs with both greater effect in treating disease and fewer side effects. Sarepta Therapeutics is a pioneer in this field and is currently progressing a pipeline of CPP delivered drugs through both pre-clinical and clinical evaluation – the revolution has begun.

Phylogica made significant progress in FY2018 towards our objective of creating a CPP delivered therapeutic for human clinical evaluation. Specifically, we have concluded the financial year with:

- libraries that are three times larger through the addition of more organisms' genomes - improving the richness of the peptide pool from which we identify our CPPs;
- enhanced screening capabilities (allowing us to screen the libraries both at scale and with greater accuracy) – improving our ability to identify CPPs; and
- demonstrating that the CPPs that we have already identified are effective both *in vitro* and *in vivo* – proving that the CPPs are capable of delivering their cargo to the target both in cells and in animals.

The end of the financial year leaves us on the cusp of transitioning to building our platform in the context of a therapeutic cargo and making the transition from pre-clinical evaluation in animals to clinical evaluation in humans.

6.3 FUTURE PROSPECTS

Over the coming 12 months, Phylogica will:

(i) identify the cargo class that it will select for progressing our first program into clinical evaluation in humans;

(ii) identify the specific cargo and disease indication that we will be pursuing in this program;

(iii) evaluate the efficacy of the CPP-cargo in a therapeutic *in vivo* model (an animal model of the disease indication that we are pursuing); and

(iv) initiate the formal IND enabling studies required to gain approval for administering the CPP-cargo in humans.

PYC will also deliver 'proof of concept' data which, if successful, will demonstrate the ability of our CPP platform to deliver a range of therapeutic cargoes both *ex vivo* and *in vivo*.

These milestones (described above) represent important technical thresholds and successful realisation of the desired outcomes should be reflected in the Group's valuation.

7. SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs other than:

The wholly owned dormant subsidiary Dynamic Microbials Limited was de-registered on 5 July 2017.

8. DIVIDENDS

No dividends have been paid or declared by the Group since the end of the previous financial year.

9. EVENTS SUBSEQUENT TO REPORTING DATE

On 12 September 2018, the Group announced that it had received firm commitments to raise $9.2 million (before costs) through a placement of shares to both new and existing sophisticated and institutional investors at an issue price of 3 cents per new security.

Other than the above, there are no matters or circumstances that have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group, in future financial years.

10. DIRECTORS' INTERESTS

The relevant interest of each director in the shares and options over shares issued by Phylogica as notified by the directors to the Australian Securities Exchange in accordance with Section 205G(1) of the Corporations Act 2001, at the date of this report is as follows:

Director	Ordinary Shares	Options
A Tribe	425,766,247	-
R Hockings	-	-
R Hayes	-	10,000,000
B Hockings	317,924,185	-
S Nasseri	-	-

11. INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

11.1 DIRECTORS' AND OFFICERS' INDEMNITY

The Group has agreed to indemnify each Director and the Company Secretary (Officers) against all liabilities or loss (other than the Group or a related body corporate) that may arise from their position as Officers of the Group and its controlled entities, except where the liability arises out of conduct involving a lack of good faith, or indemnification is otherwise not permitted under the Corporations Act. The indemnity stipulates that the Group will meet the full amount of any such liabilities, including costs and expenses, and covers a period of seven years after ceasing to be an Officer of the Group.

The Group has also indemnified the current directors and certain members of its senior management for all liabilities and loss (other than the Group or a related body corporate) that may arise from their position, except where the liability arises out of conduct involving lack of good faith or indemnification is otherwise not permitted under the Corporations Act.

The Group has executed deeds of indemnity, access and insurance in favour of each Officer of the Group.

11.2 DIRECTORS' AND OFFICERS' INSURANCE

The Group has paid insurance premiums for one year of cover in respect of directors' and officers' liability insurance contracts, for Officers of the Group. The insurance cover is on standard industry terms and provides cover for loss and liability for wrongful acts in relation to the relevant person's role as an Officer, except that cover is not provided for loss in relation to Officers gaining any profit or advantage to which they were not legally entitled, or Officers committing any criminal, dishonest, fraudulent or malicious act or omission, or any knowing or wilful violation of any statute or regulation. Cover is also only provided for fines and penalties in limited circumstances and up to a small financial limit.

In accordance with usual commercial practice, the insurance contract prohibits disclosure of details of the nature of the liabilities covered by the insurance, the limit of indemnity and the amount of the premium paid under the contract.

12. NON-AUDIT SERVICES

During the year, HLB Mann Judd, the Group's auditor, did not perform other services in addition to its statutory duties.

13. OPTIONS AND UNISSUED SHARES UNDER CONVERTIBLE SECURITIES

At the date of this report, ordinary shares of the Group under option totalled 10,000,000 exercisable at $0.06 expiring on 30 May 2020 (2017: 43,697,917 options exercisable at various dates on or before 30 November 2019).

Number of options	Exercisable at $0.06 Expiring on 30 May 2020
Issued	10,000,000
Vested	-

These converting securities do not entitle the holder to participate in any share issue of the Group or any other body corporate.

14. ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group does not hold any permits in relation to environmental discharge and does not handle or store hazardous materials.

15. CORPORATE GOVERNANCE

The Company's corporate governance statement can be found at the following URL:

https://phylogica.com/wp-content/uploads/2017/10/PYC-Corporate-Governance-Statement-2017-FINAL.pdf

16. REMUNERATION REPORT – AUDITED

Remuneration is referred to as compensation throughout this report.

16.1 PRINCIPLES OF COMPENSATION

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Group, including directors of the Group and other executives. Key management personnel include all directors, the company secretaries and specific executives of the Group.

Compensation levels for key management personnel of the Group are set competitively to attract and retain appropriately qualified and experienced directors and senior executives. The remuneration committee has researched information from companies of similar size or stage of development in the technology sector to assess the level of compensation which would be competitive, receiving this information by way of a report from independent remuneration consultants.

The compensation structures for executives are designed to attract suitably qualified candidates, reward the achievement of strategic objectives and achieve the broader outcome of the creation of value for shareholders. The compensation structures take into account the executives' capability and experience, level of responsibility and ability to contribute to the Group's performance, including, in particular, the establishment of revenue streams and growth in the Company's share price.

Compensation packages include a mix of fixed and variable compensation and short-and long-term performance based incentives.

16.2 FIXED REMUNERATION

Fixed compensation consists of a base salary (calculated on a total cost basis, including any fringe benefits tax related to employee benefits) as well as employer contributions to superannuation funds.

Compensation levels are reviewed annually by the remuneration committee through a process that considers individual and Group achievement.

16.3 PERFORMANCE LINKED REMUNERATION

Performance linked compensation includes short term incentives (STI), in the form of cash bonuses paid upon the achievement of predetermined Key Performance Indicators (KPI), and long-term incentives (LTI) provided as options under the Employee Share Option Plan. In the case of Executive Directors, the number and conditions of the options are approved by the shareholders in general meeting.

16.4 SHORT TERM INCENTIVE BONUS (STI)

The Board has set KPIs in conjunction with each of the Executive Directors and senior management.

Short Term Incentives are usually in the form of cash bonuses calculated based on achievement of Key Performance Indicators (KPI's). The actual KPI's are agreed annually with the Board to ensure they remain relevant and appropriate to the Group and the Executives to ensure that they are linked to the strategic and operational plans of the Group.

16.5 2018 FINANCIAL YEAR SHORT TERM INCENTIVES

Chief Executive Officer – Dr R Hockings	A payment of up to $198,000 (including superannuation) for agreed scientific and corporate milestones.
Chief Scientific Officer – Dr R Hayes	A payment of up to $300,000 (including superannuation) for agreed scientific and corporate milestones.

No bonuses were paid in relation to the 2017 and the 2018 financial years due to the Group's financial situation.

16.6 LONG TERM INCENTIVES (LTI)

The Employee Share Option Plan (ESOP) was established during the 2006 financial year and is open to all employees and contractors. The ESOP was last renewed at the annual general meeting held 27 November 2014. Options are granted for no consideration and have a three-year term. One half of those options allocated will vest immediately and, unless agreed by the Directors, one half will vest on the subsequent anniversary of issue.

