



28 February 2017

Company Announcements Office  
Australian Securities Exchange

## **HALF-YEAR REPORT**

Vectus Biosystems Limited (Vectus or the Company) is pleased to report its financial results for the half-year ended 31 December 2016.

### **Highlights**

Vectus remains on track with the development of its lead compound VB0004, a completely new chemical class of drug that prevents and, unlike any competitor in its field, reverses fibrosis, the process causing organ failure in damaged and diseased hearts and kidneys. The economic and health benefits of avoiding very costly treatments (for instance, dialysis for kidney failure or heart transplants), and of evading early death, underlie VB0004's unparalleled regulatory and reimbursement potential.

- The Company's initial second species (dog) independent toxicology trials have demonstrated, in line with Vectus' previous preclinical results, that no adverse effects were observed after doses of 2,000mg per kilogram were administered to dogs daily for seven days. This represents an exposure more than 10,000 times the anticipated therapeutic dose in humans.
- Key patents covering lead compound VB0004 have now been granted in the USA, Singapore and the People's Republic of China, and by the African Regional Intellectual Property Organization.
- Good Manufacturing Practice (GMP) scale-up of the Company's lead compound is now moving into GMP synthesis.
- Attendance and presentation at the J.P. Morgan 35th Annual Healthcare Conference in San Francisco resulted in a series of face-to-face meetings with many of the world's leading human pharmaceutical and animal health companies.
- Presentation at the International BioFest conference in Melbourne. Vectus was subsequently recognised as having the 'potential to have a global impact' in the Medtech and Pharma category of the Australian Technologies Competition.
- Vectus now has in place nine executed Confidential Disclosure Agreements (CDAs) and two executed Material Transfer Agreements (MTAs), with a cross-section of the world's leading human pharmaceutical and animal health companies. The Company is in further discussions with additional high-profile market leaders, which are in turn expected to progress to confidential discussions and MTAs.
- The Company's drug library now has over 1,000 compounds, and reviews by third party industry participants have indicated the potential to address multiple fibrotic disease states, including heart, kidney, lung, liver and ophthalmic opportunities. Further, certain compounds in the library have demonstrated the potential to provide renal protection for common chemotherapy treatment side effects.
- Accugen technology is progressing through pre-commercial customer trials with an aim to evaluate its commercial rollout potential in calendar year 2018.

**VECTUS BIOSYSTEMS LIMITED** ABN 54 117 526 137

3-11 Primrose Avenue, Rosebery, NSW 2018 Telephone: +61 2 9662 4144 Facsimile: +61 2 9697 0933

Website: [www.vectusbiosystems.com.au](http://www.vectusbiosystems.com.au)

## Commentary

Vectus has made substantial progress in the December 2016 half year towards its parallel goals of early human trials, pharmaceutical industry engagement and the expansion of its intellectual property (IP) portfolio targeting high value unmet needs across multiple disease states. The Company continues to be the recipient of the ATO R&D cash-back and is in discussions targeting additional non-dilutive funding reflecting Vectus' lead compound's potential to reduce healthcare costs in several high-cost disease states.

The Company has presented at the International BioFest conference and the J.P. Morgan 35th Annual Healthcare conference, in Melbourne and San Francisco, respectively. Feedback from leading industry participants has been highly positive and Vectus has signed nine CDAs and two MTAs, allowing potential partners to evaluate the Company's assets. Vectus is in further discussions with additional high-profile market leaders, which are expected to progress to additional confidential discussions and additional MTAs. These discussions with industry-leading, multinational pharmaceutical companies have confirmed that the treatment of fibrotic disease is considered one of the largest and fastest growing areas of unmet clinical need. These agreements are concrete evidence of the interest in the Company's portfolio and represent recognition of Vectus' singular ability to reverse fibrosis.

The Company has identified animal health as an area where substantial unmet needs exist. A leading animal health company recently announced a specific interest in feline kidney fibrosis and Vectus has also identified canine hepatic fibrosis as another potential application. The animal health market is growing at twice the rate of the human health market and a major driver of this growth is an increasing willingness by customers to pay human pharmaceutical prices for the treatment of companion animals. A further advantage of concurrently targeting these applications is the reduced cost of development and time to market.

