

VIRALYTICS LTD

ABN 12 010 657 351

APPENDIX 4E

Preliminary Final Report

Year ended 30 June 2014 (current period)
and the year ended 30 June 2013 (previous corresponding period)

Results for announcement to the market

		\$A'000
Revenue from ordinary activities	Up 2% to	2,804
(Loss) from ordinary activities after tax attributable to members	Up 34% to	(5,529)
(Loss) for the period attributable to members	Up 34% to	(5,529)

	Current Period	Previous Corresponding Period
Net tangible asset backing per ordinary security	14.4 cents	7.1 cents
Basic (Loss) cents per share	(4.6 cents)	(5.1 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

ABN 12 010 657 351

Annual Report for the Year Ended 30 June 2014

TABLE OF CONTENTS

Corporate Information	1
Directors' Report	2
Corporate Governance Statement	25
Auditor's Independence Declaration	31
Statement of Profit and Loss and Other Comprehensive Income	32
Statement of Financial Position	33
Statement of Changes in Equity	34
Statement of Cash Flows	36
Notes to the Financial Statements	37
Directors' Declaration	60
Independent Auditor's Report to the Members	61

Corporate Information

Directors

Mr Paul Hopper	Chairman
Dr Phillip Altman	Non-Executive Director
Mr Peter Molloy	Non-Executive Director
Dr Leonard Post	Non-Executive Director

Chief Executive Officer

Dr Malcolm McColl

Company Secretary

Ms Catherine Officer Appointed 16 July 2013

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

Tel: (02) 9988 4000
Fax: (02) 8068 6038
Email: investorrelations@viralytics.com

Website:

www.viralytics.com

Auditors

Bentleys Chartered Accountants
Level 9, 123 Albert Street
Brisbane QLD 4000

Share Registry & Register

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

Directors' Report

for the year ended 30 June 2014

Your Directors present their report on the Company for the financial year ended 30 June 2014.

DIRECTORS

The names of the directors in office during the financial year and to the date of this report:

Mr Paul Hopper	Non-Executive Chairman
Dr Phillip Altman	Non-Executive Director
Mr Peter Molloy	Non-Executive Director
Dr Leonard Post	Non-Executive Director

COMPANY SECRETARIES

The company secretaries during the financial year were:

Ms Sarah Prince (resigned 16 July 2013)

Ms Catherine Officer (appointed 16 July 2013)

PRINCIPAL ACTIVITIES

The principal activity during the year was the continued clinical and preclinical development of the lead product CAVATAK™. This was achieved through the full enrolment and successful achievement of the primary endpoint in our US Phase 2 CALM clinical study in late stage melanoma patients with the very promising results presented at major global oncology conferences; initiation of the multi-intravenous dose Phase 1 /2 study in the UK in late stage solid cancer patients; progressing multiple preclinical programs including assessment of CAVATAK™ in combination with other new important immunotherapies, and in cancer types such as superficial bladder cancer and lung cancer; and enhancement of the intellectual property assets attached to the product. The company achieved a number of significant milestones during the year which are outlined in the Operations Report below.

Directors' Report

for the year ended 30 June 2014

OPERATING RESULT

The operating loss for the year was \$5.5 million (2013: \$4.1 million loss).

CASH MANAGEMENT

Cash on hand as at 30 June 2014 was \$24.3 million (30 June 2013: \$5.1 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 2014 was \$24.3 million compared to \$5.1 million at 30 June 2013
- Net assets increased to \$28.9 million from \$9.0 million at 30 June 2013.
- Net tangible assets increased to \$26.5 million from \$6.2 million at 30 June 2013

The Board believes the Company is well placed to support its business programmes in 2015 following the capital raising completed in March 2014.

REVIEW OF OPERATIONS

CLINICAL TRIALS

CAVATAK™ Phase 2 CALM Melanoma Clinical Trial (USA)

The Phase 2 CALM clinical trial in late-stage melanoma patients, currently being conducted under an Investigational New Drug (IND) status in the US has achieved many significant milestones in the 2014 financial year. Highlights include:

- The primary endpoint was achieved in September 2013 at an early stage in the study. The study target was to have 10 patients from a total of 54 evaluable patients (18.5%) reporting immune-related Progression Free Survival (irPFS) at six months after the first dose of CAVATAK™. This target was achieved after only 30 evaluable patients, representing an irPFS rate of 33%. As at June 3 2014, 19 of 51 patients had achieved the irPFS at six months, representing a rate of 37%.
- The target enrolment of 54 patients was achieved in January 2014. Enrolment accelerated through 2013 and reflected strong interest from highly regarded US oncologists.

Directors' Report

for the year ended 30 June 2014

- Impressive interim results from the CALM study were presented to a global audience of oncologists, investors and pharmaceutical executives at the two most important global oncology conferences, the American Association for Cancer Research conference in San Diego in April 2014, and the American Society of Clinical Oncology conference in Chicago in June 2014. The presentations highlighted CAVATAK's anticancer activity in both injected and non-injected tumours, such as at local and distant lymph nodes, lungs and other distant sites. CAVATAK's favourable adverse event profile and patient tolerability were also noted as a significant attribute.

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 commenced in March 2014. The study is being conducted at three prestigious cancer centres in the UK including the Royal Marsden in central London. In the STORM trial, the activity of multi-intravenous dosing of CAVATAK™ is being assessed in approximately 30 late-stage cancer patients, both in the presence and absence of standard-of-care chemotherapy. The STORM trial is being conducted under a clinical protocol approved by the MHRA (Medicines and Healthcare products Regulatory Agency).

CAVATAK™ Preclinical studies (Australia / UK)

The broad anticancer activity of CAVATAK™ has been demonstrated in the preclinical setting in multiple important cancer types and in combination with a variety of cancer therapies. Results from preclinical studies were presented at major conferences in the US and UK.

CAVATAK™ and anti-PD1 antibody combination

Results from a preclinical study conducted by Viralytics assessing the combination of CAVATAK™ and an anti-murine PD-1 monoclonal antibody (mAb) were presented at the American Association of Cancer Research conference in April 2014 and the American Society of Clinical Oncology conference in June 2014. The study demonstrated the enhanced anticancer activity of the combination compared to either treatment alone. Anti-PD-1 mAb are a new class of cancer immunotherapy agents with activity across a range of cancer types and future sales forecast at \$US 24 billion per annum according to a 2013 Citigroup report¹. Enhancement of their performance by CAVATAK™ would provide a major potential commercial opportunity for Viralytics.

CAVATAK™ in bladder cancer model

Preclinical studies conducted at the Department of Oncology, The University of Surrey, UK in conjunction with Viralytics demonstrated CAVATAK™ combined with either radiation or

¹ <https://www.citivelocity.com/citigps/OpArticleDetail.action?recordId=209>

Directors' Report

for the year ended 30 June 2014

chemotherapy, resulted in more potent anticancer activity in bladder cancer cell lines than radiation or chemotherapy alone. These results offer strong support for a clinical trial to assess CAVATAK™ plus chemotherapy or radiation therapy in non-muscle invasive bladder cancer, a tumour type with high unmet need for better treatments.

CAVATAK™ in lung cancer model

The synergistic effect from the combination of CAVATAK™ and docetaxel, a leading chemotherapy drug, was demonstrated in studies presented at the Eighth International Meeting on Oncolytic Virus Therapeutics in Oxford, England in April 2014. In vitro studies showed synergy between CAVATAK™ and docetaxel in multiple lung cancer cell lines. In mouse xenograft models the best response was observed in mice receiving the combination of CAVATAK™ and docetaxel. This result provides further encouragement for our investigation of CAVATAK™ in the ongoing STORM study including patients with lung cancer.

CAPITAL RAISING

Following shareholder approval at a General Meeting in March the Company completed a transformational capital raising of \$27.1 million. This financing is forecast to fund the company through to the end of 2016 and will enable the completion of key clinical trials with CAVATAK™.