During the year, 20,000,000 options were granted under the ESOP (2017: nil). 10,000,000 options were canceled during the year upon cessation of employment, no options vested on grant and 5,000,000 will vest on 24 November 2018 and 5,000,000 on 24 November 2019.

16.7 SHORT-TERM AND LONG-TERM INCENTIVE STRUCTURE

The Group has not established a causal relationship between compensation structure and shareholder returns. The directors consider that the Group's progress to date and external remuneration levels provide support for the premise that the compensation structure is appropriate, given the objectives set out earlier in this report.

16.8 CONSEQUENCES OF PERFORMANCE ON SHAREHOLDERS' WEALTH

The Board has regard to a broad range of factors in considering the Group's performance and how best to generate shareholder value. These include financial factors, securing new drug discovery partnerships and others that relate to meeting the objectives of existing discovery alliances, scientific progress of the Group's in-house projects, grants awarded, staff development etc. The Board has some, but not absolute regard to the Group's result and cash consumption during the year. It does not utilise earnings per share as a performance measure nor does it contemplate consideration of any dividends in the short to medium term, given that efforts are being expended to build the business and generate self-sustaining revenue streams. The Group is of the view that any adverse movement in the Company's share price should not be taken into account in assessing the performance of employees, unless such a measure is agreed with the executive as a KPI.

16.9 SERVICE AGREEMENTS

At 30 June 2018, the senior executives of the Company who are full time employees, had conditions of employment as set out below.

Name	Dr Rohan Hockings[1]	Dr Robert Hayes[2]
Position	Chief Executive Officer	Chief Scientific Officer
Term Expiring	30 June 2020	17 June 2019
Salary	$395,000	$550,000 Yr1, $600,000 Yr2
Options[3]	10,000,000	10,000,000
Termination Notice	If terminated by the Company twelve months-notice and two months notice by the individual.	If terminated by the Company six months notice and two months notice by the individual.

1 Dr Rohan Hockings was appointed as Chief Executive Officer on 11 April 2018.

2 Dr Robert Hayes was appointed Chief Scientific Officer on 17 June 2017

3 Unlisted Options as incentive on commencement of employment to be issued pending shareholder approval.

Company Secretarial services are provided by a contractor with no financial commitment by the Company other than a monthly fee, payable in arrears, for services rendered by employees of the service company, including the company secretary.

16.10 NON-EXECUTIVE DIRECTORS

The aggregate remuneration of all non-executive directors was set at $300,000 per annum at the annual general meeting held on 27 November 2014. The base fee for a non-executive director has been $40,000 per annum since 1 July 2011. The Company makes contributions at the statutory minimum rate to superannuation funds nominated by directors, in addition to the base fee.

Directors' fees cover all main board activities and committee memberships.

16.11 EQUITY INSTRUMENTS

16.11.1 OPTIONS

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

(a) Options and rights over equity instruments granted as compensation

During the reporting period, the following options over ordinary shares in the Company were granted as compensation to key management personnel (2017: 10,000,000).

Key management person	Number of options outstanding at 30 June 2018	Grant date	Fair value per option at grant date ($)	Exercise price per option ($)	Expiry date	Number of options vested during 2018
CSO Robert Hayes	10,000,000	24 Nov 2017	$0.0112	$0.06	30 May 2020	-
Former Director Stephanie Unwin	-	20 Nov 2017	$0.0112	$0.06	30 May 2020	-

Director options outstanding as at 30 June 2017 were cancelled on termination of employment during the year.

(b) Modification of terms of equity-settled share-based payment transactions

No terms of equity-settled share-based payment transactions (including options granted as compensation to a key management person) have been altered or modified by the Group during the reporting period or the prior period.

(c) Exercise of options granted as compensation

During the reporting period, 13,333,333 options previously granted as compensation were exercised (2017: 3,333,333).

(d) Analysis of options and rights over equity instruments granted as compensation

Details of vesting profiles of the options granted as remuneration to executive directors of the Company and the named Company executive are detailed as follows:

	Options granted					Value yet to vest	
Key management person	Number	Date	Vested in year (%)	Forfeited in year (%)	Financial years in which grant vests	Minimum ($)	Maximum ($)
S Unwin	10,000,000	26 Nov 2016	3,333,333	(3,333,333)	n/a	n/a	n/a
S Unwin	10,000,000	24 Nov 2017	-	(10,000,000)	n/a	n/a	n/a
Dr P Watt	10,000,000	23 Sept 2014	-	(10,000,000)	n/a	n/a	n/a
Dr R Hayes	10,000,000	24 Nov 2017	-	-	(1)	111,200	111,200

1 The unvested options vest 50% on 24 November 2018 and 50% on 24 November 2019.

(e) Analysis of Movements in options

Other than the above there were no movements during the reporting period of options over ordinary shares in the Company held by Company directors and other Key Management Personnel.

16.11.2 LOAN FUNDED SHARE PLAN

During June 2011, the Board resolved to implement a Loan Funded Share Plan ("Plan") for Key Management Personnel. Offers of allocations under the plan were made to three key management personnel on 3 June 2011 and acceptances were received from all key management personnel.

The offers accepted were as follows:

(a) Term of the loan: 7 years (3 June 2018) or cessation of employment, whichever is earlier.

(b) Purchase price of shares funded by loan is 6.4 cents.

(c) 33% of the shares vested on 3 June 2014, 33% on 3 June 2015 and 34% on 3 June 2016.

(d) In September 2016 Dr P Watt transitioned from a full-time role with Phylogica to a role with Telethon Kids Institute (TKI) whilst taking up a consulting position with Phylogica as Scientific Advisor and Founder as well as becoming a non-executive director. Dr R Hopkins ceased employment in October 2016. Upon cessation of their roles the Loan Funded shares were cancelled.

16.12 DIRECTORS' AND EXECUTIVE OFFICERS' REMUNERATION

Details of the nature and amount of each major element of remuneration of each director and each of the executives of the Group (Key Management Personnel) are as set out on the following page.

Year ended 30 June 2018	Note	Short Term Benefits	Long Term Benefits	Post-Employment Benefits	Share-Based Payments		
		Long Service Leave	Superannuation	Value of Options/ Loan Funded Shares		Total	Performance based as proportion of Remuneration
Salary & Fees		**$**	**$**	**$**	**$**	**$**	**%**
Executive Directors							
Dr Robert Hayes	1	402,706	-	9,294	72,280	484,280	15
Non-Executive Directors							
Mr Alan Tribe	2	16,994	-	1,614	-	18,608	-
Dr Bernard Hockings		43,800	-	-	-	43,800	-
Mr Sahm Nasseri	3	29,200	-	-	-	29,200	-
Executive Personnel							
Dr Rohan Hockings	4	84,000	-	-	-	84,000	-
Former Executive Director							
Ms Stephanie Unwin	5	380,518	-	36,149	17,778	434,445	4
Former Non-Executive Directors							
Dr Paul Watt	6	21,900	-	-	60,632	82,532	73
Dr Rick Kendall	7	19,832	-	-	-	19,832	-
Mr Michael Williams	8	7,300	-	-	-	7,300	-
Total Key Management Personnel		**1,006,250**	**-**	**47,057**	**150,690**	**1,203,997**	**13**
Company Secretaries							
Mr Kevin Hart (appointed 24.07.17)	9	155,624	-	-	-	155,624	-
Mr Graeme Boden (resigned 24.07.17)	10	8,138	-	-	-	8,138	-
Total Company Secretaries		**163,762**	**-**	**-**	**-**	**163,762**	**-**

Note

1) Dr Robert Hayes was appointed Chief Scientific Officer on 17 June 2017.
2) Mr A Tribe was appointed Non-Executive Chairman on 11 April 2018.
3) Mr Sahm Nasseri was appointed Non-Executive Director on 20 October 2017.
4) Dr Rohan Hockings was appointed Chief Executive officer on 11 April 2018.
5) Ms Stephanie Unwin resigned as Chief Executive Officer on 27 April 2018.
6) Dr Paul Watt resigned as Non-executive Director on 24 November 2017.
7) Dr Rick Kendall resigned as Non-Executive Director on 20 October 2017.
8) Mr Michael Williams was appointed as Non-Executive Director on 3 January 2018 and resigned on 11 April 2018.
9) Payments made to Endeavour Corporate Pty Ltd include time spent on Group activities, including accounting and administration by K Hart and other employees of Endeavour.
10) Payments made to Boden Corporate Services Pty Ltd (BCS) include time spent on Group activities, including accounting and administration by G Boden and other employees of BCS.
11) The Group pays an insurance premium for company reimbursement and directors' and officers' liability insurance as a combined amount. The portion of the premium which relates to directors and officers has not been included as part of remuneration.

