VIRALYTICS LTD

ABN 12 010 657 351

APPENDIX 4E

Preliminary Final Report

Year ended 30 June 2011 (current period)
and the year ended 30 June 2010 (previous corresponding period)

Results for announcement to the market

			$A'000
Revenue from ordinary activities	Up 2593%	to	1,662
(Loss) from ordinary activities after tax attributable to members	Down 44%	to	(2,701)
(Loss) for the period attributable to members	Down 44%	to	(2,701)

	Current Period	Previous Corresponding Period
Net tangible asset backing per ordinary security	0.9 cents	0.9 cents
Basic (Loss) cents per share	(0.5 cents)	(1.3 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

Financial Report for the Year Ended 30 June 2011

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Corporate Information

Directors

Mr Paul Hopper	Non-Executive Chairman
Dr Phillip Altman	Non-Executive Director
Mr Peter Molloy	Non-Executive Director
Mr Bryan Dulhunty	Managing Director

Company Secretary

Ms Jennie Yuen

Principal Place of Business

Level 2
55-63 Grandview Street
Pymble NSW 2073

Registered Office

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Level 11, 66 Eagle Street
Brisbane, QLD 4001

Auditors

Bentleys, Chartered Accountants
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Share Registry & Register

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Directors' Report
for the year ended 30 June 2011

Your Directors present their report on the Company for the financial year ended 30 June 2011.

DIRECTORS

The names of the directors in office at the date of this report:

Mr Paul Hopper	Non-Executive Chairman
Dr Phillip Altman	Non-Executive Director
Mr Peter Molloy	Non-Executive Director
Mr Bryan Dulhunty	Managing Director

COMPANY SECRETARY

Ms Jennie Yuen

PRINCIPAL ACTIVITIES

The principal activities of the Company during the financial year were the clinical advancement of its lead product CAVATAK™ and pre-clincial development of its portfolio of Oncolytic viruses.

The Company achieved its prime goal of the successful lodgement of its Investigational New Drug (IND) application for its Phase II melanoma trial allowed by the US Food and Drug Administration (FDA). This was a significant development milestone for the Company. The allowance of this trial capped two years of intensive work in preparation of the IND application.

The planned USA trial using **CA**VATAK™ in **L**ate Stage **M**elanoma patients (CALM study) will test the efficacy (therapeutic effectiveness) of Viralytics' lead Investigational Drug for cancer: CAVATAK™.

OPERATING RESULT

The operating loss for the year was $2.7 million (2010: $4.8 million).

While operating activities remained constant with the prior year the reduction in loss was primarily due to the receipt of a Research and Development tax concession relating to the year ended 30 June 2010 ($700k) and a taking up of a receivable of ($705k) relating to a similar tax concession for the year ended 30 June 2011.

CASH MANAGEMENT

Cash on hand as at 30 June 2011 was $5 million (30 June 2010 - $5.1m)

The company's Research and Development program spending of $3.9 million (2010: $3.6 million) was funded by the drawdown of $2.5 million under a convertible note facility, the receipt of $0.7m from a Research and Development tax refund from the Australian Taxation Office, placement of shares of $0.5m and interest received of $0.2m.

As of 30 June 2011, the company had drawn down US$5.9 million under the original US$6 million convertible note facility with La Jolla Cove Investor Inc., US$351k of the total amount drawn down has not yet been converted to shares or repaid. Subsequent to year end the final $US100k of this facility was drawdown.

STATEMENT OF FINANCIAL POSITION

The Company's financial position continued to be strengthened from prior years:

- Cash on hand as at 30 June 2011 of $5 million compared to prior year $5.1 million
- Net assets increased by $0.5 million to $9.1 million (2010 $8.6 million).
- Net tangible assets increased by $0.9 million to $5.5 million (2010 $4.6 million)

REVIEW OF OPERATIONS

The 12 months ended 30 June 2011 was a very successful year for the Company.

In June 2011 the Company was successful in having its IND for the use of CAVATAK™ allowed by the US FDA. This project had been the Company's core focus for the past 2 years.

The planned USA trial using **CA**VATAK™ in **L**ate Stage **M**elanoma patients (CALM study) will test the efficacy (therapeutic effectiveness) and safety of Viralytics' lead drug candidate for cancer: CAVATAK™.

Supporting operational activities and achievements during the past year were:

- Production of the first bulk batch of clinical grade CAVATAK™ by an international US-based contractor. Clinical grade CAVATAK™ is required to conduct Phase II international trials;
- Continuation of two other Phase I trials;
- Continued development of pre-clinical work in new cancer indications; and
- Development and advancement of the Company's Intellectual Property Portfolio.

CLINICAL TRIALS

The Company is investigating two separate methods of delivery of its lead oncolytic virus, CAVATAK™ - intratumoural (direct injection into tumour) and intravenous infusion delivery.

The Company has progressed to Phase II evaluation of its intratumoural clinical studies and aims to shortly progress to Phase II trials employing multiple intravenous infusions.

Details of the clinical trials that the Company have on-going and planned for the near future are listed below

Phase II Melanoma trial (CALM STUDY)

Having received US FDA allowance of this trial in June 2011 the Company is now completing initial logistics planning and site implementation of the study.

An international Clinical Research Organisation has been contracted to manage the operational aspects of the trial. Experienced clinicians in virotherapy and melanoma research have agreed to be Chief Investigators in the study at several US hospitals and Cancer Institutes. CALM study submissions have commenced to gain Ethics Committee approval to conduct the trial within the selected clinical sites. Patient recruitment will commence directly following Ethics Committee approval.

The trial will be open to patients with stage IIIc/IV melanoma.

The CALM study is expected to enrol 54 patients, with each patient receiving up to 10 injections of CAVATAK™ on each of 10 scheduled visits over a six month period.

The decision to move ahead with a Phase II trial was made following the successful completion of a Phase I Melanoma intratumoral trial. The Phase I trial was designed to assess the tolerability of two doses of CAVATAK™ when injected directly into a single tumour. The trial met its primary objective with the treatment being well tolerated and no patients exhibiting any product-related serious adverse effects.

In addition to assessing tolerance of CAVATAK™ in humans, a secondary objective of the trial was to look for any signs of clinical benefit, both with respect to the injected tumours and any distant tumours in the body following CAVATAK™ treatment. In this trial, the injected tumours of 33% of patients displayed a reduction in size, and the volume of injected tumours of a further 22% of patients remained stable. In addition, measurement of distant tumours in patients showed that the overall disease burden was stabilised in two of the patients. All patients in the trial presented with late stage disease and previously had failed or refused standard therapies.

The study conclusions supported the further clinical evaluation of CAVATAK™ in a Phase II trial setting, where repeated dosing over an extended period of time and more extensive measurements of disease burden will be used to establish the efficacy and tolerance of CAVATAK™ in treating patients with melanoma.

Phase I Head and Neck IT trial – This Phase I trial is also employs intratumoural (IT) administration of CAVATAK™. The study aims to treat a total of 9 patients (3 groups of three patients with each group receiving an increasing number of injections). The treatment of the first group of three patients has been completed. The Company has four hospitals in Australia recruiting the remaining patients for this trial.

Phase I Breast, Prostate and Melanoma Intravenous trial – In parallel with the ongoing Phase I IT Head and Neck cancer trial, the Company is also conducting an intravenous (IV) infusion trial in a range of cancers to assess the tolerance of CAVATAK™ when administered at escalating doses directly into the bloodstream rather than direct injection into the tumour. Thus far, seven patients have been treated in the trial with a further two patients still to be recruited to complete the study.

The IV route of delivery is commercially important as the range of cancers that can be targeted is greater than simply using the IT route of administration. Therefore, CAVATAK™ becomes potentially more attractive to pharmaceutical partners.

MANUFACTURING

The production of the Company's first batch of clinical grade CAVATAK™ was completed at an independent US-based specialist facility during the year .

PRE-CLINICAL DEVELOPMENT

Research work continues in the use of CAVATAK™ for cancer indications other than melanoma such as pancreatic and lung cancers. These additional indications, if validated, are expected to add considerable value to the CAVATAK™ product for potential future commercialisation partners.