The preclinical trials of VB0004 necessary to initiate the first-in-human trials are progressing strongly. Prior to listing on the Australian Securities Exchange (ASX), the Company had administered VB0004 to more than 100 rats with positive clinical outcomes and no observable adverse effects.

Vectus' initial results from the second species (dog) formal toxicology programme being carried out by a contract research organisation confirm the Company's finding that the drug is well tolerated in animals, even at very high doses. Doses of up to 2,000mg per kilogram were administered to dogs daily for seven days, with no adverse reactions observed. This represents a dose level more than 10,000 times the anticipated therapeutic dose for humans and the fact that it is safe in animals at such high doses suggests it may be safe in humans as well. A further 28-day study will be conducted in rats and dogs to support Vectus' application to move into Phase I trials.

Pharmacokinetic studies performed in rats and dogs have also confirmed the Company's observation that VB0004 is orally available. This is a very desirable property for both a potential licensing partner and for the patient, as it means the drug can be administered as a capsule, rather than intravenously. Vectus' small molecule contrasts favourably with antibodies and other proteins, which must generally be delivered by injection.

Since listing on the ASX, the Company has expanded its proprietary drug library to over 1,000 compounds. As well as VB0004, Vectus has a healthy pipeline of drug candidates for a range of fibrotic conditions, including several potential orphan indications. These lead compounds include A32 (liver fibrosis, including non-alcoholic steatohepatitis (NASH)), A79 (pulmonary fibrosis, including idiopathic fibrosis (IPF), asbestosis and coal dust pneumoconiosis (Black Lung)) and P5 (renal fibrosis). Fibrotic conditions of the eye and skin also represent areas of unmet clinical need, and the Company may look at exploring the potential of its library in these areas in the future.

A carefully formulated IP strategy has been a cornerstone of Vectus' development since its inception. The Company has expanded its portfolio of patents (granted or applied for) to 10 families, covering composition, methods of use and methods of synthesis. In the last month, Vectus has received notice of acceptance from Australia and notice of allowance from the USA for the T compound library, and has received notice of grant from Singapore, the People's Republic of China and from the African Regional Intellectual Property Organization for VB0004.

Since its Initial Public Offering, the Company has demonstrated that it not only has a platform technology capable of addressing multiple disease states, but it also has generated and protected a library of highly-attractive compounds. Key to its value creation is the fact that this drug library provides both backup compounds and an emerging series of leads, each of which has the potential for a discrete licensing partnership.

To-date, Vectus has not seen, either from the emerging biotech space or in its conversations with large pharmaceutical companies, any other credible candidate that clinically reverses, in a significant way, existing fibrotic disease and end organ damage.

The Company continues to confirm early findings that VB0004 is an orally-active compound that is very well tolerated in animals, suggesting it has good prospects to be safe in humans. Planning for the first-in-human trials is currently underway, and it is anticipated that both the size (patient numbers) and duration of the trials will be short and therefore relatively modest in cost.

Finally, Vectus has the ability to potentially modify difficult-to-treat systolic hypertension whilst reversing existing fibrotic disease. Uniquely, within its library, there are compounds that demonstrate the ability to tailor treatment to specific disease states, significantly broadening the number of applications, and mitigating risk over companies with a single compound and binary outcomes.

## **Vectus Biosystems Limited**

### **Karen Duggan**

Chief Executive Officer and Executive Director

### **About Vectus Biosystems Limited**

Vectus Biosystems Limited (Vectus or the Company) is developing a treatment for fibrosis and high blood pressure, which includes the treatment for three of the largest diseases in the fibrotic market, namely heart, kidney and liver disease. Vectus successfully completed its Initial Public Offering (IPO) on the Australian Securities Exchange (ASX:VBS) and commenced trading on ASX on 23 February 2016, after raising A\$5.1 million. Funds from the IPO are being used to develop the Company's lead compound VB0004, which aims to treat the hardening of functional tissue and high blood pressure. Vectus has conducted a range of successful pre-clinical trials, which have shown that VB0004 slows down the advances of fibrosis, potentially repairs damaged cell tissue and reduces high blood pressure. VB0004 is now progressing towards a number of important milestones, including pharmaceutical scale-up and additional toxicity studies. Successful results will provide the Company with a clear path to Human Phase 1 and 2a Clinical Trials. Vectus' strategy is to develop and perform early validation of its drug candidates to the point where they may become commercially attractive to potential pharmaceutical partners.

