VECTUS BIOSYSTEMS LIMITED

and controlled entities

ABN 54 117 526 137

Financial Report

for the year ended 30 June 2017

3-11 Primrose Avenue, Rosebery, NSW 2018 Telephone: +61 2 9662 4144 Facsimile: +61 2 9697 0933
Website: www.vectusbiosystems.com.au

VECTUS BIOSYSTEMS LIMITED
AND CONTROLLED ENTITIES

Contents

General Information

The financial report covers Vectus Biosystems Limited as a consolidated entity consisting of Vectus Biosystems Limited and the entity it controls. The financial report is presented in Australian dollars, which is Vectus Biosystems Limited's functional and presentation currency.

The financial report consists of financial statements, notes to the financial statements and the Directors' declaration.

Vectus Biosystems Limited is a listed public company limited by shares, incorporated and domiciled in Australia.
Its registered office and research facility are:

Registered office
3-11 Primrose Avenue
Rosebery NSW 2018

Research facility
Riverside Corporate Park
Level 3, 11 Julius Avenue
North Ryde, NSW 2113

The financial report was authorised for issue, in accordance with a resolution of directors on 27 September 2017.

VECTUS BIOSYSTEMS LIMITED

AND CONTROLLED ENTITIES

Directors' Report

For the Year Ended 30 June 2017

The Directors of Vectus Biosystems Limited present their Report together with the financial statements of the consolidated entity, being Vectus Biosystems Limited (the Company) and its controlled entity (the Group) for the year ended 30 June 2017.

Directors' Details

The names of the Directors in office at any time during, or since, the end of the year are:

Maurie Stang	
Karen Duggan	
Graham Macdonald	
Peter Bush	
Ronald Shnier	
Susan Pond	
Bernard Stang	Resigned 28 October 2016

Review of Operations and financial results

The consolidated loss of the Group for the financial year amounted to $3,794,254 (2016: Loss $3,211,324).

For a comprehensive review of the Group's operational performance, refer to the attached Review of Operations.

A review of the Group's operations during the financial year and the results of those operations are as follows:

* the Group's operations during the financial year performed as expected in the opinion of the Directors;
* no significant changes in the Group's state of affairs occurred during the financial year; and
* no significant change in the nature of these activities occurred during the financial year.

Principal Activities

During the financial year the principal continuing activities of the Group consisted of:

- Medical Research and Development

Matters subsequent to the end of the financial year

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

Likely developments and expected results of operations

Likely developments in the operations of the Company and the expected results of those operations in future financial years have not been included in this Report as the inclusion of such information is likely to result in unreasonable prejudice to the Company.

Significant changes in the state of affairs

Vectus Biosystems Limited launched its Initial Public Offering (IPO) under a Replacement Prospectus dated 23 November 2015 that gave investors the opportunity to subscribe for up to $10 million worth of ordinary fully paid shares at an issue price of $1.55 per share. The offer opened on 24 November 2015 and closed on 24 December 2015. The funds raised under the IPO were $5,174,447, being 3,338,353 ordinary shares at a price of $1.55 per share.

There have been no significant changes in the state of affairs of the consolidated entity during the 2017 financial year.

Dividends

There were no dividends paid during the financial year.

There were no dividends or distributions recommended or declared for payment to members during the financial year that have not been paid or credited to the member throughout the financial year.

Review of Operations for the 2016-17 Financial Year

Vectus Biosystems Limited (Vectus or the Company) is pleased to report on its financial results for the year ended 30 June 2017.

General

Vectus 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 diseases. 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 through a number of important milestones, including pharmaceutical scale-up and additional toxicity studies. Successful results are providing the Company with a clear path to Human Phase I and IIa 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 offers a time, cost and accuracy benefit compared to currently-available systems. The Company's current stage of investment in Accugen is a commercialisation programme that may include direct sales, distribution partnerships and licensing opportunities.

Highlights

Vectus reports continuing strong progress with the development of its lead compound VB0004, a completely new chemical class of drug that prevents and, unlike any known competitor in its field, is focussed on reversing fibrosis, the scarring process causing organ failure in damaged and diseased hearts and kidneys. The value proposition of not only slowing disease progression, but in fact restoring normal tissue architecture, with the potential economic and health benefits of avoiding very costly treatments (for instance, dialysis for kidney failure or heart transplants), and dramatically increasing survival rates, underlie the 'first-in-class' potential of VB0004, which may place it in a very favourable position when it comes to reimbursement.