Year ended 30 June 2017	Note	Short Term Benefits	Long Term Benefits	Post-Employment Benefits	Share-Based Payments		
		Long Service Leave	Superannuation	Value of Options/ Loan Funded Shares		Total	Performance based as proportion of Remuneration
Salary & Fees		**$**	**$**	**$**	**$**	**$**	**%**
Executive Directors							
Ms Stephanie Unwin	1	79,198	-	7,524	79,999	166,721	48
Dr Robert Hayes	2	504,149	-	-	-	504,149	-
Non-Executive Directors							
Dr Bernard Hockings		43,800	-	-	-	43,800	-
Dr Rick Kendall		45,165	-	-	-	45,165	-
Dr Paul Watt	3	190,341	65,489	3,914	163,369	423,113	39
Former Non-Executive Directors							
Mr Jeremy Curnock Cook	4	35,040	-	-	-	35,040	-
Dr Doug Wilson	5	27,788	-	-	-	27,788	-
Former Executive Director							
Dr Richard Hopkins	6	141,035	49,336	5,863	3,300	199,534	2
Total Key Management Personnel		**1,066,516**	**114,825**	**17,301**	**246,668**	**1,445,310**	**17**
Company Secretaries							
Mr Graeme Boden	7	109,570	-	-	563	110,133	-
Ms Natasha Forde	7	-	-	-	433	433	-
Total Company Secretaries		**109,570**	**-**	**-**	**996**	**110,566**	**-**

Note

1) Stephanie Unwin transitioned to Chief Executive Officer and Executive Chair on 17 June 2017.
2) Dr Robert Hayes was appointed Chief Scientific Officer on 17 June 2017.
3) Dr P Watt transitioned from a full-time role with Phylogica to a role with Telethon Kids Institute (TKI) whilst taking up a consulting position with Phylogica as Chief Scientific Advisor and becoming a non-executive director.
4) Mr Jeremy Curnock resigned on 18 April 2017.
5) Mr Doug Wilson resigned on 25 November 2016.
6) Dr Richard Hopkins resigned on 18 July 2016.
7) Payments made to Boden Corporate Services Pty Ltd (BCS) include time spent on Group activities, including accounting and administration by G Boden and other employees of BCS, including Ms N Forde who was appointed as a Joint Company Secretary on 26 March 2015.
8) The fair values of the options and loan funded shares are calculated at the date of grant using a Black-Scholes pricing model and allocated to each reporting period in accordance with the vesting profile of the options/loan funded shares. The value recognised is the portion of the fair value of the options or loan funded shares allocated to the reporting period. In valuing the options and loan funded shares, market conditions have been taken into account.
9) The Group pays an insurance premium for company reimbursement and directors' and officers' liability insurance as a combined amount. The portion of the premium which relates to directors and officers has not been included as part of remuneration.

16.13 ANALYSIS OF BONUSES INCLUDED IN REMUNERATION

No bonuses were awarded in relation to the 2018 financial year as the key performance criterion of financial sustainability was not met.

16.14 MOVEMENTS IN SHARE AND OPTIONS HOLDINGS

Movements in Key Management Personnel equity holdings during the period are set out below.

16.14.1 OPTIONS OVER EQUITY INSTRUMENTS

The movement during the reporting period in the number of options over ordinary shares in the Group held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

Year ended 30 June 2018

Key Management Personnel	Balance 1 July 2017	Granted as Compensation	Exercised[i]	Other Changes[ii]	Balance 30 June 2018	Vested During the Year	Vested & Exercisable 30 June 2018
Directors							
Dr R Hayes	-	10,000,000	-	-	10,000,000	-	-
Mr Alan Tribe	-	-	-	-	-	-	-
Dr B Hockings	-	-	-	-	-	-	-
Mr S Nasseri	-	-	-	-	-	-	-
Executives							
Dr R Hockings	-	-	-	-	-	-	-
Former Non-Executive Directors							
Dr P Watt[ii]	20,000,000	-	(10,000,000)	(10,000,000)	-	-	-
Dr R Kendall	-	-	-	-	-	-	-
Mr Michael Williams	-	-	-	-	-	-	-
Former Executive Directors							
Ms S Unwin[i]	6,666,667	10,000,000	(3,333,333)	(13,333,334)	-	-	-
Former Company Secretary / CFO							
Mr G Boden	406,250	-	(243,750)	(162,500)	-	-	-

(i) Options exercised
(ii) Options expired unexercised

Year ended 30 June 2017

Key Management Personnel	Balance 1 July 2017	Granted as Compensation	Exercised[i]	Other Changes[ii]	Balance 30 June 2018	Vested During the Year	Vested & Exercisable 30 June 2018
Directors							
Ms S Unwin	-	10,000,000	(3,333,333)	-	6,666,667	3,333,333	-
Dr R Hayes	-	-	-	-	-	-	-
Dr B Hockings	-	-	-	-	-	-	-
Dr R Kendall							
Dr P Watt	3,500,000	20,000,000	-	(3,500,000)	20,000,000	10,000,000	10,000,000
Former Non-Executive Directors							
Mr J Curnock Cook	-	-	-	-	-	-	-
Dr D Wilson	-	-	-	-	-	-	-
Former Executive Directors							
Dr R Hopkins	6,500,000	-	-	(6,500,000)	-	-	-
Company Secretary / CFO							
Mr G Boden	406,250	-	-	-	406,250	-	-

(i) Options exercised
(ii) Options expired unexercised

16.14.2 SHAREHOLDINGS

The movement during the reporting period in the number of ordinary shares in the Group held, directly, indirectly or beneficially, by each key management person, including their related parties, is as follows:

Year ended 30 June 2018

Key Management Personnel	Balance 1 July 2017	Purchases	Other Changes	Granted as Compensation	Sales	Balance 30 June 2018
Directors						
Dr R Hayes	-	-	-	-	-	-
Mr Alan Tribe(i)	-	-	425,766,247	-	-	425,766,247
Dr B Hockings	582,924,185				(265,000,000)	317,924,185
Mr S Nasseri	-	-	-	-	-	-
Executives						
Dr R Hockings	-	-	-	-	-	-
Former Non-Executive Directors						
Dr P Watt(i)	14,517,197	-	10,000,000	-	-	24,517,917
Dr R Kendall	-	-	-	-	-	-
Mr Michael Williams	-	-	-	-	-	-
Former Executive Directors						
Ms S Unwin(ii)	3,333,333	3,333,333	-	-	-	6,666,666
Former Company Secretary / CFO						
Mr G Boden(i)	5,000,000	-	-	-	-	5,000,000

(i) Shares held at date of appointment

(ii) Shares held at date of resignation.

Year ended 30 June 2017

Key Management Personnel	Balance 1 July 2016	Purchases	Other Changes	Granted as Compensation	Sales	Balance 30 June 2017
Directors						
Ms S Unwin	-	-	3,333,333	-	-	3,333,333
Dr R Hayes	-	-	-	-	-	-
Dr B Hockings	601,946,632	13,977,553	-	-	(33,000,000)	582,924,185
Dr R Kendall	-	-	-	-	-	-
Dr P Watt	23,517,197	-	(9,000,000)	-	-	14,517,197
Former Non-Executive Directors						
Mr J Curnock Cook	-	-	-	-	-	-
Dr D Wilson(i)	1,711,989	-	-	-	-	1,711,989
Former Executive Directors						
Dr R Hopkins(i)	28,487,611	-	-	-	-	28,487,611
Company Secretary / CFO						
Mr G Boden	5,000,000	-	-	-	-	5,000,000

(i) Shares held at date of resignation

16.15 KEY MANAGEMENT PERSONNEL TRANSACTIONS

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Group or its subsidiaries in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

The aggregate amounts recognised during the year relating to key management personnel and their related parties were as follows:

Key management persons	Transaction	Note	2018 $	2017 $
Mr Kevin Hart	Corporate services	(a)	155,624	-
Mr G Boden	Corporate services	(b)	8,138	109,570

(a) Endeavour Corporate Pty Ltd, of which Mr Hart is a director, has provided services in company secretarial, accounting and administration roles, for which services fees were billed based on normal market rates, and were due and payable under normal payment terms. These fees are included in the remuneration table above.