The Company has also developed technology aimed at improving the speed and accuracy of measuring the amount of DNA and RNA in samples tested in laboratories. The technology, called Accugen, is owned by Vectus' wholly-owned subsidiary Accugen Pty Limited. The technology potentially offers a time, cost and accuracy benefit compared to currently-available systems. The Company's next stage of investment in Accugen following the 2016 Alpha-phase test work is a commercialisation programme that may include direct sales, distribution partnerships and licensing opportunities.

# Appendix 4D

## Half Year Report for the six months ended on 31 December 2016

Name of entity

**VECTUS BIOSYSTEMS LIMITED** ABN: 54 117 526 137

**Half year report for the six months ended on 31 December 2016 (comparatives for the six months ended on 31 December 2015).**

**Results for announcement to the market**

Revenues from ordinary activities	up	161.7%	to	31,153
(Loss) from ordinary activities after tax attributable to members	up	72.4%	to	(1,550,108)
Net (loss) for the period attributable to members	up	72.4%	to	(1,550,108)
<b>Dividends (distributions)</b>		Amount per security		Franked amount per security
Final and interim dividends		Nil ¢		Nil ¢
Previous corresponding period		Nil ¢		Nil ¢

### Brief Explanation of Figures

Refer to attached 31 December 2016 Half Year Financial Report.

Net tangible assets per security with the comparative figure for the previous corresponding period.

### NTA backing

	31 Dec 2016	31 Dec 2015
Net tangible asset backing per ordinary share	9.58 cents	8.10 cents

### Audit Qualification or Review

The accounts were subject to review by the Auditors and the review report is attached as part of the Half Year Report.

### Other Comments

Refer to attached 31 December 2016 Half Year Financial Report.



**Robert J Waring**  
Company Secretary

28 February 2017



**Vectus Biosystems Limited**  
**ACN 117 526 137**

**Half-year Financial Report**  
**For the Half-year Ended**  
**31 December 2016**



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## Corporate Directory

### Vectus Biosystems Limited

ACN: 117 526 137  
ABN: 54 117 526 137

### Directors

Prof Graham Macdonald	Non-Executive Chairman
Mr Maurie Stang	Non-Executive Deputy Chairman
Dr Karen Duggan	Executive Director and Chief Executive Officer
Mr Peter Bush	Non-Executive Director
Dr Ronald Shnier	Non-Executive Director
Prof Susan Pond	Non-Executive Director

### Company Secretary

Mr Robert Waring

### Registered and Principal Office

3 – 11 Primrose Avenue  
Rosebery NSW 2018 Australia

Telephone: +61 2 9662 4144  
Facsimile: +61 2 9662 6040  
Email: [info@vectusbiosystems.com.au](mailto:info@vectusbiosystems.com.au)  
Website: [www.vectusbiosystems.com.au](http://www.vectusbiosystems.com.au)

### Share Registry

Boardroom Pty Limited  
Level 12, Grosvenor Place, 225 George Street, Sydney NSW 2000  
GPO Box 3993, Sydney NSW 2000

Telephone: +61 (0) 2 9290 9600  
Facsimile: +61 (0) 2 9279 0664  
Website: [www.boardroomlimited.com.au](http://www.boardroomlimited.com.au)  
Email: [enquiries@boardroomlimited.com.au](mailto:enquiries@boardroomlimited.com.au)

### Auditor

UHY Haines Norton Sydney  
Level 11, 1 York Street, Sydney NSW 2000  
GPO Box 4137, Sydney NSW 2001  
Telephone: + 61 2 9256 6600  
Website: [www.uhyhnsydney.com.au](http://www.uhyhnsydney.com.au)

### Stock Exchange Listing

The Company is listed on the Australian Securities Exchange (ASX Limited). ASX Code: VBS

# Vectus Biosystems Limited

## DIRECTORS' REPORT

The Directors present their report on the consolidated entity consisting of Vectus Biosystems Limited (the Company) and its controlled entities together with the consolidated financial report for the half-year ended 31 December 2016.