Strong Milestones towards Human Trials

- The Investigational New Drug (IND) application enabling toxicology and pharmacokinetic studies for VB0004 is continuing to meet all milestones. Successful animal trials continued during the 2016-17 financial year, with the Company's initial second species (dog) independent toxicology trials demonstrating, in line with Vectus' previous pre-clinical results, that no adverse effects were observed after doses of 2,000 milligrams 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. Phase I human clinical trials are targeted to commence in early 2018.
- Key patents, covering VB0004, have now been granted in the USA, Singapore, the People's Republic of China, Japan, South Korea, Israel and by the African Regional Intellectual Property Organization, with good progress made in Europe and the Philippines.
- The Company is rapidly accelerating pharmaceutical company engagement. Direct discussions continue with a significant cross-section of global and regional pharmaceutical companies.

- The successful good manufacturing practice (GMP) synthesis of VB0004 was completed during the financial year, with the scale batch production demonstrating improved yields and cost efficiency per dose, with only three synthetic steps.
- Presentations made by Vectus at conferences attended by industry leaders in the USA, Australia and New Zealand were very well received, and highlighted broad and expanding levels of engagement in the Company's key areas of interest, being cardiovascular disease, pulmonary (lung) fibrosis, non-alcoholic steatohepatitis (NASH) and alcoholic steatohepatitis (ASH) (liver disease).

Commentary

Vectus has made substantial progress in the 2016-17 financial 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 has identified animal health as an area where substantial unmet needs exist. 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 their companion animals. A further advantage of concurrently targeting these applications is the reduced cost of development and time to market. Discussions continue with leading animal health companies with specific interest in animal fibrosis.

Lead Candidate VB0004

The financial year saw accelerating progress towards human clinical trials for VB0004. This potentially 'first-in-class' anti-fibrotic has pre-clinically shown that it not only slows down damage, but has demonstrated a singular capability to improve normal tissue architecture in diseased organs. Reversing such damage is the ultimate aim of clinicians worldwide. Central to Vectus' development of VB0004 is the successful, and now completed, initial GMP synthesis. The scale batch production is a major milestone, demonstrating and underpinning the commercial feasibility of the Company's lead candidate by being manufacturable at large volumes and at a low cost per dose. This is a pivotal step that would enable the commercial production of an orally-dosable small molecule, which is the preferred form of delivery for all pharmaceutical companies that Vectus is currently in discussions with.

The U.S. Food and Drug Administration IND application enabling toxicology and pharmacokinetic studies for VB0004 are now in progress, with IND toxicology in-vitro (laboratory) cardiovascular safety studies showing that VB0004 is classified as **low** in terms of hERG inhibition. This critical test predicts the potential of a therapeutic candidate to cause QT prolongation and to cause significant cardiac arrhythmias. This is a further milestone towards the demonstration of human safety and is well regarded as an important attribute by the global pharmaceutical industry.

In-vivo (animal) cardiovascular safety tests are currently in progress and at this stage are consistent with the in-vitro results, with no adverse events at doses up to 2,000 milligrams per kilogram observed in two species. Respiratory safety testing has already been completed, with no adverse events observed in rats.

Phase I human clinical trials are targeted to commence in early 2018.

Drug Library and Commercial Activity

The Company has a library of over 1,000 compounds, derived from the platform underpinning VB0004, and the various stages of testing are progressing well. These emerging lead compounds address some of the most significant unmet needs in medicine today, and include:

- VB4-A32 (liver fibrosis, including NASH and ASH);
- VB4-A79 (pulmonary fibrosis, including idiopathic fibrosis, asbestosis and coal dust pneumoconiosis (Black Lung Disease)); and
- VB4-P5 (renal fibrosis).

Vectus is engaged with a series of global and regional pharmaceutical companies, and is working with expert consultants in the fields of both licencing, and research and development (R&D) collaboration, with a view to maximising the commercialisation of key pharmaceutical assets in the Company's drug library. In parallel, Vectus is receiving regular enquiries from potential partners as a consequence of the growing awareness of its data set and technical milestones achieved.

The Company recently attended Biotechnology Innovation Organization's BIO International Convention, in San Diego, California, and met with a strong cross-section of global, mid-sized and regional pharmaceutical companies. Each of the disease states addressed by candidates from the Vectus compound library represent high-profile disease states where anti-fibrotic and/or anti-hypertensive efficacy are now very much a central theme for licencing activity by the pharmaceutical industry. As a consequence of the Company's IP and pre-clinical data, an increasing number of potential partners have proceeded into confidentiality agreements with Vectus and, in several cases, due diligence.

Patent Library

Additional milestones were achieved by the Company during the financial year, with Vectus receiving notification of either grant, or intention to grant, further key patents underpinning the Company's global IP position derived from its drug library of 1,000 compounds. In particular, patents covering VB0004 have been granted in the USA, Singapore, the People's Republic of China, South Korea, Japan and Israel, and have been allowed to proceed to grant in Europe and have been accepted in the Philippines. Further, the patent that encompasses the VB0004 library has been granted in Australia and in the USA, with a proceed-to-grant decision being issued in South Africa.

