VIRALYTICS LTD

ABN 12 010 657 351

APPENDIX 4E

Preliminary Final Report

Year ended 30 June 2015 (current period)
and the year ended 30 June 2014 (previous corresponding period)

Results for announcement to the market

Results	30 Jun 15 ($,000)	30 Jun 14 ($,000)	% movement
Revenue from ordinary activities	527	296	up 78%
(Loss) from ordinary activities after tax attributable to members	(4,255)	(5,529)	down 23%
(Loss) for the period attributable to members	(4,255)	(5,529)	down 23%

	30 Jun 15	30 Jun 14
Net tangible asset backing per ordinary security	12.4 cents	14.4 cents
Basic (Loss) cents per share	(2.3 cents)	(4.6 cents)

An explanation of the result of the current period is set out in the Directors' Report contained in the attached audited Annual Financial Report.

Full financial details of the Company are also contained in the attached audited Annual Financial Report.

Dividends: it is not proposed that any dividends will be paid. No dividends were paid in the previous corresponding period.



VIRALYTICS LIMITED

ANNUAL REPORT 2015

ABN 12 010 657 351

Viralytics

Developers of Oncolytic Immunotherapies

Corporate Information

Directors

Mr Paul Hopper
Chairman

Mr Peter Turvey
Non-Executive Director

Dr Leonard Post
Non-Executive Director

Dr Malcolm McColl
Managing Director and
Chief Executive Officer

Managing Director

Dr Malcolm McColl

Company Secretary

Ms Sarah Prince

Chief Financial Officer

Mr Robert Vickery

Principal Place of Business

Suite 305, Level 3
66 Hunter Street
SYDNEY NSW 2000

Registered Office

c/- Company Matters Pty Limited
Level 12
680 George Street
SYDNEY NSW 2000

Contact Information

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Website

www.viralytics.com

Auditors

Grant Thornton Audit Pty Ltd
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Sydney NSW 2000

Share Registry & Register

Link Market Services Ltd
Level 12
680 George Street
SYDNEY NSW 2000
Ph: (02) 8280 7454

Viralytics

Developers of Oncolytic Immunotherapies

Welcome to the Viralytics Limited 2015 Annual Report

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We have promising technology which is demonstrating anti-cancer activity in the clinic; we are well placed to benefit from the intense interest in immuno-oncology; and we remain well funded.

Chairman's Letter



Dear Fellow Shareholder,

It has been a most rewarding year of progress under Dr Malcolm McColl's strong leadership, adroitly backed by our technology founder and Chief Scientific Officer, Professor Darren Shafren, across our major fronts of science, drug development, and commercial partnerships.

The clinical development of our lead drug candidate, CAVATAK, remains our core focus.

The pinnacle of the year was the opportunity to present our outstanding Phase 2 CAVATAK final results at the most prestigious cancer conference globally, the American Society for Clinical Oncology (ASCO), which drew favorable peer and big pharma comment.

Since the approval of the first immune checkpoint blockade drug, Yervoy®, in 2011, the cancer industry, and big pharma in particular, has been in a stampede to establish a stake in the most promising area of cancer today, immuno-oncology.

Viralytics is well positioned to benefit from this intense interest and is actively developing relationships with major players across the industry, while also conducting important clinical trials assessing CAVATAK as a monotherapy and also in combination with Yervoy.

The financial year under review again demonstrated Viralytics' continued growth and increased standing in the international scientific and investor life sciences market.

Moreover, investors gave recognition to the inherent value of your company's technology with a solid increase in market capitalisation following very favorable research coverage on Viralytics by a prominent Wall St biotechnology-focused investment bank.

Your company has one of the richest clinical trial pipelines on the ASX, with four studies currently underway, and is also one of the few Australian firms to be developing a drug under an FDA Investigational New Drug (IND) application.

Looking ahead, we have sound reasons for being cautiously optimistic. We have an outstanding team - drugs don't develop themselves, people do; we have promising technology which is demonstrating anti-cancer activity in the clinic; we are well placed to benefit from the intense interest in immuno-oncology; and we remain well funded.

On behalf of the Board, I thank our management team for their exemplary contribution this year, and I also thank our shareholders for their continued support and interest in Viralytics.



Paul Hopper
Chairman

Investment Highlights

Melanoma Clinical Trials

Phase 2 CALM Trial - Final Data

- 38.6% of patients met primary endpoint of immune-related Progression-Free Survival (irPFS) at six months, more than doubling targeted 18.5%
- Overall response rate of 28%, durable response rate (6 months or more) of 21%, and one-year survival rate of 75%
- Anti-cancer activity in both injected and non-injected sites, including lung and other distant metastases

CALM Extension Trial – Fully Enrolled

- Preliminary results showed anti-cancer immune activity in tumour tissue biopsies taken after CAVATAK™ administration
- Results suggest CAVATAK's potential complementary activity when combined with checkpoint inhibitors and other new immunotherapies

Phase 1b MITCI Combination Trial – Initiated

- Evaluating CAVATAK in combination with the checkpoint inhibitor Yervoy® (ipilimumab) in late-stage melanoma patients



Other Clinical Trials

Phase 1/2 STORM Trial – Ongoing

- Initial results showed tumour-specific viral replication in some patients with advanced cancers (melanoma, non-small cell lung, bladder and prostate)
- Intravenous administration of CAVATAK well tolerated, and third cohort of patients now underway using highest CAVATAK dose

Phase 1 CANON Trial – Ongoing

- Early results demonstrated widespread viral replication in the tumour and viral-induced cancer cell death in first three patients with non-muscle invasive bladder cancer
- Intravesicular administration (via catheter into the bladder) of CAVATAK well tolerated
- Second stage of trial to investigate combination with standard chemotherapy, mitomycin C

Corporate Outlook

- Well financed with $21.6 million cash at 30 June 2015
- Building a compelling data package through a broad clinical development program to attract potential pharmaceutical partners
- Focused on positioning Viralytics to leverage a significant commercial outcome from its innovative CAVATAK technology





Immuno-oncology is currently the most important sector in the pharmaceutical industry, and our aim is to build a compelling data package through our CALM, STORM, CANON, MITCI and future clinical trials to attract pharmaceutical partners interested in adding an oncolytic virus to their oncology portfolios.

Managing Director's Letter



Viralytics continued to make strong progress in the 2015 financial year as we achieved major milestones in the clinical development of our lead product CAVATAK™, further strengthening our position for a successful future commercial transaction.

The highlight of the year came in June, when we presented the final results from our 57-patient Phase 2 CALM melanoma clinical trial at the American Society for Clinical Oncology (ASCO) Annual Meeting, the most important oncology conference in the world. The impressive results – including an overall response rate of 28% and a one-year survival rate of 75.4% - were very well received by a broad audience of oncologists, institutional investors and pharma companies.

Also at ASCO, we presented initial promising results from a 13-patient extension study to the CALM trial, designed to explore CAVATAK's ability to induce an anti-cancer immune response. These results strengthen our belief that CAVATAK has considerable potential for complementary activity when combined with other new cancer immunotherapies such as checkpoint inhibitors.

We met another key milestone in June when we presented initial results from our Phase 1/2 STORM clinical trial at the 9th International Conference on Oncolytic Virus Therapeutics. Early results of the trial, which is being conducted in melanoma, lung, bladder and prostate cancer patients at three leading cancer centres in the UK, show that multiple intravenous infusions of CAVATAK have produced tumour-specific viral replication in some patients. We are excited about these initial results since success in this setting offers the potential to considerably broaden the application of CAVATAK, including its use in combination with new immunotherapies in these very common cancer types.

In addition, we are making good progress in our Phase 1 CANON clinical trial, initiated in January 2015 in patients with non-muscle invasive bladder cancer to further broaden the potential application of CAVATAK. We also presented early promising results from this UK trial at the Oncolytic Virus Therapeutics conference and look forward to an acceleration of the recruitment in this study, with further results expected later this year. There is a very real need for less toxic, more effective agents to treat this common cancer type, also known as superficial bladder cancer. We are hopeful CAVATAK can help meet this need.

Given the compelling body of evidence from clinical and preclinical studies, we are keen to explore the use of CAVATAK in combination with immunotherapies such as the potential blockbuster agents known as checkpoint inhibitors. Combination immunotherapies are likely to form the backbone of cancer treatment in the future, and we see real potential for CAVATAK to work synergistically in this setting to improve both response rates and provide clinical benefit to patients.

As a first step, we initiated our Phase 1b MITCI clinical trial to assess the combination of CAVATAK and the top-selling drug Yervoy® in late-stage melanoma patients. The study is underway at three sites in the US, and we forecast reporting some initial results in early 2016.

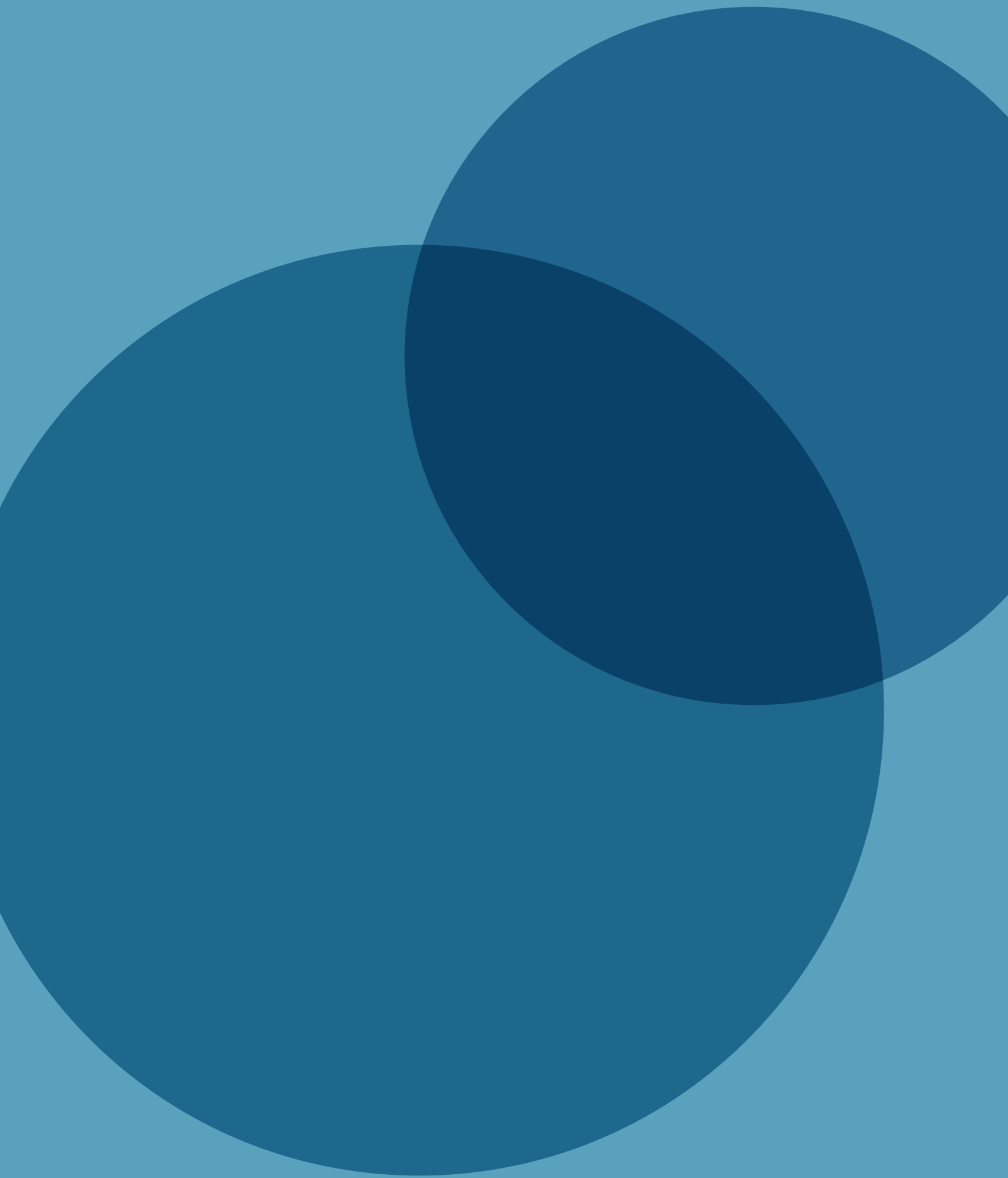
It is a very exciting time at your company as we continue to advance CAVATAK as a new immunotherapy with the potential to significantly benefit patients across a range of cancer types. The data generated in the past 12 months has been impressive, and we look forward to reporting results from our multiple clinical trials in the coming year. Importantly, we have excellent support from leading oncologists in the US and UK, and are well funded thanks to our successful capital raise from specialist healthcare institutional investors in 2014.

Immuno-oncology is currently the most important sector in the pharmaceutical industry, and our aim is to build a compelling data package through our CALM, STORM, CANON, MITCI and future clinical trials to attract pharmaceutical partners interested in adding an oncolytic virus to their oncology portfolios. Our goal is to ensure that Viralytics is well positioned to leverage a significant commercial outcome from our innovative technology.

In closing, I would like to thank all the members of our dedicated team, and in particular, our Chief Scientific Officer, Dr Darren Shafren, for their ongoing excellent efforts and progress as we work to establish CAVATAK as a major new oncolytic immunotherapy.



Managing Director and Chief Executive Officer



Viralytics Limited

Directors' Report

for the year ended 30 June 2015

The Directors present their report together with the financial statements of the Company for the financial year ended 30 June 2015.