(b) Boden Corporate Services Pty Ltd, of which Mr Boden is a director, has provided services in company secretarial, accounting and administration roles for which services fees were billed based on normal market rates, and were due and payable under normal payment terms. These fees are included in the remuneration table above.

Amounts payable to key management personnel at reporting date arising from these contract services were as set out below:

	2018 $	2017 $
Current payables:		
Trade and other payables	22,569	11,595
	22,569	11,595

17. PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

18. AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is set out on page 26 and forms part of the Directors' report for the year ended 30 June 2018.

Signed in accordance with a resolution of the directors:

Alan Tribe
Chairman
Perth
21st September 2018

HLB Mann Judd

Accountants | Business and Financial Advisers

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of the consolidated financial report of Phylogica Limited for the year ended 30 June 2018, I declare that, to the best of my knowledge and belief, there have been no contraventions of:

a. the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

b. any applicable code of professional conduct in relation to the audit.

Perth, Western Australia
21 September 2018

Marcus Ohm
Partner

HLB Mann Judd (WA Partnership) ABN 22 193 232 714
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Consolidated Statement of Profit & Loss and Other Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 $	2017 $
Continuing operations			
Commercial revenue	*5(ii)*	-	2,760,258
Net interest revenue		114,876	75,864
Other income		48,460	2,475
Contract research costs		(5,421,564)	(3,467,469)
Personnel expenses	*7*	(1,151,759)	(623,063)
Depreciation	*8*	(81,298)	(55,255)
Professional services		(1,159,497)	(1,037,561)
Travel and accommodation		(258,388)	(184,841)
Intellectual property maintenance		(216,289)	(211,366)
Laboratory consumables		(1,324,787)	(993,169)
Occupancy costs		(10,747)	(6,587)
Other operating expenses		(143,818)	(435,028)
Loss before income tax benefit		(9,604,811)	(4,175,742)
Income tax benefit	*9*	2,170,814	2,224,905
Net loss for the year		(7,433,997)	(1,950,837)
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year		(7,433,997)	(1,950,837)
Total comprehensive loss for the year attributable to the members	*17(iii)*	**(7,433,997)**	**(1,950,837)**
		Cents	**Cents**
Basic loss per share	*18*	(0.35)	(0.10)
Diluted loss per share	*18*	(0.35)	(0.10)

This statement of profit or loss and other comprehensive income is to be read in conjunction with the notes to the financial statements.

Consolidated Statement of Financial Position

FOR THE YEAR AS AT 30 JUNE 2018

	Note	2018 $	2017 $
Current assets			
Cash and cash equivalents		3,147,306	9,939,943
Trade and other receivables	*10*	128,344	192,206
Total current assets		3,275,650	10,132,149
Non-current assets			
Plant and equipment	*11*	143,404	216,109
Total non-current assets		143,404	216,109
Total assets		3,419,054	10,348,258
Current liabilities			
Trade and other payables	*13*	1,771,777	1,489,208
Total current liabilities		1,771,777	1,489,208
Total liabilities		1,771,777	1,489,208
Net assets		**1,647,277**	**8,859,050**
Equity			
Issued capital	*17(i)*	53,334,289	53,209,076
Reserves	*17(ii)*	1,160,712	1,063,701
Accumulated losses	*17(iii)*	(52,847,724)	(45,413,727)
Total equity		**1,647,277**	**8,859,050**

This statement of financial position is to be read in conjunction with the notes to the financial statements.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2018

	Note	2018 $	2017 $
Cash flows from operating activities			
Commercial income received		-	2,760,258
Cash paid to suppliers and employees		(9,045,901)	(6,942,210)
Cash used in operations		(9,045,901)	(4,181,952)
R&D tax rebate		2,170,814	2,224,905
Interest received		119,354	73,911
Government grants received		48,460	-
Net cash used in operating activities	*19*	**(6,707,273)**	**(1,883,136)**
Cash flows from investing activities			
Proceeds from the sale of property, plant and equipment		-	1,073
Acquisition of property, plant and equipment		(210,577)	(4,535)
Net cash used in investing activities		**(210,577)**	**(3,462)**
Cash flows from financing activities			
Proceeds from the issue of share capital	*17(i)*	135,031	5,066,250
Payment of transaction costs	*17(i)*	(9,818)	(313,250)
Net cash from financing activities		**125,213**	**4,753,000**
Net increase/(decrease) in cash and cash equivalents		(6,792,637)	2,866,402
Cash and cash equivalents at the beginning of the year		9,939,943	7,073,541
Cash and cash equivalents at the end of the year		**3,147,306**	**9,939,943**

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

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 2018

	Note	Issued Capital $	Accumulated Losses $	Reserves $	Total $
Balance at 1 July 2016		**48,456,076**	**(43,462,890)**	**837,057**	**5,830,243**
Loss attributable to members of the parent entity		-	(1,950,837)	-	(1,950,837)
Other comprehensive income		-	-	-	-
Total comprehensive loss		-	(1,950,837)	-	(1,950,837)
Shares issued during the year	*17(i)*	5,066,250	-	-	5,066,250
Share capital transaction costs	*17(i)*	(313,250)	-	-	(313,250)
Share-based payments	*17(ii)*	-	-	226,644	226,644
Balance at 30 June 2017		**53,209,076**	**(45,413,727)**	**1,063,701**	**8,859,050**
Balance at 1 July 2017		**53,209,076**	**(45,413,727)**	**1,063,701**	**8,859,050**
Loss attributable to members of the parent entity		-	(7,433,997)	-	(7,433,997)
Other comprehensive income		-	-	-	-
Total comprehensive loss		-	(7,433,997)	-	(7,433,997)
Shares issued during the year	*17(i)*	135,031	-	-	135,031
Share capital transaction costs	*17(i)*	(9,818)	-	-	(9,818)
Share-based payments	*17(ii)*	-	-	97,011	97,011
Balance at 30 June 2018		**53,334,289**	**(52,847,724)**	**1,160,712**	**1,647,277**

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

1. REPORTING ENTITY

Phylogica is a listed public company incorporated and operating in Australia. The financial report of the Group comprising the Company and its wholly owned subsidiary for the financial year ended 30 June 2018 was authorised for issue by the directors on 21st September 2018. The Company is primarily involved in the provision of peptide drug discovery services to the pharmaceutical industry. For the purpose of preparing the consolidated financial statements, the Group is a for-profit entity.

2. BASIS OF PREPARATION

(a) Statement of Compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASB's) which includes Australian equivalents to International Financial Reporting Standards (AIFRS) adopted by the Australian Accounting Standards Board (AASB), and the Corporations Act 2001. Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS's).

(b) Basis of measurement

The financial statements have been prepared on a historical cost basis and are presented in Australian dollars. All figures presented in the financial report are rounded to the nearest dollar.

(c) Use of estimates and judgements

The preparation of a financial report requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The 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.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The areas of estimation and uncertainty where judgement is used in applying accounting principles and where there may be an impact in the accounting revenue or expense are described in the following notes:

- Note 11 – useful lives of plant and equipment
- Note 18 – share based payments
  The fair value of options granted is measured using a valuation model taking into account the share price at the grant date, exercise price, expected option life and the expected volatility of the share price traded on the ASX.

(d) Going Concern

The financial report 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 30 June 2018 the Group has incurred a loss of $7,433,997 (2017: loss of $1,950,837) and at year end the Group had working capital of $1,503,873 (2017: $8,642,942) including a cash and cash equivalents balance of $3,147,306 (2017: $9,939,943). Cash used in operating activities in 2018 was $6,707,273 (2017: $1,883,136).