The Patent Cooperation Treaty for VB4-A79 (lung) and associated compounds compositions, and methods of use for treatment of pulmonary fibrosis, have been lodged with a view to protecting this important discovery via an additional patent family.

Accugen

Accugen technology is progressing through pre-commercial customer trials with an aim to evaluate its commercial rollout potential in calendar year 2018. Accugen was developed internally by Vectus to address a well-known inadequacy in quantifying changes in DNA across a broad range of applications. Accucal, the core product, is unique in that it is targeted to eliminate variability and inaccuracy in the current methodology of using housekeeping genes. These housekeeper genes are currently widely used, yet are time consuming and costly, and are a potentially-inaccurate method of calibrating the results from quantitative polymerase chain reaction (qPCR) analysis.

The Company's technology is based on a consumable and related software product, with broad applicability for a wide range of machines in the world market. Vectus is now moving into the early commercial production stage of Accucal, and is evaluating, both regionally and globally, the preferred path to market for this disruptive technology platform. The market opportunity for the Accugen system includes over 100,000 laboratories, and whilst this market is inherently conservative when adopting new technology, Accucal offers the potential for both increased accuracy and cost savings.

Finance

The Company continues to take steps to support the funding of its future R&D and product commercialisation work. Vectus is entitled to an R&D cash-back taxation refund based on its activities for the 2016-17 financial year, which have been approved by AusIndustry, and the refund of approximately $1.3 million is expected to be received in the current half of the 2017-18 financial year. In addition, the Company is in active dialogue with a number of brokers, potential investors and other sources of funding for an initial amount in excess of $2 million. As an interim measure, Vectus is in negotiation for an external loan of $1.3 million, but has the ability to reduce its operating expenses to quite modest levels if required. In parallel, the Company is actively engaged in discussions regarding collaboration agreements with pharmaceutical companies to help jointly fund the advancement of its key programmes.

Vectus is also finalising an agreement with an international consulting firm that specialises in non-dilutive fundraising, particularly grant funding. This firm has advised the Company that Vectus' core programmes may well be suited to achieving success in grant applications and that it will be commencing its efforts on behalf of the Company in September 2017.

Summary

Vectus is now leveraging its powerful IP and patent portfolio, its drug library of over 1,000 compounds, and its strong pre-clinical data targeting a range of high-profile unmet needs, with a singular clinical potential to reverse fibrosis and therefore end organ damage. With its lead candidate, VB0004, progressing to early human clinical trials (subject to funding) the Company is now in a window that is typical of material inflection of value and an increasingly-common stage for trade transactions.

Karen Duggan
Chief Executive Officer and Executive Director

Environmental Regulation

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or state law.

Indemnity and insurance of officers and auditors

The Company has indemnified the directors and executives of the Group for the costs incurred, in their capacity as a director or executive, for which they may be held personally liabile, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the Directors and executives of the Group against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium.

Indemnity and insurance of auditor

The Company has not, during or since the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

No indemnities have been given or insurance premiums paid during or since the end of the financial year for any person who is or has been an officer or auditor of the Company.

Proceedings on behalf of the Company

No person has applied for leave of the 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.

Board of Directors and Company Secretary

Vectus Biosystems Limited (Vectus or the Company) Board has a broad range of experience in drug research and development, and early stage biotech companies, capital markets, financial and scientific expertise.

Name:	Emeritus Professor **Graham Macdonald**
Title:	Non-Executive Chairman
Experience and expertise:	Prof Graham Macdonald (AM, MD, BS, BSc (Med), FRACP, FRCP, FANZCC) received, in June 2012, an Australian Queen's Birthday Honour in the General Division of the Order of Australia for 'service to biomedical research in the areas of hypertension and renal disease, to medical education, to the promotion and awareness raising of organ donation, and as a mentor'. He brings to the Company a wealth of experience in clinical medicine, basic biomedical science, and in the field of pharmaceutical licensing and commercialisation. Prof Macdonald has had an outstanding career first as an academic nephrologist, and then moving into the pharmaceutical industry with Merck Sharp and Dohme (Australia). During this time he successfully brokered a number of high-profile agreements, including a US$100 million-plus deal with AMRAD (now Zenyth Therapeutics) to develop a new asthma treatment. Prof Macdonald retired in 2007 from his former position as External Licensing Coordinator Merck Sharp & Dohme (Australia). Between 1974 and 1998, he was an academic nephrologist at the Prince Henry and Prince of Wales Hospitals Clinical School of the University of New South Wales. Prof Macdonald's research interests centred on the role of the uridine nucleotides in vascular modulation and sodium metabolism. Other significant projects he has worked on include non-pharmacological control of high blood pressure and interaction of cardiovascular risk factors, psycho-social disorders in patients on dialysis with emphasis on thirst mechanisms, high blood pressure in pregnancy, the role of gut peptides in regulating renal sodium excretion, and normal and disordered regulation of angiotensin II receptors in various disease states. Prof Macdonald is currently a Director and Chairman of Stem Cells Limited. Directorships held in other listed entities in the past three years: none Appointed to the Board: 22 February 2008