The capital raising was achieved with investment from leading specialist healthcare funds in the US, UK and Australia. The Company is now in a strong financial position for negotiation with potential pharmaceutical partners, and thus enable the optimization of commercial outcomes.

INTELLECTUAL PROPERTY

The Company continues to place a strong focus on developing and strengthening its Intellectual Property portfolio.

In August 2013 the Company was pleased to announce the notice of allowance for an additional European patent to broaden coverage from Coxsackie A viruses to the wider family of Picornaviruses that bind to the ICAM 1 viral receptor leading to cancer cell death. Subsequently in February 2014 the Company announced the notice of allowance for an additional US patent to broaden the coverage across all Coxsackie A viruses and the broader Group C enteroviruses that attach to the ICAM 1 receptor.

These additional patents are part of the continuing broadening and strengthening of the Company's portfolio. A summary of the patent portfolio is maintained on the company's website at <http://www.viralytics.com/our-pipeline/intellectual-property-patents/>.

Directors' Report

for the year ended 30 June 2014

MANAGEMENT AND BOARD

Management

The Company's administrative headquarters is in the Sydney central business district, NSW and comprises leased office space occupied by Dr Malcolm McColl and Chief Financial Officer, Mr Robert Vickery. Dr McColl has been the Chief Executive Officer since January 2013. He is responsible for oversight of company operations, corporate financing activities, business development and setting the strategy of the Company. Mr Vickery is responsible for the finance function of the company.

The principal activities of the Company are research and development (R&D) of our oncolytic immunotherapy and the clinical development of CAVATAK™. R&D is undertaken at the Hunter Medical Research Institute (HMRI) in Newcastle and the clinical development is primarily conducted in the US and UK in conjunction with a Contract Research Organisation. Professor Darren Shafren, who is the Chief Scientific Officer of Viralytics and inventor of the oncolytic immunotherapy technology owned by Viralytics is responsible for the R&D programme, management of the intellectual property and clinical development of CAVATAK™.

Board

The Viralytics Board oversees the senior management team and meets typically about ten times a year. The Board comprises:

- Mr Paul Hopper (Chairman): An experienced biotechnology executive and director, who is also Managing Director of Cappello Group, and Non-executive Director of two other biotechnology companies;
- Mr Peter Molloy (Non-executive Director): An experienced biotechnology executive and director, and previously the CEO and Managing Director of Biota Holdings Limited;
- Dr Phillip Altman (Non-executive Director): Clinical trials specialist and former consultant to the Company on clinical trial strategy;
- Dr Leonard Post (Non-executive Director): An eminent virologist who has extensive experience in the field of oncolytic virotherapy and the development of oncology products.

Further information regarding the skills and experience of the Directors is set out on pages 9 - 10 of this report.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

LIKELY DEVELOPMENTS AND LIKELY RESULTS

The Company's strategic plan entails aggressively progressing CAVATAK™ through the Phase 2 clinical development in the melanoma indication and the Phase 1/2 assessment of multi-dose

Directors' Report

for the year ended 30 June 2014

intravenous administration in solid cancer indications. In addition to its potential role as a monotherapy and as a result of very promising preclinical results described above, the Company will also further pursue the use of CAVATAK™ in combination with other new immunotherapies. The Company believes that CAVATAK™ has the potential to enhance the activity of these new blockbuster agents and thus may provide significant benefits to patients.

The Company will continue to explore other potential indications for CAVATAK™ through preclinical and possible Phase 1 clinical trial programmes in cancer types including non-muscle invasive bladder cancer. We intend to add value to CAVATAK™ by strengthening the intellectual property and patent position and by expanding the clinical data across a range of indications through our CALM and STORM clinical trials and other future clinical studies.

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

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 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.

Directors' Report

for the year ended 30 June 2014

SHARE CAPITAL AND OTHER EQUITY SECURITIES

A total of 5,025,000 unissued ordinary shares under option and 69,800 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.

CORPORATE STRUCTURE

The Company is limited by shares and is incorporated and domiciled in Australia.

MEETINGS OF DIRECTORS

During the reporting period, 13 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)	13	13
Dr Phillip Altman (Non-Executive Director)	13	13
Mr Peter Molloy (Non-Executive Director)	13	13
Dr Leonard Post (Non-Executive Director)	13	13

AUDIT AND RISK COMMITTEE MEETINGS

During the reporting period, 3 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 Molloy (Chairman)	3	3
Dr Phillip Altman	3	3
Mr Paul Hopper	3	3

Directors' Report

for the year ended 30 June 2014

REMUNERATION & NOMINATION COMMITTEE MEETINGS

During the reporting period, 2 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	2	2
Mr Len Post	2	2

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. He also serves as Chairman of the California Chapter of the American Australian Association a. Mr Hopper is also Executive Chairman of Imugene Ltd and Executive Director of Virax Holdings Ltd.

Mr Hopper has served as CEO and Director of many listed biotechnology and healthcare companies in Australia and the US. He is based in Los Angeles.

Directors' Report

for the year ended 30 June 2014

Mr Peter Molloy - Non-Executive Director

Mr Molloy is a successful Australian pharmaceutical and biotechnology executive and now an industry consultant and director. In addition to Viralytics, he is a director of Parnell Pharmaceutical Holdings, Firebrick Pharma Pty Ltd and Innovation Angel Foundation Inc.

Previously, Mr Molloy was the Managing Director and CEO of ASX-listed Biota Holdings Limited (2002-2005). His previous executive roles in the biotechnology sector included President and CEO of SLIL Biomedical Corp; Managing Director and CEO of Florigene Ltd; and President of Moleculon Inc.

Dr Phillip Altman - Non-Executive Director

Dr Altman is a well-known Australian authority on clinical trials and regulatory affairs, with over 30 years' experience in the sector. He is a graduate of Sydney University with an Honours degree in Pharmacy, Master of Science and Doctor of Philosophy (pharmacology and pharmaceutical chemistry). Dr Altman also co-founded and is a Life Member of the Association of Regulatory and Clinical Scientists (ARCS).

In addition to holding senior management positions with multinational companies including Merrell-Dow, Hoechst, Roussel and GD Searle, Dr Altman established his own company, Pharmaco Pty Ltd, one of the first contract research organizations. He served there as a Senior Industry Consultant and continues to provide consultant support for a range of companies.

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.

Directors' Report

for the year ended 30 June 2014

COMPANY SECRETARIES - QUALIFICATIONS AND EXPERIENCE

Ms Catherine Officer

Catherine Officer is an experienced Company Secretary and Corporate Lawyer with over 20 years experience. She has previously held senior positions at ASX Limited and Macquarie Group. She holds a Bachelor of Laws from the University of Melbourne.

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 Chartered Institute of Secretaries.

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.

REMUNERATION REPORT - AUDITED

This report details the nature and amount of remuneration for each director of Viralytics Ltd and for the executives receiving the highest remuneration.

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
- Mr Peter Molloy Non-Executive Director appointed 29 September 2008
- Dr Leonard Post Non-Executive Director appointed 21 November 2011

Remuneration Policy

Director and Executive Remuneration

The Company's policy for determining the nature and amount of emoluments of board members and senior executives is to pay market rates commensurate with their responsibilities and their

Directors' Report

for the year ended 30 June 2014

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 senior 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.

Directors' Report

for the year ended 30 June 2014

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.