## DIRECTORS

The names and details of the Company's Directors in office during the half year and until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

Graham Macdonald (Non-Executive Chairman)  
Maurie Stang (Non-Executive Deputy Chairman)  
Karen Duggan (Executive Director and Chief Executive Officer)  
Peter Bush (Non-Executive Director)  
Ronald Shnier (Non-Executive Director)  
Susan Pond (Non-Executive Director)  
Bernard Stang (Non-Executive Director) - resigned on 28 October 2016

## PRINCIPAL ACTIVITIES

The principal activities of the consolidated entity during the course of the financial period consisted of medical research and development.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the nature of activities of the consolidated entity during the period.

## SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

In the opinion of the Directors, no matters or circumstances have arisen since 31 December 2016 that have significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in future financial years.

## REVIEW OF OPERATIONS

The Group's total net loss for the six months period to 31 December 2016 was \$1,550,108 (2015 loss: \$899,001).

On 5 December 2016, following shareholders' approval at the Annual General Meeting held on 17 November 2016, the Company issued 300,000 performance rights under the Vectus Employee Incentive Plan to three Directors, Karen Duggan, Maurie Stang and Peter Bush. They each received 100,000 performance rights valued at \$0.79 per share. These performance rights will vest and automatically convert into fully paid ordinary shares on 5 December 2018, providing the Director remains a Director of the Company and providing the Vectus share price is at least \$2.33. In addition, Company issued 75,000 deferred share awards to its Executive Director, Karen Duggan valued at \$1.41 per share. The deferred share awards will expire on 17 November 2019 if not converted into fully paid ordinary shares after meeting performance conditions.

## ROUNDING OF ACCOUNTS

The Company is of a kind referred to in Corporations Instrument 2016/191 issued by the Australian Securities and Investment Commission, relating to "rounding-off". Amounts in this report have been rounded off to the nearest dollar.

## LEAD AUDITOR'S INDEPENDENCE DECLARATION UNDER SECTION 307C OF THE CORPORATIONS ACT

The Auditor's Independence Declaration is set out in the attached statement from UHY Haines Norton and forms part of the Directors' Report for the half year ended 31 December 2016.

## DIVIDENDS

No dividends were proposed, declared or paid during the half year period and to the date of this report (2015: Nil).

This report is made in accordance with a resolution of the Directors pursuant to section 306(3)(a) of the *Corporations Act 2001*.



Graham Macdonald  
Non-Executive Chairman

Sydney, 28 February 2017

# Vectus Biosystems Limited

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME For the half-year ended 31 December 2016

	Notes	December 2016 \$	December 2015 \$
Revenue and other income	2	31,153	11,904
Administration and corporate expenses		(136,019)	(83,806)
Borrowing costs	3	(70)	(852)
Depreciation and amortisation expense	3	(12,205)	(22,431)
Employee benefits expense and Directors' remuneration	3	(927,465)	(806,150)
Occupancy expenses	3	(155,071)	(154,238)
Research & Development	3	(1,308,262)	(471,170)
Travel expenses		(19,386)	(1,964)
Other expenses		(47,154)	(118,622)
<b>Loss before income tax expense</b>		<b>(2,574,479)</b>	<b>(1,647,328)</b>
Income tax benefit (R&D tax rebate)		<b>1,024,371</b>	<b>748,327</b>
Net loss for the period		<b>(1,550,108)</b>	<b>(899,001)</b>
<b>Other Comprehensive Income</b>			
Items that may be reclassified subsequently to profit or loss		-	-
<b>TOTAL COMPREHENSIVE LOSS FOR THE HALF YEAR</b>		<b>(1,550,108)</b>	<b>(899,001)</b>
<b>Total comprehensive loss attributable to members of Vectus Biosystems Limited</b>		<b>(1,550,108)</b>	<b>(899,001)</b>
<b>EARNINGS PER SHARE</b>		<b>Cents</b>	<b>Cents</b>
Basic loss per share	8	<b>(6.63)</b>	(4.61)
Diluted loss per share	8	<b>(6.63)</b>	(4.61)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.