Name:	Dr **Karen Duggan**
Title:	Executive Director and Chief Executive Officer
Experience and expertise:	Dr Karen Duggan is a founder of the Company. She was formally director of the Hypertension Service – South Western Sydney Area Health Service (SWSAHS), and is the immediate past chair of the National Blood Pressure and Vascular Disease Advisory Committee. Dr Duggan was also a member of the Cardiovascular Health Advisory Committee of the National Heart Foundation of Australia and the Post-Acute Stroke Guidelines Advisory Committee of the Australian Government Department of Health and Aging. She remains a member of the Cardiovascular Clinical Expert Reference Group of the NSW Department of Health. In Dr Duggan's role as Director of the Hypertension Service SWSAHS she was responsible for managing a multidisciplinary team (medical, nursing, laboratory and administrative staff), as well as developing and implementing new and innovative strategies in patient care within SWSAHS. The Hypertension Service participated in a number of clinical trials of both new therapeutics as well as evaluation of new diagnostic devices. Directorships held in other listed entities in the past three years: none Appointed to the Board: 4 September 2006

Name:	**Maurie Stang**
Title:	Non-Executive Deputy Chairman
Experience and expertise:	Mr Maurie Stang has a 30-year track record of building successful companies in the Australasian healthcare market and is recognised as one of its most respected business executives. He has significant experience and an extensive network within the life-sciences, pharmaceutical and finance sectors, both in Australia and internationally. Mr M Stang is a Principal of GryphonCapital, an independent investment house that facilitates the financing and development of emerging health-care related entities. He is also a Founder and Director of Henry Schein Halas, a joint venture with the NASDAQ listed Henry Schein, Inc., the leading wholesale supplier of dental products in Australasia. Mr M Stang is a Director of Novapharm Research (Australia) Pty Ltd and of Regional Health Care Group (a diversified healthcare product supplier, with successful businesses across a range of medical, pharmaceutical, consumer healthcare, and research and development sectors). Directorships held in other listed entities in the past three years: Non-Executive Chairman of Nanosonics Limited (ASX:NAN) since it listed on 15 May 2007 (and a member of its Board since 14 November 2000) and Non-Executive Chairman of Aeris Environmental Ltd (ASX:AEI) since 24 July 2002 Appointed to the Board: 12 December 2005

Name:	**Peter Bush**
Title:	Non-Executive Director
Experience and expertise:	Mr Peter Bush (BCom, CA) previously acted as the Chief Financial Officer and Company Secretary of Vectus and of Accugen Pty Limited. He is the Chief Executive Officer of Aeris Environmental Ltd, and an Executive Director and the Chief Financial Officer of The Regional Health Care Group and GryphonCapital. Mr Bush began his career working for five years at BDO, a global accounting and consulting firm, and has since spent several years working in industry. Directorships held in other listed entities in the past three years: Alternate Director of Aeris Environmental Ltd (ASX:AEI) since 9 May 2011 Appointed to the Board: 9 July 2015
Name:	Dr **Ronald Shnier**
Title:	Non-Executive Director
Experience and expertise:	Dr Ronald Shnier completed a radiology fellowship at Royal Prince Alfred Hospital (RPAH) before undertaking his neuroradiology fellowship at RPAH in 1989 and musculoskeletal fellowship at the University of California Los Angeles (UCLA) in 1991. He was a consultant specialist at RPAH between 1990 and 1993. Dr Shnier started one of Australia's first Private MRI practices in 1991 before becoming General Manager of Mayne's Diagnostic Imaging in 2007 and was its National Director for many years. He has served on several international MRI advisory boards. Dr Shnier has a strong involvement in clinical research, and has lectured both in Australia and overseas. Directorships held in other listed entities in the past three years: none Appointed to the Board: 2 September 2015

Name:	Dr **Susan Pond**
Title:	Non-Executive Director
Experience and expertise:	Dr Susan Pond AM (MD, DSc, FRACP) has a strong scientific and commercial background, having held executive positions in the biotechnology and pharmaceutical industry for 12 years, including as Chairman and Managing Director of Johnson & Johnson Research Pty Limited (2003 to 2009). In February 2017 she was appointed by The University of Sydney as Director of its Australian Institute for Nanoscale Science & Technology. Previously, Dr Pond has held many Board positions such as: Non-Executive Director and Chairman of AusBiotech Limited (2006 to 2008); Director of the Australian Nuclear Science and Technology Organisation (ANSTO) (2010 to 2014); Board member of Innovation Australia (2012 to 2015); and Vice President of the Academy of Technological Sciences and Engineering (ATSE) (2010 to 2015). She is a Fellow of ATSE, the Australian Institute of Company Directors, and the Academy of Health and Medical Sciences. Dr Pond obtained specialist clinical credentials in internal medicine, clinical pharmacology and clinical toxicology, and has held academic appointments at the University of California in San Francisco and the University of Queensland. Directorships held in other listed entities in the past three years: Non-Executive Director of Biotron Limited (ASX:BIT) since 7 March 2012. Appointed to the Board: 4 May 2016