The Directors believe that it is appropriate to prepare the financial report on a going concern basis. On 12 September 2018, the Group announced that it had received firm commitments to raise $9.2 million (before costs) through a placement of shares to both new and existing sophisticated and institutional investors. The Group also expects to receive an R&D rebate of approximately $2.9 million during the first half of the 2019 financial year, and with the opening cash balance, the Directors are of the view that this will be sufficient to cover expenditure for the period of 12 months from the date of approval of this financial report. The Group also has the option of selectively reducing expenditure where necessary.

2. BASIS OF PREPARATION *(CONT.)*

(e) Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of the subsidiary of Phylogica Limited ('company' or 'parent entity') as at 30 June 2018 and the results of its subsidiary for the year then ended. Phylogica Limited and its subsidiary are referred to in this financial report as the Group.

The financial statements of the subsidiary are prepared for the same reporting period as the parent entity, using consistent accounting policies. The subsidiary was dormant during the 2018 financial year.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intra-group transactions have been eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Control exists where the company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing when the Group controls another entity.

Unrealised gains or transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

When the Group ceases to have control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies detailed below have been consistently applied to all years presented unless otherwise stated.

(a) Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction.

(b) Property, plant and equipment

(i) Recognition and measurement

The Group holds no property. Items of plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses - see note 3(g). Cost includes expenditures that are directly attributable to the acquisition of the asset.

(ii) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The Group has no finance leases. Leases other than finance leases are classified as operating leases and are accounted for as described in note 3(q).

(iii) Depreciation

Depreciation is charged to the statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of plant and equipment. The estimated useful lives in the current and comparative periods are as follows:

Office and research equipment 2-13 years

The residual value, depreciation method and useful lives if significant, are reassessed annually.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONT.)*

(c) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in the statement of profit or loss and other comprehensive income as an expense as incurred. The Group does not currently undertake development activities as defined in AASB 138 Intangible Assets and therefore has not capitalised development expenditure.

(d) Trade and other receivables

Trade and other receivables are initially measured at fair value and are subsequently measured at their amortised cost less any impairment losses (see note 3(g)). Trade receivables are due for settlement in no more than 30 days and the nominal amount is deemed to reflect fair value.

(e) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with an original maturity of three months or less.

(f) Financial assets

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each financial year-end. All regular way purchases and sales of financial assets are recognised on the trade date i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss:

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss.

(g) Impairment

(i) Financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost, the reversal is recognised in profit or loss.

(ii) Non- Financial Assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONT.)*

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

(iii) Calculation of recoverable amount

The recoverable amount of non-financial assets is the greater of their fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(iv) Reversals of impairment

An impairment loss in respect of a receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised. In respect of other assets, an impairment loss is reversed if there has been a change in estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the asset's carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(h) Earnings per share

Basic earnings per share (EPS) is calculated by dividing the income or loss attributable to the members of the Group for reporting period, after exclusion of any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the half year, adjusted for any bonus elements.

Diluted EPS adjusts the figures used in the determination of basic EPS to take into account the after-tax effect of interest recognised associated with the dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares adjusted for any bonus elements.

(i) Transaction costs

Transaction costs of an equity transaction are accounted for as a deduction from equity, net of any related income tax.

(j) Employee benefits

(i) Share based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest.

(ii) Wages, salaries, annual leave and non-monetary benefits

Liabilities for employee benefits for wages, salaries, annual leave and sick leave that are expected to be settled within 12 months of the reporting date represent present obligations resulting from employees' services provided to reporting date, are calculated at undiscounted amounts based on remuneration wage and salary rates that the Group expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

No provision is made for non-vesting sick leave as the anticipated pattern of future sick leave taken indicates that accumulated non-vesting sick leave will never be paid.

(iii) Defined contribution superannuation funds

Obligations for contributions to defined contribution superannuation funds are recognised as an expense in the statement of profit or loss and comprehensive income as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONT.)*

(k) Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event that can be measured reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, when appropriate, the risks specific to the liability.

(l) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently measured at their amortised cost. These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and normally settled within 30 days of recognition.

(m) Revenue

Goods sold and services rendered

Revenues are recognised at fair value of the consideration receivable net of the amount of Goods and Services Tax (GST) payable to the taxation authority.

(n) Commercial income

Commercial income is recognised in the statement of financial position initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Commercial income which compensates the Group for expenses incurred is recognised as revenue in the statement of comprehensive income on a systematic basis in the same periods in which the related expenses are incurred.

(o) Finance income and expense

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date. Finance expenses comprise interest expense on borrowings.

(p) Government grants

Government grant income is recognised in the statement of financial position initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions attaching to it. Grants that compensate the Group for expenses incurred are recognised as revenue in the statement of profit or loss and other comprehensive income on a systematic basis in the same periods in which the related expenses are incurred.

(q) Expenses

Operating lease payments

Payments made under operating leases are recognised in the statement of profit or loss and other comprehensive income on a straight-line basis over the term of the lease.

(r) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables. Non-derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONT.)*

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial assets expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits.

Accounting for finance income and expense is discussed in note 3(o).

Other non-derivative financial instruments are subsequently measured at amortised cost using the effective interest method, less any impairment losses.

(ii) Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributed to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(s) Income tax

Income tax in the statement of profit or loss and other comprehensive income for the periods presented comprises current and deferred tax. Income tax is recognised in the statement of profit or loss and other comprehensive income except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(t) Segment reporting

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 statement of comprehensive income and statement of financial position.

(u) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which are recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES *(CONT.)*

(v) New standards and interpretations not yet adopted

In the year ended 30 June 2018, the Directors have reviewed all of the new and revised Standards and Interpretations issued by the AASB that are relevant to the Group's operations and effective for the current annual reporting period.

It has been determined by the Directors that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the Group's 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 year ended 30 June 2018. As a result of this review, the Directors have determined that AASB 15 *Revenue* and AASB 9 *Financial Instruments* are unlikely to have a material effect upon the Group. The Directors are in the process of assessing the impact of AASB 16 *Leases*.

4. FINANCIAL RISK MANAGEMENT

Overview

The Group has exposure to the following risks from their use of financial instruments:

- credit risk
- liquidity risk
- market risk

This note presents information about the Group's exposure to each of the above risks, their objectives, policies and processes for measuring and managing risk, and the management of capital. Further quantitative disclosures are included throughout this financial report. The Board of Directors has overall responsibility for the establishment and oversight of the risk management framework and for developing and monitoring risk management policies.

Risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group, through their training and management standards and procedures, aim to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group receivables and cash investments.

Trade and other receivables

The Group had no material credit risk at 30 June 2018 or 2017.

Cash investments

The Group limits its exposure to credit risk by banking only with Australia and New Zealand Banking Group. Given that bank's credit rating, management does not expect it to fail to meet its obligations.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

4. FINANCIAL RISK MANAGEMENT *(CONT.)*

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The Group does not presently use financial derivatives as a risk management tool.

Currency risk

The Group is exposed to currency risk on some purchases that are denominated in a currency other than the functional currency of the Group, the Australian dollar (AUD). As the exposure is immaterial in value and of short term duration, the Group does not employ any hedging strategies for foreign currency risk management.

Interest rate risk

The Group does not have any borrowings. The Group invests temporarily idle funds for terms of up to three months at variable interest rates.

Capital management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board's target is for employees and directors of the Group to hold between five and ten percent of the Group's ordinary shares as performance incentives. At present employees hold approximately 2% of fully diluted issued capital, assuming that all outstanding share options and loan funded shares vest and / or are exercised.

There were no changes in the Group's approach to capital management during the year. The Group is not subject to externally imposed capital requirements.

5. REVENUE

(i) Government grant income

The Group previously had been awarded a government grant which was recognised as revenue in the statement of profit or loss and other comprehensive income in the same period as which the related expenses are incurred. $48,460 grant income was recognised in the year ended 30 June 2018 (2017: Nil).

(ii) Commercial income

Commercial income is derived from contracts to fund research and is based upon a mixture of funding full time equivalent research salaries and milestone payments. No commercial income was recognised during the year ended 30 June 2018 (2017: $2,760,258).