# Vectus Biosystems Limited

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	December 2016 \$	June 2016 \$
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	4A	1,654,658	420,639
Other current assets	5	1,184,371	145,521
Financial assets	4B	-	4,033,992
<b>TOTAL CURRENT ASSETS</b>		<b>2,839,029</b>	<b>4,600,152</b>
<b>NON-CURRENT ASSETS</b>			
Plant and equipment		72,177	84,382
<b>TOTAL NON-CURRENT ASSETS</b>		<b>72,177</b>	<b>84,382</b>
<b>TOTAL ASSETS</b>		<b>2,911,206</b>	<b>4,684,534</b>
<b>CURRENT LIABILITIES</b>			
Trade and other payables		219,118	357,590
Other current liabilities		224,525	361,730
Provisions		196,959	179,467
Financial liabilities		-	5,379
<b>TOTAL CURRENT LIABILITIES</b>		<b>640,602</b>	<b>904,166</b>
<b>NON-CURRENT LIABILITIES</b>			
Provisions		31,584	31,584
Financial liabilities		-	-
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>31,584</b>	<b>31,584</b>
<b>TOTAL LIABILITIES</b>		<b>672,186</b>	<b>935,750</b>
<b>NET ASSETS</b>		<b>2,239,020</b>	<b>3,748,784</b>
<b>EQUITY</b>			
Issued capital		17,588,896	17,581,368
Reserves		69,253	36,437
Accumulated losses		(15,419,129)	(13,869,021)
<b>TOTAL EQUITY</b>		<b>2,239,020</b>	<b>3,748,784</b>

The above condensed consolidated statement of financial position should be read in conjunction with the accompanying notes.

# Vectus Biosystems Limited

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the half-year ended 31 December 2016

	Issued Capital \$	Accumulated Losses \$	Other Reserves \$	Total Equity \$
<b>Balance at 1 July 2016</b>	<b>17,581,368</b>	<b>(13,869,021)</b>	<b>36,437</b>	<b>3,748,784</b>
<b>Total Comprehensive Income</b>				
Loss for the period	-	(1,550,108)	-	(1,550,108)
<b>Total comprehensive loss for the period</b>	<b>17,581,368</b>	<b>(15,419,129)</b>	<b>36,437</b>	<b>2,198,676</b>
<b>Transaction with owners in their capacity as owners</b>				
Shares issued during the year	7,528	-	(7,528)	-
Share-based payment reserve	-	-	40,344	40,344
<b>Balance at 31 December 2016</b>	<b>17,588,896</b>	<b>(15,419,129)</b>	<b>69,253</b>	<b>2,239,020</b>
<b>Balance at 1 July 2015</b>	<b>12,836,685</b>	<b>(10,657,697)</b>	<b>-</b>	<b>2,178,988</b>
<b>Total Comprehensive Income</b>				
Loss for the period	-	(899,001)	-	(899,001)
<b>Total comprehensive loss for the period</b>	<b>12,836,685</b>	<b>(11,556,697)</b>	<b>-</b>	<b>1,279,988</b>
<b>Transaction with owners in their capacity as owners</b>				
Shares issued during the year	324,581	-	-	324,581
Share-based payment reserve	-	-	17,211	17,211
<b>Balance at 31 December 2015</b>	<b>13,161,266</b>	<b>(11,556,697)</b>	<b>17,211</b>	<b>1,621,779</b>

The above condensed consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

# Vectus Biosystems Limited

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS For the half-year ended 31 December 2016