DIRECTORS

The names of the directors in office during the financial year and to the date of this report are set out below. Directors were in office for the entire period unless otherwise stated.

Mr Paul Hopper	Non-Executive Chairman
Dr Leonard Post	Non-Executive Director
Mr Peter Turvey	Non-Executive Director (appointed 8 September 2014)
Dr Malcolm McColl	Managing Director (appointed 8 September 2014) and Chief Executive Officer
Dr Phillip Altman	Non-Executive Director (resigned 8 September 2014)
Mr Peter Molloy	Non-Executive Director (resigned 8 September 2014)

COMPANY SECRETARIES

The company secretaries during the financial year were:

Ms Catherine Officer (resigned 24 October 2014)
Ms Sarah Prince (appointed 24 October 2014)

PRINCIPAL ACTIVITIES

The principal activity during the year was the continued clinical and preclinical development of the lead product CAVATAK™. This was achieved through:

(i) US Phase 2 CALM clinical study in late stage melanoma patients for which final data was presented during the year;
(ii) Multi-intravenous dose Phase 1/2 STORM study which continued in the UK in late stage solid cancer patients;
(iii) Phase 1b CANON (CAVATAK in Non-muscle invasive bladder cancer) two-part, open-label, dose-escalation study which was initiated in the UK during the year;

(iv) Phase 1b MITCI (Melanoma Intra-Tumoral CAVATAK and Ipilimumab) study clinical trial of CAVATAK™ in combination with the drug Yervoy®[2] (ipilimumab) in late-stage melanoma patients which was initiated during the year;

(v) Multiple preclinical programs including assessment of CAVATAK™ in combination with other new important immunotherapies and in various cancer types; and

(vi) Development of the intellectual property assets.

The company achieved a number of significant milestones during the year which are outlined in the Operations Report below.

OPERATING RESULT

The operating loss for the year was $4.3 million (2014: $5.5 million loss).

CASH MANAGEMENT

Cash on hand as at 30 June 2015 was $21.6 million (30 June 2014: $24.3 million).

STATEMENT OF FINANCIAL POSITION

The Company's financial position compared to the prior year was as follows:

- Cash on hand as at 30 June 2015 was $21.6 million compared to $24.3 million at 30 June 2014
- Net assets decreased to $24.9 million from $28.9 million at 30 June 2014.
- Net tangible assets decreased to $22.8 million from $26.5 million at 30 June 2014

The Board believes the Company is well placed to support its business programmes in 2015/16.

REVIEW OF OPERATIONS

The Company remains focussed on its strategy to advance the CAVATAK™ technology to a licensing, partnering or sale transaction at a key value point. To this end it is developing a broad and substantial body of clinical data through collaborations with key opinion leaders and leading institutions in the oncology space. Progress in clinical development is outlined below.

[2] Yervoy is a registered trademark of Bristol Myers Squibb

CLINICAL TRIALS

CAVATAK™ Phase 2 CALM Melanoma Clinical Trial (US)

Final data from the Phase 2 CALM (CAVATAK™ in the treatment of Late-stage Melanoma), clinical trial was presented at the American Society of Clinical Oncology (ASCO) Annual Meeting in June 2015.

Highlights included:

- 22 of the 57 (38.6%) patients achieved the irPFS[3] endpoint, more than doubling the target of 10 of 54 evaluable patients reporting irPFS at six months after the first dose of CAVATAK.
- Overall response rate[4] in 16 of 57 (28%) patients. Of these, eight patients achieved a complete response and disappearance of their total tumour burden and the other eight achieved a partial response with at least a 30% reduction in the tumour burden.
- Durable responses[5], persisting for 6 months or more, were seen in 21% of patients.
- Responses have been observed in patients who have progressed on other agents such as T-VEC and the checkpoint inhibitor ipilimumab (Yervoy).
- Promising anti-cancer activity was demonstrated in non-injected distant cancers, including lung and liver metastases. A response rate of 37.5% was recorded in individual target lesions at these sites – suggestive of CAVATAK's ability to trigger an anti-tumour immune response.
- One-year survival rate of 75% (43 of 57 patients) with a median overall survival[6] of 26 months was achieved in a challenging population with advanced, intractable disease.
- Well tolerated in 57 patients with no grade 3 or 4 treatment-related adverse events[7]

[3] The primary endpoint measured is immune-related Progression-Free Survival (irPFS) at six months after first dose of CAVATAK™. Progression Free Survival is the length of time, during and after treatment that the patient lives with the cancer without it worsening. irPFS includes patients who achieve a complete tumour response, partial tumour response or stable disease.

[4] Overall response rate includes either complete or partial responses that may occur at any time after initiation of treatment. A complete tumour response (irRECIST 1.1) is the disappearance of all tumour burden. A partial tumour response (irRECIST 1.1) is a reduction in the total tumour burden by greater than 30%.

[5] Durable response occurs when a patient has at least a 30% decrease in the tumour burden continuous for at least 6 months. Patients who meet criteria for durable response demonstrate at least a partial response and some a complete response.

[6] Median overall survival is the length of time from initiation of CAVATAK treatment that half of the patients are still alive. Currently this median is estimated time as more than half the patients are still alive.

[7] Grade 3 adverse events are severe or medically significant but not immediately life-threatening; Grade 4 adverse events are life-threatening with urgent intervention indicated.

CALM Extension Study

The 13-patient CALM extension study was initiated to enable a deeper understanding of the role of CAVATAK in triggering an immune response against cancer cells. It is fully enrolled and continues at three sites in the US.

Preliminary results, reported in April and June 2015, demonstrated that CAVATAK was able to induce anti-cancer immune activity in tumour tissue biopsies taken from melanoma lesions. Evidence includes the tumour infiltration of immune cells (such as T lymphocytes) and up-regulation of important receptors (such as PDL1) on cancer cells. This signals the potential for complementary activity when combined with other immunotherapies such as checkpoint inhibitors[8].

CAVATAK™ Phase 1/2 STORM Multi-dose Intravenous Clinical Trial (UK)

The Phase 1/2 STORM (**S**ystemic **T**reatment **O**f **R**esistant **M**alignancies) clinical trial for late-stage melanoma, non-small cell lung, metastatic bladder and castrate-resistant prostate cancer is being conducted at three cancer centres in the UK.

The activity of multi-intravenous dosing of CAVATAK is being assessed in approximately 30 patients. Initial results indicate potential tumour viral replication in some advanced cancer patients and additional indications of anti-tumour activity in some individual lesions associated with escalating doses of CAVATAK.

Intravenous administration of CAVATAK has been well tolerated, with no grade 3 or 4 product-related adverse events. Treatment of the third cohort of patients is underway using the highest dose of CAVATAK and includes assessment of tumour tissue biopsies. Initial results for the cohort indicate the presence of CAVATAK in tumour biopsies in the first two melanoma patients.

CAVATAK™ Phase 1 CANON Non Muscle Invasive Bladder Cancer Clinical Trial (UK)

The CANON (CAVATAK in Non-muscle invasive bladder cancer) clinical trial is a two-part, open-label, dose-escalation study expected to enrol 30 to 40 patients. The trial is designed to evaluate the safety and tolerability of CAVATAK administered alone, and in combination with a sub-therapeutic dose of the standard chemotherapy, mitomycin C. The trial is also assessing the pharmacodynamics of CAVATAK and documenting evidence of anti-tumour activity.

Promising early data was presented in June 2015. Results from the first three patients in the study demonstrated that administration of CAVATAK via catheter directly into the bladder (intravesicular treatment) is well tolerated with signs of widespread virus replication within the tumour and viral-induced cancer cell death.

[8] Checkpoint inhibitors are an important new class of anticancer agent that take the brakes off the immune response to cancer and have application across a broad range of cancer types including melanoma, lung and bladder cancer. They include the anti-PD1 antibodies such as nivolumab (Opdivo - Bristol Myers Squibb) and pembrolizumab (Keytruda, Merck) and the anti-CTLA4 antibodies such as ipilimumab (Yervoy, Bristol Myers Squibb). Analysts forecast these 3 agents may achieve total annual revenues of more than US$20Bn by 2020.

Preclinical research has shown that the combination of CAVATAK and mitomycin C synergistically enhanced the cancer-killing activity in bladder cancer cell lines. The second stage of the trial will investigate this combination regimen.

CAVATAK Phase 1b MITCI Combination with Ipilimumab Clinical Trial (US)

The MITCI (Melanoma Intra-Tumoral CAVATAK and ipilimumab) study is a Phase 1b clinical trial of CAVATAK™ administered in combination with the drug Yervoy® (ipilimumab) in late-stage melanoma patients. The trial is being conducted at three sites in the US including the Providence Cancer Center in Portland Oregon.

The company-sponsored, open label study is assessing the safety and tolerability of the established dose of CAVATAK in combination with the checkpoint inhibitor Yervoy in 26 patients with late-stage melanoma for whom Yervoy would be considered the standard of care. The trial is also assessing evidence of anti-cancer activity, including response rates and bio-markers of anti-tumour immunity.

Preclinical evidence suggests that CAVATAK in combination with the mouse homologue of ipilimumab may lead to enhanced anti-tumor activity compared to the use of either agent alone.

The trial was only recently initiated and therefore no data is available to be reported.

CAVATAK Preclinical studies (Australia)

Preclinical studies of CAVATAK continued in the past year with results presented at major conferences in the US and Europe.

The results of a preclinical study assessing the activity of CAVATAK delivered intratumourally in combination with immune checkpoint inhibitors (anti-PD-1 or anti-CTLA-4) demonstrate that the combination of CAVATAK with each checkpoint inhibitor produced superior anti-tumour activity and offered greater survival benefits in a mouse melanoma model, compared to the use of either agent alone.

A further study assessed the activity of CAVATAK intravenously in combination with checkpoint inhibitors (anti-PD1, anti-CTLA4 or both agents) in melanoma mouse model. In each case there was significantly greater anti-tumour activity when compared to the use of these agents alone.

The significant anti-tumour activity mediated by the combination of CAVATAK with the leading checkpoint inhibitors supports clinical evaluation of such an immunotherapeutic treatment regimen in patients with advanced melanoma.

Directors' Report

for the year ended 30 June 2015

CORPORATE

The Company remains in a strong financial position with $21.6 million cash on hand at 30 June and a strong shareholder register comprising 45% institutional representation.

The focus remains on developing the value of the Company's technology through clinical trial activity. Management is strongly focussed on building the team and other resources to oversee and support that activity.

INTELLECTUAL PROPERTY

The Company continues its strong focus on developing and strengthening its intellectual property portfolio.

A summary of the patent portfolio is maintained on the company's website at http://www.viralytics.com/our-pipeline/intellectual-property-patents/.

LIKELY DEVELOPMENTS AND LIKELY RESULTS

The Company's strategic plan entails aggressively advancing the clinical development of CAVATAK across multiple phase 1 and 2 clinical trials for the treatment of melanoma, as well as prostate, metastatic bladder, non-muscle invasive bladder and lung cancers. CAVATAK will be assessed as both a monotherapy and in combination with other new immunotherapies such as the checkpoint inhibitors. The Company believes that CAVATAK has the potential to enhance the activity of these new blockbuster agents and thus may provide significant clinical benefits to patients.

The Company will continue to explore other potential indications and combinations for CAVATAK through preclinical and possible Phase 1 clinical trial programmes. The intent is to add value to CAVATAK by strengthening its intellectual property position and by expanding the clinical data across a range of indications through our CALM, STORM, CANON and MITCI clinical trials, as well as other potential future clinical studies.

Discussions with global pharmaceutical companies will be pursued with the aim of securing partnerships in order to drive CAVATAK towards commercialisation and generate licensing income for Viralytics.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the Company.

Directors' Report

for the year ended 30 June 2015

MATTERS SUBSEQUENT TO THE END OF THE YEAR

No matter or circumstance other than matters discussed in the Directors' Report has arisen since the end of the financial year that would significantly affect or may significantly affect the operations of the economic entity, the results of those operations or the state of affairs of the Company in subsequent financial years.

ENVIRONMENTAL ISSUES

The Company's operations are not subject to significant environmental regulation under Commonwealth or State law.

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of court under section 237 of the Corporations Act 2001 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.

The Company was not a party to any such proceedings during the year.

DIVIDENDS

No dividends were paid and the Directors did not recommend a dividend to be paid.

SHARE CAPITAL AND OTHER EQUITY SECURITIES

A total of 5,745,000 unissued ordinary shares under option and 320,000 unissued ordinary shares under performance right options are outstanding at the date of this report. Further details regarding changes to the capital structure during the year are set out in Note 11 – Issued Capital.

Directors' Report

for the year ended 30 June 2015

Unissued Shares Under Option

Unissued ordinary shares of Viralytics under option at the date of this report are:

Date Options Granted	Expiry Date	Exercise Price	Closing Balance
23 Dec 10	22 Dec 15	$0.50	200,000
12 Aug 11	12 Aug 16	$0.70	2,900,000
23 Nov 13	23 Nov 17	$0.352	200,000
8 Feb 13	21 Jan 18	$0.326	1,200,000
28 Nov 14	28 Nov 19	$0.332	1,245,000
			5,745,000

All options expire on the earlier of the expiry date or termination of the employee's employment. These options were issued under the company Equity Incentive Plan. These options do not entitle the holder to participate in any share issue of the company.