Name:	**Bernard Stang**
Title:	Non-Executive Director (Resigned 28 October 2016)
Experience and expertise:	Mr Bernard Stang (BArch) has a 40-year track record of building highly-successful companies in the medical, dental and pharmaceutical industries across Australia and New Zealand. In addition he is the Chairman and Chief Executive Officer of property companies Stangcorp Pty Ltd in Australia and Stoneville Ltd in New Zealand, which are involved in both the development and investment of commercial, industrial and residential properties. Mr B Stang is a Co-Founder and Director of Regional Health Care Group and Novapharm Research Pty Ltd, which led to the formation of Aeris Environmental Ltd and Nanosonics Pty Ltd. He was a Founder and Board member of Nanosonics Pty Ltd from 14 November 2000 until prior to its listing on ASX on 15 May 2007 as Nanosonics Limited. He is also a Founder and Director of Henry Schein Halas, a joint venture with the NASDAQ-listed Henry Schein, Inc., the leading wholesale supplier of dental products in Australasia. Mr B Stang manages a broad portfolio of investments in the private and listed sectors, and has 40 years of operational leadership in successful healthcare businesses. Directorships held in other listed entities in the past three years: Non-Executive Director of Aeris Environmental Ltd (ASX:AEI) since 24 July 2002.

Company Secretary

Experience and expertise:	Mr Robert Waring (BEc, CA, FCIS, FFin, FAICD) has over 40 years’ worth of experience in financial and corporate roles, including over 25 years in Company Secretarial roles for ASX-listed companies, and over 20 years as a Director of ASX-listed companies. Mr Waring has significant company secretarial experience for both listed and unlisted companies, and is currently serving as Company Secretary for ASX-listed companies Aeris Environmental Ltd, Nanosonics Limited, Brain Resource Limited and Xref Limited. He is a Director of Oakhill Hamilton Pty Ltd, which provides secretarial and corporate advisory services to a range of listed and unlisted companies. Appointed as Company Secretary on 9 July 2015.

Meetings of Directors

The number of meetings of the Company's Board of Directors (the Board) and of each Board committee held during the year ended 30 June 2017, and the number of meetings attended by each Director / Committee member were:

	Board of Directors Meetings	Audit Committee Meetings	Remuneration and Nomination Committee Meetings	Corporate Governance Committee Meetings	R&D and Innovation Committee Meetings
Number of meetings held	11	4	3	1	1
Number of meetings attended					
Graham Macdonald	9	4	3	-	1
Karen Duggan	11	-	-	-	1
Maurie Stang	11	3	3	-	-
Peter Bush	9	4	-	-	-
Ronald Shnier	6	-	1	-	-
Susan Pond	11	-	-	1	1
Bernard Stang*	3	-	-	1	-

* Bernard Stang ceased to be a Director on 28 October 2016

In addition to the above meetings the Board and senior executives conduct formal management meetings.

Committee membership

As at the date of this report, the Company had an Audit and Risk Management Committee, a Corporate Governance Committee and a Remuneration and Nomination Committee of the Board of Directors. Members acting on the Committees of the Board during the year were:

Audit and Risk Management Committee
Peter Bush (Chairman)
Graham Macdonald
Maurie Stang

Corporate Governance Committee
Susan Pond (Chairman)
Karen Duggan
Peter Bush

Remuneration and Nomination Committee
Graham Macdonald (Chairman)
Maurie Stang
Ronald Shnier

R&D and Innovation Committee
Graham Macdonald (Chairman)
Karen Duggan
Susan Pond

Share Registry

Boardroom Pty Limited
GPO Box 3993
Sydney, NSW 2000
Tel: +61 2 9290 9600
Fax: +61 2 9279 0664
Email: enquiries@boardroomlimited.com.au

Auditor's independence declaration

UHY Haines Norton continues in office in accordance with section 327 of the *Corporations Act 2001* .

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 16.

Officers of the Company who are former audit partners of UHY Haines Norton

There are no officers of the Company who are former audit partners of UHY Haines Norton

Corporate Governance

Vectus Biosystems Limited's Corporate Governance Statement and ASX Appendix 4G are released to ASX on the same day the Annual Report is released.