INTELLECTUAL PROPERTY

While a number of patents were granted in minor international jurisdictions, many ongoing patent applications continue through the examination process of different countries throughout the world.

Research and development activities are under constant review to potentially enable additional patent applications to be lodged, which if successful might extend the existing patent life of CAVATAK™ and our other intellectual property relating to oncolytic viruses.

In previous periods the Company has received broad patent protection in Europe and USA for CAVATAK™ and in the USA for its echovirus product, EVATAK™.

INVESTMENTS

InJet Digital Aerosols Limited (IDAL) - Viralytics owns 44.5% of the outstanding capital of IDAL, a public, unlisted company with ownership of certain aerosol technology which is protected by patents. IDAL has previously licensed its patent portfolio to Canon Inc for the purposes of commercialisation of the technology. The Company is required to equity account for its investment in IDAL and carries the investment at nil value. For further information please refer to the IDAL website: www.injet.com.au.

MANAGEMENT

The Company has a well established senior management team headed by

- Mr Bryan Dulhunty – Chief Executive Officer and Managing Director
  Responsibilities - Corporate, finance and strategy of the Company.
- Professor Darren Shafren – Chief Science Officer and inventor of the technology. Responsibilities - development of the science, intellectual property and clinical development.

Directors' Report

for the year ended 30 June 2011

This senior management team is then supported by an external group of strategic specialists in fields such as medical, clinical development and manufacturing as well as a group of experienced full time staff with specialty experience in the various areas required to advance a cancer drug candidate to market.

This full-time team is overseen by a highly experienced Board that meets at least once per month:

- Mr Paul Hopper (Chairman) who is experienced in running biotechnology companies and fund raising;
- Mr Peter Molloy (non executive director) who was previously the Managing Director of Biota Holdings Limited;
- Dr Phillip Altman (non executive director) who previously managed his own clinical trials company.

The Managing Director, Mr Bryan Dulhunty is also a member of the Board. Further information regarding the skills and experience of the Directors is set out on pages 7 - 9 of this report.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

All significant changes in the state of affairs of the Company which occurred during the financial year are discussed in the Review of Operations section above.

LIKELY DEVELOPMENTS AND LIKELY RESULTS

The Company's strategic plan entails taking CAVATAK™ to the important milestone of a successfully completed Phase II clinical study and then partnering CAVATAK™ to one of the major international pharmaceutical companies in order to generate licensing income for Viralytics and vital third party commercial endorsement of the value of CAVATAK™ and, in turn, Viralytics. In the meantime, the Company intends to add value to CAVATAK™ by strengthening its intellectual property and patent base, and by bringing additional indications to early proof of concept, so that prospective partners could conduct a broader range of clinical trials in the future and thereby broaden the commercial potential of CAVATAK™.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On the 2nd August 2011 shareholders approved a share consolidation reducing shares on issue by a factor of ten. This meant that for each ten shares held the shareholding would be reduced to 1 share. This resolution of shareholders was implemented on the 16th August 2011.

Other than this 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 the laws of the Commonwealth and State.

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.

SHARE CAPITAL AND OTHER EQUITY SECURITIES

All changes to the capital structure, including options during the year are set out in Note 14 – Issued Capital.

CORPORATE STRUCTURE

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

MEETINGS OF DIRECTORS

During the financial year, 12 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)	12	12
Mr Bryan Dulhunty (Managing Director)	12	12
Dr Phillip Altman	12	11
Mr Peter Molloy	12	12

There are no sub-committees of the Board.

DIRECTORS' QUALIFICATIONS AND EXPERIENCE

Details of the Company's 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 including anti-bacterials, medical devices, antibodies, inflammation and oncology, with a particular emphasis on cancer vaccines. Mr Hopper is also a Director of Boston based pSivida Corp a drug delivery company which has completed Phase III trials for ophthalmology, Somnomed Limited (ASX:SOM) which globally manufactures and markets a dental device for sleep disorders and iSonea which manufactures and markets respiratory devices with a focus on asthma. Paul is Head of the Australia Desk and Head of the Life Sciences and Biotechnology practice at the Los Angeles merchant bank Cappello Capital where he is a partner. He also serves as a Director of the American Australian Association and is a member of the Queensland North America Biotechnology Advisory Council.

Mr Hopper has served on the boards of many listed biotechnology and healthcare companies including as Executive Chairman of Bone Medical Limited, Director of Advanced Biotherapy Inc, Managing Director of Australian Cancer Technology Limited, and Director of Medaire Ltd. He was the co-founder and Managing Director of Alpha Healthcare Limited. He is based in Los Angeles.

Mr Bryan Dulhunty BEc CA – Managing Director

Mr Dulhunty background is primarily financial and managing long term capital intensive development projects. Initial experience was gained with one of the big four audit firms before moving to one of the world's largest international companies.

Mr Dulhunty became involved in the biotechnology industry in the mid 1990's and shortly thereafter established his own financial management and financial assurance company focusing on biotechnology companies, both listed and unlisted.

Mr Dulhunty has been on the board of a number of listed and unlisted biotechnology companies but has focused his activities on Viralytics since 2006.

Dr Phillip Altman B.Sc (Hons) M.Sc Ph.D – Non-Executive Director

Dr Altman is a well known Australian authority on clinical trials and regulatory affairs with more than 30 years experience in clinical research and regulatory affairs. He is a graduate of Sydney University with an Honours degree in Pharmacy, Master of Science and Doctor of Philosophy (pharmacology and pharmaceutical chemistry) degrees. Dr Altman also co-founded and is a Life Member of the largest professional body of pharmaceutical industry scientists involved in clinical research and regulatory affairs (Association of Regulatory and Clinical Scientists to the Australian Pharmaceutical Industry Ltd – ARCS).

In addition to working in senior management positions for several 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 where he served as a Senior Industry Consultant and he continues to provide consultant support for a range of companies.

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 Pharmaceuticals and Synthesis Med Chem USA Inc.

Previously, Mr Molloy was the Managing Director and CEO of ASX-listed Biota Holdings Limited (2002-2005), Australia's premier antiviral drug development company. His previous executive roles in the biotechnology sector included President and CEO of SLIL Biomedical Corp, a Madison Wisconsin based cancer and viral research company; managing director and CEO of Florigene Limited, a Melbourne based biotechnology company focused on genetic modification of plants; and President of Moleculon Inc, a Boston based transdermal drug delivery company.

Mr Molloy has lived and worked in the US for more than 13 years. In addition to this valuable US perspective, he brings considerable big pharmaceutical company experience. He worked as a pharmaceutical marketing executive for 17 years (1979-1996) with his last role as Vice President of Strategic Marketing for Pharmacia. Pharmacia at the time was one of the top 20 global pharmaceutical companies (now part of Pfizer). Over the years Mr Molloy has been involved in the licensing, clinical development and launch of many new pharmaceutical products in Australia. At Pharmacia he was responsible for evaluating new drug candidates and coordinating the launch and marketing strategy for more than 50 pharmaceuticals across 23 countries.

Mr Molloy is a fellow of the Australian Institute of Company Directors and has served on several Australian and US boards, both as managing director and non executive director, including as chairman of two international businesses. He has been a consultant to several Australian and US companies and a guest speaker on licensing and business development at industry meetings including BIO, the Australian Biotech Summit and the Ausbiotech National Conference. He holds a BSc in Microbiology and Biochemistry from the University of Melbourne and an MBA from the University of Adelaide.

COMPANY SECRETARY QUALIFICATIONS AND EXPERIENCE

Ms Jennie Yuen BCom LLB Grad Dip Corp Gov

Jennie Yuen has over eleven years of experience in a variety of roles as a commercial/corporate lawyer and company secretary. Ms Yuen holds a Bachelor of Commerce, a Bachelor of Laws and a Graduate Diploma in Corporate Governance and is admitted as a solicitor of the Supreme Court of NSW.

Ms Yuen currently works for Company Matters Pty Limited which is a specialist company secretarial and governance service provider engaged by Viralytics Limited. Previously, Ms Yuen was a commercial/corporate lawyer at Holding Redlich Lawyers. Ms Yuen also serves as Company Secretary of National Leisure & Gaming Limited, Bremer Park Limited and Analytica Limited

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.