Shares Issued During or Since the End of the Year as a Result of Exercise

During or since the end of the financial year, the Company issued ordinary shares as a result of the exercise of options as follows (there were no amounts unpaid on the shares issued).

Date Options Granted	Issue Price	Number of Shares Issued
8 February 2013	$0.319	125,000

MEETINGS OF DIRECTORS

During the reporting period, nine meetings of Directors were held. Attendances by each Director during the year were as follows:

	Directors' Meetings eligible to attend	Directors' Meetings attended
Mr Paul Hopper (Non-Executive Chairman)	9	9
Dr Phillip Altman (Non-Executive Director) (i)	0	0
Mr Peter Molloy (Non-Executive Director) (i)	0	0
Dr Leonard Post (Non-Executive Director)	9	9
Mr Peter Turvey (Non-Executive Director) (ii)	9	9
Dr Malcolm McColl (Managing Director)	9	9

(i) Resigned 8 September 2014
(ii) Appointed 8 September 2014

AUDIT AND RISK COMMITTEE MEETINGS

During the reporting period, two meetings of the Audit & Risk Committee were held. Attendances by each member during the period were as follows:

	Meetings eligible to attend	**Meetings attended**
Mr Peter Turvey (Committee Chairman)[ii]	2	2
Mr Paul Hopper	2	2
Dr Len Post	2	2
Mr Peter Molloy [i]	0	0
Dr Phillip Altman [i]	0	0

(i) Resigned 8 September 2014
(ii) Appointed 8 September 2014

REMUNERATION & NOMINATION COMMITTEE MEETINGS

During the reporting period, two meetings of the Remuneration & Nomination Committee were held. Attendances by each member during the period were as follows:

	Meetings eligible to attend	Meetings attended
Mr Paul Hopper (Committee Chairman)	2	2
Dr Phillip Altman [i]	0	0
Mr Len Post	2	2
Mr Peter Turvey [ii]	2	2

(i) Resigned 8 September 2014
(ii) Appointed 8 September 2014

Directors' Report

for the year ended 30 June 2015

DIRECTORS' QUALIFICATIONS AND EXPERIENCE

Details of the Directors in office at the date of this report are as follows:

Mr Paul Hopper – Non Executive Chairman

Mr Hopper has over 20 years' experience in the management and funding of biotechnology and healthcare public companies with extensive capital markets experience in equity and debt raisings in Australia, Asia, US and Europe. Mr Hopper's sector experience has covered a number of therapeutic areas with a particular emphasis on immunotherapy and cancer vaccines.

He is Head of the Australia Desk and Head of the Life Sciences and Biotechnology practice at the Los Angeles merchant bank Cappello Group where he is a partner. Mr Hopper has served as CEO and Director of many listed biotechnology and healthcare companies in Australia and the US.

Other Current Listed Directorships:	**Interest in VLA shares:**
Imugene Limited (Executive Chairman)	64,106
Prescient Therapeutics Limited (Executive Director)	**Interest in VLA options:**
Previous Listed Directorships (last 3 years):	800,000
Psivida Corp	

Dr Leonard Post - Non-Executive Director

Dr Post has extensive experience in oncolytic viruses and virotherapy having been a past director of and consultant to Biovex Ltd, acquired by Amgen Inc. in 2011. He was also Senior Vice President of R&D at Onyx Pharmaceuticals which was one of the first companies involved in the development of targeted oncolytic viruses.

Dr Post has a strong commercial background. In 2007 he founded US-based LEAD Therapeutics Inc. It was subsequently acquired by BioMarin Pharmaceuticals Inc. in 2010. He is currently Chief Scientific Officer of BioMarin Pharmaceuticals and a director of three North American biotechnology companies. He has also been a member of a number of Scientific Advisory Boards. Dr Post is also advisor to a well-known Australian based venture capital firm.

Other Current Listed Directorships:	**Interest in VLA shares:**
Nil	Nil
Previous Listed Directorships (last 3 years):	**Interest in VLA options:**
Nil	400,000

Mr Peter Turvey – Non-Executive Director

Mr. Turvey has 30 years' experience in the biotechnology industry most of which were as Group General Counsel, Company Secretary and Executive Vice-President Licensing of speciality biopharmaceutical company CSL Limited. Mr. Turvey was heavily involved in CSL's acquisitions and divestments over those years and directly responsible for the protection and licensing of its intellectual property.

He is currently a Non-Executive Director of Victorian State Government-owned Agriculture Victoria Services Pty Ltd and a Principal of Foursight Associates Pty Ltd.

Other Current Listed Directorships:	**Interest in VLA shares:**
Starpharma Holdings Limited	77,247
Admedus Limited	**Interest in VLA options:**
Previous Listed Directorships (last 3 years):	400,000
Nil	

Dr Malcolm McColl – Managing Director

Dr McColl has more than twenty years' experience in negotiating at the highest level for international and regional pharmaceutical and biotech companies. He has been involved in over fifty research, development, licensing, mergers and acquisitions and other partnering transactions with a focus on oncology.

Prior to joining Viralytics he was Vice President Business Development at Starpharma and responsible for partnering activities and programs. Before joining Starpharma he held senior European and Asia Pacific business development roles with Hospira (formerly Mayne Pharma) and CSL where he spent 13 years culminating with 4 years in the US as Vice President Global Business Development for the Animal Health Division.

Other Current Listed Directorships:	**Interest in VLA shares:**
Nil	Nil
Previous Listed Directorships (last 3 years):	**Interest in VLA options:**
Nil	1,600,000

COMPANY SECRETARIES - QUALIFICATIONS AND EXPERIENCE

Ms Sarah Prince BA LLB Grad Dip Corp Gov.

Ms Prince holds a BA LLB from the University of Tasmania and is an Associate of the Governance Institute of Australia.

Ms Prince has over eight years' experience as a solicitor and governance professional and currently works for Company Matters Pty Limited. Previously, Sarah worked in the Board Advisory Services division of KPMG.

Directors' Report

for the year ended 30 June 2015

REMUNERATION REPORT - AUDITED

This report details the nature and amount of remuneration for each director of Viralytics Ltd and for the Key Management Personnel. The directors of Viralytics Limited at any time during the financial year were:

Mr Paul Hopper	Non-Executive Chairman	Appointed 4 September 2008
Dr Phillip Altman	Non-Executive Director	Appointed 12 July 2007, Resigned 8 September 2014
Mr Peter Molloy	Non-Executive Director	Appointed 29 September 2008, Resigned 8 September 2014
Dr Leonard Post	Non-Executive Director	Appointed 21 November 2011
Mr Peter Turvey	Non-Executive Director	Appointed 8 September 2014
Dr Malcolm McColl	Managing Director	Appointed Director 8 September 2014

Remuneration Policy

Director and Executive Remuneration

The Company's policy for determining the nature and amount of emoluments of board members and executives is to pay market rates commensurate with their responsibilities and their time and commitment. The policy has been designed to attract and retain talented executives and directors with the specific skills needed to grow an early stage research and development Company into a significant international company.

The nature and scale of the Company's research, development and commercialisation activities requires access to a range of specialised skills as and when needed. It is not feasible to employ all required skills on a full time basis. Accordingly, the Company is structured to address these needs by retaining a small group of executives and calling upon specialist skills as and when required from the board and external sources. As a result all Directors are called upon to contribute to a greater extent than might normally be required of a general small independent Board.

Directors' fees are based upon the Director's experience and contribution to the Company's operations and governance obligations. The maximum aggregate amount of fees that can be paid to non-executive Directors is subject to approval by shareholders at the Annual General Meeting.

Key Management Personnel receive a base salary which is based upon experience and the specific skills of the Executive. In addition, the Company makes superannuation guarantee contributions for all Key Management Personnel where required under Commonwealth superannuation legislation. All remuneration (including performance-based remuneration) paid to Key Management Personnel is valued at the cost to the Company and expensed.

Performance-based Remuneration

The remuneration policy has been tailored to increase goal alignment between shareholders, directors and executives. Two methods have been applied to achieve this aim, the first being a performance-based bonus based on Key Performance Indicators (KPIs), and the second being the issue of options or share rights to the majority of directors and executives to encourage the alignment of personal and shareholder interests.

Performance incentives – Key Performance Indicators (KPIs) are set annually by the Directors and target financial and non-financial areas the Directors believe hold greatest potential for achieving the short and long-term objectives of the Company given its position as an early stage Research and Development Company. The KPI details for 2014/15 include achieving share price performance targets; initiating new trials consistent with corporate strategy; and instigating substantial partnering discussions. Performance in relation to the KPIs is assessed annually in light of the desired and actual outcomes, with bonuses being awarded by resolution of the Directors depending on the number of KPIs achieved.

Options and Rights - KMP are entitled to participate in the employee Share Option and Share Rights arrangements to align their interests with shareholders' interests. Options and Rights granted under the arrangement do not carry dividend or voting rights. Each Option and Right is entitled to be converted into one ordinary share.

KMP or closely related parties of KMP are prohibited from entering into hedge arrangements that would have the effect of limiting the risk exposure relating to their remuneration.

Consequences of Performance on Shareholder Wealth - In considering the Company's performance and benefits for shareholder wealth, the Board have regard to milestones as described above under *Performance incentives*. The board also considers the following indices in respect of the current financial year and the previous four (4) financial years whilst noting that, given the company's stage of development, they are not always a reliable metric for performance and generation of shareholder wealth.

	2015	2014	2013	2012
EPS (cents)	(2.3)	(4.6)	(5.1)	(7.1)
Dividends (cents per share)	Nil	Nil	Nil	Nil
Net profit/loss ($,000)	(4,254)	(5,529)	(4,130)	(4,779)
Share price ($)	0.760	0.270	0.245	0.265

Performance Based Remuneration is apportioned as follows:

Performance Based Remuneration - 2015

	Position at 30 June 2015	Related to Performance		Not Related to Performance	
		Non-salary Cash-based Incentives %	Options/ Rights %	Fixed Salary/ Fees %	Total %
Key Management Personnel					
Mr Paul Hopper	Non-Executive Chairman	0%	11%	89%	100%
Dr Phillip Altman (i)	Non-Executive Director	0%	6%	94%	100%
Mr Peter Molloy (i)	Non-Executive Director	0%	3%	97%	100%
Dr Len Post	Non-Executive Director	0%	17%	83%	100%
Mr Peter Turvey (ii)	Non-Executive Director	0%	27%	73%	100%
Dr Malcolm McColl	Chief Executive Officer	17%	12%	71%	100%
Dr Jennifer Rosenthal (iii)	Director – Regulatory Affairs	0%	0%	100%	100%
Prof Darren Shafren	Chief Scientific Officer	17%	12%	72%	100%
Mr Robert Vickery	Chief Financial Officer	11%	8%	81%	100%

(i) Resigned 8 September 2014
(ii) Appointed 8 September 2014
(iii) Appointed 4 May 2015

Directors' Report

for the year ended 30 June 2015

Performance Based Remuneration - 2014

	Position at 30 June 2014	Related to Performance		Not Related to Performance	
		Non-salary Cash-based Incentives	Options/ Rights	Fixed Salary/ Fees	Total
		%	%	%	%
Key Management Personnel					
Mr Paul Hopper	Non-Executive Chairman	0%	18%	82%	100%
Dr Phillip Altman	Non-Executive Director	0%	26%	74%	100%
Mr Peter Molloy	Non-Executive Director	0%	15%	85%	100%
Dr Len Post	Non-Executive Director	0%	15%	85%	100%
Dr Malcolm McColl	Chief Executive Officer	16%	20%	64%	100%
Prof Darren Shafren	Chief Scientific Officer	29%	9%	62%	100%
Mr Robert Vickery	Chief Financial Officer	12%	4%	84%	100%

Directors' Report

for the year ended 30 June 2015

Director Remuneration for the year ended 30 June 2015:

	Short-Term Benefits				Post Employ-ment	Termin-ation Benefits	Share-based Payment	Total
	Directors fees and Salary $	Bonus $	Change Accrued Leave $	Other [i] $	Superan-nuation $	$	Options $	$
Non-Executive Directors								
Mr P Hopper	75,000	-	-	10,000	7,125	-	11,212	103,337
Dr P Altman	10,011	-	-	12,735	951	-	1,533	25,230
Mr P Molloy	10,011	-	-	12,735	951	-	767	24,464
Dr L Post	59,950	-	-	-	-	-	11,983	71,933
Mr P Turvey	48,833	-	-	-	4,639	-	19,357	72,829
Executive Director								
Dr M McColl [ii]	346,500	99,000	33,247	-	27,000	-	70,997	576,744
Total	**550,305**	**99,000**	**33,247**	**35,470**	**40,666**	**-**	**115,849**	**874,537**

(i) Mr Hopper received a travel allowance of $10,000. Dr Altman and Mr Molloy were retained on consulting agreements from the date of their resignations until the AGM on 27 November 2014.

(ii) Dr McColl was appointed Managing Director on 8 September 2014. The Salary noted includes $282,986 relating to the period since his appointment. The $99,000 bonus was paid after this appointment but relates in part to his service as Chief Executive Officer prior to the appointment. The Superannuation noted includes $21,822 relating to the period since his appointment as Managing Director. He was issued with 400,000 share options in November 2014. Details set out in note 12.