Performance Based Remuneration is apportioned as follows:

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 %
Group Key Management Personnel					
Mr Paul Hopper	Non-Executive Chairman	-	18%	82%	100%
Dr Phillip Altman	Non-Executive Director	-	26%	74%	100%
Mr Peter Molloy	Non-Executive Director	-	15%	85%	100%
Dr Len Post	Non-Executive Director	-	15%	85%	100%
Dr Malcolm McColl	Chief Executive Officer	17%	21%	62%	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 2014

Performance Based Remuneration – 2013

	Position at 30 June 2013	Related to Performance		Not Related to Performance	
		Non-salary Cash-based Incentives	Options/ Rights	Fixed Salary/ Fees	Total
		%	%	%	%
Group Key Management Personnel					
Mr Paul Hopper	Non-Executive Chairman (i)	-	21%	79%	100%
Dr Phillip Altman	Non-Executive Director (ii)	-	35%	65%	100%
Mr Peter Molloy	Non-Executive Director (ii)	-	21%	79%	100%
Dr Len Post	Non-Executive Director	-	28%	72%	100%
Dr Malcolm McColl	Chief Executive Officer (iii)	-	30%	70%	100%
Prof Darren Shafren	Chief Scientific Officer	13%	13%	74%	100%
Dr Jeffrey Weisberg	Chief Medical Officer (iv)	-	7%	93%	100%
Mr Robert Vickery	Chief Financial Officer (v)	-	-	100%	100%

- (i) Mr P Hopper served as Executive Chairman from 24 July 2012 to 30 April 2013
- (ii) Messrs Altman and Molloy served as Executive Directors from 24 July 2012 to 31 January 2013
- (iii) Dr McColl was appointed Chief Executive Officer on 21 January 2013
- (iv) Dr Weisberg resigned as Chief Medical Officer on 28 February 2013. He remains Chairman of the company's Scientific Advisory Board.
- (v) Mr Vickery was appointed Chief Financial Officer on 21 May 2013

Directors' Report

for the year ended 30 June 2014

Director Remuneration for the year ended 30 June 2014:

	Short-Term Benefits			Post Employ- ment	Termin- ation Benefits	Share- based Payment	Total
	Directors fees and Salary \$	Bonus	Travel allow- ance \$	Superan- uation \$	Termin- ation Benefits	Options \$	\$
<u>Directors</u>							
Mr P Hopper	75,000	-	10,000	6,938	-	20,700	112,637
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	16,743	-	62,203	327,716

Director Remuneration for the year ended 30 June 2013:

	Short-Term Benefits			Post Employ- ment	Termin- ation Benefits	Share- based Payment	Total
	Directors fees and Salary \$	Bonus	Travel allow- ance \$	Superan- uation \$	Termin- ation Benefits	Options \$	\$
<u>Directors</u>							
Mr P Hopper (a)	168,750	-	10,000	15,188	-	50,600	244,538
Mr B Dulhunty (b)	98,754	-	-	26,813	275,000	67,467	468,034
Dr P Altman (c)	85,173	-	-	7,666	-	50,600	143,439
Mr P Molloy (c)	85,173	-	-	7,666	-	25,300	118,139
Dr L Post	57,770	-	-	-	-	22,302	80,072
Total	495,620	-	10,000	57,333	275,000	216,269	1,054,222

Directors' Report

for the year ended 30 June 2014

- (a) Mr Hopper served as Executive Chairman from 24 July 2012 to 30 April 2013. For this period he was remunerated based on an annual fee of \$195,000 plus superannuation.
- (b) Mr Dulhunty was previously employed as Managing Director. On 24 July 2012, his employment contract ceased. The agreement provided for termination by the Company at any time by giving either 6 months payment in lieu of notice for non-performance or 12 months payment in lieu of notice for any other reason. He received 12 months payment in lieu of notice, equivalent to \$275,000 in salary, plus unused leave entitlements amounting to \$98,754.
- (c) Messrs Altman and Molloy served as Executive Directors from 24 July 2012 to 31 January 2013. For this period they were remunerated based on an annual fee of \$113,000 plus superannuation.

Company Executives

Remuneration for executives is set out below:

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

	Short-Term Benefits			Post Employ- ment	Share- based Payment	Total
	Salary	Consulting	Bonus (b)	Super- annuation	Options / Perf. Rights	
<u>Senior Executive</u>	\$	\$	\$	\$	\$	\$
Dr Malcolm McColl (a)	330,000	-	99,000	25,823	117,353	572,176
Prof Darren Shafren (b)	129,052	138,936	66,677	22,610	20,700	377,975
Mr Robert Vickery (c)	130,000	-	19,500	13,829	6,068	169,397
	589,052	138,936	185,177	62,262	144,121	1,119,548

Directors' Report

for the year ended 30 June 2014

Details of Executive Remuneration for the year ended 30 June 2013:

	Short-Term Benefits			Post Employ- ment	Share- based Payment	Total
	Salary	Consulting	Bonus (b)	Super- annuation	Options	
Senior Executive	\$	\$	\$	\$	\$	\$
Dr Malcolm McColl (a)	147,258	-	-	13,253	68,664	229,175
Prof Darren Shafren (b)	131,010	138,936	49,750	22,916	50,600	393,212
Dr Jeffrey Weisberg	-	60,659	-	-	4,509	65,168
Mr Robert Vickery	10,833	-	-	975	-	11,808
	289,101	199,595	49,750	37,144	123,773	699,363

- (a) As part of his remuneration package, Dr McColl was issued with 1,200,000 share options in January 2013. Details set out in note 12.
- (b) During the year ended 30 June 2014, Professor Darren 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 Professors salary of \$129,052 (2013 \$131,010) plus superannuation of \$22,610 (2013 \$23,582) by the University of Newcastle. Viralytics pays Newcastle Innovation, the commercial arm of the University of Newcastle \$228,936 (2013 \$228,936) in respect of Prof Shafren's services. Of this Newcastle Innovation pays Professor Shafren \$138,936 (2013 \$138,936). In September 2013 Prof Shafren was awarded a bonus of \$66,677 by meeting the measurable KPIs for the period. In August 2012 he received a bonus of \$49,750. At 30 June 2014 Prof. Shafren holds 1,000,000 share options. 400,000 of these expire on 30 June 2015 with an exercise price of \$0.65. The remaining 600,000 expire on 12 August 2016 with an exercise price of \$0.70.
- (c) Mr Robert Vickery was issued 40,000 Performance rights in April 2014.

Directors' Report

for the year ended 30 June 2014

Executive Contractual Arrangements

Chief Executive Officer

The CEO, Dr McColl, is employed under an ongoing contract which can be terminated with notice by either side. Under the terms of the present contract as disclosed with the ASX on 24 January 2013:

Remuneration

Fixed

Base salary of \$357,000 gross per annum including superannuation.

Performance based bonuses and Equity Incentive Plan

In addition to his base salary, Dr McColl may receive a Short Term Incentive Bonus tied to Performance Targets as determined by the Board. The maximum Short Term Incentive Bonus payable is 30% of the salary (pro-rata) for the period of assessment. Dr McColl is not presently a director of the Company and will not receive any additional remuneration if he is appointed as a director of the Company or any related body corporate.

Sign-on Options Package

1,200,000 options for nil consideration expiring 5 years from the Commencement Date (21 January 2013) with an exercise price being the VWAP of the shares 30 days prior to the Commencement Date. One third of options vest on the first anniversary of the Commencement Date; one third of the options vest on the second anniversary of the Commencement Date; and one third of options vest on the third anniversary of the Commencement Date.

Termination

By the Company

- For cause – without notice.
- Incapacity - six months' notice or notice paid in lieu.
- Other than for cause - six months' written notice or notice paid in lieu.
- On transmission of business (& CEO is offered employment on substantially similar terms) – one month's written notice or notice paid in lieu.

By Dr McColl

- Resignation period - six months' written notice.

Directors' Report

for the year ended 30 June 2014

Executive Contractual Arrangements (*continued*)

Chief Scientific Officer

Termination conditions for the CSO are as follows:

By the Company

- For cause – without notice.
- Incapacity - three months' notice or notice paid in lieu.
- Other than for cause - six months' written notice or notice paid in lieu.
- On transmission of business (& CSO is offered employment on substantially similar terms) – one month's written notice or notice paid in lieu.

By the CSO

Resignation period - six months' written notice.

Chief Financial Officer

Termination conditions for the CFO are as follows:

By the Company

- For cause – without notice.
- Incapacity - three months' notice or notice paid in lieu.
- Other than for cause - three months' written notice or notice paid in lieu.
- On transmission of business (& KMP is offered employment on substantially similar terms) – one month's written notice or notice paid in lieu.

