

Operations update – 3Q2018

31 October 2018: The third quarter of 2018 has largely been directed towards planning for a series of pivotal outcomes in 2019. This preparatory work has occurred at both the strategic and operational levels.

Strategic planning

We have spent a considerable amount of time addressing the question of ‘where (in which cargo class) do we want to build this platform’? The decision to focus on Anti-Sense Oligonucleotides (ASOs) as our flagship program with a series of supporting programs (outlined in the annual report) provides clarity around our future direction. This strategic clarity allows us to progress to addressing the next relevant question of what our target tissue/s will be for the different ASOs that form part of the flagship program. Work on this question has reached an advanced state.

Our organisational strategy is directed towards addressing the fundamental opportunity that will drive a return on invested capital for our shareholders:

‘Can our CPPs deliver a therapeutic cargo to a tissue/cell affected by a disease process in a manner that enables the correction of that disease’?

We will answer this question for multiple cargoes and in multiple tissues in therapeutic read-outs (both *in vivo* and *ex vivo*) in 2019.

Operational planning

The quality of the data pack that we gather in addressing this opportunity will drive the speed and scale of translation of our technical achievements into commercial outcomes. The more evidence we can compile that our pre-clinical outcomes will translate into clinical outcomes, the stronger our commercial position will be.

Successful translation of our existing pre-clinical data to therapeutic *in vivo* outcomes will transform Phylogica. Realisation of these outcomes will leave us with:

- A scalable platform that can rapidly build on formal pre-clinical validation across multiple cargoes/cargo classes in different therapeutic areas/indications;
- Lead assets that are in IND-enabling studies on the path to the clinic to drive clinical validation of the platform; and
- A refreshed IP portfolio based around new composition of matter claims protecting our CPPs (broadly framed through our deep understanding of the link between peptide sequence and desired therapeutic outcomes – leveraging our advanced analytics capability to achieve this breadth).

In terms of outcomes (beyond planning) realised in the quarter, our primary achievement was to benefit from the earlier investment in expansion of our libraries and high-throughput screening to identify substantially better Cell Penetrating Peptides (CPPs). The 4-fold improvement in efficiency of the best CPP over our existing 'first generation' CPP is highly encouraging (see ASX announcement of 29 October). These 'exceptional' CPPs will form the basis of not only our second-generation delivery technology (which they will do at the individual CPP level) but also our ability to understand what drives CPP behaviour in the quest to design the 'optimal' CPP for a given cargo/target tissue through the incorporation of advanced analytics (which they will do at the 'collective' level).

It has been a productive quarter for the company and hopefully the fruits of these efforts will flow in 2019 just as the investment in the libraries in 2017 is now yielding outcomes that differentiate our platform as we transition to the critical phase of validation within a therapeutic setting.

Phylogica (ASX:PYC) is the owner of a peptide library containing the extraordinary richness and diversity of nature. We are using these libraries to develop a drug delivery platform capable of reaching the highest value drug targets located inside cells. Our delivery platform enables drug cargoes to cross the cell membrane and directly reach their target.

ENDS

For further information please contact:



About Phylogica

Phylogica Limited (ASX: PYC) is a biotech company focused on commercialising its intracellular drug delivery platform and screening its peptide libraries to identify drug cargoes for development against a wide range of disease targets. Phylogica controls access to the world's most structurally diverse source of peptides which have the ability to act as effective drug delivery agents and drug cargoes, penetrating cell walls to reach previously 'undruggable' targets across a range of disease types. Phylogica's platform of proprietary cell penetrating peptides has been validated across multiple animal models for the ability to deliver a diverse range of drug cargoes into cells. The company has collaborations with several pharmaceutical companies including Roche, Medimmune, Pfizer, Janssen and Genentech.

Forward looking statements

Any forward-looking statements in this ASX announcement have been prepared on the basis of a number of assumptions which may prove incorrect and the current intentions, plans, expectations and beliefs about future events are subject to risks, uncertainties and other factors, many of which are outside Phylogica's control. Important factors that could cause actual results to differ materially from assumptions or expectations expressed or implied in this ASX announcement include known and unknown risks. Because actual results could differ materially to assumptions made and Phylogica's current intentions, plans, expectations and beliefs about the future, you are urged to view all forward-looking statements contained in this ASX announcement with caution. Phylogica undertakes no obligation to publicly update any forward-looking statement whether as a result of new information, future events or otherwise.