Director Remuneration for the year ended 30 June 2014:

	Short-Term Benefits				Post Employ-ment	Termin-ation Benefits	Share-based Payment	Total
Non-Executive Directors	Directors fees and Salary $	Bonus $	Change Accrued Leave $	Travel allow-ance $	Superan-nuation $	$	Options $	$
Mr P Hopper	75,000	-	-	10,000	6,938	-	20,700	112,638
Dr P Altman	53,000	-	-	-	4,903	-	20,700	78,603
Mr P Molloy	53,000	-	-	-	4,903	-	10,350	68,253
Dr L Post	57,770	-	-	-	-	-	10,453	68,223
Total	**238,770**	**-**	**-**	**10,000**	**16,744**	**-**	**62,203**	**327,717**

Directors' Report

for the year ended 30 June 2015

Company Executives

Remuneration for executives is set out below:

Details of Executives Remuneration for the year ended 30 June 2015:

	Short-Term Benefits				Post Employ-ment	Termin-ation Benefits	Share-based Payment	Total
Executive	Salary $	Consult-ing $	Bonus $	Change Accrued Leave $	Superan nuation $	$	Options / Perf. Rights $	$
Dr Jennifer Rosenthal [c]	29,286	-	-	1,278	2,782	-	-	33,346
Prof Darren Shafren [a]	133,448	142,404	69,677	-	23,575	-	49,060	418,164
Mr Robert Vickery [b]	130,000	-	20,800	6,561	12,350	-	15,038	184,749
	292,734	**142,404**	**90,477**	**7,839**	**38,707**	**-**	**64,098**	**636,259**

Information relating to Executive Bonuses for the Year Ending 30 June 2015

	Malcolm McColl	Jennifer Rosenthal	Darren Shafren	Robert Vickery
Grant Date	Feb 2015	N/A	Oct 2014	Jun 2015
Nature of Compensation	Cash bonus	N/A	Cash bonus	Cash bonus
Service and Performance Criteria	Achieving KPIs as outlined in 'Performance Based Remuneration'	N/A	Achieving KPIs as outlined in 'Performance Based Remuneration'	Achieving KPIs as outlined in 'Performance Based Remuneration'
% Paid	100%	N/A	100%	80%
% Forfeited	0%	N/A	0%	20%
Subsequent Years in which Compensation might be payable	N/A	N/A	N/A	N/A
Minimum / Maximum possible grant for 2015/16	$0 / $108,900	$0 / $36,000	$0 / $73,561	$0 / $30,000

Directors' Report

for the year ended 30 June 2015

Details of Executives Remuneration for the year ended 30 June 2014:

	Short-Term Benefits				Post Employ-ment	Share-based Payment	Total
Executive	Salary $	Consult-ing $	Bonus $	Change Accrued Leave $	Superann-uation $	Options / Perf. Rights $	$
Dr Malcolm McColl	330,000	-	99,000	27,908	25,823	117,353	600,084
Prof Darren Shafren [(b)]	129,052	138,936	66,677	-	22,610	20,700	377,975
Mr Robert Vickery [(c)]	130,000	-	19,500	306	13,829	6,068	169,703
	589,052	**138,936**	**185,177**	**28,214**	**62,262**	**144,121**	**1,147,762**

(a) During the year ended 30 June 2015, Professor Shafren retained tenure with the University of Newcastle while engaged full time with Viralytics as its Chief Scientific Officer. Professor Shafren is paid a standard Associate Professor's salary of $133,448 (2014 $129,052) plus superannuation of $23,575 (2014 $22,610) by the University of Newcastle. Viralytics pays Newcastle Innovation, the commercial arm of the University of Newcastle $232,404 (2014 $228,936) in respect of Prof Shafren's services. Of this, Newcastle Innovation pays Professor Shafren a consultancy fee of $142,404 (2014 $138,936). In October 2014 Prof Shafren was awarded a bonus of $69,677 by meeting measurable KPIs for the period. In September 2013 he received a bonus of $66,677. At 30 June 2015 Prof. Shafren holds 600,000 share options and 200,000 Performance Rights. The 600,000 options expire on 12 August 2016 with an exercise price of $0.70.

(b) Mr Vickery was issued 40,000 Performance Rights in April 2014 and 40,000 in November 2014.

(c) Dr Rosenthal commenced employment on 4 May 2015.

Executive Contractual Arrangements

Remuneration and other terms of employment for the Executive Directors and other Key Management Personnel are formalised in a Service Agreement. The major provisions of the agreements relating to remuneration are set out below:

Name	Base Salary	Term of Agreement	Notice Period
Malcolm McColl	$363,000 [i]	Unspecified	6 months
Darren Shafren	$133,448	Unspecified	6 months
Robert Vickery	$150,000 [ii]	Unspecified	3 months
Jennifer Rosenthal	$180,000	Unspecified	3 months

(i) Effective 1 January 2015

(ii) Effective 1 June 2015

Loans to Key Management Personnel

The Company does not have any facilities in place to establish loans to Key Management Personnel. There are no loans in place to Key Management Personnel at 30 June 2015 (2014 – nil).

Performance Rights Issued as Remuneration to directors and key management:

Key Management Personnel	Grant Date	Number Granted	Value per Right $	Value of perf. rights granted $	Expense as a % of remun-eration during the year	Exercise price $	Expiry (Conversion) date
2015							
Darren Shafren	24 Apr 14	200,000	0.315	63,000	12%	N/A	8 Sep 15
Robert Vickery	24 Apr 14	40,000	0.315	12,600	8%	N/A	8 Sep 15
2014							
Robert Vickery	28 Nov 14	40,000	0.29	11,600	4%	N/A	1 Sep 14

The rights convert to shares on the expiry date. They cannot be converted before that date. The rights will expire before conversion if the holder ceases employment.

Options Issued as Remuneration to directors and key management:

Director / Key Management Personnel	Number Granted	Grant Date	Value of options granted [(i)] [(ii)] $	Expense as % of remun-eration during the year	Exercise price $	First Exercise date	Expiry date
2015							
Dr Malcolm McColl	400,000	28 Nov 14	44,600	12%	$0.332	8 Sep 2015	28 Nov 19
Mr Paul Hopper	200,000	28 Nov 14	22,300	11%	$0.332	8 Sep 2015	28 Nov 19
Dr Len Post	200,000	28 Nov 14	22,300	17%	$0.332	8 Sep 2015	28 Nov 19
Mr Peter Turvey	400,000	28 Nov 14	44,600	27%	$0.332	8 Sep 2015	28 Nov 19
2014							
No options issued to directors or key management personnel							

(i) The options have been valued using the Black-Scholes methodology. Details on how the options were valued, including the inputs to the methodology, are set out in the Issued Capital Note to the accounts.

(ii) None of the options have vested as at the date of this report.

Terms and conditions applicable to unlisted options and performance rights

Options

2015

One third of the options vest on 8 September 2015, a further third vest on 8 September 2016 and the remaining third will vest on 8 September 2017. The options will expire on 28 November 2019.

2014

No options were issued to Directors or Key Management Personnel.

Performance Rights

2015

Subject to continued employment, the performance rights will convert to ordinary shares on 8 September 2015 on a 1-for-1 basis.

2014

The performance rights vested on 1 September 2014 and converted to ordinary shares on a 1-for-1 basis.

Options and Rights Converted into Shares

During the year ended 30 June 2015 no current or former director or key management personnel exercised options (2014: nil). During the year ended 30 June 2015 Mr Vickery received 40,000 shares following conversion of performance rights. No other current or former director or key management personnel converted performance rights during the year (2014: nil).

Options Expired during the Year

2015

On 30 June 400,000 options held by Darren Shafren with an exercise price of $0.65 expired. The options were issued on 30 June 2010. No other options expired during the year.

2014

The following options expired during the year:

Director / Key Management Personnel	Number Expired	Date Granted
Paul Hopper	300,000	18 Nov 2008
Peter Molloy	300,000	18 Nov 2008

Directors' Report

for the year ended 30 June 2015

Directors' and Key Management Personnel relevant interests in securities

Relevant interests in securities during the year and at the date of this report are as follows:

(a) Ordinary Shares	Opening Balance	Shares Disposed	Shares Acquired	Closing Balance
Paul Hopper				
Deborah Coleman [ii]	36,000	-	-	36,000
Kilinwata Investments Pty Limited [iii]	28,106	-	-	28,106
Peter Molloy [iv]	20,000	-	-	20,000
Philip Altman				
Altman Nominees Pty Limited ATF Altman Super Fund [i]	76,171	-	-	76,171
Peter Turvey				
P & P Turvey ATF Katto Superannuation Fund [v]	-	-	77,274	77,274
Darren Shafren	150	-	-	150
Robert Vickery [vi]	-	-	40,000	40,000
Jennifer Rosenthal	-	-	5,000	5,000

(b) Unlisted Options	Opening Balance	Issued during year	Expired during year	Closing Balance	Vesting Term	Vested and Exercisable at 30 June	Vested and Unexercisable at 30 June
Phillip Altman	600,000	-	-	600,000	(vii)	600,000	-
Paul Hopper	600,000	200,000	-	800,000	(viii)	600,000	-
Peter Molloy	300,000	-	-	300,000	(vii)	300,000	-
Len Post	200,000	200,000	-	400,000	(ix)	200,000	-
Malcolm McColl	1,200,000	400,000	-	1,600,000	(x)	1,200,000	-
Peter Turvey	-	400,000	-	400,000	(xi)	-	-
Darren Shafren	1,000,000	-	(400,000)	600,000	(vii)	600,000	-
Total	3,900,000	1,200,000	(400,000)	4,700,000		3,500,000	-

(c) Performance Rights	Opening Balance	Issued during year	Converted during year	Closing Balance	Terms	Expiry Date
Darren Shafren	-	200,000	-	200,000	(xii)	8 Sep 15
Robert Vickery	40,000	40,000	(40,000)	40,000	(xii)	8 Sep 15
	40,000	240,000	(40,000)	240,000		

(i) Dr Altman is a beneficiary of the Trust. Dr Altman resigned as director 8 September 2014. The closing balance is the balance at date of resignation.
(ii) Ms Coleman is the spouse of Mr Hopper.
(iii) Mr Hopper is a shareholder of Kilinwata Investments Pty Limited.
(iv) Mr Molloy resigned 8 September 2014. The closing balance is the balance at date of resignation.
(v) Mr Turvey is a beneficiary of the KATTO Superannuation Fund. Mr Turvey was appointed on 8 September 2014.
(vi) Mr Vickery acquired 40,000 shares on conversion from performance rights.
(vii) Fully vested and exercisable.
(viii) The 600,000 opening balance is fully vested. For the 200,000 issued during the year one third vest on each of 8 September 2015, 8 September 2016 and 8 September 2017.
(ix) The 200,000 opening balance is fully vested. For the 200,000 issued during the year one third vest on each of 8 September 2015, 8 September 2016 and 8 September 2017.
(x) Of the 1,200,000 opening balance 800,000 have vested. The remaining 400,000 are due to vest on 21 January 2016. For the 400,000 issued during the year one third vest on each of 8 September 2015, 8 September 2016 and 8 September 2017.
(xi) One third vest on each of 8 September 2015, 8 September 2016 and 8 September 2017.
(xii) The rights convert to shares on the expiry date. They cannot be converted before that date. The rights will expire before conversion if the holder ceases employment.

END OF AUDITED REMUNERATION REPORT

DIRECTORS' AND AUDITOR'S INDEMNIFICATION

The Company has entered into Deeds of Indemnity (**Deed**) with each Director, the Company Secretary, the Chief Scientific Officer, and the Chief Financial Officer. Under the Deeds, the Company indemnifies the respective officers to the maximum extent permissible by law and the Constitution against legal proceedings, damage, loss, liability, costs, charges, expenses, outgoings or payments (including legal expenses on a solicitor/basis) suffered, paid or incurred by the Officers in connection with the relevant person being an officer of the Company, the employment of the officer with the company or a breach by the Company of its obligations under the Deed.

Under the Deed, the Company must insure the relevant officers against liability and provide access to Board papers relevant to defending any claim brought against the officers in their capacity as officers of the Company. The Company has entered into an insurance contract in this regard – disclosure of the premium paid is not permitted under the terms of the contract.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify any current or former officer or auditor of the Company against a liability incurred by an officer or an auditor.

Directors' Report

for the year ended 30 June 2015

NON-AUDIT SERVICES

During the year, Grant Thornton, the Company's auditors, performed certain other services in addition to their statutory audit duties.

The Board has considered the non-audit services provided during the year by the auditor and, in accordance with written advice provided by resolution of the Audit and Risk Committee, is satisfied that the provision of those non-audit services during the year is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

a) all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit and Risk Committee to ensure they do not impact upon the impartiality and objectivity of the auditor; and
b) the non-audit services do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards

Other compliance services were provided by Grant Thornton during the financial year. The other compliance services fees provided by Grant Thornton were $29,363 (2014 - $10,680 by Bentleys Chartered Accountants).

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ended 30 June 2015 as required under s307C of the Corporations Act 2001 has been received and can be found on page 34.

This Director's Report, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors



Peter Turvey
Director
26 August 2015

Viralytics Limited

Corporate Governance Statement

for the year ended 30 June 2015

The Board is committed to achieving and demonstrating the highest standards of corporate governance. As such, Viralytics Ltd has adopted the third edition of the Corporate Governance Principles and Recommendations which was released by the ASX Corporate Governance Council on 27 March 2014 and became effective for financial years beginning on or after 1 July 2014.

The Company's Corporate Governance Statement for the financial year ending 30 June 2015 is dated as at 30 June 2015 and was approved by the Board on 26 August 2015.