By the CFO

Resignation period - three months' written notice.

Performance Rights Issued as Remuneration to directors and key management:

Key Management Personnel	Number Granted	Value of perf. rights granted \$	% of remuneration during the year	Exercise price \$	Expiry date
--------------------------	----------------	-------------------------------------	-----------------------------------	----------------------	-------------

2014

Robert Vickery	40,000	11,600	4%	N/A	1 Sep 14
----------------	--------	--------	----	-----	----------

2013

No performance rights issued to directors or key management personnel

Directors' Report

for the year ended 30 June 2014

Options Issued as Remuneration to directors and key management:

Director / Key Management Personnel	Number Granted	Value of options granted (iv) \$	% of remun- eration during the year	Exercise price \$	Expiry date
2014					
No options issued to directors or key management personnel					
2013					
Dr Len Post (i)	200,000	35,060	28%	\$0.352	23 Nov 17
Dr Jeff Weisberg (ii)	125,000	17,525	7%	\$0.319	8 Feb 18
Dr Malcolm McColl (iii)	1,200,000	253,320	30%	\$0.326	21 Jan 18

- (i) At the Annual General Meeting of Shareholders held on 23 November 2012, shareholders approved the granting of 200,000 options to Dr Len Post. One third of the options vested on 23 November 2012, a further third vested on 23 November 2013 and the remaining third will vest on 23 November 2014. The options will expire on 23 November 2017.
- (ii) On 8 February 2013, by resolution of the board, 125,000 options were granted to Chief Medical Officer and SAB Chairman, Dr Jeff Weisberg. Of these, 50,000 vested on 8 February 2013, 37,500 vested on 8 February 2014 and 37,500 will vest on 8 February 2015. The options expire on 8 February 2018.
- (iii) On 8 February 2013, in accordance with the terms of his employment contract, 1,200,000 options were issued to Dr Malcolm McColl. One third of the options vested on 21 January 2014, a further third will vest on 21 January 2015 and the remaining third will vest on 21 January 2016. The options will expire on 21 January 2018.
- (iv) 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 following pages.

Terms and conditions applicable to unlisted options and performance rights

Options

2014 - No options were granted during the year.

Directors' Report

for the year ended 30 June 2014

2013

- (i) *Issued to Dr Post* – For the 200,000 options issued to Dr Post following the Annual General Meeting on 23 November 2012 one third vested on 23 November 2012, one third will vest on 23 November 2013, and the remaining third will vest on 23 November 2014. The options will expire on 23 November 2017.
- (ii) *Issued to Dr McColl* - For the 1,200,000 options issued to Dr McColl pursuant to his contract one third will vest on 21 January 2014, a further third will vest on 21 January 2015 and the remaining third will vest on 21 January 2016. The options will expire on 21 January 2018.
- (iii) *Issued to Dr Weisberg* - For the 125,000 options issued to Dr Weisberg pursuant to his contract 50,000 vested on 8 February 2013, 37,500 will vest on 8 February 2014 and the remaining 37,500 will vest on 8 February 2015. The options will expire on 8 February 2018.

The weighted average fair value of options granted during 2013 was \$0.20. These values were calculated using the Black-Scholes option pricing model applying the following inputs:

	Dr Post	Dr McColl	Dr Weisberg
Exercise Price	\$0.352	\$0.326	\$0.319
Weighted average life of the option	4 years	4.24 years	4.03 years
Expected share price volatility	60%	60%	60%
Risk-free interest rate	2.66%	2.69%	2.82%

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future movements. The life of the options is based on the historical exercise patterns, which may not eventuate in the future.

Performance Rights

2014 - Subject to continued employment, the performance rights will vest on 1 September 2014 and convert to ordinary shares on a 1-for-1 basis.

2013 - No performance rights were granted during the year.

Options and Rights Converted into Shares

During the year ended 30 June 2014 no current or former director converted options into shares (2013: nil).

END OF AUDITED REMUNERATION REPORT

Directors' Report

for the year ended 30 June 2014

Directors' relevant interests in securities

Directors' 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
Peter Molloy	20,000	-	-	20,000
Altman Nominees Pty Limited ATF Altman Super Fund (ii)	46,106	-	30,065	76,171
Deborah Coleman (iii)	36,000	-	-	36,000
Kilinwata Investments Pty Limited (iv)	13,106	-	15,000	28,106

(b) Unlisted Options

	Opening Balance	Issued during year	Expired during year	Closing Balance	Vesting Term (v)	Expiry Date	Ex. Price
Mr Bryan Dulhunty	800,000	-	-	800,000	(a)	12 Aug 16	\$0.70
Mr Bryan Dulhunty	200,000	-	-	200,000		22 Dec 15	\$0.50
Dr Phillip Altman	600,000	-	-	600,000	(a)	12 Aug 16	\$0.70
Mr Paul Hopper	600,000	-	-	600,000	(a)	12 Aug 16	\$0.70
Mr Paul Hopper	100,000	-	(100,000)	-		18 Nov 13	\$0.75
Mr Paul Hopper	100,000	-	(100,000)	-		18 Nov 13	\$0.75
Mr Paul Hopper	100,000	-	(100,000)	-		18 Nov 13	\$0.75
Mr Peter Molloy	300,000	-	-	300,000	(a)	12 Aug 16	\$0.70
Mr Peter Molloy	100,000	-	(100,000)	-		18 Nov 13	\$0.75
Mr Peter Molloy	100,000	-	(100,000)	-		18 Nov 13	\$0.75
Mr Peter Molloy	100,000	-	(100,000)	-		18 Nov 13	\$0.75
DFCT Pty Ltd (i)	75,000	-	(75,000)	-		5 Dec 13	\$3.00
DFCT Pty Ltd (i)	50,000	-	(50,000)	-		5 Dec 13	\$3.50
DFCT Pty Ltd (i)	75,000	-	(75,000)	-		5 Dec 13	\$4.00
Dr Len Post	200,000	-	-	200,000	(b)	23 Nov 17	\$0.352
Total	3,500,000	-	(800,000)	2,700,000			

Notes to this table are detailed on the following page.

Directors' Report

for the year ended 30 June 2014

- (i) Entity associated with Mr B Dulhunty who departed during the year ending 30 June 2013.
- (ii) Dr Altman is a beneficiary of the Trust.
- (iii) Ms Coleman is the spouse of Mr Hopper
- (iv) Mr Hopper is a shareholder of Kilinwata Investments Pty Limited
- (v) All options have vested and are exercisable as follows:
 - a) Two thirds of the options have vested as at 30 June 2014 and the remaining third vested on 12 August 2014.
 - b) Two thirds of the options have vested as at 30 June 2014 with the remaining third vesting on 23 November 2014.

DIRECTORS' AND AUDITOR'S INDEMNIFICATION

The Company has entered into Deeds of Indemnity (**Deed**) with each Director, the Chief Executive Officer, the Company Secretary 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.

Directors' Report

for the year ended 30 June 2014

NON-AUDIT SERVICES

Other compliance services were provided by Bentleys Chartered Accountants during the financial year. The fees were \$10,680 (2013 - \$7,480) for those services.

The Directors are satisfied that:

- (a) the non-audit services provided during the financial year by Bentleys Chartered Accountants as the external auditor were compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* (Cth); and
- (b) any non-audit services provided during the financial year by Bentleys Chartered Accountants as the external auditor did not compromise the auditor independence requirements of the *Corporations Act 2001* (Cth) for the following reasons:
 - (i) all non-audit services are reviewed and approved by the Chief Executive Officer prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
 - (ii) the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ended 30 June 2014 has been received and can be found on page 31.