Remuneration Policy

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

Directors: The directors of Viralytics Ltd 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
- Mr Bryan Dulhunty — Managing Director appointed 10 April 2006

Director Remuneration

The nature and scale of the Company's research, development and commercialisation activities demands that it has access to a wide range of highly specialised skills as and when needed. It is not feasible to employ all required skills on a full time basis. Accordingly, the structure of the Company has been designed to address these varying needs by retaining a small group of senior executives and calling upon the specialists as and when required.

This structure results in a Board where all Directors are called upon to contribute to a far greater extent than would normally be required of a general small independent Board. The Directors' remuneration structure is set out below.

Details of Director's Remuneration for the year ended 30 June 2011:

	Short-Term Benefits		Post Employment	Share-based Payment	Total
	Directors fees and Salary	Bonus	Super-annuation	Options	
Directors	$	$	$	$	$
Mr P Hopper	75,000	-	6,750	17,030	98,780
Mr B Dulhunty	275,000	30,000	24,750	595	330,345
Dr P Altman	50,000	-	4,500	-	54,500
Mr P Molloy	50,000	-	4,500	17,030	71,530
Total	**450,000**	**30,000**	**40,500**	**34,655**	**555,155**

Directors' Report

for the year ended 30 June 2011

Details of Director's compensation for the year ended 30 June 2010:

	Short-Term Benefits		Post Employment	Share-based Payment	Total
Directors	Directors fees and Salary $	Bonus $	Super-annuation $	Options $	$
Mr P Hopper	75,000	-	6,750	38,918	120,668
Mr B Dulhunty	242,500	-	21,825	2,258	266,583
Dr P Altman (i)	50,000	-	4,500	-	54,500
Mr P Molloy	50,000	-	4,500	38,918	93,418
Total	**417,500**	**-**	**37,575**	**80,094**	**535,169**

Company Executives

During the year ended 30 June 2011, Stephen Goodall was employed as non director senior management officer. Associate Professor Darren Shafren was holding tenure with the University of Newcastle while on full time secondment to Viralytics as its Chief Scientific Officer. Remuneration for both executives is set out below:

Details of Executives Remuneration for the year ended 30 June 2011:

	Short-Term Benefits		**Post Employ-ment**	**Share-based Payment**	**Total**
Senior Executive	Salary $	Consulting $	Super-annuation $	Options $	$
Prof Darren Shafren (a)	122,525	121,524	22,055	-	266,104
Mr Stephen Goodall	220,000	-	19,800	-	239,800
	342,525	**121,524**	**41,855**	**-**	**505,904**

Details of Executives Remuneration for the year ended 30 June 2010:

	Short-Term Benefits		**Post Employ-ment**	**Share-based Payment**	**Total**
Senior Executive	Salary $	Consulting $	Super-annuation $	Options $	$
Prof Darren Shafren (a)	117,922	100,233	18,867	-	237,022
Mr Stephen Goodall	184,605	-	51,614	-	236,219
	302,527	**100,233**	**70,481**	**-**	**473,241**

(a) Professor Shafren is paid a standard Associate Professors salary of $122,525 plus superannuation of $22,055 by the University of Newcastle. Viralytics pays Newcastle Innovation, the commercial arm of the University of Newcastle $211,525. Of this Newcastle Innovation pays Professor Shafren $121,524.

Options Issued as Remuneration to directors and key management:

The option table below covers the 12 month period ended 30 June 2011

Director Key Management Person	Number Granted	Consolidation Adjustment	Post consolidation Number granted	Value of options granted (iii) $	% of remuneration during the year	Exercise price $	Expiry date
2011 (i)							
Mr Bryan Dulhunty	2,000,000	(1,800,000)	200,000	-	0%	$0.50	22 Dec 2015
2010 (ii)							
Mr Bryan Dulhunty	2,000,000	(1,800,000)	200,000	2,852	1%	$0.46	24 Nov 2012
Prof. Darren Shafren	4,000,000	(3,600,000)	400,000	-	0%	$0.65	30 Jun 2015

(i) At the Annual General Meeting held on 24 November 2010, shareholders approved the issue of 2,000,000 options to Mr Bryan Dulhunty. The options vest upon achieving four specified milestones. All options expire on the earlier of 22 December 2015 or cessation of full time employment by the Company.
(ii) On 30 June 2010, the Company granted to Ass. Prof. Darren Shafren 4,000,000 options. The options expire on 30 June 2015. The options vest upon achieving specified operational milestones consistent with the Company's strategy.
(iii) The options have been valued using Australian Taxation Office (ATO) valuation tables (which are similar to the Black-Scholes methodology). This valuation is a function of the current value of the underlying shares that are the subject of the option, the exercise price of the option, and the exercise period. Accounting standards require the valuation of options to reflect an estimation of the likelihood of those options meeting vesting requirements. This valuation assumes that all vesting conditions will be met. The valuation tables make certain other assumptions including the volatility of the underlying share price; the risk free interest rate, expected dividends on the underlying share; current market price of the underlying share; and the expected life of the option.

During the year ended 30 June 2011 no current or former director converted options into shares

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	Consolidation adjustment	Closing Balance
DFCT Pty Ltd (i)	1,187,500	1,187,500	-		-
Bush Turkey Investments Pty Ltd (i)	-	-	1,187,500	(1,068,750)	118,750
Paul Hopper	-	-	50,000	(45,000)	5,000

(b) Non-Listed Option Holdings	Opening Balance	Issued during year	Consolidation adjustment	Closing Balance	Term (ii)	Expiry Date	Ex. Price
Mr Bryan Dulhunty	-	2,000,000	(1,800,000)	200,000	a	22 Dec 15	$0.50
Mr Bryan Dulhunty	2,000,000	-	(1,800,000)	200,000		24 Nov 12	$0.46
Dr Phillip Altman	250,000	-	(225,000)	25,000		26 Nov 12	$2.00
Dr Phillip Altman	250,000	-	(225,000)	25,000		26 Nov 12	$2.50
Dr Phillip Altman	250,000	-	(225,000)	25,000		26 Nov 12	$3.00
Mr Paul Hopper	1,000,000	-	(900,000)	100,000		18 Nov 13	$0.75
Mr Paul Hopper	1,000,000	-	(900,000)	100,000		18 Nov 13	$0.75
Mr Paul Hopper	1,000,000	-	(900,000)	100,000	b	18 Nov 13	$0.75
Mr Peter Molloy	1,000,000	-	(900,000)	100,000		18 Nov 13	$0.75
Mr Peter Molloy	1,000,000	-	(900,000)	100,000		18 Nov 13	$0.75
Mr Peter Molloy	1,000,000	-	(900,000)	100,000	b	18 Nov 13	$0.75
DFCT Pty Ltd (i)	750,000	-	(675,000)	75,000		5 Dec 13	$3.00
DFCT Pty Ltd (i)	500,000	-	(450,000)	50,000	a	5 Dec 13	$3.50
DFCT Pty Ltd (i)	750,000	-	(675,000)	75,000	a	5 Dec 13	$4.00
Total	10,750,000	2,000,000	(11,475,000)	1,275,000			

(i) Entities associated with Mr. B Dulhunty.
(ii) All options have vested and are exercisable unless otherwise stated:
a) Vest on meeting of operational milestones. b) Vest if remains a director until 18 Nov 2011.

On the 2nd August 2011 shareholders approved the issue of additional options to directors.

(c) Non-Listed Option	Issued 2nd Aug 11	Closing Balance	Expiry Date	Exercise Price
Mr Paul Hopper	600,000	600,000	12 August 16	$0.70
Dr Phillip Altman	600,000	600,000	12 August 16	$0.70
Mr Peter Molloy	300,000	300,000	12 August 16	$0.70
Mr Bryan Dulhunty	800,000	800,000	12 August 16	$0.70

Options vest 1/3 per year for 3 years

On the 23rd August 2011, Altman Nominees Pty Limited ATF Altman Super Fund (Dr Phillip Altman is a beneficiary of the trust) acquired 10,000 ordinary shares at $0.43 per share on the market.

Directors' Report
for the year ended 30 June 2011

DIRECTORS' AND AUDITOR'S INDEMNIFICATION

The Company has Directors and Officers Liability Insurance. The policy indemnifies the Company for the wrongful act of a Director or Officer and reimburses the Company in respect of legal expenses incurred by Directors and Officers in the successful defence of actions.