The Corporate Governance Statement is available on the Company's website at:

http://www.viralytics.com/investor-centre/corporate-governance/

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Auditor's Independence Declaration
To the Directors of Viralytics Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the audit of Viralytics Limited for the year ended 30 June 2015, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

N J Bradley
Partner - Audit & Assurance

Sydney, 26 August 2015

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Viralytics Limited

Statement of Profit or Loss and Other Comprehensive Income

for the year ended 30 June 2015

	Note	2015	2014
		$	$
Revenue			
Interest Revenue		527,056	296,280
Total Revenue		**527,056**	**296,280**
Other Income			
R & D Tax Incentive	4	2,453,595	2,502,612
Foreign Currency Translation Gain		1,682,804	-
Other Income		-	5,000
Total Other Income		**4,136,399**	**2,507,612**
Expenses			
Research and development costs:			
Clinical trials		3,362,536	2,705,092
Research and development		1,632,416	1,839,886
Manufacture		930,480	453,039
Patents and related costs		170,438	178,056
Amortisation of intangibles		390,312	390,312
Depreciation		34,730	27,967
Employee costs		1,297,555	1,265,308
Corporate compliance costs		581,710	511,822
Other Expenses		518,055	482,573
Foreign currency translation loss		-	478,466
Total Expenses		**8,918,232**	**8,332,521**
(Loss) before income tax		**(4,254,777)**	**(5,528,629)**
Income tax expense	5	-	-
Total (loss) for the year, net of tax		**(4,254,777)**	**(5,528,629)**
Other comprehensive income		-	-
Total comprehensive income for the year, net of tax		**(4,254,777)**	**(5,528,629)**
Basic (loss) cents per share	6	(2.3)	(4.6)
Diluted (loss) cents per share	6	(2.3)	(4.6)

The accompanying notes form part of these financial statements.

Statement of Financial Position

for the year ended 30 June 2015

	Note	2015	2014
		$	$
Current Assets			
Cash and cash equivalents	7	21,565,813	24,335,695
Trade and Other Receivables	8 (a)	2,875,480	2,784,428
Total Current Assets		**24,441,293**	**27,120,123**
Non-Current Assets			
Trade and Other Receivables	8 (b)	-	51,153
Plant and equipment	9	82,476	47,963
Investments	10	-	-
Intangible assets	11	2,033,776	2,424,088
Total Non-Current Assets		**2,116,252**	**2,523,204**
Total Assets		**26,557,545**	**29,643,327**
Current Liabilities			
Trade and other payables	12	1,685,264	766,785
Total Current Liabilities		**1,685,264**	**766,785**
Total Liabilities		**1,685,264**	**766,785**
Net Assets		**24,872,281**	**28,876,542**
Equity			
Issued Capital	13	87,632,211	86,959,988
Convertible Notes – Equity Component	13 (c)	-	595,640
Reserves	14	3,430,576	3,256,643
Accumulated Losses		(66,190,506)	(61,935,729)
		24,872,281	**28,876,542**

The accompanying notes form part of these financial statements.

Viralytics Limited

Statement of Changes In Equity

for the year ended 30 June 2015

Year Ended 30 June 2015

	Note	Share Capital		Retained Earnings	Reserves	Total
		Ordinary	Convertible Note	(Accumulated Losses)	Option Reserve	
		$	$	$	$	$
Balance at 1 July 2014		**86,959,988**	**595,640**	**(61,935,729)**	**3,256,643**	**28,876,542**
Loss after income tax expense for the year		-	-	(4,254,777)	-	(4,254,777)
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	(4,254,777)	-	(4,254,777)
Transactions with owners in their capacity as owners, and other transfers:						
Shares issued during the year		-	-	-	-	-
Transaction costs		-	-	-	-	-
Transfer Convertible Note Equity to Issued Capital		595,640	(595,640)	-	-	-
Ordinary Shares issued on Exercise of Options		39,875	-	-	-	39,875
Transfer to share capital for options exercised		16,466	-	-	(16,466)	-
Ordinary Shares issued on Performance Rights		20,242	-	-	(20,242)	-
Share option based compensation	14	-	-	-	210,641	210,641
Total transactions with owners and other transfers		60,117	-	-	173,933	250,516
Balance at 30 June 2015		**87,632,211**	**-**	**(66,190,506)**	**3,430,576**	**24,872,281**

The accompanying notes form part of these financial statements.

Viralytics Limited

Statement of Changes In Equity

for the year ended 30 June 2015

Year Ended 30 June 2014

	Note	Share Capital		Retained Earnings	Reserves	Total
		Ordinary	Convertible Note	(Accumulated Losses)	Option Reserve	
		$	$	$	$	$
Balance at 1 July 2013		**61,779,761**	**595,640**	**(56,407,100)**	**3,009,584**	**8,977,885**
Loss after income tax expense for the year		-	-	(5,528,629)		(5,528,629)
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	(5,528,629)	-	(5,528,629)
Transactions with owners in their capacity as owners, and other transfers:						
Shares issued during the year		27,073,109	-	-	-	27,073,109
Transaction costs		(1,892,882)	-	-	-	(1,892,882)
Share option based compensation	14	-	-	-	247,059	247,059
Total transactions with owners and other transfers		25,180,227	-	-	247,059	25,427,286
Balance at 30 June 2014		**86,959,988**	**595,640**	**(61,935,729)**	**3,256,643**	**28,876,542**

The accompanying notes form part of these financial statements.

Viralytics Limited

Statement of Cash Flows

for the year ended 30 June 2015

	Note	2015	2014
		$	$
Cash Flows from Operating Activities			
R & D Tax Incentive Offset		2,476,255	1,903,062
Payments to suppliers and employees		(7,485,815)	(7,649,779)
Interest received		544,025	260,679
Net cash (used in) operating activities	16	**(4,465,535)**	**(5,486,038)**
Cash Flows from Investing Activities			
Purchase of equipment		(69,243)	(7,876)
Net cash (used in) investing activities		**(69,243)**	**(7,876)**
Cash Flows from Financing Activities			
Proceeds from issue of shares		-	27,073,109
Exercise of Options		39,875	
Costs of fund raising		-	(1,892,882)
Net cash provided by financing activities		**39,875**	**25,180,227**
Net (decrease) / increase in cash held		**(4,494,903)**	**19,686,313**
Net Foreign Exchange Difference		1,725,021	(429,477)
Cash at the beginning of the financial year		24,335,695	5,078,859
Closing cash at the end of the financial year		**21,565,813**	**24,335,695**

The accompanying notes form part of these financial statements

Notes to the Financial Statements

for the year ended 30 June 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The entity is a for-profit entity under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. Material accounting policies adopted in preparation of the financial statements are presented below and have been consistently applied unless stated otherwise.

The financial statements are prepared for Viralytics Limited - a listed public company, incorporated and domiciled in Australia.

Reporting Basis and Conventions

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities. The amounts presented in the financial statements have been rounded to the nearest dollar.

Going Concern

The financial statements for the year ended 30 June 2015 are prepared on a going concern basis. Notwithstanding that the Company has a history of losses, the Directors consider that it has sufficient capital to pursue its strategic plan and objectives in the next twelve months as laid out in the Directors Report under Likely Developments and Likely results. This is because the company has cash assets of $21.6 million at 30 June 2015 which it forecasts will fund its programmes beyond 12 months from the signing of this report. The cash holdings will provide sufficient funding to meet foreseeable expenditure commitments and pay debts as and when they fall due.

Notes to the Financial Statements

for the year ended 30 June 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair Value Measurement

The Company does not measure any assets or liabilities at fair value on a recurring basis after initial recognition. The carrying amount of financial assets and financial liabilities as disclosed in the statement of financial position and notes to the financial statements approximate their fair value.

New and Revised Standards that are effective for these financial statements

A number of new and revised standards and an interpretation became effective for the first time to annual periods beginning on or after 1 July 2014. Information on these new standards is presented below.

AASB 2012-3 *Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities*

AASB 2012-3 adds application guidance to AASB 132 to address inconsistencies identified in applying some of the offsetting criteria of AASB 132, including clarifying the meaning of "currently has a legally enforceable right of set-off" and that some gross settlement systems may be considered equivalent to net settlement.

AASB 2012-3 is applicable to annual reporting periods beginning on or after 1 January 2014.

The adoption of these amendments has not had a material impact on the Company as the amendments merely clarify the existing requirements in AASB 132.

AASB 2013-3 *Amendments to AASB 136 – Recoverable Amount Disclosures for Non-Financial Assets*

These narrow-scope amendments address disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.

When developing IFRS 13 Fair Value Measurement, the IASB decided to amend IAS 36 Impairment of Assets to require disclosures about the recoverable amount of impaired assets. The IASB noticed however that some of the amendments made in introducing those requirements resulted in the requirement being more broadly applicable than the IASB had intended. These amendments to IAS 36 therefore clarify the IASB's original intention that the scope of those disclosures is limited to the recoverable amount of impaired assets that is based on fair value less costs of disposal.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New and Revised Standards that are effective for these financial statements continued

AASB 2013-3 makes the equivalent amendments to AASB 136 Impairment of Assets and is applicable to annual reporting periods beginning on or after 1 January 2014.

The adoption of these amendments has not had a material impact on the Company as they are largely of the nature of clarification of existing requirements.

AASB 2013-5 *Amendments to Australian Accounting Standards – Investment Entities*

The amendments in AASB 2013-5 provide an exception to consolidation to investment entities and require them to measure unconsolidated subsidiaries at fair value through profit or loss in accordance with AASB 9 Financial Instruments (or AASB 139 Financial Instruments: Recognition and Measurement where AASB 9 has not yet been adopted). The amendments also introduce new disclosure requirements for investment entities that have subsidiaries.

These amendments apply to investment entities, whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both. Examples of entities which might qualify as investment entities would include Australian superannuation entities, listed investment companies, pooled investment trusts and Federal, State and Territory fund management authorities.

AASB 2013-5 is applicable to annual reporting periods beginning on or after 1 January 2014.

This Standard has not had any impact on the Company as it does not meet the definition of an 'investment entity' in order to apply this consolidation exception.

AASB 2014-1 *Amendments to Australian Accounting Standards* (Part A: Annual Improvements 2010-2012 and 2011-2013 Cycles)

Part A of AASB 2014-1 makes amendments to various Australian Accounting Standards arising from the issuance by the IASB of International Financial Reporting Standards *Annual Improvements to IFRSs 2010-2012 Cycle and Annual Improvements to IFRSs 2011-2013 Cycle.*

Notes to the Financial Statements

for the year ended 30 June 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New and Revised Standards that are effective for these financial statements continued

Among other improvements, the amendments arising from Annual Improvements to IFRSs 2010-2012 Cycle:

- clarify that the definition of a 'related party' includes a management entity that provides key management personnel services to the reporting entity (either directly or through a group entity); and
- amend AASB 8 *Operating Segments* to explicitly require the disclosure of judgements made by management in applying the aggregation criteria.

Among other improvements, the amendments arising from Annual Improvements to IFRSs 2011-2013 Cycle clarify that an entity should assess whether an acquired property is an investment property under AASB 140 Investment Property and perform a separate assessment under AASB 3 Business Combinations to determine whether the acquisition of the investment property constitutes a business combination.

Part A of AASB 2014-1 is applicable to annual reporting periods beginning on or after 1 July 2014. The adoption of these amendments has not had a material impact on the Company as they are largely of the nature of clarification of existing requirements.

New Accounting Standards for Application in Future Periods

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Company has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Company follows:

AASB 9 Financial Instruments (applicable for annual reporting periods beginning on or after 1 January 2018:
The standard introduces new requirements for the classification and measurement of financial assets and liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.

Notes to the Financial Statements

for the year ended 30 June 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New Accounting Standards for Application in Future Periods continued

The main changes are:

a) Financial assets that are debt instruments will be classified based on
   i. the objective of the Company's business model for managing the financial assets; and
   ii. the characteristics of the contractual cash flows.
b) Allows an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.
c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.

Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:

i. the change attributable to changes in credit risk are presented in other comprehensive income (OCI); and
ii. the remaining change is presented in profit or loss.

If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. Otherwise, the following requirements have been carried forward unchanged from AASB 139 into AASB 9:

i. classification and measurement of financial liabilities; and
ii. de-recognition requirements for financial assets and liabilities.

AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in the financial statements.

Furthermore, AASB 9 introduces a new impairment model based on expected credit losses. This model makes use of more forward-looking information and applies to all financial instruments that are subject to impairment accounting. The Company is yet to undertake a detailed assessment of the impact of AASB 9. However, based on the Company's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.

Notes to the Financial Statements

for the year ended 30 June 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New Accounting Standards for Application in Future Periods continued

AASB 15 Revenue from Contracts with Customers

AASB 15:

- replaces AASB 118 Revenue, AASB 111 Construction Contracts and some revenue-related Interpretations;
- establishes a new revenue recognition model;
- changes the basis for deciding whether revenue is to be recognised over time or at a point in time;
- provides new and more detailed guidance on specific topics (e.g., multiple element arrangements, variable pricing, rights of return, warranties and licensing); and
- expands and improves disclosures about revenue

The Company is yet to undertake a detailed assessment of the impact of AASB 15. However, based on the Company's preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2018.