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

Paul Hopper
Chairman
26 August 2014

Corporate Governance Statement

for the year ended 30 June 2014

Viralytics is committed to implementing the highest standards of corporate governance for a company of its size and standing, in line with the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations (2nd Edition) (**the Recommendations**). Viralytics has progressed a review of its corporate governance practices in light of amendments introduced by the 3rd Edition of the Recommendations, and has implemented changes to reflect the 3rd Edition in a number of instances. The Company intends to report against the 3rd Edition in respect of the financial year ended 30 June 2015.

The Board considers, due to the size and stage of development of Viralytics and its operations, it may not be practicable or necessary to implement the Recommendations in their entirety. In such instances, Viralytics has identified areas of divergence, or alternative practices adopted.

The Board has established a series of Policies and Charters in line with the Recommendations. The Company's Policies and Charters together form the basis of the Company's governance framework.

In accordance with its Shareholder Communications Policy, Viralytics has made its corporate governance Policies and Charters publicly available on its website (www.viralytics.com).

1. Lay solid foundations for management and oversight

The Board has the primary responsibility for guiding and monitoring the business and affairs of Viralytics including compliance with Viralytics' corporate governance objectives and, in conjunction with the Chief Executive Officer, setting the strategic direction of the Company. The Board Charter confirms this responsibility and sets out the roles and responsibilities of the Board and the functions reserved to the Board. The Board Charter is available on the Company's website at <http://www.viralytics.com/investor-centre/corporate-governance/>.

In carrying out its governance role, the main task of the Board is to oversee the direction and performance of Viralytics in line with and in pursuit of the best interests of shareholders. The Board is committed to Viralytics' compliance with all of its contractual, statutory, ethical, and any other legal obligations.

It is the role of senior management to manage Viralytics in accordance with the direction and delegations of the Board and the responsibility of the Board to oversee the activities of management in carrying out these delegated duties.

The non-executive Directors (NEDs) annually assess the performance of the Chief Executive Officer (CEO) according to agreed performance indicators, and the Board as a whole, including the CEO, undertake an annual assessment of the performance of all other senior executives. Where areas for improvement are identified, the Board directs action and implements strategies designed to implement appropriate improvements. During the year the

Corporate Governance Statement

for the year ended 30 June 2014

performance of the CEO and senior executives were assessed, areas for improvement identified and strategies adopted to implement improvements.

The Board Charter (as amended June 2014) provides that prior to the appointment of any Director, and before a candidate is put forward as a candidate for election as a Director, appropriate checks will be undertaken of the person, including checks regarding the person's experience, education, disqualification from holding certain offices, criminal record and bankruptcy history.

At any Annual General Meeting, the Company provides shareholders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.

The Board Charter (as amended June 2014) provides that the Company Secretary is directly accountable to the Board through the Chairman for all matters concerning the proper functioning of the Board, including advising the Committees on governance matters, monitoring that the Board and Committee Policies and Procedures are followed, and ensuring that the business at the Board and Committee meetings is accurately captured in the minutes.

2. Structure the board to add value

The Board is currently comprised of four NEDs: Dr Leonard Post, Mr Peter Molloy, Dr Phillip Altman and Mr Paul Hopper (Chairman). All four NEDs are considered non-executive and independent directors. The Board considers that it is the approach and attitude of each NED which is critical in determining independence together with any other relevant factors including those set out in the Recommendations. The factors considered by the Board in assessing independence, include those set out in Box 2.3 of the 3rd Edition of the Recommendations, which is reflected in the Board Charter amended June 2014 is available on the Company's website.

Further details about the Directors, including their tenure, skills, experience and expertise relevant to the position of director are set out in the Directors' Report.

The Company and Board have established various Committees to provide additional focus and oversight during the reporting period. Currently these Committees are:

- a) The Remuneration and Nomination Committee, comprised of Mr Paul Hopper, Dr Len Post and Mr Peter Molloy, all of whom are independent. The Committee is chaired by the Chairman of the Board, Mr Paul Hopper.
- b) The Audit and Finance Committee, comprised Mr Peter Molloy (Committee Chair), Mr Paul Hopper, Dr Phillip Altman.

Corporate Governance Statement

for the year ended 30 June 2014

A copy of each Committee Charter is available on the Company's website.

The Board considers there is currently an appropriate mix of skills, diversity and experience on the Board, taking into account the size of the company and the nature of its operations. As set out in the Board Charter, in selecting any new directors, the Board will ensure that a candidate has the appropriate range of skills, experience, expertise and diversity that will best complement Board effectiveness. In addition, any candidate must confirm that they have the necessary time to devote to their Viralytics Board position.

The Board did not undertake a review assessing the performance of the Board as a whole during the reporting period.

With the consent of the Chairman, individual Directors are entitled to obtain independent advice from external advisers in relation to any Board matter, at the Company's expense.

Promote ethical and responsible decision-making

Code of Conduct

To ensure that Viralytics maintains the highest standards of integrity, honesty and fairness in its dealings with all stakeholders, the Company has established a Code of Conduct (Code). This Code acts as a guide for compliance with legal and other obligations to stakeholders. These stakeholders include customers, shareholders, employees, suppliers, business partners, the community and environment in which Viralytics operates.

All Viralytics employees (including Directors, employees, consultants, contractors, advisors and all other individuals that represent Viralytics) play an important role in establishing, maintaining and enhancing the reputation of Viralytics by ensuring high standards of ethics and behaviour. Employees are required to comply with the Code, Company policies and all applicable laws, and report any acts or genuine suspicions of non-compliance. A copy of the Code is available on the Company's website.

Diversity

The Company has reflected its policy on diversity throughout its governance policies, in particular the Code of Conduct and Board Charter, not in a separate diversity policy.

The Board has not established measurable objectives for achieving gender diversity at present however the Board is committed to considering the issue of diversity at least annually. At present Viralytics has three employees. Of these one is female. There are currently no female board members.

Corporate Governance Statement

for the year ended 30 June 2014

Securities Trading Policy

Viralytics has adopted a policy applying to all Directors, officers and employees of Viralytics relating to the prohibition against insider trading, and prescribes certain requirements for dealing in Viralytics' securities. All Viralytics personnel are prohibited from trading in Viralytics' securities while in possession of material non-public information, which is information a reasonable person would expect to have a material effect on the price or value of Viralytics' securities. The Policy provides for certain periods when no trading may occur.

The Policy is consistent with the ASX Listing Rules and Guidance Note. A copy of this Policy is available on the ASX and the Company's website at <http://www.viralytics.com/investor-centre/corporate-governance/>.

Any transaction in Viralytics securities by Directors is notified to the ASX within 5 days of the transaction occurring. Each Director has entered into an agreement with the Company to provide information to enable Viralytics to comply with the ASX Listing Rules in relation to directors' securities interests.

3. Safeguard integrity in financial reporting

The Company has an Audit and Risk Committee as described above and in compliance with the Recommendations. The Committee and the Board as a whole discusses directly with the auditors, each half year and full year, all relevant financial aspects of the Company. Information about the procedure for the selection and appointment of the external auditor, and for the rotation of external audit engagement partners are set out on the Company's website.

The ARC held two meetings during the reporting period.

The Committee comprises three members (Mr Paul Hopper, Mr Peter Molloy and Dr Phillip Altman), all of whom are independent. The Committee is chaired by Mr Peter Molloy an independent non-executive director.

The Committee has a formal Charter, a copy of which will be made available on the Company's website. The Charter sets out the Committee's role and responsibilities, composition, structure and membership requirements.

4. Make timely and balanced disclosure

The Company has established written policies and procedures designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior management level for that compliance, including a Continuous Disclosure Policy and a

Corporate Governance Statement

for the year ended 30 June 2014

Shareholder Communications Policy. A copy of the policies, ASX announcements and other publications are available on the Company's website.

5. Respect the rights of shareholders

As set out above the Company has a Continuous Disclosure Policy and a Shareholder Communications Policy to promote effective communication with shareholders and encourage their participation at general meetings. A copy of both policies is available on the Company's website.

6. Recognise and manage risk

The Company has established a system of risk oversight and management and internal control. The basis of this system is the Company's Risk Management Policy which formalises and communicates Viralytics' approach to the management of risk. A copy of the Policy is available on the Company's website.