	December 2016 \$	December 2015 \$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Receipts from government grants (inclusive of GST)	-	-
Payments to suppliers and employees (inclusive of GST)	(2,825,510)	(1,148,723)
Interest received	30,916	11,894
<b>Net cash used in operating activities</b>	<b>(2,794,594)</b>	<b>(1,136,829)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net receipts from term deposits	4,033,992	-
Payments for property, plant and equipment	-	(46,801)
<b>Net cash used in investing activities</b>	<b>4,033,992</b>	<b>(46,801)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments for share issue costs	-	(608,144)
Repayment of loans	(5,379)	(20,831)
<b>Net cash provided by financing activities</b>	<b>(5,379)</b>	<b>(628,975)</b>
Net increase / (decrease) in cash held	1,234,019	(1,812,605)
Cash at the beginning of the financial period	420,639	2,579,977
Cash at the end of the financial period	<b>1,654,658</b>	<b>767,372</b>

*The above condensed consolidated statement of cash flows should be read in conjunction with the accompanying notes.*

# Vectus Biosystems Limited

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS For the half-year ended 31 December 2016

### 1 Statement of Accounting Policies

#### (a) Financial Reporting Framework

This Half Year Financial Report is a general purpose financial report that has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standard AASB 134 *Interim Financial Reporting*, Australian Accounting Interpretations and authoritative pronouncements of the Australian Accounting Standards Board. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 "Interim Financial Reporting".

The Half Year Financial Report should be read in conjunction with the annual financial report of Vectus as at 30 June 2016. It is also recommended that the Half Year Financial Report be considered together with any public announcements made by the Company during the half-year ended 31 December 2016 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

The Half Year Financial Report does not include all notes of the type normally included within the annual financial report, and therefore cannot be expected to provide as full an understanding of the financial performance, financial position, and financing and investing activities of the Company as the full Financial Report.

The Half Year Financial Report has been prepared on the basis of historical costs and does not take into account changing money values or fair values of assets.

The accounting policies that have been adopted in the preparation of this Financial Report have been consistently applied by the entities in the consolidated group and are consistent with those in the June 2016 Financial Report. The adoption of new and amended standards is set out below.

#### Going Concern

The Company has made operating losses of \$1,550,108 for the six months to 31 December 2016 (2015: \$899,001). The net assets position has gone down from \$3,748,784 as at 30 June 2016 to \$2,239,019 on 31 December 2016.

The operating cash burn rate for the half-year ended 31 December 2016 was \$2,794,594 (31 December 2015: \$1,136,829). The cash balance, including term deposits classified as financial assets, as at 31 December 2016 was \$1,654,658 (30 June 2016: \$4,454,631).

Directors are of the opinion that the Company will have adequate resources to continue to be able to meet its obligations as and when they fall due.

The Company has historically been the beneficiary of the ATO R&D cash back, with a refund in excess of \$1 million expected in the first half of the 2017 calendar year, and is the beneficiary of an advanced finding for the next two R&D claims, including an additional substantial claim in the second half of the 2017 calendar year.

In addition, the Board is evaluating various proposals that it has at hand for both capital raising and potential non-dilutive funding. The Company has received current offers of funding and is in the process of implementing one or more of these proposals to enable its development programme to proceed without the need to defer variable spending.

For this reason the Directors continue to adopt the going concern basis in preparing the Financial Report.

#### (b) Changes in Accounting Policies

The Consolidated Entity has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to their operations and effective for the current half-year.

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior periods.

#### (c) Impact of Standards issued but not yet applied by the Group

##### AASB 15 - Revenue from Contracts with Customers

The AASB has issued a new standard for the recognition of revenue. This will replace AASB 118, which covers revenue arising from the sale of goods and rendering of services, and AASB 111 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

The new standard is effective for the first interim period within annual reporting periods beginning on or after 1 January 2018, and will allow early adoption.

At this stage, the group is not able to estimate the effect of the new rules on the Group's financial statements. The Group will make more detailed assessments of the effect of the new rule over the next 12 months. The Group does not expect to adopt the new standard before 1 July 2018.