AASB 2014-1 *Amendments to Australian Accounting Standards* (Part E: Financial Instruments)

Part E of AASB 2014-1 makes amendments to Australian Accounting Standards to reflect the AASB's decision to defer the mandatory application date of AASB 9 Financial Instruments to annual reporting periods beginning on or after 1 January 2018. Part E also makes amendments to numerous Australian Accounting Standards as a consequence of the introduction of Chapter 6 Hedge Accounting into AASB 9 and to amend reduced disclosure requirements for AASB 7 Financial Instruments: Disclosures and AASB 101 Presentation of Financial Statements. When these amendments are first adopted for the year ending 30 June 2016, there will be no material impact on the Company.

Notes to the Financial Statements

for the year ended 30 June 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New Accounting Standards for Application in Future Periods continued

AASB 2014-4 Amendments to Australian Accounting Standards – Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to AASB 116 prohibit the use of a revenue-based depreciation method for property, plant and equipment. Additionally, the amendments provide guidance in the application of the diminishing balance method for property, plant and equipment.

The amendments to AASB 138 present a rebuttable presumption that a revenue-based amortisation method for intangible assets is inappropriate. This rebuttable presumption can be overcome (i.e., a revenue-based amortisation method might be appropriate) only in two (2) limited circumstances:

- The intangible asset is expressed as a measure of revenue, for example when the predominant limiting factor inherent in an intangible asset is the achievement of a revenue threshold (for instance, the right to operate a toll road could be based on a fixed total amount of revenue to be generated from cumulative tolls charged); or
- When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101

The amendments:

- clarify the materiality requirements in AASB 101, including an emphasis on the potentially detrimental effect of obscuring useful information with immaterial information;
- clarify that AASB 101's specified line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position can be disaggregated;
- add requirements for how an entity should present subtotals in the statement(s) of profit and loss and other comprehensive income and the statement of financial position;
- clarify that entities have flexibility as to the order in which they present the notes, but also emphasise that understandability and comparability should be considered by an entity when deciding that order; and
- remove potentially unhelpful guidance in IAS 1 for identifying a significant accounting policy.

When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the financial statements.

Notes to the Financial Statements

for the year ended 30 June 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New Accounting Standards for Application in Future Periods continued

AASB 2015-3 Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality

The Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards. When this Standard is first adopted for the year ending 30 June 2016, there will be no impact on the financial statements. The Company does not anticipate the early adoption of any of the above Australian Accounting Standards.

a) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

b) Financial Instruments

Financial instruments that are in the scope of AASB 139 Financial Instruments: Recognition and Measurement are categorised as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Designation is re-evaluated at each financial year end, but there are restrictions on reclassifying to other categories.

Recognition and de-recognition

Financial assets and financial liabilities are recognised when the Company becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the Company commits itself to either the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial assets are de-recognised where the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are de-recognised where the related obligations are discharged, cancelled or expired.

Notes to the Financial Statements

for the year ended 30 June 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

b) Financial Instruments continued

Measurement

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss", in which case transaction costs are expensed to profit or loss immediately.

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest rate method, or cost.

Fair value is determined based on current bid prices for all quoted investments. Valuation techniques are applied to determine the fair value for all unlisted securities, including recent arm's length transactions, reference to similar instruments and option pricing models.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The effective interest method is used to allocate interest income or interest expense over the relevant period and is equivalent to the rate that discounts estimated future cash payments or receipts (including fees, transaction costs and other premiums or discounts) over the expected life (or when this cannot be reliably predicted, the contractual term) of the financial instrument to the net carrying amount of the financial asset or financial liability. Revisions to expected future net cash flows will necessitate an adjustment to the carrying amount with a consequential recognition of an income or expense item in profit or loss.

(i) Financial assets at fair value through profit or loss

Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Notes to the Financial Statements

for the year ended 30 June 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

b) Financial Instruments continued

(ii) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in profit or loss when the investments are de-recognised or impaired, as well as through the amortisation process.

Held-to-maturity investments are included in non-current assets where they are expected to mature within 12 months after the end of the reporting period. All other investments are classified as current assets.

(iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss when the loans and receivables are de-recognised or impaired. Loans and receivables are included in current assets, where they are expected to mature within 12 months after the end of the reporting period.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

Notes to the Financial Statements

for the year ended 30 June 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

b) Financial Instruments continued

(iv) *Available-for-sale Investments*

Available-for-sale investments are non-derivative financial assets that are either not capable of being classified into other categories of financial assets due to their nature or they are designated as such by management. They comprise investments in the equity of other entities where there is neither a fixed maturity nor fixed or determinable payments.

They are subsequently measured at fair value with any re-measurements other than impairment losses and foreign exchange gains and losses recognized in other comprehensive income. When the financial asset is derecognized, the cumulative gain or loss pertaining to that asset previously recognised in other comprehensive income is reclassified into profit or loss.

Available-for-sale financial assets are classified as non-current assets where they are expected to be sold after 12 months from the end of the reporting period. All other available-for-sale financial assets are classified as current assets.

(v) *Financial liabilities*

Non-derivative financial liabilities other than financial guarantees are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial liability is de-recognised.

The Company does not have any derivative financial instruments at 30 June 2015 (Nil: 2014).

c) Inventories

Prepaid costs in relation to CAVATAK™ drug stocks manufactured for the purpose of conducting the Phase 1 and 2 clinical trials have been expensed following commencement of the trials.

The manufacture of additional CAVATAK drug stock during the clinical trials forms part of the ongoing research and development activities of the company as the drug stock is not held for sale in the ordinary course of business. Consequently, no inventory is recognised by the company in accordance with Accounting Standard AASB 102 “Inventories” at 30 June 2015 (2014 – nil).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

d) Plant and Equipment

Each class of plant and equipment is carried at cost less accumulated depreciation and impairment losses. A formal assessment of recoverable amount is made when impairment indicators are present (refer to Note 1(r) for details of impairment).

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from these assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discounted to their current values in determining recoverable amounts.

Depreciation is provided on a straight-line basis over their useful lives on all plant and equipment. The major depreciation periods are:

Computer Equipment:	2-3 years
Furniture & Fittings:	5 years

The assets residual value and useful lives are reviewed and adjusted if appropriate, at each year end date. An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing proceeds with the carrying amounts. These gains and losses are included in the statement of profit or loss and comprehensive income.

Notes to the Financial Statements

for the year ended 30 June 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

e) Investments in Associates

The Company's investment in its associates is accounted for using the equity method of accounting. The associates are entities over which the Company has significant influence and that are neither subsidiaries nor joint ventures. This is because the Company holds, directly or indirectly, over 20% of the voting rights.

Under the equity method, investments in the associates are carried in the Statement of Financial Position at cost plus post-acquisition changes in the Company's share of net assets of the associates. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Company determines whether it is necessary to recognise any impairment loss with respect to the Company's net investment in associates.
The Company's share of its associates' post-acquisition profits or losses is recognised in the profit or loss or statement of profit or loss and other comprehensive income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates reduce the carrying amount of the investment.

When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables and loans, the Company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The reporting dates of the associates and the Company are identical and the associates' accounting policies conform to those used by the Company for like transactions and events in similar circumstances.

f) Intangible Assets

Patents
Amounts incurred in acquiring and extending patents are expensed as incurred, except to the extent such costs are expected beyond any reasonable doubt to be recoverable. Where applicable, patents are recognised at cost of acquisition. Patents have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. All patents are amortised over the remaining life of the patent closest to expiry, being 14 years from acquisition. The method for assessing for impairment of intangible assets is described in Note 1(r).

Notes to the Financial Statements

for the year ended 30 June 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

g) Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to the end of the reporting date. Employee benefits that are expected to be settled within one year and later than one year have been measured at the amounts that are expected to be paid when the liability is settled, plus related on-costs.

Short-term employee benefits are measured at the undiscounted amounts expected to be paid when the liabilities are settled. Where applicable, the Company's liabilities for annual leave and long service leave that are not expected to be settled wholly within twelve (12) months after the end of the period in which the employees render the related service are measured at the present value of the expected future payments to be made to employees.

h) Provisions

Provisions are recognised when the Company has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured. Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

i) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets. Dividend revenue is recognised when the right to receive a dividend has been established.

Revenue from government incentives such as Research and Development tax concession is recognised when the eligibility criteria are met and it is probable that such tax concession will be received. All revenue is stated net of the amount of goods and services tax (GST).

j) Research and Development Expenditure

Expenditure on research and development activities is recognised as an expense when incurred.

Notes to the Financial Statements

for the year ended 30 June 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

k) Income Taxes

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantially enacted by the year end date.

Deferred tax is ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the profit or loss except when it relates to items that may be credited directly to equity in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Notes to the Financial Statements

for the year ended 30 June 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

l) Goods and Services Tax

Revenues, 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, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the ATO is included with other receivables or payables in the statement of financial position.

Cash flows are included in the Statement of Cash Flows on a gross basis except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

m) Government Grants

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs they are compensating.

n) Comparative Figures

Where required by Accounting Standards, comparative information has been adjusted to comply with changes in presentation for the current year.

o) Foreign currency translation

(i) Functional and presentation currency
Both the functional and presentation currency of the Company is Australian dollars ($).

(*ii) Transactions and balances*
Foreign currency transactions are initially recorded in the functional currency by applying the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the year-end exchange rate.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Notes to the Financial Statements

for the year ended 30 June 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

p) Operating Segments

Operating segments are presented using the 'management approach' where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM are responsible for the allocation of resources to operating segments and assessing their performance.

q) Share-based Employee Remuneration

The Company operates equity-settled share-based remuneration plans for its employees. None of the Company's plans feature cash settlement. All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions).

All share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to share option reserve. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. Performance rights are valued by reference to the share price at the date of grant.

No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting. Upon exercise of share options, the proceeds received net of any directly attributable transaction costs are allocated to share capital.

Notes to the Financial Statements

for the year ended 30 June 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

r) Impairment of Non-Financial Assets

Impairment is considered annually for goodwill and intangible assets with indefinite lives. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. At the end of each reporting date, the Company assesses whether there is any indication that an asset may be impaired. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of profit or loss and comprehensive income.

2. KEY ESTIMATES AND JUDGEMENTS

Impairment

The Company assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Company that may be indicative of impairment triggers. There were no indicators of impairment as at 30 June 2015.

R&D Incentive Receivable

The R&D Incentive Receivable asset is based on an estimate of the amount the Company stands to receive from the Ausindustry R&D Incentive programme for 2014-15. Under the programme the Company is expected to be eligible to receive a cash offset equal to 43.5% of eligible R&D expenditure. The estimate calculation is based on expenditure which includes expenditure on overseas activities only where the company has been successful in receiving Overseas Findings from Ausindustry for those activities.

Share Options and Performance Rights

Share Options were valued using the Black-Scholes option pricing model. Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future movements. For purposes of the valuation the assumed life of the options was based on the historical exercise patterns, which may not eventuate in the future. No special features inherent to the options granted were incorporated into measurement of fair value.

Performance Rights were valued based on the share price at the Grant date. This method is considered appropriate given the relatively short term of the Rights.

Notes to the Financial Statements

for the year ended 30 June 2015

3. OPERATING SEGMENTS

Viralytics Ltd operates in only one business segment – biotechnology. The activities of the Company take place principally in Australia.

The entity's operating segment is based on the internal reports that are reviewed and used by the Board of Directors (being the Chief Operating Decision Makers ('CODM')) in assessing performance and determining the allocation of resources. The entity operates in one segment being Development of Oncolytic Therapeutics. The information reported to the CODM, on a monthly basis, is profit or loss before interest, tax, depreciation and amortisation and other one-off-items ('EBITDA') as well as cash flow.

4. PROFIT/LOSS FOR THE YEAR

The loss before income tax from ordinary operations includes the following specific income and expenses items:

	2015	2014
	$	$
Other Income:		
R&D tax incentive	2,453,595	2,502,612
Expenses:		
Lease Payments	62,737	47,740
Equity Settled Share Based Payments	210,641	247,059
Superannuation	62,617	61,603
Remuneration of the auditor of the entity		
- auditing and reviewing the financial reports	48,000	36,500
- IT review and Tax Advisory	29,363	10,680
	77,363	47,180

Notes to the Financial Statements

for the year ended 30 June 2015

5. INCOME TAX EXPENSES	2015 $	2014 $
The prima facie tax on the (loss) before income tax is reconciled to the income tax as follows:		
Prima facie tax payable on profit/ (loss) before income tax at 30% (2014 – 30%)	(1,276,433)	(1,658,589)
Add Tax effect of:		
- non-deductible Research and Development expense	1,706,867	1,665,078
- entertainment	865	523
- share option expense	63,192	74,118
Less Tax effect of:		
- R & D incentive receivable current year	(2,474,957)	(2,497,617)
- R & D incentive previous years	21,362	(4,995)
Prior year under future income tax benefit not recognised	229,119	-
Current year future income tax benefit not recognised	1,729,985	2,421,482
Income tax benefit attributable to loss before income tax	-	-

Franking Account balance is nil (2014: nil).

The company has tax losses carried forward at reporting date totalling $39.4 million. The Directors have not brought to account a deferred tax asset to recognise the potential tax benefit of these tax losses as any benefit will only be obtained if:

- the Company meets the conditions for deductibility imposed by tax legislation in relation to the same business test and continuity of ownership laws;
- the Company derives future assessable income of a nature and of an amount sufficient to enable the benefit from deductions for the losses to be realised; and
- no changes in tax legislation occur in future years that would adversely affect the Company in realising the benefit from the deductions for the losses (in the event they qualify to be utilised by the company).