The Board requires Management to design and implement the risk management system and appropriate internal control systems to manage the Company's material business risks and report to the Board regarding the management of those risks. The Board has received a declaration from the Chief Executive Officer and Chief Financial Officer that the declaration provided in accordance with section 295A of the *Corporations Act* is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects.

The Company does not retain an Internal Audit function. The Board believes this is appropriate, taking into account the Company's early stage of development, the scale of its operations and the relative simplicity of its finance function.

Senior Management fulfils the internal audit function within the Company and is responsible for identifying relevant business risks, designing controls to manage those risks and ensuring the relevant controls are appropriately implemented. Senior Management monitors the adequacy of the risk management system and reports to the Audit and Risk Committee on a regular basis. The internal audit function comprises:

- regular review and testing of the adequacy of controls for risks identified as in the higher range;
- management confirmation on a periodic basis that the assessment of identified risks and their controls remain appropriate; and
- identification of any new risks or enhanced controls that may be required.

Corporate Governance Statement

for the year ended 30 June 2014

The Audit and Risk Committee has primary responsibility for oversight and monitoring of the internal audit function and risk management generally. Responsibilities include:

- oversight of the establishment and implementation of risk management and internal compliance and control systems and ensuring there is a mechanism for regular assessment of the efficiency and effectiveness of those systems;
- regular review and amendment of the Company's risk register, which summarises key identified risks, the likelihood of their occurrence and potential impact, in addition to the controls implemented to reduce or mitigate those risks.

The external auditors, in addition to their own control reviews, assess the risk register as part of their overall assessment of the Company's risk profile.

7. Remunerate fairly and responsibly

As set out above, the Company has established a Remuneration and Nominations Committee as recommended by the ASX Principles during the reporting period. Two meetings were held during the reporting period.

The Committee comprises three members (Mr Paul Hopper, Mr Peter Molloy and Dr Leonard Post), a majority of whom are independent. The Committee is chaired by the Chairman of the Board, Mr Paul Hopper, who was independent during the reporting period. A copy of the Remuneration & Nomination Committee Charter is available on the Company's website at <http://www.viralytics.com/investor-centre/corporate-governance/>.

The Remuneration Report and further details about the remuneration policy of Viralytics are set out in the Directors' Report. The Remuneration Report clearly distinguishes between the structure of NEDs' remuneration and that of executives. The Company's policy is to reward executives with a combination of fixed remuneration and equity incentives, structured to drive improvements in shareholder value.

Auditor's Independence Declaration

For the year ended 30 June 2014



**AUDITOR'S INDEPENDENCE DECLARATION
UNDER SECTION 307C OF THE CORPORATIONS ACT 2001
TO THE DIRECTORS OF VIRALYTICS LTD**

I declare that, to the best of my knowledge and belief, during the year ended 30 June 2014 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

Bentleys
Brisbane Partnership
Chartered Accountants

Brisbane
26 August 2014

Stewart Douglas
Partner

Statement of Profit and Loss and Other Comprehensive Income

for the year ended 30 June 2014

	Note	2014	2013
		\$	\$
Revenue			
Interest Income		296,280	262,580
R & D Tax Incentive	3	2,502,612	2,493,235
Share of profits of associates accounted for using the equity method		-	-
Other Income		5,000	-
Total Revenue		2,803,892	2,755,815
Expenses			
Research and development costs:			
Clinical trials		2,705,092	2,018,538
Research and development		1,839,886	1,727,071
Manufacture		453,039	44,957
Patents and related costs		178,056	145,534
Amortisation of intangibles		390,312	390,312
Depreciation		27,967	22,020
Employee costs		1,265,308	1,616,190
Corporate compliance costs		511,822	304,051
Administration costs		482,573	549,037
Finance costs		-	6
Foreign currency translation loss		478,466	67,316
Loss on Disposal of Assets		-	512
Total Expenses		8,332,521	6,885,544
(Loss) from ordinary activities before income tax		(5,528,629)	(4,129,729)
Income tax expense	4	-	-
Total (loss) for the year, net of tax		(5,528,629)	(4,129,729)
Other comprehensive income		-	-
Total comprehensive income for the year, net of tax		(5,528,629)	(4,129,729)
Basic (loss) cents per share	5	(4.6)	(5.1)
Diluted (loss) cents per share	5	(4.6)	(5.1)

The accompanying notes form part of these financial statements.

Statement of Financial Position

for the year ended 30 June 2014

	Note	2014 \$	2013 \$
Current Assets			
Cash and cash equivalents		24,335,695	5,078,859
Trade and Other Receivables	6 (a)	2,784,428	2,202,458
Total Current Assets		27,120,123	7,281,317
Non-Current Assets			
Security Deposits	6 (b)	51,153	49,000
Plant and equipment	7	47,963	68,054
Investments	8	-	-
Intangible assets	9	2,424,088	2,814,400
Total Non-Current Assets		2,523,204	2,931,454
Total Assets		29,643,327	10,212,771
Current Liabilities			
Trade and other payables	10	766,785	1,234,886
Total Current Liabilities		766,785	1,234,886
Total Liabilities		766,785	1,234,886
Net Assets		28,876,542	8,977,885
Equity			
Issued Capital	11	86,959,988	61,779,761
Convertible Notes - Equity Component		595,640	595,640
Reserves		3,256,643	3,009,584
Accumulated Losses		(61,935,729)	(56,407,100)
		28,876,542	8,977,885

The accompanying notes form part of these financial statements.

Statement of Changes In Equity

for the year ended 30 June 2014

Year Ended 30 June 2014

Note	Share Capital		Retained Earnings	Reserves	Total
	Ordinary	Convertible	(Accumulated	Option	
	\$	\$	Losses)	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 11	-	-	-	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

Statement of Changes In Equity

for the year ended 30 June 2014

Year Ended 30 June 2013

	Share Capital		Retained Earnings	Reserves	Total
	Ordinary	Convertible	(Accumulated	Option	
Note	\$	\$	Losses)	Reserve	\$
			\$	\$	
Balance at 1 July 2012	58,572,063	595,640	(52,277,371)	2,669,542	9,559,874
Loss after income tax expense for the year	-	-	(4,129,729)	-	(5,528,629)
Other comprehensive income for the year	-	-	-	-	-
Total Comprehensive income for the year	-	-	(4,129,729)		(4,129,729)
Transactions with owners, in their capacity as owners and other transfers:					
Shares issued during the year	3,550,710	-	-	-	3,550,710
Transaction costs	(343,012)	-	-	-	(343,012)
Share option based compensation	11	-	-	340,042	340,042
Total transactions with owners and other transfers	3,207,698	-	-	340,042	3,547,741
Balance at 30 June 2013	61,779,761	595,640	(56,407,100)	3,009,584	8,977,885

The accompanying notes form part of these financial statements.

Statement of Cash Flows

for the year ended 30 June 2014

	Note	2014	2013
		\$	\$
Cash Flows from Operating Activities			
R & D Tax Incentive Offset		1,903,062	1,466,771
Payments to suppliers and employees		(7,649,779)	(5,694,466)
Interest received		260,679	293,363
Net cash (used in) operating activities	15	(5,486,038)	(3,934,332)
Cash Flows from Investing Activities			
Purchase of equipment		(7,876)	(40,383)
Net cash (used in) investing activities		(7,876)	(40,383)
Cash Flows from Financing Activities			
Proceeds from issue of shares		27,073,109	3,512,150
Costs of fund raising		(1,892,882)	(343,012)
Net cash provided by financing activities		25,180,227	3,169,138
Net (decrease) / increase in cash held		19,686,313	(805,577)
Net Foreign Exchange Difference		(429,477)	-
Cash at the beginning of the financial year		5,078,859	5,884,436
Closing cash at the end of the financial year		24,335,695	5,078,859

The accompanying notes form part of these financial statements

Notes to the Financial Statements

for the year ended 30 June 2014

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). 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 Ltd. - 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 2014 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 \$24.3 million at 30 June 2014 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 2014

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.