# Vectus Biosystems Limited

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2016

	December 2016 \$	December 2015 \$
<b>2 Other Income</b>		
Interest received	30,916	11,894
Realised exchange variance	237	-
Sundry income	-	10
Total revenue	<u>31,153</u>	<u>11,904</u>
<b>3 Expenses</b>		
<b>Loss from ordinary activities before income tax expense includes:</b>		
Borrowing costs		
Interest paid	70	852
Depreciation and amortisation	12,205	22,431
Employment expenses and Directors' remuneration		
Base salary and fees	805,190	721,595
Superannuation and statutory on-costs	43,495	41,061
Share based payment expense	40,343	17,211
Other employee expenses	20,945	28,041
Transfers from / (to) employee entitlements provisions	17,492	(1,758)
Total employment expense	<u>927,465</u>	<u>806,150</u>
Rental and occupancy expenses	155,071	154,238
Research and development expense		
Research and development expense	1,040,924	255,239
Patent costs	267,338	215,931
Total research and development expense	<u>1,308,262</u>	<u>471,170</u>
	December 2016 \$	June 2016 \$
<b>4 Cash and Financial Assets</b>		
<b>A Cash and Cash Equivalents</b>		
Cash at bank and on hand	154,658	420,639
Term deposits (with maturity of less than 3 months from the acquisition date)	<u>1,500,000</u>	<u>-</u>
	<u>1,654,658</u>	<u>420,639</u>
<b>B Financial Assets</b>		
Term deposits (with maturity of more than 3 months from the acquisition date)	-	4,033,992
	<u>-</u>	<u>4,033,992</u>
<b>5 Other Current Assets</b>		
Prepayments	89,129	49,273
Accrued Income	4,192	46,849
Receivables	<u>1,091,050</u>	<u>49,399</u>
	<u>1,184,371</u>	<u>145,521</u>
<b>6 Operating Segments</b>		

The consolidated group had no reportable segments during the year.

# Vectus Biosystems Limited

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2016

	December 2016 \$	December 2015 \$
<b>7 Issues of Equity Securities</b>		
Opening balance	17,581,368	12,836,685
<i>Ordinary shares issued during the half-year reporting period</i>		
1,764 shares issued to Vectus employees as part of Company's Employee Incentive Plan	3,528	-
2,000 shares issued to Vectus Director, Karen Duggan as part of the Company's Employee Incentive Plan	4,000	-
60,739 shares issued to consultants and others	-	324,564
1,700,000 class A shares converted into ordinary shares	-	17
Closing balance	<u>17,588,896</u>	<u>13,161,266</u>

On 5 December 2016, following shareholders' approval at the Annual General Meeting held on 17 November 2016, the Company issued 300,000 performance rights under the Vectus Employee Incentive Plan to three of its Directors, Karen Duggan, Maurie Stang and Peter Bush. They each received 100,000 performance rights valued at \$0.79 per share. These performance rights will vest and automatically convert into fully paid ordinary shares on 5 December 2018, providing the Director remains a Director of the Company and providing the Vectus share price is at least \$2.33. In addition, Company issued 75,000 deferred share awards to its Executive Director, Karen Duggan valued at \$1.41 per share. The deferred share awards will expire on 17 November 2019 if not converted into fully paid ordinary shares after meeting performance conditions.

	December 2016 \$	December 2015 \$
<b>8 Earnings per Share</b>		
Basic loss per share (cents)	(6.63)	(4.61)
Diluted loss per share (cents)	(6.63)	(4.61)
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic EPS	23,371,396	19,495,512
Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted EPS	23,371,396	19,495,512

## 8 Related Party Transactions

A number of specified Directors, or their personally-related entities, hold positions in other entities that result in them having control or significant influence over the financial or operating policies of those entities.

A number of these entities transacted with the Company in the reporting period. The terms and conditions of those transactions were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to unrelated entities on an arms-length basis.

	December 2016 \$	December 2015 \$
Details of these transactions are shown below:		
<b>Regional Healthcare Group Pty Ltd</b>		
The Company and its controlled entities paid for services provided by Regional Healthcare Group Pty Ltd.		
Corporate and administration expenses	<u>86,271</u>	<u>78,962</u>
	<u>86,271</u>	<u>78,962</u>
Outstanding Balance at the end of the reporting period *	16,540	175

\* Mr M Stang and Mr B Stang are Directors and shareholders of Regional Healthcare Group Pty Ltd.

## Aeris Environmental Ltd

The Company and its controlled entities paid for services provided by Aeris Environmental Ltd.