Notes to the Financial Statements

for the year ended 30 June 2015

6. EARNINGS PER SHARE	2015 Cents	2014 cents
Basic earnings (loss) cents per share	(2.3)	(4.6)
Diluted earnings (loss) cents per share	(2.3)	(4.6)
Income and share data used in the calculations of basic and diluted earnings per share:		
Net Profit/(Loss)	(4,254,777)	(5,528,629)
	Number	**Number**
Weighted average number of ordinary shares on issue in the calculation of basic earnings per share	184,015,571	119,241,546
Effect of dilutive securities	-	-
Adjusted weighted average number of Ordinary shares and potential ordinary shares used in calculating diluted earnings per share	184,015,571	119,241,546

As at 30 June 2015 there are 5,745,000 (2014 – 5,025,000) share options on issue and 320,000 (2014 – 69,800) performance rights which have not been taken into account when calculating the diluted loss per share due to their anti-dilutive nature.

Notes to the Financial Statements

for the year ended 30 June 2015

	2015	2014
	$	$
7. CASH AND CASH EQUIVALENTS		
Cash at bank and in hand:		
AUD	309,986	740,772
USD	816,048	337,985
Short term deposits		
AUD	14,300,000	15,300,000
USD	6,139,779	7,956,938
	21,565,813	**24,335,695**
8. TRADE AND OTHER RECEIVABLES		
a) Current		
Prepayments	259,407	135,715
Interest Receivable	42,456	60,811
R & D Tax concession Receivable	2,474,957	2,497,617
GST Receivable	46,124	90,285
Security Deposits	52,536	-
	2,875,480	**2,784,428**
b) Non-Current		
Security Deposits	**-**	**51,153**
9. PLANT AND EQUIPMENT		
Plant & Equipment – at Cost	926,248	862,112
Accumulated Depreciation	(843,772)	(814,149)
	82,476	**47,963**
Movements in Carrying Amounts		
Balance at beginning of period	47,963	68,054
Additions	69,243	7,876
Loss on Disposals	-	-
Depreciation expense	(34,730)	(27,967)
Balance at end of period	**82,476**	**47,963**

Notes to the Financial Statements

for the year ended 30 June 2015

	2015	2014
	$	$
10. INVESTMENTS		
Accounted For Using The Equity Method		
InJet Digital Aerosols Ltd – Unlisted (IDAL)	-	-

InJet Digital Aerosols Ltd (IDAL) is an unlisted public company incorporated in Australia. Viralytics Ltd holds a 44.5% interest in the issued capital of IDAL. The Company has recognised the losses attributable to the associate in prior years to the extent of the investment. The most recent financial statements released by IDAL was for the year ended 30 June 2014 disclosed a deficiency in net assets of $488,517. Consequently, the carrying value of the investment is nil (2014 – nil) and many of the disclosure requirements under AASB 12: Disclosure of Interests in Other Entities are not available at reporting date.

The unrecognised losses of IDAL, both for the period and cumulatively, are presented below. If IDAL subsequently reports profits, Viralytics will resume recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Unrecognised losses at beginning of year	(810,176)	(778,228)
Share of losses not taken up	(21,824)	(31,948)
Unrecognised losses at end of year	(832,000)	(810,176)

11. INTANGIBLE ASSETS		
Intellectual Property - Virotherapy	8,605,532	8,605,532
Accumulated amortisation	(6,571,756)	(6,181,444)
	2,033,776	**2,424,088**
Movements in carrying value		
Balance at beginning of year	2,424,088	2,814,400
Less: amortisation expense	(390,312)	(390,312)
Balance at end of year	**2,033,776**	**2,424,088**

The Virotherapy Intellectual Property has been brought to account at cost of acquisition. The value of the Intellectual Property is being written off over the life of the shortest patent (14 years) with approximately 6 years remaining.

Notes to the Financial Statements

for the year ended 30 June 2015

	2015	2014
	$	$
11. INTANGIBLE ASSETS		
Intellectual Property - Virotherapy	8,605,532	8,605,532
Accumulated amortisation	(6,571,756)	(6,181,444)
	2,033,776	**2,424,088**
Movements in carrying value		
Balance at beginning of year	2,424,088	2,814,400
Less: amortisation expense	(390,312)	(390,312)
Balance at end of year	**2,033,776**	**2,424,088**

The Virotherapy Intellectual Property has been brought to account at cost of acquisition. The value of the Intellectual Property is being written off over the life of the shortest patent (14 years) with approximately 6 years remaining.

12. TRADE & OTHER PAYABLES		
Current		
Trade payables	1,086,386	457,050
Sundry payables and accrued expenses	506,010	263,294
Employee entitlements	92,868	46,441
	1,685,264	**766,785**

Notes to the Financial Statements

for the year ended 30 June 2015

13. ISSUED CAPITAL		2015 $	2014 $	2015 Number	2014 Number
Fully Paid Ordinary shares	(a)	87,632,211	86,959,988	184,153,081	183,958,281
Options Convertible to Ordinary Shares:					
Unlisted Options	(b)	-	-	5,745,000	5,025,000
		-	**-**	**5,745,000**	**5,025,000**

(a) Fully Paid Ordinary shares (Authorised Capital)

Movements in Fully Paid Ordinary shares:				
Balance at beginning of year	86,959,988	61,779,760	183,958,281	87,268,606
Exercise of Options	39,875	-	125,000	-
Options Converted to Shares	16,466	-		
Share Rights Converted to Shares	20,242	-	69,800	-
Transfer Convertible Note Equity to Issued Capital	565,640	-	-	-
Share Placement [(i)]	-	23,000,000	-	82,142,858
Rights Issue [(ii)]	-	4,073,109	-	14,546,817
Cost of fund raising	-	(1,892,881)	-	-
Balance at end of year	87,632,211	86,959,988	184,153,081	183,958,281

(i) Two tranche share placement. Tranche 1: 5 February 2014 – 21,736,813 shares at $0.28 per share. Tranche 2: 11 March 2014 - 60,406,045 at $0.28 per share. Total of both issues $23,000,000.

(ii) One for 6 non-renounceable rights issue allotted 4 March 2014 – 14,546,817 shares at $0.28 per share totalling $4,073,109.

Ordinary shares have no par value and participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At shareholder's meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Notes to the Financial Statements

for the year ended 30 June 2015

13. ISSUED CAPITAL continued

(b) Unlisted Options

The Company issues Share Options to staff and contractors under an Equity Incentive Plan approved by shareholders in November 2013.

	2015 Number	2014 Number
Unlisted Options	5,745,000	5,025,000
Movements in Options:		
Balance at the beginning of period	5,025,000	5,825,000
Options issued	1,245,000	-
Options Exercised	(125,000)	-
Options expired	(400,000)	(800,000)
Balance at end of period	**5,745,000**	**5,025,000**

Unlisted options on issue at 30 June 2015 comprise:

Expiry Date	Opening Balance July 14	Weighted Average Exercise Price	Granted during Year	Expired during year	Exercised during year	Closing Balance	Weighted Average Exercise Price
30 Jun 15	400,000	$0.65	-	(400,000)	-	-	$0.65
22 Dec 15	200,000	$0.50	-	-		200,000	$0.50
12 Aug16	2,900,000	$0.70	-	-		2,900,000	$0.70
23 Nov 17	200,000	$0.352	-	-		200,000	$0.352
21 Jan 18	1,200,000	$0.326	-	-		1,200,000	$0.326
8 Feb 18	125,000	$0.319	-	-	(125,000)	-	$0.319
28 Nov 19	-	-	1,245,000	-		1,245,000	$0.332
	5,025,000	**$0.575**	**1,245,000**	**(400,000)**	**(125,000)**	**5,745,000**	**$0.523**

4,100,000 options were vested and exercisable at 30 June 2015 (2014 – 3,154,166).

Notes to the Financial Statements

for the year ended 30 June 2015

13. ISSUED CAPITAL continued

(b) Unlisted Options (continued)

The assumptions used in determining the weighted average fair value of options not yet expired at 30 June 2015 are set out in the table below:

Grant Date	22-Dec-10	12-Aug-11	23-Nov-12	08-Feb-13	28-Nov-14
Vesting Period Ends	30-Jun-13	12-Aug-14	23-Nov-14	21-Jan-16	08-Sep-17
Share price at Date of Grant	$0.031	$0.057	$0.320	$0.290	$0.315
Volatility	461%	70%	60%	60%	45%
Option Life (years)	5.0	5.0	5.0	5.0	5.0
Dividend Yield	0%	0%	0%	0%	0%
Risk Free Investment Rate	0.00%	3.83%	2.66%	2.69%	2.66%
Fair Value at Grant Date	$-	$0.2760	$0.1753	$0.2111	$0.1115
Exercise Price	$0.500	$0.700	$0.352	$0.326	$0.332
Exercisable from	31-Dec-11	12-Aug-12	23-Nov-12	21-Jan-14	08-Sep-15
Exercisable to	22-Dec-15	12-Aug-16	23-Nov-17	21-Jan-18	28-Nov-19
Weighted Average Remaining Life (years)	0.5	1.1	2.4	2.6	4.4

The valuations were calculated using the Black-Scholes option pricing model. Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future movements. For purposes of the valuation the assumed life of the options was based on the historical exercise patterns, which may not eventuate in the future. No special features inherent to the options granted were incorporated into measurement of fair value.

The following terms and conditions apply to unlisted options issued:

- Options issued entitle the holder to acquire an unissued ordinary share in the Company;
- Options are unlisted and not transferable;
- Options not exercised in the prescribed period will lapse;
- Each option has no voting or dividend right;
- All options issued were issued free of charge.

In total $210,641 (2014: $247,059) of employee remuneration expense has been included in profit or loss and credited to the share option reserve in respect of equity settled share based payment transactions. If all unlisted options were exercised in accordance with their terms of issue, 5,745,000 shares would be issued (2014: 5,025,000) and Contributed Equity would increase by $3.0 million (2014: $2.9 million).

Notes to the Financial Statements

for the year ended 30 June 2015

13. ISSUED CAPITAL continued

(c) Convertible Notes - equity component

	2015	2014
	$	$
Convertible Notes (equity component)	-	595,640

In July 2011, a USD$6 million Convertible Note facility was extinguished following final conversion of the notes into ordinary shares. Australian Accounting Standards classified the initial convertible note as a compound financial instrument and consequently it was split into its debt and equity components. On extinguishment of the notes and conversion to ordinary shares in 2011, the original equity component has been transferred to issued capital in accordance with Accounting Standard AASB 132.

(d) Performance Rights

The Company issues Performance Rights to staff and contractors under an Equity Incentive Plan approved by shareholders in November 2013. During the 2015 financial year 320,000 performance rights with a fair value of $100,800 were issued to staff (2014 - 69,800 rights, value $20,242). The fair value of the rights was determined by reference to the market price of the company's shares at the date the transaction occurred. Performance Rights on issue at 30 June 2015 comprise:

Conversion Date	Opening Balance July 14	Value per Right at Grant	Granted during Year	Value per Right at Grant	Converted during year	Closing Balance Jun 15	Value per Right at Year End
1 Sep 2014	69,800	$0.29	-	-	(69,800)	-	-
8 Sep 2015	-	-	320,000	$0.315	-	320,000	$0.315
	69,800	**$0.29**	**320,000**	**$0.315**	**(69,800)**	**320,000**	**$0.315**

In 2015 no shares were issued in consideration for services rendered to the Company by suppliers (2014 – nil).

Notes to the Financial Statements

for the year ended 30 June 2015

14. RESERVES	2015 $	2014 $
Share Options reserve	3,430,576	3,256,643
Total	**3,430,576**	**3,256,643**
Movements in Reserves:		
Share Option reserve		
Balance at beginning of year	3,256,643	3,009,584
Share based compensation	210,641	247,059
Transfers to Equity	(36,708)	-
Balance at end of year	**3,430,576**	**3,256,643**

The Options reserve records items recognised as an expense on payment of share-based consideration. Included under employee benefits expense in the statement of profit or loss and comprehensive income is $210,641 which relates to equity-settled share-based payment transactions (2014: $247,059).

15. CAPITAL AND LEASING COMMITMENTS	2015 $	2014 $
Operating Lease Commitments		
Non-cancellable operating lease contracted for but not capitalised in the financial statements payable		
- not later than 12 months	33,087	33,087
- later than 12 months but not later than 5 years	-	-
	33,087	33,087

Commitments relate to the lease of office facilities which will expire in February 2016. The operating lease for the Company's head office is in its third year. During the year the Company exercised an option to extend the lease into an additional year commencing on the second anniversary of the commencement of the lease. In addition to the rentals payable, the lessee is responsible for defined outgoings and the rent is subject to annual review.

Notes to the Financial Statements

for the year ended 30 June 2015

16. CASH FLOW INFORMATION

Reconciliation of cash flow from operations with loss after income tax:

	2015	2014
	$	$
Loss after Income Tax	(4,254,777)	(5,528,629)
Non-Cash items in Total Comprehensive Income:		
Unrealised currency (gain)/loss	(1,725,021)	429,477
Option Based Compensation	210,641	247,059
Amortisation	390,312	390,312
Depreciation	34,730	27,967
Changes in Assets and liabilities:		
Decrease/(Increase) in Security Deposits	51,153	(2,153)
(Increase) in Trade and Other Receivables	(91,052)	(581,970)
Increase/(decrease) in Accounts Payable	918,479	(468,101)
Net Cash Inflow/(Outflow) from Operating Activities	(4,465,535)	(5,486,038)

There are no credit standby arrangements or used or unused loan facilities.