NON-AUDIT SERVICES

Other compliance services were provided by Bentleys (Qld) Pty Ltd during the financial year. The fees were $6,000 (2010 - $4,290) 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; 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 for the following reasons:

  (i) all non-audit services are reviewed and approved by the Managing Director 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 2011 has been received and can be found on page 19.

Signed in accordance with a resolution of the Directors

Bryan Dulhunty
Managing Director
Dated: 26th August 2011

Corporate Governance Statement

for the year ended 30 June 2011

Viralytics is committed to implementing the highest possible standards of corporate governance. In determining what those high standards should involve, Viralytics has turned to the ASX Corporate Governance Council's *Corporate Governance Principles and Recommendations* (ASX Principles) and has a corporate governance framework that reflects those recommendations within the structure of the Company.

The Board of Viralytics has established a series of policies and charters in line with the ASX Principles. The Company's policies and charters together form the basis of the Company's governance framework.

Within this framework:

- the Board of Directors is accountable to shareholders for the performance of the Company;
- the Company's goals to achieve milestones are set and promulgated;
- the risks of the business are identified and managed; and
- the Company's established values and principles underpin the way in which it undertakes its operations.

The Company has in place an entrenched, well developed governance culture which has its foundations in the ethical values that the Board, management and staff bring to the Company and their commitment to positioning the Company as a leader in its field.

In certain instances, due to the size and stage of development of Viralytics and its operations, it may not be practicable or necessary to implement the ASX Principles in their entirety. In these instances Viralytics has identified the areas of divergence.

In accordance with its Shareholder Communications Policy, Viralytics will make its corporate governance policies and charters publicly available on its website (www.viralytics.com) in the near future.

1. Lay solid foundations for management and oversight

The Company has established the functions reserved to the Board and those delegated to senior executives.

The Board of Directors of Viralytics has the primary responsibility for guiding and monitoring the business and affairs of Viralytics including compliance with Viralytics' corporate governance objectives and for 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.

In carrying out its governance role, the main task of the Board is to oversee the performance of Viralytics. The Board is committed to Viralytics' compliance with all of its contractual, statutory, ethical and any other legal obligations, including the requirements of any regulatory body.

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 annually assess the performance of the Managing Director and the Board as a whole undertake an annual assessment of the performance of all other senior executives. During the year the performance of the Managing Director and senior executives were assessed, areas for improvement were identified and strategies adopted to implement improvements.

2. Structure the board to add value

The Board is comprised of four Directors, including Bryan Dulhunty the Managing Director. Peter Molloy, Phillip Altman and the Chairman, Paul Hopper, are non-executive and considered independent by the Board. The Board considers that it is the approach and attitude of each non-executive Director which is critical in determining independence and this must be considered together with other relevant factors including those set out in the ASX Principles. The factors considered by the Board in assessing independence, including materiality thresholds, are included in the Board Charter which 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 Chairman, Paul Hopper, is an independent Non-Executive Director and there is a clear division of responsibility between the Chairman and the Managing Director.

Due to the Board size and structure, the Company has not established Nomination, Remuneration or Audit Committees. The Directors believe performance of these sub-committees duties are more effectively dealt with by the Board at present.

The Board has considered and believes that there is currently an appropriate mix of skills, diversity and experience on the Board. As set out in the Board Charter, in selecting new directors, the Board will ensure that the 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 has recently undertaken a review assessing the performance of the Board as a whole. The Board's performance was measured against both qualitative and quantitative indicators. The objective of this evaluation was to identify strengths and weaknesses and provide best practice corporate governance to Viralytics. No individual performance reviews were undertaken during the period.

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

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 an established a formal 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, contactors, 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 are observed. Employees are required to comply with the Code, Viralytics policies and all applicable laws and report any genuine suspicions of non-compliance. A copy of this Code is available on the Company's website.

Diversity
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 17 employees (including consultants to the Company). Of these 11 are female. Of the four executive roles within the Company one is carried out by a female. There are currently no female board members.

Securities Trading Policy
Viralytics has 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. A copy of this Policy is available on the Company's website.

3. Safeguard integrity in financial reporting

The Company has not established an audit committee as recommended by the ASX Principles as the Board believes that due to the small size of the Company this role is more effectively dealt with by the Board directly.

The Board discusses financial aspects of the Company directly with the auditors each half year and full year.

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

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 and internal control system to manage the Company's material business risks and report to the Board regarding the management of those risks. The Board has received a statement in writing from the Managing Director attesting to the effectiveness of the Company's management of its material business risks.

The Board has received assurance from the Managing Director 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.

7. Remunerate fairly and responsibly

The Company has not established a remuneration committee as recommended by the ASX Principles. The Board believes that due to the current development stage and size of the Company these matters are best handled by the Board itself.

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 Non-Executive Directors' 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 2011

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 2011 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

PM Power
Partner

25th August 2011
Brisbane

Viralytics Limited

Statement of Comprehensive Income

for the year ended 30 June 2011

	Note	2011 $	2010 $
Income			
Interest Income		256,329	44,291
R & D Tax Concession	2	1,405,503	-
Foreign Currency translation gains		-	17,416
Total Income		**1,661,832**	**61,707**
Expenses			
Research and development costs:			
Clinical trials		341,316	349,346
Research and development		1,376,028	1,412,394
Patents and related costs		151,881	157,235
Amortisation of intangibles		390,312	390,312
Depreciation		56,620	100,732
Loss on sale of assets – Investment in CBio Ltd	8	-	20,019
Employee costs		1,017,021	891,328
Corporate compliance costs		283,735	308,280
Administration costs		481,390	545,282
Change in present value of convertible note	12	81,669	466,678
Finance costs			
Interest paid		16,781	21,735
Commission on convertible note		158,658	202,736
Foreign currency translation loss		7,708	-
Total Expenses		**4,363,119**	**4,866,077**
(Loss) from ordinary activities before income tax		**(2,701,287)**	**(4,804,370)**
Income tax expense	3	-	-
Total (loss) for the year, net of tax		**(2,701,287)**	**(4,804,370)**
Other comprehensive income		-	-
Total comprehensive income for the year, net of tax		**(2,701,287)**	**(4,804,370)**
Basic (Loss) cents per share	4	(0.5)	(1.3)
Diluted (Loss) cents per share	4	(0.5)	(1.3)

The accompanying notes form part of these financial statements.

Statement of Financial Position

for the year ended 30 June 2011

	Note	2011 $	2010 $
Current Assets			
Cash and cash equivalents		5,004,659	5,125,521
Trade and Other Receivables	5 (a)	994,824	200,362
Inventories	6	365,194	137,127
Total Current Assets		**6,364,677**	**5,463,010**
Non-Current Assets			
Security Deposits	5 (b)	12,252	12,252
Plant and equipment	7	67,696	78,936
Financial assets	8	-	-
Investments	9	-	-
Intangible assets	10	3,595,024	3,985,336
Total Non-Current Assets		**3,674,972**	**4,076,524**
Total Assets		**10,039,649**	**9,539,534**
Current Liabilities			
Trade and other payables	11	664,055	612,342
Borrowings	12	317,134	311,967
Other Financial Liabilities	13	-	900
Total Current Liabilities		**981,189**	**925,209**
Total Liabilities		**981,189**	**925,209**
Net Assets		**9,058,460**	**8,614,325**
Equity			
Issued Shares	14	53,750,375	50,710,276
Convertible Notes - Equity Component	12, 14	593,815	523,147
Reserves	15	2,212,822	2,178,167
Accumulated Losses		(47,498,552)	(44,797,265)
		9,058,460	**8,614,325**

The accompanying notes form part of these financial statements.