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 entity 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 2014

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 2014

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.

(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.

Notes to the Financial Statements

for the year ended 30 June 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

b) Financial Instruments continued

(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 2014 (Nil: 2013).

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 comprehensive income.

Impairment testing is performed 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.

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 2014 (2013 – nil).

Notes to the Financial Statements

for the year ended 30 June 2014

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(c) 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 comprehensive income. When re-valued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

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. The Company generally deems they have significant influence if they hold, 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.

Notes to the Financial Statements

for the year ended 30 June 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

e) Investments in Associates continued

The Company's share of its associates' post-acquisition profits or losses is recognised in the statement of 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. Patents are amortised over their remaining life. The method for assessing for impairment of intangible assets is described in Note 1 (c).

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.

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.

Notes to the Financial Statements

for the year ended 30 June 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

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 2014

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 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

p) New Accounting Standards for Application in Future Periods

There are a number of Australian Accounting Standards that have been issued or amended and which are applicable to the Company but are not yet effective, and have not been adopted in preparation of the financial statements at reporting date. Having considered each of the new reporting requirements, but without detailing same herein, the Company does not anticipate early adoption of any of such requirements and does not expect them to result in significant, major changes to its future financial statements based on its current financial position, transactions and capital structure.

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 2014.

3. PROFIT/LOSS FOR THE YEAR

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

	2014	2013
	\$	\$
Other Income:		
R&D tax incentive	2,502,612	2,493,235

R&D tax Incentive Income for 2013 comprised \$1,898,067 for 2013 year and \$595,168 from eligible overseas R&D expenditures for 2012 year. 2012 overseas expenses were not recognised in 2012 as final approval had not been obtained at the date that report was signed. 2012 income was based on eligible Australian R&D expenditures only.

Expenses:

Remuneration of the auditor of the entity

- auditing and reviewing the financial reports	36,500	35,000
- other services	10,680	7,480
	47,180	42,480

Notes to the Financial Statements

for the year ended 30 June 2014

	2014	2013
	\$	\$
4. INCOME TAX EXPENSES		
The prima facie tax on the (loss) from ordinary activities before income tax is reconciled to the income tax as follows:		
Prima facie tax payable on profit/ (loss) from ordinary activities before income tax at 30% (2013 – 30%)	(1,658,589)	(1,238,918)
Add Tax effect of:		
- non- deductible Research and Development expense	1,665,078	1,265,617
- entertainment	523	922
- share option expense	74,118	102,013
Less Tax effect of:		
- R & D incentive receivable current year	(749,285)	(569,528)
- R & D incentive previous years	(1,499)	(178,709)
Future Income tax benefit (recognised)/ not recognised	669,654	618,603
Income tax benefit attributable to loss from ordinary activities before income tax	-	-

Franking Account balance is nil (2013: nil).

The company has tax losses carried forward at reporting date totalling \$37.2million. 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 2014

	2014	2013
	Cents	cents
5. EARNINGS PER SHARE		
Basic earnings (loss) cents per share	(4.6)	(5.1)
Diluted earnings (loss) cents per share	(4.6)	(5.1)

Income and share data used in the calculations of basic and diluted earnings per share:

Net Profit/(Loss)	(5,528,629)	(4,129,729)
-------------------	-------------	-------------

	Number	Number
Weighted average number of ordinary shares on issue in the calculation of basic earnings per share	119,241,546	81,457,723
Effect of dilutive securities	-	-
Adjusted weighted average number of Ordinary shares and potential ordinary shares used in calculating diluted earnings per share	119,241,546	81,457,723

As at 30 June 2014 there are 5,025,000 (2013 – 5,825,000) share options on issue and 69,800 (2013 – nil) performance rights which have not been taken into account when calculating the diluted loss per share due to their anti-dilutive nature.

	2014	2013
	\$	\$
6. TRADE AND OTHER RECEIVABLES		
a) Current		
Prepayments	135,715	196,461
Interest Receivable	60,811	27,363
R & D Tax concession Receivable 3	2,497,617	1,898,067
GST Receivable	90,285	75,892
Other	-	4,675
	2,784,428	2,202,458
b) Non-Current		
Security Deposits	51,153	49,000

Notes to the Financial Statements

for the year ended 30 June 2014

	2014	2013
	\$	\$
7. PLANT AND EQUIPMENT		
Plant & Equipment – at Cost	862,112	855,757
Accumulated Depreciation	(814,149)	(787,703)
	47,963	68,054
Movements in Carrying Amounts		
Balance at beginning of period	68,054	50,201
Additions	7,876	40,385
Loss on Disposals	-	(512)
Depreciation expense	(27,967)	(22,020)
Balance at end of period	47,963	68,054

8. INVESTMENTS

Accounted For Using The Equity Method

InJet Digital Aerosols Ltd – Unlisted (IDAL)	-	-
--	---	---

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 2012 disclosed a deficiency in net assets of \$368,196. Consequently, the carrying value of the investment is nil (2013 – 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.

	2014	2013
	\$	\$
Unrecognised losses at beginning of year	(778,228)	(513,476)
Share of losses not taken up	-	(264,752)
Unrecognised losses at end of year	(778,228)	(778,228)

Notes to the Financial Statements

for the year ended 30 June 2014

	2014	2013
	\$	\$
9. INTANGIBLE ASSETS		
Intellectual Property - Virotherapy	8,605,532	8,605,532
Accumulated amortisation	(6,181,444)	(5,791,132)
	2,424,088	2,814,400

Movements in carrying value

Balance at beginning of year	2,814,398	3,204,711
Less: amortisation expense	(390,312)	(390,312)
Balance at end of year	2,424,086	2,814,399

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.

10. TRADE & OTHER PAYABLES

Current

Trade payables	457,050	892,323
Sundry payables and accrued expenses	263,294	325,714
Employee entitlements	46,441	16,849
	766,785	1,234,886

Notes to the Financial Statements

for the year ended 30 June 2014

		2014	2013	2014	2013
		\$	\$	Number	Number
11. ISSUED CAPITAL					
Fully Paid Ordinary shares	(a)	86,959,988	61,779,761	183,958,281	87,268,606
Options Convertible to Ordinary Shares:					
Unlisted Options	(b)	-	-	5,025,000	5,825,000
		-	-	5,025,000	5,825,000
		2014	2013	2014	2013
		\$	\$	Number	Number
(a) Fully Paid Ordinary shares (Authorised Capital)					
Movements in Fully Paid Ordinary shares:					
Balance at beginning of year		61,779,761	58,572,063	87,268,606	75,433,960
Share Purchase Plan (i)		-	3,512,151	-	11,707,170
Share Placement (ii)		-	38,559	-	127,476
Share Placement (iii)		23,000,000	-	82,142,858	-
Rights Issue (iv)		4,073,109	-	14,546,817	-
Cost of fund raising		(1,892,882)	(343,012)	-	-
Balance at end of year		86,959,988	61,779,761	183,958,281	87,268,606

(i) Share Purchase Plan 27 December 2012 – 11,707,170 shares issued at \$0.30 per share totalling \$3,512,151.

(ii) Placements on 27 December 2012 (63,205 shares at \$0.305 per share) and 5 February 2013 (64,271 shares at \$0.30 per share). Total of both issues \$38,559.