6. RESEARCH AND DEVELOPMENT EXPENDITURE

The accounting standards do not permit the capitalisation of development expenditure in circumstances where the company cannot demonstrate sustainable revenue generation derived from the results of the expenditure. Research expenditure must be expensed under accounting standards. The expenditure incurred in relation to obtaining and maintaining patent protection is allowed to be capitalised under the accounting standards but the Group has adopted a policy of expensing such expenditure as it is incurred.

7. PERSONNEL EXPENSES

	2018 $	2017 $
Wages and salaries	1,009,899	393,502
Other associated staff costs	(2,209)	4,202
Contributions to defined contribution superannuation funds	47,058	22,965
Decrease in Long Service Leave accrual	-	(14,575)
Increase/(Decrease) in annual leave accrual	-	(9,675)
Share based compensation - note 16	97,011	226,644
	1,151,759	623,063

Refer Note 16 for reversal of share-based payment expense on expiry of options and Loan Funded Shares.

8. DEPRECIATION

	2018 $	2017 $
Depreciation of equipment	81,298	55,255

9. INCOME TAX

	2018 $	2017 $
(i) Income tax benefit		
The prima facie tax on the operating loss is reconciled to the income tax provided in the accounts as follows:		
Prima facie tax benefit on operating loss before income tax at 27.5%	2,641,323	1,190,086
Tax effect of permanent differences	(65,849)	224,826
Current period tax losses and temporary differences not brought to account	(2,575,474)	(1,414,912)
R&D income tax incentive received relating to prior year	2,170,814	2,224,905
Income tax benefit	2,170,814	2,224,905

(ii) Unrecognised deferred tax asset

Deferred tax assets have not been recognised in respect of the following items:

	2018 $	2017 $
Deductible/(Assessable) temporary differences	1,656	110,633
R&D refundable tax offset receivable in relation to current year	2,904,120	2,007,225
Tax losses	10,015,376	10,021,137
	12,921,152	12,138,995

Tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it cannot yet be considered probable that future taxable profit will be available against which the Company can utilise the benefits thereof.

10. TRADE AND OTHER RECEIVABLES

	2018 $	2017 $
Trade receivables	18,456	-
GST receivable	107,272	184,789
Accrued interest	2,616	7,093
Other receivables	-	324
	128,344	192,206

11. PLANT AND EQUIPMENT

	2018 $	2017 $
Office and research equipment at cost	1,522,207	1,513,615
Accumulated depreciation	(1,378,803)	(1,297,506)
	143,404	216,109
Reconciliation:		
Carrying amount at the beginning of the year	216,109	66,568
Acquisitions	8,593	204,796
Depreciation	(81,298)	(55,255)
Carrying amount at the end of the year	143,404	216,109

12. OTHER FINANCIAL ASSETS

On 2 April 2015, Phylogica received 7,710 Class B shares in Phoremost Limited, a private company registered in the UK, and not quoted on any market.

The shares were received as consideration for the granting of a non-exclusive licence to Phoremost for the phenotypic screening on Phylomer libraries to discover small molecule drugs. The value of the Class B shares cannot be reliably estimated, and there is no liquid market.

13. TRADE AND OTHER PAYABLES

	2018 $	2017 $
Trade payables [1]	1,684,260	1,446,153
Accrued expenses	44,833	17,000
Other	42,683	26,055
	1,771,777	1,489,208

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

14. SEGMENT INFORMATION

The Company comprises a single business segment being the provision of drug discovery services to the international pharmaceutical industry utilising the Company's Phylomer® peptide libraries and proprietary screening capabilities; and a single geographical location being Australia. The segment details are therefore fully reflected in the results and balances reported in the statement of comprehensive income and statement of financial position.

15. EVENTS SUBSEQUENT TO BALANCE DATE

On 12 September 2018, the Group announced that it had received firm commitments to raise $9.2 million (before costs) through a placement of shares to both new and existing sophisticated and institutional investors at an issue price of 3 cents per new security.

Other than the above, there are no matters or circumstances that have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group, in future financial years.

16. EMPLOYEE BENEFITS

(i) Share-based payments

(a) *ESOP*

At the Annual General Meeting held in November 2014, the Group renewed an employee share option programme (ESOP) that entitles key management personnel and senior employees to purchase shares in the Group.

20,000,000 options were granted under the ESOP during the year ended 30 June 2018 (2017: Nil).

(ii) Fair value and assumptions

(a) *Options*

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

During the year ended 30 June 2018, 20,000,000 options were granted to key management personnel after approval at the annual general meeting held 25 November 2017 (2017: 30,000,000).

The fair value of the options is calculated at grant date using a Black–Scholes pricing model and allocated to each reporting period in accordance with the vesting profile of the options.

The value recognised is the portion of the fair value of the options allocated to the reporting period. The factors and assumptions used in determining the fair value on grant date of options issued during the financial year as follows:

Granted during 2018:

Number of Options	Grant Date	Expiry Date	Fair Value per Option	Exercise Price	Share Price on Grant Date	Risk Free Interest Rate (%)	Estimated Volatility (%)	Number Vested as at 30 June 2018
20,000,000	24/11/2017	30/05/2020	$0.0112	Nil	$0.039	1.78	65	-

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

No dividends have been assumed to be paid during the life of the options. 5,401,250 employee options were exercised during the year (2017: 3,337,500) and 12,317,500 were forfeited upon termination of employment (2047: 13,225,000).

17. EMPLOYEE BENEFITS *(CONT.)*

(b) *Loan Funded Shares*

All shares issued under the Plan with limited recourse loans are valued in a similar way to options and the fair value of shares issued under the Plan is determined as detailed below.

Fair value of shares issued under the plan during 2018 was Nil (2017: Nil).

The assessed fair value at grant date of shares issued under the plan during the year ended 30 June 2012 was 3.96 cents per share. The fair value at grant date is determined using a Black-Scholes pricing model that takes into account the exercise price, the term of the loan, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the loan giving a total value of $831,600.

In accordance with accounting standards, the allocations amortised over the vesting periods led to the following expense and corresponding increase in the Share Based Payment Reserve:

	$
Financial years prior to 2017	594,000
2018 financial year	-
	594,000

There were no Loan Funded Shares outstanding at 30 June 2018 and the amounts had fully vested and were not therefore reversed on forfeiture.

17. CAPITAL AND ACCUMULATED LOSSES

(i) Issued, unissued and paid up capital

	2018 $	2017 $
2,138,856,650 (2017: 2,120,122,067) ordinary shares fully paid.	53,334,289	53,209,076

Movements in capital during the year:

Ordinary Shares	2018 Shares	2018 $	2017 Shares	2017 $
Balance at the beginning of the year	2,120,122,067	53,209,076	2,004,138,734	48,456,076
Shares issued during the year:				
- Issued at $0.04	-	-	125,000,000	5,000,000
- Issued at $0.25	5,401,250	135,031	2,650,000	66,250
- Issued for nil consideration	13,333,333	-	3,333,333	-
- Loan funded shares cancelled	-	-	(15,000,000)	-
- Share issue costs	-	(9,818)	-	(313,250)
Balance at the end of the year	2,138,856,650	53,334,289	2,120,122,067	53,209,076

Terms and Conditions:

Holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholders' meetings. In the event of winding up of the Group, ordinary shareholders rank after all other shareholders and creditors and are fully entitled to any proceeds of liquidation.

The shares have no par value.

17. CAPITAL AND ACCUMULATED LOSSES *(CONT.)*

(ii) Reserves	2018 $	2017 $
Balance at the beginning of the year	1,063,701	837,057
Share based payments for the year	155,438	262,364
Expiry of options	(58,427)	(35,720)
Balance at the end of the year	1,160,712	1,063,701

Nature and purpose of reserves:

Share based payments reserve

This reserve is used to record the value of equity benefits provided to employees and directors as part of their remuneration. Refer to Note 16 and the Remuneration Report for further details of these plans.