Statement of Changes In Equity

for the year ended 30 June 2011

	Note	2011 $	2010 $
Issued Shares			
Balance at beginning of year		50,710,276	43,661,149
Issue of share capital		483,818	1,528,450
Conversion of Convertible Notes		2,555,000	3,288,399
Exercise of Options	14	12,151	2,401,463
Cost of capital raising		(10,870)	(169,185)
Balance at the end of year	14	**53,750,375**	**50,710,276**
Convertible Notes - Equity Component			
Balance at beginning of year		523,147	47,698
Draw Down – Equity Component		70,668	475,449
Balance at the end of the year	12, 14	**593,815**	**523,147**
Reserves			
Balance at beginning of year		2,178,167	1,176,231
Share Option Based Compensation		34,655	1,001,936
Balance at the end of year	15	**2,212,822**	**2,178,167**
Accumulated Losses			
Balance at beginning of year		(44,797,265)	(39,992,895)
Total Comprehensive Income		(2,701,287)	(4,804,370)
Balance at the end of the year		**(47,498,552)**	**(44,797,265)**

The accompanying notes form part of these financial statements.

Statement of Cash Flows

for the year ended 30 June 2011

	Note	2011	2010
		$	$
Cash Flows from Operating Activities			
R & D Tax Refund		699,716	-
Payments to suppliers and employees		(3,915,273)	(3,605,139)
Interest received		199,944	35,485
Interest paid		(15,802)	(21,730)
Net cash (used in) operating activities	18	**(3,031,415)**	**(3,591,384)**
Cash Flows from Investing Activities			
Proceeds from disposal of Investment in CBio Ltd	8	-	506,272
Decrease in Security Deposits		-	4,249
Purchase of equipment		(48,518)	(4,154)
Net cash (used in) investing activities		**(48,518)**	**506,367**
Cash Flows from Financing Activities			
Proceeds from issue of shares		483,818	1,518,450
Proceeds from issue of options		-	7,000
Proceeds from exercise of options		16,103	2,397,510
Draw down of convertible notes	12	2,633,177	3,365,073
Costs of fund raising		(174,027)	(388,646)
Net cash provided by financing activities		**2,959,071**	**6,899,387**
Net (decrease)/ increase in cash held		**(120,862)**	**3,814,370**
Cash at the beginning of the financial year		5,125,521	1,311,151
Closing cash at the end of the financial year		**5,004,659**	**5,125,521**

The accompanying notes form part of these financial statements

Notes to the Financial Statements

for the year ended 30 June 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 financial statements are prepared for Viralytics Ltd. - a listed public company, incorporated and domiciled in Australia. They comply with all International Financial Reporting Standards (IFRS) in their entirety.

The following is a summary of the material accounting policies adopted by Viralytics Ltd in the preparation of the financial statements. The accounting policies have been consistently applied unless otherwise stated.

Basis of Preparation

The accounting policies set out below have been consistently applied to all years presented.

Reporting Basis and Conventions

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.

Going Concern

The financial statements for the year ended 30 June 2011 are prepared on a going concern basis. Notwithstanding that the Company has a history of losses, the Company has access to cash on hand ($5 million at balance date) as well as the remaining US$100k of the convertible note facility maturing in June 2013. The Directors consider that the cash on hand provides the Company with access to sufficient funds to meet all of its foreseeable expenditure and debts as and when they fall due. If additional funding is needed, the Company may also be able to raise additional funds from the equity markets.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
b) Financial Instruments continued

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 recognized 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 (ie trade date accounting is adopted).

Financial assets are derecognised 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 derecognized where the related obligations are discharged, cancelled or expired.

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.

(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 changed in carrying value being included in profit and loss.

(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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
b) Financial Instruments continued

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 and 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 financial assets
Available-for-sale financial assets are non-derivative financial assets. 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 changed in such fair value (ie gains or losses) recognised in other comprehensive income (except for impairment losses and foreign exchange gains and losses). 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.
The fair values of investments that are actively traded in organised financial markets are determined by reference to quoted market bid prices at the close of business at year end. For investments with no active market, fair values are determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument that is substantially the same; discounted cash flow analysis and option pricing models making as much use of available and supportable market data as possible and keeping judgmental inputs to a minimum.
Available-for-sale financial assets are included in non-current assets where they are expected to be sold within 12 months after the end of the reporting period. All other financial assets are classified as current assets.

c) Impairment of Assets

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.

Notes to the Financial Statements

for the year ended 30 June 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

d) Inventories

The Company has manufactured a clinical grade batch of CAVATAK™ for the purposes of conducting Phase II clinical trials in future periods. The batch is not intended for sale to third parties. The batch is measured at the cost incurred at 30 June 2011. The amount will be expensed as the batches are consumed during trials.

e) Plant and Equipment

Each class of plant and equipment is carried at cost less accumulated depreciation and impairment losses.

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 revalued assets are sold, amounts included in the revaluation reserve relating to that asset are transferred to retained earnings.

f) 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 have 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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
f) Investments in Associates continued

and is not amortised. After application of the equity method, the Company determines whether it is necessary to recognise any impairment loss with respect to the Company's net investment in associates.

The Company's share of its associates' post-acquisition profits or losses is recognised in the 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.

g) Intangible Assets

Patents

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. 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.

h) 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 have been measured at the amounts that are expected to be paid when the liability is settled, plus related on-costs. Employee benefits payable later than one year have been measured at the present value of expected future cash outflows to be made for those benefits.

i) 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.

Notes to the Financial Statements

for the year ended 30 June 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

j) Revenue Recognition

Revenue from the sale of goods is recognised when goods are delivered to customers. Revenue from the rendering of a service is recognised upon the delivery of services. 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).

k) Research and Development Expenditure

Amounts incurred on research and development activities are expensed as incurred, except to the extent that such costs are expected beyond any reasonable doubt to be recoverable.

l) 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.

m) 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.
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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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.

p) Convertible notes

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the Statement of Financial Position, net of transaction costs.

On issuance of the convertible notes, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a long-term liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost.

The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years.

Interest on the liability component of the instruments is recognised as an expense in profit or loss. Transaction costs are apportioned between the liability and equity components of the convertible notes based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

q) Key estimates

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. Recoverable amounts of relevant assets are reassessed using value-in-use calculations which incorporate various key assumptions.

Notes to the Financial Statements

for the year ended 30 June 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

r) 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 have any material effect on its future financial statements

2. PROFIT/LOSS FOR THE YEAR

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

	2011	2010
	$	$
Other Income:		
R&D tax concession - 2011 R&D expenditures	705,787	-
R&D tax concession - 2010 R&D expenditures	699,716	-
	1,405,503	-
Expenses:		
Remuneration of the auditor of the entity		
auditing and reviewing the financial reports	30,700	29,200
other services	6,000	4,290
	36,700	33,490

3. INCOME TAX

The prima facie tax on the (loss) from ordinary activities before income tax is reconciled to the income tax as follows

	2011	2010
Prima facie tax payable on profit/(loss) from ordinary activities before income tax at 30% (2010 – 30%)	(810,386)	(1,441,311)
Add Tax effect of:		
- non- deductible Research and Development expense	564,630	-
- entertainment	2,388	7,300
- non-deductible amortization of intellectual property	117,094	117,094
Less Tax effect of:		
- R & D concession receivable	(211,736)	-
Future Income tax benefit (recognised)/ not recognised	338,010	1,316,917
Income tax benefit attributable to loss from ordinary activities before income tax	-	-

Franking Account balance is nil (2010: nil).

3. INCOME TAX continued

The Directors estimate the potential future income tax benefit not brought to account at 30 June 2011 in respect of tax losses from the Virotherapy project is approximately $23 million.

Additional carry forward tax losses dating back to 1986 and totalling $5.9 million are also potentially available to the Company. Less certainty exists as to whether these remain deductible, due to the tax office definition of continuity of same business test applied by the Australian Taxation Office. The benefit for tax losses will only be obtained if:

- 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;
- the Company continues to comply with the conditions for deductibility imposed by tax legislation; and
- no changes in tax legislation adversely affect the Company in realising the benefit from the deductions for the losses.