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

(iv) 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 2014

11. ISSUED CAPITAL continued

(b) Unlisted Options

	2014 Number	2013 Number
Unlisted Options	5,025,000	5,825,000
Movements in Options:		
Balance at the beginning of period	5,825,000	4,650,000
Options issued	-	1,525,000
Options expired	(800,000)	(350,000)
Balance at end of period	5,025,000	5,825,000

Unlisted options on issue at 30 June 2014 comprise:

Expiry Date	Opening Balance	Issued during Year	Expired during year	Closing Balance	Exercise Price
18 Nov 13	600,000	-	(600,000)	-	\$0.75
5 Dec 13	75,000	-	(75,000)	-	\$3.00
5 Dec 13	50,000	-	(50,000)	-	\$3.50
5 Dec 13	75,000	-	(75,000)	-	\$4.00
30 Jun 15	400,000	-	-	400,000	\$0.65
22 Dec 15	200,000	-	-	200,000	\$0.50
12 Aug 16	2,900,000	-	-	2,900,000	\$0.70
23 Nov 17	200,000	-	-	200,000	\$0.352
21 Jan 18	1,200,000	-	-	1,200,000	\$0.326
8 Feb 18	125,000	-	-	125,000	\$0.319
	5,825,000	-	(800,000)	5,025,000	

Notes to the Financial Statements

for the year ended 30 June 2014

11. ISSUED CAPITAL continued

(b) Unlisted Options (continued)

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.

If all unlisted options were exercised in accordance with their terms of issue, 5,025,000 shares would be issued (2013: 5,825,000) and Contributed Equity would increase by \$2.9 million (2013: \$4.0 million).

(c) Convertible Notes - equity component

	2014	2013
	\$	\$
Convertible Notes (equity component)	595,640	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 complex 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 remains in equity in accordance with Accounting Standard AASB 132.

(d) Share-Based Payments

In 2014 no shares were issued in consideration for services rendered to the company by suppliers. During the 2014 financial year 69,800 performance rights with a fair value of \$20,242 were issued to employees. 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. During the 2013 year share were issued with a fair value of \$38,559. The fair value of shares issued was determined by reference to the market price of the company's shares at the date the transaction occurred.

Notes to the Financial Statements

for the year ended 30 June 2014

	2014	2013
	\$	\$
12. RESERVES		
Share Options reserve	3,256,643	3,009,584
Total	3,256,643	3,009,584

Movements in Reserves:

Share Option reserve

Balance at beginning of year	3,009,584	2,669,542
Share based compensation	247,059	340,042
Balance at end of year	3,256,643	3,009,584

The Options reserve records items recognised as an expense on payment of share-based consideration. Included under employee benefits expense in the statement of comprehensive income is \$247,059 which relates to equity-settled share-based payment transactions (2013: \$340,042).

13. SEGMENT INFORMATION

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

	2014	2013
	\$	\$
14. CAPITAL AND LEASING COMMITMENTS		
Operating Lease Commitments		
Non-cancellable operating lease contracted for but not capitalised in the financial statements payable		
- not later than 12 months	33,087	50,320
- later than 12 months but not later than 5 years	-	33,087
	33,087	83,407

The Operating lease commitments relate to the lease of the office facilities which will expire in February 2015 with an option to renew for a further 1 year. 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 2014

15. CASH FLOW INFORMATION

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

	2014	2013
	\$	\$
Net Cash Inflow/(Outflow) from Operating Activities	(5,486,038)	(3,934,332)
<i>Non-Cash items in Total Comprehensive Income:</i>		
Depreciation	(27,967)	(22,020)
Amortisation	(390,312)	(390,312)
Loss on disposal of assets	-	(512)
Option Based Compensation	(247,059)	(340,042)
Unrealised currency gain/(loss)	(429,477)	-
Consultants fee – non cash	-	(38,559)
<i>Changes in Assets and liabilities:</i>		
(Decrease)/increase in Security Deposits	2,153	36,749
(Decrease)/increase in Trade and Other Receivables	581,970	1,048,101
(Increase)/decrease in Accounts Payable	468,101	(488,802)
Loss from ordinary activities after Income Tax	(5,528,629)	(4,129,729)

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

16. 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 2014 (2013 – 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.

Notes to the Financial Statements

for the year ended 30 June 2014

16. FINANCIAL INSTRUMENTS continued

a. Financial Risk Management Policies (continued)

- 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.
- 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 2014 (2013 - 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 2014 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\$8.3 million at 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:** The maximum exposure to credit risk at balance date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the Statement of Financial Position and notes to the financial statements. There are no material amounts of collateral held as security at 30 June 2014 (2013 – nil). Credit risk is managed and reviewed regularly by the directors. The Company does not have any material credit risk exposure to any single receivable or company of receivables under financial instruments entered into by the Company.
- vii. **Price risk:** The Company is not exposed to any material commodity price risk.

Notes to the Financial Statements

for the year ended 30 June 2014

16. FINANCIAL INSTRUMENTS continued

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. As such, the amounts may not reconcile to the Statement of Financial Position.

	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	%	\$	\$	\$	\$	\$
2014						
Cash and cash equivalents	2.31	736,474	23,260,670	-	338,551	24,335,695
Receivables	0.06	-	51,153	-	2,648,713	2,699,866
		736,474	23,311,823	-	2,987,264	27,035,561
2013						
Cash and cash equivalents	3.75	523,517	4,514,521	-	40,821	5,078,859
Receivables	0.09	-	49,000	-	2,001,322	2,050,322
		523,517	4,563,521	-	2,042,143	7,129,181
Financial Liabilities						
2014						
At amortised cost:						
Trade and sundry payables	-	-	-	-	766,785	766,785
		-	-	-	766,785	766,785
2013						
At amortised cost:						
Trade and sundry payables	-	-	-	-	1,234,886	1,234,886
		-	-	-	1,234,886	1,234,886

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

Notes to the Financial Statements

for the year ended 30 June 2014

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.

		2014	2013
		\$	\$
Increase or decrease in interest rate by 1% - Change in profit and equity	+/-	243,605	51,279
Increase or decrease in USD/AUD foreign exchange rate by 5 cents - Change in profit and equity	+/-	409,048	36,163

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 2013.

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 note 11. The company has no debt or borrowings at reporting date (2013: 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 2014

17. CONTINGENT ASSETS AND LIABILITIES

Contingent Liability

Viralytics Ltd, guarantees the performance of the obligations of InJet Digital Aerosols Limited (refer to Note 8) in the license agreement between Canon Inc. and InJet Digital Aerosols Limited. The guarantee relates to an initial amount of \$1 million and other non-specified amounts.

InJet Digital Aerosols Limited advised its shareholders on 31 May 2010 that in 2009 Canon Inc. had placed on hold the project for the development of an inhalation device using the licensed InJet technology. The most recent Annual Report released by InJet was for the year ending 30 June 2012 released on 29 November 2012. In that report InJet advised that, despite several approaches, Canon had still not formally terminated the project. The directors of Viralytics are not aware of any change to this circumstance. No legal advice has been sought as to the effect on the guarantee of the 2009 decision, but the action by Canon Inc. would appear to limit any potential claim they could make if they were to invoke the guarantee.

At the date of this report there are no other known contingent liabilities.

18. 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.

19. 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 2014

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 32 to 60 of the Company's Annual Report are in accordance with the *Corporations Act 2001* and:
 - (a) comply with Australian Accounting Standards, which, as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Reporting Standards (IFRS); and
 - (b) give a true and fair view of the financial position as at 30 June 2014 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.

Paul Hopper
Chairman
26 August 2014

Independent Auditor's Report

To The Members of Viralytics Ltd

for the year ended 30 June 2014



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 2014 and the statement of profit and loss and other comprehensive income, statement of changes in equity, 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.

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* and for such internal control as the directors determine is necessary to enable the presentation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state in accordance with Accounting Standard AASB 101: Presentation of Financial Statements that the financial statements comply with International Financial Reporting Standards (IFRS).

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 that we 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 judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report 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 entity'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 evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditor's Report
To The Members of Viralytics Ltd
for the year ended 30 June 2014



Independence

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

Opinion on the Financial Report

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 2014 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 Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 21 of the directors' report for the year ended 30 June 2014. 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.

Opinion on the Remuneration Report

In our opinion the Remuneration Report of Viralytics Limited for the year ended 30 June 2014, complies with section 300A of the *Corporations Act 2001*.

Bentleys
Brisbane Partnership
Chartered Accountants
26 August 2014

Stewart Douglas
Partner

Brisbane