The Company's Corporate Governance Statement, and Corporate Governance Compliance Manual, can both be found on the Company's website at: http://www.vectusbiosystems.com.au/investor-centre/corporate-governance/.

Directors' interests

	Ordinary shares	Options or rights over ordinary shares
Maurie Stang	2,556,000	100,000
Bernard Stang (Resigned 28 October 2016)	2,556,000	-
Karen Duggan	3,203,500	175,000
Graham Macdonald	46,667	-
Peter Bush	3,900	200,000
Ronald Shnier	100,000	-
Susan Pond	21,500	-

Remuneration Report (Audited)

Key Management Personnel

The key management personnel of the Company comprises the Directors only as follows:

Maurie Stang
Bernard Stang (Resigned 28 October 2016)
Karen Duggan
Graham Macdonald
Peter Bush
Ronald Shnier
Susan Pond

Remuneration policies

Details of Vectus' remuneration policies and practices, together with details of Directors' and Executives' Remuneration, are as follows:

(a) Overview of remuneration structure:

The objective of the Company's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. Processes have been established to ensure that the levels of compensation and remuneration are sufficient and reasonable, and explicitly linked to the achievement of personal and corporate objectives. The short and long-term incentive plans are specifically aligned to shareholder interests.

Vectus' Remuneration and Nomination Committee advises the Board on remuneration policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for staff, including Directors and Senior Managers of the Company.

The Committee has access to the advice of independent remuneration consultants to ensure the remuneration and incentive schemes are consistent with its philosophy as well as current market practices.

(b) Non-Executive Directors:

Payments were made during the year to Non-Executive Directors for their services. This is reviewed annually.

(c) Executives

The objective of Vectus' executive reward system is to ensure that remuneration for performance is competitive and appropriate for the results delivered.

Executive pay structures include a base salary and superannuation. In addition, executives and senior managers can participate in the Employee Incentives Plan.

Equity Holding Transactions

The movement during the reporting period in the number of ordinary shares in Vectus Biosystems Limited held directly, indirectly, or beneficially by each specified Director and specified executive including their personally-related entities, are as follows:

2017	Number held 30 June 2016	Acquired during year	Sold during year	Number held 30 June 2017
Maurie Stang	2,556,000	-	-	2,556,000
Bernard Stang	2,556,000	-	-	2,556,000
Karen Duggan	3,201,500	2,000	-	3,203,500
Graham Macdonald	46,667	-	-	46,667
Peter Bush	3,900	-	-	3,900
Ronald Shnier	100,000	-	-	100,000
Susan Pond	21,500	-	-	21,500
	8,485,567	2,000	-	8,487,567

2016	Number held 30 June 2015	Acquired during year	Sold during year	Number held 30 June 2016
Maurie Stang	2,550,000	6,000	-	2,556,000
Bernard Stang	2,550,000	6,000	-	2,556,000
Karen Duggan	3,201,500	-	-	3,201,500
Graham Macdonald	46,667	-	-	46,667
Peter Bush	-	3,900	-	3,900
Ronald Shnier	100,000	-	-	100,000
Susan Pond	-	21,500	-	21,500
	8,448,167	37,400	-	8,485,567

Transactions with Directors and Director related entities

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.

Details of these transactions are shown below:

	2017	2016
Regional Health Care Group Pty Ltd	$	$
Corporate and administration services	212,592	201,433
Current payables	1,903	1,705

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

VECTUS BIOSYSTEMS LIMITED
AND CONTROLLED ENTITIES
Directors' Report
For the Year Ended 30 June 2017

Details of directors' and executive officers' remuneration for the year ended 30 June 2017

	Short-term benefits		Equity based benefits		Total	
	Salary and Directors' fees	Post employment benefits	Shares	Options or Rights		Performance related
	$	$	$	$	$	%
Non-Executive Directors:						
Maurie Stang	50,228	4,772	-	22,896	77,896	0.0%
Bernard Stang	13,699	1,301	-	-	15,000	0.0%
Graham Macdonald	59,361	5,639	-	-	65,000	0.0%
Peter Bush	41,096	3,904	-	74,563	119,563	0.0%
Ronald Shnier	41,096	3,904	-	-	45,000	0.0%
Susan Pond	41,096	3,904	-	-	45,000	0.0%
Total Non-Executive Directors	246,575	23,425	-	97,459	367,459	
Executive Directors:						
Karen Duggan	189,754	18,027	4,000	43,502	255,283	0.0%
Total Executive Directors	189,754	18,027	4,000	43,502	255,283	
Total	**436,329**	**41,452**	**4,000**	**140,961**	**622,742**	

There were no long term benefits paid to directors and executive officers during 2017 financial year

Details of directors' and executive officers' remuneration for the year ended 30 June 2016