Accounting expenses	<u>17,516</u>	<u>-</u>
	<u>17,516</u>	<u>-</u>
Outstanding Balance at the end of reporting period *	17,516	-

\* Mr M Stang and B Stang are Directors and shareholders of Aeris Environmental Ltd and Mr P Bush is the CEO.

# Vectus Biosystems Limited

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2016

	December 2016 \$	December 2015 \$
<b>10 Commitments</b>		
<b>(a) Lease commitments - finance</b>		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	-	15,827
One to five years	-	-
	<u>-</u>	<u>15,827</u>
<b>(b) Lease commitments - operating</b>		
Committed at the reporting date but not recognised as liabilities, payable for the laboratory facility at North Ryde:		
Within one year	28,430	-
One to five years	-	-
	<u>28,430</u>	<u>-</u>
<b>(c) Operating commitments</b>		
Committed at the reporting date but not recognised as liabilities, payable:		
<i>Research and development expenses</i>		
Within one year	1,419,232	778,500
One to five years	40,000	40,000
	<u>1,459,232</u>	<u>818,500</u>
<b>(d) Capital expenditure commitments</b>		
There are no capital expenditure commitments.		

## 11 Events Subsequent to Reporting Date

There have been no matters or circumstances that have arisen since 31 December 2016 that have significantly affected, or may significantly affect:

- (a) the operations, in financial years subsequent to 31 December 2016, of the consolidated entity;
- (b) the results of those operations; or
- (c) the state of affairs, in the financial years subsequent to 31 December 2016, of the consolidated entity.

# Vectus Biosystems Limited

## DIRECTORS' DECLARATION

### Directors' Declaration

In the Directors' opinion:

- 1 the attached financial statements and notes thereto comply with the *Corporations Act 2001*, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- 2 the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the financial half-year ended on that date; and
- 3 there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the Directors made pursuant to section 303(5) of the *Corporations Act 2001*.

On behalf of the Directors



**Graham Macdonald**  
Non-Executive Chairman

Sydney, 28 February 2017

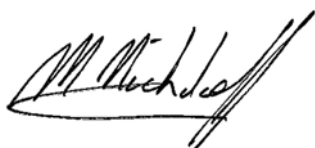


**Auditor's Independence Declaration  
Under Section 307C of the Corporations Act 2001**

To the Directors of Vectus Biosystems Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2016, there have been:

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

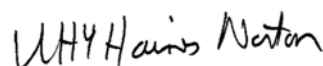


**Mark Nicholaeff**

Partner

Sydney

Dated: 28 February 2017



**UHY Haines Norton**

Chartered Accountants

## INDEPENDENT AUDITOR'S REVIEW REPORT

### To the Members of Vectus Biosystems Limited

#### ***Report on the Half-Year Financial Report***

We have reviewed the accompanying half-year financial report of Vectus Biosystems Limited ("the company"), which comprises the condensed consolidated statement of financial position as at 31 December 2016, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the consolidated entity comprising the company and the entity it controlled at the end of the half-year or from time to time during the half-year.

#### ***Directors' Responsibility for the Half-Year Financial Report***

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

#### ***Auditor's Responsibility***

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Vectus Biosystems Limited and the entity it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Independence**

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

**Emphasis of Matter**

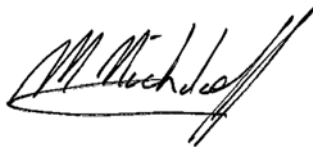
The consolidated entity has made an operating loss of \$1,550,108 and an operating cash outflow of \$2,794,594 for the half-year ended 31 December 2016. The cash balance, including term deposits classified as financial assets, as at 31 December 2016 was \$1,654,658.

Without modifying our report, we draw attention to Note 1 in the financial report, which describes the consolidated entity's available options to raise funds to continue as a going concern.

**Conclusion**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Vectus Biosystems Limited is not in accordance with the *Corporations Act 2001* including:

- a) giving a true and fair view of consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting and Corporations Regulations 2001*.

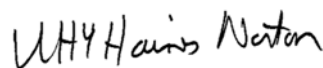


**Mark Nicholaeff**

Partner

Sydney

Date: 28 February 2017



**UHY Haines Norton**

Chartered Accountants