17. FINANCIAL INSTRUMENTS

a. Financial Risk Management Policies

The Company's financial instruments consist mainly of deposits with banks, short-term investments, accounts receivable and payable and convertible notes. The main purpose of non-derivative financial instruments is to raise finance for Company operations. The Company does not have any derivative instruments at 30 June 2015 (2014 – nil).

i. **Treasury Risk Management:** The Board of Directors meets on a regular basis to analyse financial risk exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts. The Board's overall risk management strategy seeks to assist the Company in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

ii. **Financial Risk Exposures and Management**: The main risks the Company is exposed to through its financial instruments are interest rate risk, foreign exchange risk, liquidity risk and credit risk.

17. FINANCIAL INSTRUMENTS continued

iii. **Interest rate risk:** Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Company is not exposed to fluctuations in interest rates as the interest rates on interest bearing financial liabilities are fixed for the duration of the facility. As of 30 June 2015 (2014 - nil), the Company held no interest bearing financial liabilities. The Company holds interest-bearing financial assets however interest rate risk is immaterial.

iv. **Foreign currency risk:** The Company is principally exposed to the USD/AUD exchange rate due to clinical trial activities conducted under USD contracts. It also occasionally contracts other services in USD and GBP. As at 30 June 2015 the Company is committed to a commercial strategy whereby it expects a significant portion of its expenditure to be in USD. The Company does not actively hedge its foreign currency exposure through forward contracts or derivatives, however it does retain a proportion of its cash holdings in USD (A$7.0 million at 30 June 2015, A$8.3 million 30 June 2014) to fund expected medium term expenditure.

v. **Liquidity risk:** Liquidity risk arises from the financial liabilities of the Company and the Company's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due. The Company manages liquidity risk by monitoring forecast cash flows.

vi. **Credit risk***:* Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the entity. The entity is not exposed to significant credit risk on receivables. The entity places its cash deposits with high credit quality financial institutions and by policy, limits the amount of credit exposure to any single counter-party. The entity is averse to principal loss and ensures the safety and preservation of its invested funds by limiting default risk, market risk, and reinvestment risk. The entity mitigates default risk by constantly positioning its portfolio to respond appropriately to a significant reduction in a credit rating of any financial institution. There are no significant concentrations of credit risk within the entity. The credit risk on liquid funds is limited as the counter parties are banks with high credit ratings. Credit risk is managed by limiting the amount of credit exposure to any single counter-party for cash deposits. There are no material amounts of collateral held as security at 30 June 2015 (2014 – nil). Credit risk is managed and reviewed regularly by the directors.

vii. **Price risk**: The Company is not exposed to any material commodity price risk.

b. Financial Instrument Composition and Maturity Analysis

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments.

Notes to the Financial Statements

for the year ended 30 June 2015

17. FINANCIAL INSTRUMENTS continued

b. Financial Instrument Composition and Maturity Analysis

	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest Rate Maturing		Non-interest Bearing	Total
			Within 1 Year	1 to 5 Years		
Financial Assets	%	$	$	$	$	$
2015						
Cash and cash equivalents	1.93	309,986	20,439,778	-	816,049	21,565,813
Receivables	0.05	-	52,536	-	2,732,944	2,785,480
		309,986	20,492,314	-	3,548,993	24,351,293
2014						
Cash and cash equivalents	2.31	736,474	23,260,670	-	338,551	24,335,695
Receivables	0.06	-	51,153	-	2,733,275	2,784,428
		736,474	23,311,823	-	3,071,826	27,120,123
Financial Liabilities						
2015						
At amortised cost:						
Trade and sundry payables	-	-	-	-	1,685,264	1,685,264
		-	-	-	1,685,264	1,685,264
2014						
At amortised cost:						
Trade and sundry payables	-	-	-	-	766,785	766,785
		-	-	-	766,785	766,785

Trade and other payables are expected to be paid within 30 to 60 days.

17. FINANCIAL INSTRUMENTS continued

c. Net Fair Values

The carrying amount for all financial assets and liabilities is a reasonable approximation of fair value.

d. Sensitivity Analysis

The Company has performed a sensitivity analysis relating to its exposure to changes in interest and foreign exchange rates at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

		2015 $	2014 $
Increase or decrease in interest rate by 1% - Change in profit and equity	+/-	215,658	243,605
Increase or decrease in USD/AUD foreign exchange rate by 5 cents - Change in profit and equity	+/-	225,613	409,048

The above sensitivity analysis has been performed on the assumption that all other variables remain unchanged.

e. Capital Management

The Company manages its capital to ensure that it will be able to fund its operations in the development of CAVATAK™ and continue as a going concern. The Company's overall strategy remains unchanged from 2014.

The capital structure of the Company consists of working capital (cash and cash equivalents minus trade payables) and equity capital, comprising issued share capital and reserves, as disclosed in notes 13 and 14. The Company has no debt or borrowings at reporting date (2014: nil).

The Directors monitor the Company's capital on a continuous basis, considering when to engage in capital raising activities based on market conditions and future resource requirements.

Notes to the Financial Statements

for the year ended 30 June 2015

18. EMPLOYEE REMUNERATION

Expenses recognised for employee benefits are set out below:

	2015 $	2014 $
Wages and Salaries	740,893	670,023
Share Based Payments	88,848	152,022
Superannuation	48,201	44,861
	877,942	866,906

The expenses above exclude Directors fees and other entitlements.

19. CONTINGENT ASSETS AND LIABILITIES

As at 30 June 2015 the Company has bank guarantees in the amount of $19,000 (2014: $19,000).

There are no other contingent assets or liabilities at the date of this report.

20. RELATED PARTY TRANSACTIONS

a) Share Transactions of Directors

Details of directors' holdings and transactions in equity securities of the Company are detailed in the Remuneration Report contained in the Directors' Report.

b) Other Transactions with Directors

Directors receive a fixed director's fee. If any director performs additional services for the Company they are paid a fee based on normal commercial terms. There were no additional paid services provided by Directors during the year. Any payments are detailed in the Remuneration Report contained within the Directors' Report.

20. RELATED PARTY TRANSACTIONS continued

c) Transactions with Key Management Personnel

Key management of the Company are all directors and members of the executive team. Key Management Personnel remuneration includes the following expenses:

	2015 $	2014 $
Short Term Employee Benefits		
Wages and Salaries including bonuses [(i)]	869,797	774,229
Directors Fees	213,805	248,770
Consultancy Fees	167,874	138,936
Total Short Term Employee Benefits	1,251,476	1,161,935
Post Employment Benefit		
Superannuation [(i)]	79,373	62,262
Share Based Payments	179,947	206,324
	1,510,796	1,430,521

(i) A portion of wages and superannuation in this table are reflected as Research and Development expense by the Company as Professor Shafren is employed by the University of Newcastle who are engaged by the Company through a Research services agreement.

During 2015 no options were exercised by Key Management Personnel (2014 – nil). During 2015 Key Management Personnel received 40,000 shares (2014 – nil) following conversion from Performance Rights granted as part of remuneration arrangements.

Other than remuneration as outlined there are no other transactions between the Company and Key Management Personnel.

21. EVENTS SUBSEQUENT TO REPORTING DATE

No matters or circumstances have arisen since the end of the financial year, which significantly affected or may significantly affect the operations of the Company, the results of those operations or the state of affairs of the Company in subsequent financial years. The financial report was authorised for issue by the Directors on the date that the Directors' declaration was signed.

Directors' Declaration

for the year ended 30 June 2015

In accordance with a resolution of the directors of Viralytics Limited, the directors of the company declare that:

1. The financial statements and notes as set out on pages 35 to 74 of the Company's Annual Report are in accordance with the *Corporations Act 2001* and:

   (a) comply with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001, which , as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and

   (b) give a true and fair view of the financial position as at 30 June 2015 and of the performance ended on that date of the Company;

2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

3. The directors have been given the declarations required by s295A of the *Corporations Act 2001* from the Chief Executive Officer.



Peter Turvey
Director
26 August 2015

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Independent Auditor's Report
To the Members of Viralytics Limited

Report on the financial report

We have audited the accompanying financial report of Viralytics Limited (the "Company"), which comprises the statement of financial position as at 30 June 2015, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the company.

Directors' responsibility 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. The Directors' responsibility also includes 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. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

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In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

Auditor's opinion

In our opinion:

a the financial report of Viralytics Limited is in accordance with the Corporations Act 2001, including:

   i giving a true and fair view of the Company's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

Report on the remuneration report

We have audited the remuneration report included in pages 21 to 31 of the directors' report for the year ended 30 June 2015. 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.

Auditor's opinion on the remuneration report

In our opinion, the remuneration report of Viralytics Limited for the year ended 30 June 2015, complies with section 300A of the Corporations Act 2001.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

N J Bradley
Partner - Audit & Assurance

Sydney, 26 August 2015

Viralytics Limited

Additional Information for ASX Listed Companies

The following additional information is required by the Australian Securities Exchange. The information is current as at 13 August 2015.

Distribution of Shareholders – Ordinary Shares

	Number of holders	Number of ordinary shares
1 – 1,000	1,316	640,117
1,001 – 5,000	1,819	5,183,986
5,001 – 10,000	920	7,369,911
10,001 – 100,000	1,573	48,694,779
100,001 and over	162	122,264,288
Total	**5,790**	**184,153,081**

Unmarketable Parcels
The number of shareholders holding less than a marketable parcel of shares is 942 and they hold 285,964 securities.

Voting rights
All ordinary shares carry one vote per share without restriction. All unlisted options have no voting rights.

Twenty Largest Shareholders
The names of the twenty largest holders of ordinary shares are:

Rank	Name	13 August 2015	% Issued Capital
1	Citicorp Nominees Pty Limited	41,684,707	22.64
2	HSBC Custody Nominees (Australia) Limited-GSCO ECA	16,638,754	9.04
3	HSBC Custody Nominees (Australia) Limited	13,353,825	7.25
4	National Nominees Limited	3,724,688	2.02
5	Dr Nicholas Smith	2,650,000	1.44
6	Armco Barriers Pty Ltd	2,400,000	1.30
7	P Kampfner Pty Ltd	2,156,657	1.17
8	Merrill Lynch (Australia) Nominees Pty Limited	1,761,086	0.96
9	Getty Minerals Pty Ltd	1,399,024	0.76
10	Newcastle Innovation Limited	1,349,601	0.73
11	Invia Custodian Pty Limited	1,314,331	0.71
12	Mr Stephen Richard Barrett	1,111,845	0.60
13	Epping Real Estate Pty Ltd	1,096,320	0.60
14	J P Morgan Nominees Australia Limited	1,088,080	0.59
15	Mr Dale Anthony Reed	1,050,000	0.57
16	Mr Shahen Mekertichian	853,500	0.46

17	Mr Paramjit Singh Nagra & Mrs Surinder Kaur Nagra	811,362	0.44
18	Mr Manfred Zimmer	744,570	0.40
19	Robertson Architectural Services Pty Ltd	650,000	0.35
20	Ignatius Lip Pty Ltd	593,834	0.32
	TOTAL	**96,432,184**	**52.37**

Voluntary escrow
There are no Viralytics securities under voluntary escrow.

Substantial holders
Viralytics has been notified of the following substantial holders of its securities:

Ordinary Shareholder	Number	Percentage
Quest Asset Partners Pty Ltd	9,230,296	5.02%
BVF Partners LP on its own behalf and on behalf of BVF Inc. and Mark N Lampert	22,931,933	12.46%
Cormorant Global Healthcare Master Fund Ltd	16,420,361	8.9%
Abingworth LLP on its own behalf and on behalf of Abingworth Bioventures LLP and Abingworth Bioequities Master Fund Limited	11,288,996	6.14%

Share buy-backs
There is no current or planned buy-back of the Company's shares.

Stock Exchange Listing
Quotation has been granted for all the ordinary shares of the Company on the Australian Securities Exchange.

American Depository Receipts Program
The ADR program allows investors to purchase in US denominated securities through North American brokerages. It is administered by the Bank of New York. Each ADR represents 30 Viralytics Ltd shares.

Unquoted equity securities

	Number on issue	*Number of holders*
Options over ordinary shares issued	5,745,000	7
Performance rights (converting to ordinary shares on vesting)	320,000	12

Comprising:

Options expiring 22 December2015 with an exercise price of $0.50

There is one holder holding a total of 200,000 options. There are no other holders in this class of options.

	Number	*%*
Dulhunty Management Pty Ltd ATF Dulhunty Superannuation Fund	200,000	100

Options expiring 12 August 2016 with an exercise price of $0.70

There are 5 holders holding a total of 2,900,000 options issued under the Employee Share Option Plan. There are no other holder in this class of options.

Options expiring 23 November 2017 with an exercise price of $0.352

There is one holder holding a total of 200,000 options issued under the Employee Share Option Plan. There are no other holders in this class of options.

	Number	*%*
Leonard Post	200,000	100

Options expiring 21 January 2018 with an exercise price of $0.326

There is one holder holding a total of 1,200,000 options issued under the Employee Share Option Plan. There are no other holders in this class of options.

	Number	*%*
Malcolm McColl	1,200,000	100

Options expiring 28 November 2019 with an exercise price of $0.332

There are five holders holding a total of 1,245,000 options issued under the Employee Share Option Plan. There are no other holders in this class of options.

Performance Rights vesting on 7 September 2015

There are twelve holders holding a total of 320,000 performance rights. One holder holds more than 20% of this class of security as set out below. There are no other holders in this class of securities.

	Number	*%*
Darren Shafren	200,000	62.5

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