	2011	2010
	$	$
4. EARNINGS PER SHARE	**cents**	**cents**
Basic earnings (loss) cents per share	(0.5)	(1.3)
Diluted earnings (loss) cents per share	(0.5)	(1.3)
Income and share data used in the calculations of basic and diluted earnings per share		
Net Profit/(Loss)	(2,701,287)	(4,804,370)
	Number	**Number**
Weighted average number of ordinary shares on issue in the calculation of basic earnings per share	552,722,958	362,252,829
Effect of dilutive securities	-	-
Adjusted weighted average number of Ordinary shares and potential ordinary shares used in calculating diluted earnings per share (i)	552,722,958	362,252,829

(i) As at the balance date, there are 18,500,000 (2010 - 16,520,000) share options on issue and approximately 5,200,000 (2010 - 11,500,000) potential shares which may be issued upon conversion of outstanding Convertible Notes assuming a share price of 6.3 cents (2010 – 3.7 cents), giving a total potential shares which may be issued of 23,700,000 (2010: 28,020,000) . These potential ordinary shares have not been taken into account when calculating the diluted loss per share due to their anti-dilutive nature.

Notes to the Financial Statements
for the year ended 30 June 2011

		2011	2010
		$	$
5. TRADE AND OTHER RECEIVABLES			
a) Current			
Prepayments		136,259	122,456
Interest Receivable		65,191	8,806
R & D Tax concession Receivable	2	705,787	-
GST Receivable		86,797	63,320
Other		790	5,780
		994,824	**200,362**
b) Non-Current			
Security Deposit		**12,252**	**12,252**

6. INVENTORIES

Stock held for trials	**365,194**	**137,127**

The company has manufactured a clinical grade batch of CAVATAK™ for the purposes of conducting Phase II clinical trials in future periods. The batch is not intended for sale to third parties. The batch is measured at the cost incurred at 30 June 2011. The amount will be expensed as the batches are consumed during trials.

7. PLANT AND EQUIPMENT

Plant & Equipment – at Cost	879,459	845,518
Accumulated Depreciation	(811,763)	(766,582)
	67,696	**78,936**
Movements in Carrying Amounts		
Balance at beginning of period	78,936	176,023
Additions	46,512	3,708
Disposals at WDV	(1,132)	(63)
Depreciation expense	(56,620)	(100,732)
Balance at end of period	**67,696**	**78,936**

8. FINANCIAL ASSETS

On 15 February 2010 CBio Ltd (CBio) was listed on the Australian Securities Exchange. On 3 March 2010, in accordance with previously stated policy, the Company completed the divestment of its holding in CBio. Proceeds from the sale of the shares totalled $506,272 (42.2 cents per share). This resulted in a loss on sale of $20,019 after brokerage costs in the 2010 financial year.

Notes to the Financial Statements

for the year ended 30 June 2011

	2011	2010
	$	$
9. INVESTMENTS		
Accounted For Using The Equity Method		
InJet Digital Aerosols Ltd – Unlisted (IDAL)	-	-

IDAL is an unlisted Australian public company. Viralytics Ltd has an investment in IDAL of $630,000. This represents 44.5% of the issued capital of IDAL in 2010.

IDAL has a license agreement with Canon Inc of Japan. The agreement gives Canon worldwide exclusive rights to develop and commercialise the technology, for which IDAL has received an upfront payment and is entitled to royalties on future commercialisation of the product by Canon. Under the agreement, Canon is responsible for completing the development, clinical trialling and regulatory approval necessary to get the technology to market.

InJet Digital Aerosols Limited advised its shareholders on 31 May 2010 that in 2009 Canon had placed on hold the project for the development of an inhalation device using the licensed Inject technology.

Viralytics has recognised the losses attributable to the associate in prior years to the extent of this investment. The most recent financial statements released by IDAL was for the year ended 30 June 2010. The net assets were 39,098 negative. Consequently, the carrying value of the investment is nil (2010 – nil). Due to this, many of the disclosure requirements under AASB 128: Investments in Associates are not applicable. The unrecognised losses of IDAL, both for the period and cumulatively, are presented below. IDAL is incorporated in Australia. 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.

	2011	2010
	$	$
Unrecognised losses at beginning of year	(513,476)	(441,094)
Share of losses not taken up (not available)	-	(72,382)
Unrecognised losses at end of year	(513,476)	(513,476)

	2011	2010
10. INTANGIBLE ASSETS		
Intellectual Property-Virotherapy	8,605,532	8,605,532
Accumulated amortisation	(5,010,508)	(4,620,196)
	3,595,024	**3,985,336**

	2011	2010
	$	$
10. INTANGIBLE ASSETS continued		
Movements in carrying value		
Balance at beginning of year	3,985,336	4,375,648
Less: Accumulated amortisation	(390,312)	(390,312)
Balance at end of year	**3,595,024**	**3,985,336**

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 9 years remaining.

11. TRADE & OTHER PAYABLES

Current		
Trade payables	299,501	191,789
Sundry payables and accrued expenses	268,423	342,123
Employee entitlements	95,584	77,663
Interest payable	547	767
	664,055	**612,342**

12. BORROWINGS

Convertible Note – Debt portion	**317,134**	**311,967**

The Company entered into a convertible note facility with La Jolla Cove Investors, Inc. on 9 June 2008 to provide up to US$6 million in funding over 3 years. As at 30 June 2011, the Company had drawn down US$5,900,000 (2010 - US$3,250,000) under this facility.

The key terms of the convertible note facility are:

- The facility comprises up to four (4) US$1.5 million convertible notes, each with duration of 2 years from the first drawdown of the relevant convertible note.
- The notes bear interest payable to the holder at an interest rate of 4.75% (calculated on the outstanding principal amount).
- The notes must be repaid upon maturity unless converted to ordinary shares within the terms of the notes. The notes can be converted at the election of the holder (or upon default triggers) at the lesser of A$0.50 per share or an 18% discount to the value weighted average price calculated at conversion.

International and Australian accounting standards classify the convertible note as a 'complex financial instrument'. Consequently the convertible note is split into a debt and equity component based on the present value of its cash flows to the maturity date. The debt versus equity component was calculated using a 13% (2010 - 13%) discount factor.

		2011	2010
		$	$
12. BORROWINGS continued			
Movement in Convertible Note - Debt Portion			
Balance at beginning of year of debt portion		311,967	261,822
Cash received from draw downs		2,633,177	3,365,073
Converted to fully paid ordinary shares	Note 14	(2,555,000)	(3,288,399)
		390,144	338,496
Equity component of draw down		(70,667)	(475,449)
Change in present value of debt component		81,669	466,678
Foreign exchange (gain)/loss		(84,012)	(17,758)
Balance at end of year of debt portion		**317,134**	**311,967**

Reconciliation of Borrowings to Amount Repayable Under Convertible Note:

	2011	2010	2011	2010
	US$	US$	A$	A$
Convertible Note – Debt portion	340,570	265,889	317,134	311,967
Add: Equity portion	10,392	29,345	9,677	34,430
Convertible Note – amount repayable	**350,962**	**295,234**	**326,811**	**346,397**

	2011	2010
	$	$
13. OTHER LIABILITIES		
Ordinary share issue funds received	-	900
	-	**900**

14. ISSUED CAPITAL		2011 $	2010 $	2011 Number	2010 Number
Fully Paid Ordinary shares	(a)	53,750,375	50,710,276	590,362,227	508,011,574

On the 2nd August 2011 shareholders approved a 10 for 1 share consolidation. All shares and options quoted in this note refer to pre-consolidation share and option numbers.

Notes to the Financial Statements

for the year ended 30 June 2011

14. ISSUED CAPITAL		2011 $	2010 $	2011 Number	2010 Number
Equity instruments Convertible to Ordinary Shares:					
Convertible Notes (equity component)	(b)	593,815	523,147	4	3
Listed Options	(c)	-	-	-	-
Unlisted Options					
Employee	(d)	-	-	-	20,000
Other	(e)	-	-	18,500,000	16,500,000
		54,344,190	**51,233,423**		
(a) Fully Paid Ordinary shares					
Movements in Fully Paid Ordinary shares:					
Balance at beginning of year		50,710,276	43,661,149	508,011,574	302,138,460
Shares Issued during the year					
Share Placement (i)		483,818	1,528,450	12,095,448	28,813,934
Cost of fund raising		(10,870)	(169,185)	-	-
Exercise of Options		12,151	2,401,463	405,028	80,048,771
Conversion of Convertible Notes	Note 12	2,555,000	3,288,399	69,850,177	97,010,409
Balance at end of year		53,750,375	50,710,276	590,362,227	508,011,574

(i) **2011 Share Placements**:
- 08 Jul 2010 – 12,095,448 shares at 4 cents per share totalling $483,818

2010 Share Placement:
- 25 Mar 2010 - 28,650,000 shares at 5.3 cents per share totalling $1,518,400
- 17 Mar 2010 - 163,934 shares at 6.1 cents per share totalling $10,000

Terms and conditions of ordinary shares

Ordinary shares 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.