This ASX announcement should not be relied on as a recommendation or forecast by Phylogica. Nothing in this ASX announcement should be construed as either an offer to sell or a solicitation of an offer to buy or sell shares in any jurisdiction.

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Phylogica Ltd

ABN 48 098 391 961

Appendix 4C

Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

Name of entity

PHYLOGICA LIMITED

ABN

48 098 391 961

Quarter ended ("current quarter")

30 SEPT 2018

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
1. Cash flows from operating activities		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) research and development	(1,581)	(1,581)
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	-	-
(d) leased assets	-	-
(e) staff costs	(171)	(171)
(f) administration and corporate costs	(270)	(270)
1.3 Dividends received (see note 3)	-	-
1.4 Interest received	10	10
1.5 Interest and other costs of finance paid	-	-
1.6 Income taxes paid	-	-
1.7 Government grants and tax incentives	-	-
1.8 R&D Rebate	-	-
1.9 Net cash from / (used in) operating activities	(2,012)	(2,012)
2. Cash flows from investing activities		
2.1 Payments to acquire:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (3 months) \$A'000
2.2 Proceeds from disposal of:		
(a) property, plant and equipment	-	-
(b) businesses (see item 10)	-	-
(c) investments	-	-
(d) intellectual property	-	-
(e) other non-current assets	-	-
2.3 Cash flows from loans to other entities	-	-
2.4 Dividends received (see note 3)	-	-
2.5 Other (provide details if material)	-	-
2.6 Net cash from / (used in) investing activities	-	-

3. Cash flows from financing activities		
3.1 Proceeds from issues of shares	4,385 *	4,385
3.2 Proceeds from issue of convertible notes	-	-
3.3 Proceeds from exercise of share options	-	-
3.4 Transaction costs related to issues of shares, convertible notes or options	-	-
3.5 Proceeds from borrowings	-	-
3.6 Repayment of borrowings	-	-
3.7 Transaction costs related to loans and borrowings	-	-
3.8 Dividends paid	-	-
3.9 Other (provide details if material)	-	-
3.10 Net cash from / (used in) financing activities	4,385	4,385

* The \$4.4 million remaining tranche of the placement announced to ASX on 12 September 2018 is subject to shareholder approval at the Company's Annual General Meeting to be held on 16 November 2018.

4. Net increase / (decrease) in cash and cash equivalents for the period		
4.1 Cash and cash equivalents at beginning of quarter/year to date	3,147	3,147
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(2,012)	(2,012)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4 Net cash from / (used in) financing activities (item 3.10 above)	4,385	4,385

Consolidated statement of cash flows		Current quarter \$A'000	Year to date (3 months) \$A'000
4.5	Effect of movement in exchange rates on cash held	-	-
4.6	Cash and cash equivalents at end of quarter	5,520	5,520

5.	Reconciliation of cash and cash equivalents at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	Current quarter \$A'000	Previous quarter \$A'000
5.1	Bank balances	5,520	5,520
5.2	Call deposits	-	-
5.3	Bank overdrafts	-	-
5.4	Other (provide details)	-	-
5.5	Cash and cash equivalents at end of quarter (should equal item 4.6 above)	5,520	5,520

6.	Payments to directors of the entity and their associates	Current quarter \$A'000
6.1	Aggregate amount of payments to these parties included in item 1.2	171
6.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
6.3	Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2	

Directors Fees and Superannuation

7.	Payments to related entities of the entity and their associates	Current quarter \$A'000
7.1	Aggregate amount of payments to these parties included in item 1.2	-
7.2	Aggregate amount of cash flow from loans to these parties included in item 2.3	-
7.3	Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2	

8. Financing facilities available <i>Add notes as necessary for an understanding of the position</i>	Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
8.1 Loan facilities	-	-
8.2 Credit standby arrangements	-	-
8.3 Other (please specify)	-	-
8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.		

N/A

9. Estimated cash outflows for next quarter	\$A'000
9.1 Research and development	1,600
9.2 Product manufacturing and operating costs	-
9.3 Advertising and marketing	-
9.4 Leased assets	-
9.5 Staff costs	240
9.6 Administration and corporate costs	220
9.7 Other	-
9.8 Total estimated cash outflows	2,060

10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)	Acquisitions	Disposals
10.1 Name of entity	-	-
10.2 Place of incorporation or registration	-	-
10.3 Consideration for acquisition or disposal	-	-
10.4 Total net assets	-	-
10.5 Nature of business	-	-

Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.



Sign here:

(Company secretary)

Date: 31st October 2018

Print name: Kevin Hart

Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.