(iii) Accumulated losses	2018 $	2017 $
Balance at the beginning of the year	(45,413,727)	(43,462,890)
Loss for the year	(7,433,997)	(1,950,837)
Balance at the end of the year	(52,847,724)	(45,413,727)

(iv) Options

Options on issue during the year	Weighted Av. Exercise Price 2018	Number of Options 2018	Weighted Av. Exercise Price 2017	Number of Options 2017
(a) Options exercisable at $0.025 on or before 23 September 2017:				
Balance at beginning of year	$0.025	17,718,750	$0.025	33,593,750
Exercised during the year	$0.025	(5,401,250)	$0.025	(2,650,000)
Lapsed / cancelled	$0.025	(12,317,500)	$0.025	(13,225,000)
Balance at end of year	-	-	$0.025	17,718,750
(b) Options exercisable at $0.00 on or before 30 November 2019:				
Balance at beginning of year	$0.00	6,666,667	-	-
Issued during the year		-	$0.00	10,000,000
Exercised during the year	$0.00	(3,333,333)	$0.00	(3,333,333)
Lapsed/ cancelled	$0.00	(3,333,334)	-	-
Balance at end of year	-	-	$0.00	6,666,667

17. CAPITAL AND ACCUMULATED LOSSES *(CONT.)*

(iv) Options *(cont.)*

Options on issue during the year	Weighted Av. Exercise Price 2018	Number of Options 2018	Weighted Av. Exercise Price 2017	Number of Options 2017
(c) Options exercisable at $0.00 on or before 30 May 2020:				
Balance at beginning of year	$0.00	20,000,000	-	-
Issued during the year	$0.00	-	$0.00	20,000,000
Exercised during the year	$0.00	(10,000,000)		
Lapsed / cancelled	$0.00	(10,000,000)	-	-
Balance at end of year	-	-	$0.00	20,000,000
(d) Options exercisable at $0.06 on or before 30 May 2020:				
Balance at beginning of year	$0.00	-	-	-
Issued during the year	$0.00	20,000,000	-	-
Lapsed / cancelled	$0.00	(10,000,000)	-	-
Balance at end of year	-	10,000,000	-	-

Fair value:

The fair value of services received in return for share options granted is based on the fair value of share options granted, measured using the Black – Scholes option pricing formula.

(v) Loan Funded Shares

Loan funded shares on issue during the year	Weighted Av. Exercise Price 2018	Number of Shares 2018	Weighted Av. Exercise Price 2017	Number of Shares 2017
(a) LFS exercisable at $0.064 on or before 3 June 2018:				
Balance at beginning of year	-	-	$0.064	15,000,000
Lapsed	-	-	-	(15,000,000)
Balance at end of year	-	-	-	-

(b) Fair value of loan funded shares and assumptions:	Key Management Personnel
Grant date	24 November 2011
Fair value at grant date	$0.049
Share price	$0.060
Exercise price	$0.064
Expected volatility (weighted average)	100%
Option life (expected weighted average)	6.53 years
Risk free interest rate (based on government bonds)	5.15%

17. CAPITAL AND ACCUMULATED LOSSES *(CONT.)*

(vi) Employee Expense

	2018 $	2017 $
Equity – settled share-based payments issued:		
In FY15	825	3,300
In FY12	(54,503)	(20,024)
In FY 17	78,409	243,368
In FY 18	72,280	-
Total recognised as employee expense	97,011	226,644

Following cessation of employment of R Hopkins and P Watts, the rights in relation to the employee loan funded shares were not exercised and the shares were consequently cancelled.

18. EARNINGS PER SHARE

(i) Loss attributable to ordinary shareholders

	2018 $	2017 $
Loss for the year:		
Basic earnings	(7,433,997)	(1,950,837)
Diluted earnings*	(7,443,997)	(1,950,837)

(ii) Weighted average number of ordinary shares

	Number	Number
Weighted average number of shares used for basic earnings per share	2,137,944,643	2,005,193,665

*As the Group incurred a loss for the year ended 30 June 2018, the options on issue have an antidilutive effect, therefore the diluted earnings per share is equal to the basic earnings per share.

19. NOTE TO THE STATEMENT OF CASH FLOWS

	2018 $	2017 $
Reconciliation of loss for the year to net cash used in operating activities:		
Loss for the year	(7,433,997)	(1,950,837)
Depreciation, amortisation & impairment	81,298	55,255
Share based payment expense	97,011	226,644
Proceeds from the sale of fixed assets	-	(1,398)
Increase/(decrease) in provisions for employee benefits	72,448	(335,712)
Increase/(decrease) in payables	489,622	189,136
(Increase)/decrease in receivables	(13,655)	(66,224)
Net cash used in operating activities	(6,707,273)	(1,883,136)

20. COMMITMENTS

	2018 $	2017 $
Payable within one year	-	66,250
Payable after one year but not more than five years	-	88,250
	-	154,500

Research Collaboration Commitment:

Phylogica is collaborating on one project (2017: two projects) with the University of Queensland. Under the collaboration, Phylogica paid a final cash contribution to the University of Queensland during the year.

21. FINANCIAL INSTRUMENTS

(i) Interest rate risk profile:

	2018 $	2017 $
At reporting date the interest rate profile of the Group's interest bearing		
financial instrument was:		
Variable rate instruments:		
- Financial assets	3,147,306	9,939,943

Fair value sensitivity analysis for fixed rate instruments:

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit and loss.

Cash flow sensitivity analysis for variable rate instruments:

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables remain constant. The analysis is performed on the same basis for 2017.

	2018		2017	
	100 bp increase	100 bp decrease	100 bp increase	100 bp decrease
Variable rate instruments	31,473	(31,473)	99,399	(99,399)

(ii) Fair value

The financial assets and financial liabilities of the Group are all current and therefore fair value is equal to carrying value. Consequently, the Group does not make any adjustments through the statement of profit or loss and other comprehensive income or on the statement of financial position to restate the carrying value of the financial assets and liabilities.

(iii) Credit risk

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Group undertakes due diligence prior to entering into any collaboration, co-development or licensing agreement with a counterparty that exposes the Group to credit risk.

No receivables are past due or considered impaired in 2018 or 2017.

21. FINANCIAL INSTRUMENTS *(CONT.)*

(iv) Foreign exchange risk

The Group is exposed to foreign currency risk on purchases that are denominated in a currency other than the AUD. Management does not consider the value of transactions is sufficient to warrant entering into forward currency contracts.

(v) Capital management

The operations of the Group are not presently cash positive and the Group is reliant upon developing additional revenue and raising further capital. The Group's policy on capital management is set out in note 4.

(vi) Liquidity risk

The following are the contractual maturities of the Group's financial liabilities.

	Carrying Amount	Contractual Cash Flows	6 months or less
	$	$	$
Trade and other payables:			
at 30 June 2018	1,771,777	(1,771,777)	(1,771,777)
at 30 June 2017	1,489,208	(1,489,208)	(1,476,649)

22. RELATED PARTIES

(i) Key management personnel compensation

Executive Directors	
Dr R Hayes	(Chief Scientific Officer)
Non-Executive Directors	
Mr A Tribe	(Non-Executive Chairman – Appointed 11 April 2018)
Dr B Hockings	(Non-Executive Director)
Mr S Nasseri	(Non-Executive Director – Appointed 20 October 2017)
Former Non-Executive Directors	
Dr P Watt	(Non-Executive Director – Resigned 24 November 2017)
Dr R Kendall	(Non-Executive Director - Resigned 20 October 2017)
Mr M Williams	(Non-Executive Director – Appointed 3 January 2018, resigned 11 April 2018)
Former Executive Director	
Ms S Unwin	(Chief Executive Officer - Resigned 27 April 2018)
Executives	
Dr R Hockings	(Chief Executive Officer - Appointed 11 April 2018)
	(Alternate Director to B Hockings)
Company Secretary	
Mr Kevin Hart	(Chief Financial Officer & Company Secretary) (Appointed 24 July 2017)
Former Company Secretary	
Mr G Boden	(Chief Financial Officer & Company Secretary) (Resigned 24 July 2017)

22. RELATED PARTIES *(CONT.)*

	2018 $	2017 $
The key management personnel compensation is as follows:		
- Short-term employee benefits	1,006,250	1,176,086
- Post-employment benefits	47,057	114,825
- Long term employee benefits	-	17,301
- Share based payments	150,690	247,664
Total compensation	1,203,997	1,555,876

(ii) Key management personnel transactions

Apart from details disclosed in this note, no director has entered into a material contract with the Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

A number of key management persons, or their related parties, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Group or its subsidiaries in the reporting period. The terms and conditions of the transactions with management persons and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-director related entities on an arm's length basis.