(b) Convertible Notes (equity component)

As at the balance date, there are approximately 5,200,000 (2010 - 11,500,000) potential shares which may be issued upon conversion of outstanding Convertible Notes, assuming a share price of 6.3 cents (2010 – 3.7 cents). Refer note 12 for further information.

14. ISSUED CAPITAL continued

(c) Listed Options

	2011 Number	2010 Number
Movements during the year:		
Balance at beginning of year	-	-
Issued	-	92,184,219
Exercised	-	(80,048,771)
Expired	-	(12,135,448)
Balance at end of year	-	-

Terms: Issue price 1 cent, exercise price 3 cents, expiry date 29 June 2010. ASX code: VLAO.

(d) Unlisted Options - Employee share scheme

Movements during the year:		
At the beginning of the reporting period	20,000	1,020,000
Options expired during the year	(20,000)	(1,000,000)
At the end of the reporting period	-	20,000

(e) Unlisted Options – Other (continued)

Movements during the year		
Number at the beginning of the period	16,500,000	17,550,000
Issued	2,000,000	6,000,000
Expired	-	(7,050,000)
Number at the end of the reporting period	**18,500,000**	**16,500,000**

Expiry Date	Opening Balance	Issued during Year	Expired during year	Closing Balance	Exercise Price
4 Apr 12	1,000,000	-	-	1,000,000	$0.40
24 Nov 12 (a)	1,000,000	-		1,000,000	$0.046
24 Nov 12 (a)	1,000,000	-		1,000,000	$0.046
26 Nov 12 (b)	250,000	-	-	250,000	$0.20
26 Nov 12 (b)	250,000	-	-	250,000	$0.25
26 Nov 12(b)	250,000	-	-	250,000	$0.30
18 March 13	250,000	-	-	250,000	$0.20
18 March 13	500,000	-	-	500,000	$0.30

Notes to the Financial Statements

for the year ended 30 June 2011

14. ISSUED CAPITAL continued

(e) Unlisted Options – Other (continued)

Expiry Date	Opening Balance	Issued during Year	Expired during year	Closing Balance	Exercise Price
18 Nov 13 (c)	6,000,000	-	-	6,000,000	$0.075
5 Dec 13	750,000	-	-	750,000	$0.30
5 Dec 13	500,000	-	-	500,000	$0.35
5 Dec 13	750,000	-	-	750,000	$0.40
30 Jun 15 (d)	4,000,000	-	-	4,000,000	$0.065
22 Dec 15(e)	-	2,000,000	-	2,000,000	$0.050
	16,500,000	**2,000,000**	**-**	**18,500,000**	

The following terms and conditions apply to all other 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;

The following terms and conditions apply to specific other unlisted options issued as indicated:

(a) At the Annual General Meeting held on 24 November 2009, shareholders granted to Mr Bryan Dulhunty 2,000,000 options. One half of these options vests on 24 November 2010. The other half vested immediately. All options have an expiry date of 24 November 2012 subject to Mr Dulhunty remaining in office until the vesting date.

(b) At the Annual General Meeting held on 27 November 2007, shareholders granted to Dr Phillip Altman, a Director of Viralytics Limited 750,000 options. One third of these options vests during the financial years ending 30 June 2009, 2010 and 2011 at exercise prices of 20 cents, 25 cents and 30 cents respectively per option. All options have an expiry date of 26 November 2012 subject to the director remaining in office until the vesting date;

(c) At the Annual General Meeting held on 24 November 2008, shareholders granted to Mr Paul Hopper and Mr Peter Molloy 3,000,000 options each with an exercise price of 7.5 cents. One third of these options vests on 18 November 2009, 2010 and 2011. All options have an expiry date of 18 November 2013 subject to those directors remaining in office until the vesting date;

(d) On 30 June 2010 the Company granted to Ass. Prof. Darren Shafren 4,000,000 options at an exercise price of 6.5 cents. The options expire on 30 June 2015. The options vest upon achieving specified milestones.

(e) At the Annual General Meeting held on 24 November 2010, shareholders approved to grant Mr Bryan Dulhunty 2,000,000 options with expiry date on earlier of 22 December 2015 or cessation of his full time employment by the Company. The options vest upon achieving four specified milestones and have an exercise price of 5 cents. One fourth of the options (500,000) vested in June 2011 due to the achievement of the first milestone.

14. ISSUED CAPITAL continued
(e) Unlisted Options – Other (continued)

If all unlisted options were exercised in accordance with their terms of issue, 18,500,000 shares would be issued (2010: 16,520,000) and Contributed Equity would increase by $2.4 million (2010: $2.3 million).

15. RESERVES	**2011** $	**2010** $
Share Options reserve	2,212,822	2,178,167
Total	**2,212,822**	**2,178,167**
Movements in Reserves:		
Share Option reserve		
Balance at beginning of year	2,178,167	1,176,231
Allotment of Listed Options (VLAO)		
Cash received 2009	-	914,842
Cash received 2010	-	7,000
Share based compensation	34,655	80,094
Balance at end of year	**2,212,822**	**2,178,167**

The Options reserve records items recognised as an expense on payment of share-based consideration.

16. SEGMENT INFORMATION

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

17. 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	45,948	48,996
- later than 12 months but not later than 5 years	26,803	65,328
	72,751	114,324

The Operating lease commitments relate to the lease of the office facilities, which have a currency of three years with an option to renew for a further 3 years. In addition to the rentals payable, the lessee is responsible for defined outgoings and the rent is subject to annual review.

18. CASH FLOW INFORMATION

	2011 $	2010 $
Reconciliation of Cash Flow from operations with loss from ordinary activities after income tax:		
Net Cash Inflow/(Outflow) from Operating Activities	(3,031,415)	(3,591,384)
Financing Cash flows expensed in statement of comprehensive income:		
Finance costs	(158,658)	(219,391)
Non Cash items in Total Comprehensive Income:		
Loss on disposal of investment	-	(20,019)
Depreciation	(56,620)	(100,732)
Amortisation	(390,312)	(390,312)
Loss on disposal of assets	(1,132)	(63)
Option Based Compensation	(34,655)	(80,094)
Interest on present value of convertible note debt	(81,669)	(466,678)
Shares issued in lieu of cash	-	(10,000)
Unrealised currency gain/(loss)	75,402	17,688
Changes in Assets and liabilities:		
(Decrease)/increase in Trade and Other Receivables	799,315	60,963
(Decrease)/increase in Inventory	228,068	137,127
(Increase)/decrease in Accounts Payable	(49,611)	(141,475)
Loss from ordinary activities after Income Tax	**(2,701,287)**	**(4,804,370)**

Financing Facilities: The company has a US$6 million convertible note facility (refer note 12). As of 30 June 2011, US$5.90 million of this facility had been drawn down. There are no other credit standby arrangements or used or unused loan facilities.

19. 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 2011.

i. Treasury Risk Management: The Board of Directors meet 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.

19. FINANCIAL INSTRUMENTS continued

a. Financial Risk Management Policies continued

The Board's overall risk management strategy seeks to assist the Company in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

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

iii. Interest rate risk: 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. The Company holds interest-bearing financial assets however interest rate risk is immaterial.

iv: Foreign currency risk: The Company is principally exposed to the US$ /A$ exchange rate through its convertible note facility which is denominated in US$. As at 30 June 2011, the Company had convertible note balance of US$350,962 which is payable in USD or convertible into shares at the holder's discretion. Interest is payable on a monthly basis. The Company also, from time to time, contracts development work to foreign companies. At 30 June 2011 the Company had no significant foreign currency risk. The Company does not hedge its foreign currency exposure.

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 2011. 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.

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.