	Short-term benefits		Equity based benefits		Total	
	Salary and Directors' fees	Post employment benefits	Shares	Options or Rights		Performance related
	$	$	$	$	$	%
Non-Executive Directors:						
Maurie Stang	45,833	-	-	-	45,833	0.0%
Bernard Stang	37,500	-	-	-	37,500	0.0%
Graham Macdonald	59,167	-	90,001	-	149,167	0.0%
Peter Bush	37,500	-	-	17,222	54,722	0.0%
Ronald Shnier	37,500	-	-	-	37,500	0.0%
Susan Pond	7,500	-	-	-	7,500	0.0%
Total Non-Executive Directors	225,000	-	90,001	17,222	332,223	
Executive Directors:						
Karen Duggan	183,721	17,454	3,000	3,833	208,009	0.0%
Total Executive Directors	183,721	17,454	3,000	3,833	208,009	
Total	**408,721**	**17,454**	**93,001**	**21,056**	**540,232**	

There were no long term benefits paid to directors and executive officers during 2016 financial year

Employment contracts

Executive Director and Chief Executive Officer (CEO):

The following sets out the key terms of the employment agreement for the Executive Director and CEO, Dr Karen Duggan.

Contract term:	Continuous employment until notice is given by either party
Fixed remuneration:	$ 208,889 per year This is reviewed annually.
Notice period:	To terminate the employment, Dr Duggan is required to provide Vectus with 3 months written notice. Vectus must provide 3 months written notice.
Resignation or termination:	On resignation, unless the Board determines otherwise: All unvested short term or long term benefits are forfeited. All vested but unexercised benefits are forfeited after 90 days following cessation of employment.
Statutory entitlements:	Annual leave applies in all cases of separation. Long Service applies unless service is under 10 years and she is dismissed for misconduct.
Termination for serious misconduct:	Vectus may immediately terminate employment at any time in case of serious misconduct, and Dr Duggan will only be entitled to payment of fixed remuneration until termination date. Such termination will result in all unvested benefits being forfeited. Treatment of any vested but unexercised benefits will be at the discretion of the Board.
Restraint of Trade:	For a period of 6 months or, if that period is unenforceable, 3 months after termination of employment, Dr Duggan must not in the area of Australia or, if that area is unenforceable, New South Wales: (i) solicit, canvass, approach or accept any approach from any person who was at any time during her last 12 months with the Company a client of the Company in that part or parts of the business carried on by the Company in which she was employed with a view to obtaining the custom of that person in a business that is the same or similar to the business conducted by the Company; or (ii) interfere with the relationship between the Company and its customers, employees or suppliers; or (iii) induce or assist in the inducement of any employee of the Company to leave their employment.

There are no other contracts to which a Director is a party or under which a Director is entitled to a benefit other than as disclosed above and in the financial statements.

Link between remuneration and performance and statutory performance indicators

The table below shows measures of the group's financial performance over the last two years as required by the *Corporations Act 2001* . However, these are not necessarily consistent with the measures used in determining the variable amounts of remuneration to be awarded to KMPs. As a consequence, there may not always be a direct correlation between the statutory key performance measures and the variable remuneration awarded.

	2017	**2016**
Loss for the year	(3,794,254)	(3,211,324)
Basic loss per share (cents per share)	(16.24)	(16.13)
Dividend payments	-	-
Increase/(decrease) in share price (%)	2.9%	N/A*
Total KMP remuneration as percentage of loss for the year (%)	-16%	-17%

* Company was listed during the 2016 financial year

Company is also in discussions with management and remuneration consultants to structure and align KMP remuneration to strategic business objectives with an aim of creation of shareholder wealth.

Performance rights or options

Following rights or options for issue of shares issued to key management personnel were not vested as at the end of financial year:

	2017	2016
Performance rights to Peter Bush, Non-Executive Director	200,000	100,000
Performance rights to Maurie Stang, Non-Executive Deputy Chairman	100,000	-
Performance rights to Karen Duggan, Chief Executive Officer	100,000	-
Deferred Share Awards to Karen Duggan, Chief Executive Officer	75,000	-
Share based incentives to Karen Duggan, Chief Executive Officer	-	2,000

Signed in accordance with a resolution of the directors; pursuant to section 298(2)(a) of *Corporations Act 2001* on behalf of the directors.

Graham Macdonald

Graham Macdonald
Chairman

Date: 28 September 2017

UHY Haines Norton
Chartered Accountants

Level 11 | 1 York Street | Sydney | NSW | 2000
GPO Box 4137 | Sydney | NSW | 2001
t: +61 2 9256 6600 | f: +61 2 9256 6611
sydney@uhyhn.com.au
www.uhyhnsydney.com.au

Auditor's Independence Declaration under section 307C of the *Corporations Act 2001*

To the Directors of Vectus Biosystems Limited

As auditor for the audit of Vectus Biosystems Limited for the year ended 30 June 2017, I declare that, to the best of my knowledge and belief, there have been:

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

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

This declaration is in respect of Vectus Biosystems Limited and the entity it controlled during the year.