The aggregate amounts recognised during the year relating to key management personnel and their related parties were as follows:

Key management persons	Transaction	Note	2018 $	2017 $
Mr Kevin Hart	Corporate Services	(a)	155,624	-
Mr G Boden	Corporate Services	(b)	8,138	109,571

(a) Endeavour Corporate Pty Ltd, of which Mr Hart is a director, has provided services in company secretarial, accounting and administration roles, for which services fees were billed based on normal market rates, and were due and payable under normal payment terms.

(b) Boden Corporate Services Pty Ltd, of which Mr Boden is a director, has provided services in company secretarial, accounting and administration roles, for which services fees were billed based on normal market rates, and were due and payable under normal payment terms.

(iii) Subsidiaries

The consolidated financial statements include the financial statements of Phylogica Limited and the subsidiaries listed in the following table.

Name	Country of Incorporation	Equity Interest (%) 2018	Equity Interest (%) 2017	Investment ($) 2018	Investment ($) 2017
Dynamic Microbials Limited	Australia	-	100	-	1,012,500
Provision for non-recovery				-	(1,012,500)
Carrying value of investment				Nil	Nil

Phylogica Limited is the ultimate Australian parent entity and ultimate parent of the Group. Dynamic Microbials was deregistered on 5 July 2017.

23. AUDITOR'S REMUNERATION

	2018 $	2017 $
Audit services		
Audit and review of financial reports	36,000	34,500
	36,000	34,500
Non-audit services	-	-
	36,000	34,500

24. PARENT ENTITY DISCLOSURES

(i) Financial position

	2018 $	2017 $
Assets		
Current assets	3,275,650	10,132,149
Non-current assets	143,404	216,109
Total assets	3,419,054	10,348,258
Liabilities		
Current liabilities	1,771,777	1,489,208
Total liabilities	1,771,777	1,489,208
Equity		
Issued capital	53,334,289	53,209,076
Accumulated losses	(52,847,724)	(45,413,727)
Reserves – Share-based payments	1,160,712	1,063,701
Total equity	1,647,277	8,859,050

(ii) Financial performance

	Year Ended 30 June 2018 $	30 June 2017 $
Loss for the year	(7,433,997)	(1,950,837)
Other comprehensive income	-	-
Total comprehensive loss	(7,433,997)	(1,950,837)

Directors' Declaration

FOR THE YEAR ENDED 30 JUNE 2018

1. In the opinion of the directors of Phylogica Limited (the Company):
   (a) The accompanying financial statements and notes are in accordance with the Corporations Act 2001, including:
      i. giving a true and fair view of the Group's financial position as at 30 June 2018 and of its performance for the year then ended; and
      ii. complying with Australian Accounting Standards and the Corporations Regulations 2001, professional reporting requirements and other mandatory requirements;
   (b) there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable.
   (c) the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board.
2. This declaration has been made after receiving the declarations required to be made to the Directors in accordance with the financial Section 295A of the Corporations Act 2001.

   This declaration has been signed in accordance with a resolution of the directors:

Dated at Perth this 21st day of September 2018

Mr Alan Tribe
Chairman

HLB Mann Judd

Accountants | Business and Financial Advisers

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF PHYLOGICA LIMITED

REPORT ON THE AUDIT OF THE FINANCIAL REPORT

Opinion

We have audited the financial report of Phylogica Limited ("the Company") and its controlled entity ("the Group"), which comprises the consolidated statement of financial position as at 30 June 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended;and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* ("the Code")that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We have determined the matters described below to be the key audit matters to be communicated in our report.

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

Key Audit Matter	How our audit addressed the key audit matter
Going Concern Note 2(d) of the Financial Statements	
For the year ended 30 June 2018, the Group recorded a loss of $7,433,997 and a net cash outflow from operating activities of $6,707,273. The Group had cash and cash equivalents of $3,147,306 and a working capital surplus of $1,503,873. We considered this to be a key audit matter as it is important to the users understanding of the financial statements as a whole and it required the most audit effort and communication with those charged with governance.	Our procedures included but were not limited to: - Review of cash flow forecasts prepared by management and assessing the reasonableness of the assumptions contained therein; - Consideration of the appropriateness of the going concern basis of preparation; - Consideration of the ability to raise capital and the likelihood of so doing; - Reviewing subsequent events including announcements of capital raisings by the Company subsequent to balance date; - Reviewing the ability of the company to selectively reduce expenditure in the event that was so required;and - Concluding in relation to the potential existence of any material uncertainty;

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

HLB Mann Judd

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

HLB Mann Judd

REPORT ON THE REMUNERATION REPORT

Opinion on the Remuneration Report

We have audited the Remuneration Report of the directors' report for the year ended 30 June 2018.

In our opinion,the Remuneration Report of Phylogica Limited for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

HLB Mann Judd

HLB Mann Judd
Chartered Accountants

Perth, Western Australia
21 September 2017

M R W Ohm
Partner

1. QUOTED SECURITIES

The security holder information set out below was applicable as at 2 October 2018.

(a) *Distribution of Security Numbers*

Category (size of holding)	Ordinary Shares	
	Shareholders	Shares
1 – 1,000	114	24,400
1,001 – 5,000	76	235,736
5,001 – 10,000	115	992,191
10,001 – 100,000	700	32,321,058
100,001 and over	770	2,251,449,939
Total	**1,775**	**2,285,023,324**

There are 410 shareholders holding less than a marketable parcel at a price of $0.031, totalling 2,682,367 shares.

(b) *Voting Rights*

On a show of hands every person present, who is a member or a proxy, attorney or representative of a member has one vote and upon a poll every person present who is a member or a proxy, attorney or representative of a member shall have one vote for each share held.

(c) *Twenty Largest Security Holders*

The names of the twenty largest holders of ordinary shares are listed below:

Name	Number of Ordinary Shares	% of Issued Capital
Australian Land Pty Ltd	300,766,247	13.16%
BE & DC Hockings	244,442,436	10.70%
Sietsma Holdings Pty Ltd	159,500,000	6.98%
Australian Land Pty Ltd	134,000,000	5.86%
Masali Pty Ltd	115,666,667	5.06%
Bernard EF Hockings	70,018,449	3.06%
John Baird	49,466,860	2.16%
Barton & Barton Pty Ltd	38,988,500	1.71%
Anthony P & CH Barton	38,000,000	1.66%
Custom Binders Pty Ltd	35,072,261	1.53%
L & E Fisher Nominees Pty Ltd	29,166,667	1.28%
Andrew Swift	27,748,834	1.21%
Wittenoom Survival Super	25,019,526	1.09%
Neocastro Pty Ltd	22,333,334	0.98%
Patrick Simon Hassett	21,833,686	0.96%
Adam Bonaddio	21,013,597	0.92%
Telethon Institute for Child Health	20,605,501	0.90%
HSBC Custody Nominees Australia Ltd	18,851,132	0.82%
Harvey Springs Estate Pty Ltd	18,461,500	0.81%
Precision Opportunities Fund	16,666,667	0.73%
Total	1,407,621,864	61.58%

1. QUOTED SECURITIES *(CONT.)*

(d) *Substantial Shareholders*

Name	Number of Ordinary Shares	% of Issued Capital
Australian Land Pty Ltd	425,776,247	19.91
BE & DC Hockings	317,924,185	14.86
D Sietsma	233,643,380	10.99
Anthony Barton & Associates	129,450,000	6.1

(e) *On Market Buy Back*

There is no on-market buy-back scheme in operation for the company's quoted shares or quoted options.

2. UNQUOTED OPTION HOLDER INFORMATION

The information on unquoted securities set out below was applicable as at 2 October 2018.

(a) *Distribution of unquoted option holder numbers.*

Category (size of holding)	No of Option Holders	No of Options
100,001 and over	1	10,000,000
Total	1	10,000,000

(b) *Voting Rights.*

Unquoted options do not entitle the holder to any voting rights.

(c) *Holders of more than 20% of unquoted options.*

The name of holders, holding more than 20% of the unquoted options on issue in the Company's share register as at 2 October 2018 were:

Name	Number of unquoted options	% of unquoted options
Robert Hayes	10,000,000	100
Total	10,000,000	100

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