19. FINANCIAL INSTRUMENTS continued

	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	%	$	$	$	$	$
2011						
Cash and cash equivalents	5.49	1,250,124	3,500,000	-	254,535	5,004,659
Receivables	6.20	-	12,252	-	857,775	870,027
		1,250,124	3,512,252	-	1,112,310	5,874,686
2010						
Cash and cash equivalents	2.40	3,124,843	2,000,000	-	678	5,125,520
Receivables	3.70	-	12,252	-	75,758	88,010
		3,124,843	2,012,252	-	76,436	5,213,530
Financial Liabilities						
2011						
Trade and sundry payables	-	-	-	-	664,055	664,055
Convertible notes	4.75	-	-	326,811	-	326,811
		-	-	326,811	664,055	990,866
2010						
Trade and sundry payables	-	-	-	-	612,341	612,341
Convertible notes	4.75	-	-	346,397	-	346,397
		-	-	346,397	612,341	958,738

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

c. Net Fair Values

The carrying amount for all financial assets and liabilities, except for investments in unlisted companies, is a reasonable approximation of fair value. Investments in unlisted companies that do not have a quoted market price in an active market are measured at cost less impairment losses in accordance with AASB139 because their fair value cannot be reliably measured. Refer to note 8.

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.

19. FINANCIAL INSTRUMENTS continued

d. Sensitivity Analysis continued

		2011 $	2010 $
Increase or decrease in interest rate by 1% - Change in profit and equity	+/-	44,000	51,000
Increase or decrease in US$ /A$ foreign exchange rate by 1 cents - Change in profit and equity	+/-	1,600	2,000

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 research and development of Virotherapy technologies and continue as a going concern. The Company's overall strategy remains unchanged from 2010.

The capital structure of the Company consists of cash and cash equivalents and equity, comprising issued capital and reserves, as disclosed in note 14.

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.

20. CONTINGENT LIABILITIES

Viralytics Ltd, guarantees the performance of the obligations of InJet Digital Aerosols Limited (refer to Note 9) 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. No legal advice has been sought as to the effect on the guarantee of this 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.

21. 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.

Notes to the Financial Statements

for the year ended 30 June 2011

21. RELATED PARTY TRANSACTIONS continued

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.

22. EVENTS SUBSEQUENT TO REPORTING DATE

The following events have occurred since reporting date:

- drawdown of the final US$100k under the convertible note facility in July 2011
- Share Consolidation: On the 2nd August shareholders approved a 10 for 1 share and option consolidation. All share and option numbers shown in this financial report are pre-consolidation numbers unless stated otherwise.

No other 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.

23. CORPORATE STRUCTURE

Viralytics Ltd is a company limited by shares that is incorporated and domiciled in Australia. It owns 44.5% of InJet Digital Aerosols Ltd which was equity accounted during the year.

Directors' Declaration

for the year ended 30 June 2011

The Directors of the Company declare that:

The financial statements and notes as set out on pages 20 to 45 of the Company are in accordance with the Corporations Act 2001, and:

(a) comply with Australian Accounting Standards and Corporations Regulations 2001;
(b) give a true and fair view of the financial position as at 30 June 2011 and of the performance for the year ended on that date of the Company; and
(c) the financial report also complies with International Financial Reporting Standards as described in Note 1.

the Managing Director has declared that:

(a) the financial records of the Company for the financial year have been properly maintained in accordance with Section 286 of the Corporations Act 2001;
(b) the financial statements, and notes for the financial year comply with Accounting Standards; and
(c) the financial statements and notes for the financial year give a true and fair view.

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.

This declaration is made in accordance with a resolution of the Board of Directors.

Bryan Dulhunty
Managing Director
Signed 26th August 2011

Independent Auditor's Report
To The Members of Viralytics Ltd
for the year ended 30 June 2011

Report on the Financial Report

We have audited the accompanying financial report ("financial report") of Viralytics Limited (the company"), which comprises the Statement of Financial Position as at 30 June 2011 and the statement of comprehensive income, statement of changes in equity, statement of cash flows for the year ended on that date, a summary of significant accounting policies and other explanatory notes 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 compliance with the Australian equivalents to International Financial Reporting Standards (IFRS) ensures that the financial report, comprising the financial statements and notes, complies with IFRS.

Auditors' 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.

Independence

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, provided to the directors of Viralytics Limited on 25th August 2011, would be in the same terms if provided to the directors as at the date of this auditors' report.

Independent Auditor's Report
To The Members of Viralytics Ltd
for the year ended 30 June 2011

Auditor's Opinion

In our opinion:

a. the financial report of Viralytics Limited is in accordance with the Corporations Act 2001, including:
   i. giving a true and fair view of the company's financial position as at 30 June 2011 and of its performance for the year ended on that date: and
   ii. complying with Australian Accounting Standards (including the Australian Accounting Interpretations) 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 10 to 13 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Viralytics Limited for the year ended 30 June 2011, complies with section 300A of the Corporations Act 2001.

Bentleys	P M Power
Brisbane Partnership	Partner
Chartered Accountants	
26th August 2011	Brisbane

Patent Protfolio Summary

for the year ended 30 June 2011

Summary of Patents and Patent Applications Assigned to Viralytics

Title	Priority Date & PCT Number	Country	Number	Status
Patents				
A method of treating a malignancy in a subject and a pharmaceutical composition for use in same				
	27 November 2000	Australia	770517	Granted
	WO 2001/037866	Australia (Div)	2004202292	Granted
		Australia (Div)	2007211890	Pending
		Canada	2422429	Pending
		Europe	EP 1235590	Granted
		Europe (Div)	08018165.4	Pending
		Japan	2001-539480	Pending
		Japan (Div)	2011-102853	Pending
		New Zealand	519527	Granted
		USA	7,361,354	Granted
		USA (Div)	12/040813	Pending
A method of treating a malignancy in a subject via direct picornaviral-mediated oncolysis				
	18 December 2002	Australia	2003287773	Granted
	WO 2004/054613	Canada	2510227	Pending
		China	200380109808.3	Granted
		Chins (Div)	201110091011.1	Pending
		Europe	03779569.7	Pending
		India	219479	Granted
		India	00681/DELNP/08	Abandoned
		Japan	04-559490	Pending
		New Zealand	541230	Granted
		Singapore	113802	Granted
		South Africa	2005/05389	Granted
		South Korea	2005-7011510	Pending
		USA	7,485,292	Granted
		USA	12/365,120	Pending
		Hong Kong	06103056.9	Pending
Modified oncolytic viruses				
	11 March 2004	Australia	2005221725	Granted
		Australia	2010224426	Pending
	WO 2005/087931	Canada	2559055	Abandoned
		China	200580007825.5	Abandoned
		Europe	05700080.4	Abandoned
		Hong Kong	07104792.5	Pending
		India	5572/DELP/2006	Pending
		Japan	2007-502143	Abandoned
		New Zealand	550376	Abandoned
		NewZealand (Div)	584859	Pending

Patent Protfolio Summary

for the year ended 30 June 2011

		Singapore	200606160-0	Abandoned
		South Africa	2006/08222	Granted
		South Korea	10-2006-7021119	Abandoned
		USA	10/592395	Pending
		Hong Kong	07104792.5	Abandoned

Title	Priority Date & PCT Number	Country	Number	Status
Patents				
Methods and compositions for treatment of hematologic cancers				
	20 August 2004 WO 2006/017914	Australia	2005274617	Pending
		Canada	2577692	Pending
		China	200580034763.7	Pending
		Europe	05773382.6	Pending
		Hong Kong	07108488.5	Re-registration commenced
		India	2010/DELNP/2007	Pending
		Japan	2007-526129	Pending
		New Zealand	582292	Pending
		New Zealand (Div)	59352	Pending
		Singapore	200701428-5	Pending
		South Africa	2007/02269	Pending
		South Korea	10-2007-7006358	Pending
		USA	11/660.458	Pending
Method and composition for treatment of neoplasms				
	17 Jan 2006 WO 2006/074526	Australia	2006206053	Pending
		China	200680006483.X	Granted
		China	201110047714.4	Pending
		Europe	06700535.5	Abandoned
		Hong Kong	08105564.7	Re-registration commenced
		India	6025/DELNP/2007	Abandoned
		USA	11/795,439	Abandoned
		USA (Div)	12/580,681	Pending