UHY Haines Norton

M. D. Nicholaeff
Partner
Sydney
28 September 2017

UHY Haines Norton
Chartered Accountants

VECTUS BIOSYSTEMS LIMITED

AND CONTROLLED ENTITIES

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the Year Ended 30 June 2017

	Note	2017 $	2016 $
Revenue and other income	3	49,337	75,066
Administration and corporate expenses		(690,850)	(177,009)
Finance costs	4	(2,439)	(1,496)
Depreciation and amortisation expense	4	(28,205)	(57,344)
Employee benefits expense and directors remuneration	4	(1,557,539)	(1,835,314)
Foreign exchange losses		-	(10,780)
Occupancy expenses		(310,142)	(309,309)
Research & development	4	(2,256,503)	(1,484,649)
Travel expenses		(22,284)	-
Other expenses		-	(158,816)
Loss before income tax benefit from continuing operations		(4,818,625)	(3,959,651)
Income tax benefit	5	1,024,371	748,327
NET LOSS FOR THE YEAR		(3,794,254)	(3,211,324)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss		-	-
Items that will not be reclassified subsequently to profit or loss		-	-
TOTAL COMPREHENSIVE LOSS FOR YEAR, NET OF TAX		(3,794,254)	(3,211,324)
Loss for the year attributable to:			
Owners of Vectus Biosystems Limited		(3,794,254)	(3,211,324)
Total comprehensive loss for the year attributable to:			
Owners of Vectus Biosystems Limited		(3,794,254)	(3,211,324)
Loss per share	26		
Basic loss per share (cents per share) from continuing operations		(16.24)	(16.13)
Diluted loss per share (cents per share) from continuing operations		(16.24)	(16.13)

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

VECTUS BIOSYSTEMS LIMITED
AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2017

	Note	2017	2016
		$	$
CURRENT ASSETS			
Cash and cash equivalents	6	516,913	420,639
Other current assets	7	137,360	145,521
Financial Assets	8	-	4,033,992
TOTAL CURRENT ASSETS		654,273	4,600,152
NON-CURRENT ASSETS			
Property, plant and equipment	9	66,277	84,382
TOTAL NON-CURRENT ASSETS		66,277	84,382
TOTAL ASSETS		720,550	4,684,534
CURRENT LIABILITIES			
Trade and other payables	10	94,865	357,590
Other current liabilities	11	254,385	361,730
Provisions	12	243,391	179,467
Financial Liabilities	13	-	5,379
TOTAL CURRENT LIABILITIES		592,641	904,166
NON-CURRENT LIABILITIES			
Provisions	12	11,346	31,584
TOTAL NON-CURRENT LIABILITIES		11,346	31,584
TOTAL LIABILITIES		603,987	935,750
NET ASSETS		116,563	3,748,784
EQUITY			
Issued Capital	14	17,591,420	17,581,368
Reserves	25	188,418	36,437
Retained Earnings/Accumulated Losses	15	(17,663,275)	(13,869,021)
TOTAL EQUITY		116,563	3,748,784

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

VECTUS BIOSYSTEMS LIMITED
AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 30 June 2017

	2017 $	2016 $
Cash flows from operating activities		
R&D tax offset rebate received	1,024,371	748,327
Receipt from customers	5,885	-
Payments to suppliers and employees	(5,013,037)	(3,374,867)
Realised exchange losses	-	(10,780)
Other income	-	10
Interest received	89,791	28,207
Interest paid	(69)	(1,496)
Net cash used in operating activities	(3,893,059)	(2,610,599)
Cash flows from investing activities		
Investments in term deposits	4,033,992	(4,000,000)
Investment in property, plant and equipment	(39,280)	(82,140)
Net cash provided by / (used in) investing activities	3,994,712	(4,082,140)
Cash flows from financing activities		
Proceeds from issue of shares	-	5,174,447
Share issue costs	-	(586,223)
Repayment of loans	(5,379)	(20,831)
Net cash provided by financing activities	(5,379)	4,567,393
Net increase (decrease) in cash and cash equivalents	96,274	(2,125,346)
Cash and cash equivalents at the beginning of the financial year	420,639	2,545,985
Cash and cash equivalents at the end of the financial year	516,913	420,639

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

VECTUS BIOSYSTEMS LIMITED
AND CONTROLLED ENTITIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 June 2017

	Note	Equity	Retained Earnings	Reserves	Total attributable to equity holders of the entity
		$	$	$	$
Balance at 1 July 2015		12,836,702	(10,657,697)	-	2,179,005
Comprehensive Income					
Loss for the year		-	(3,211,324)	-	(3,211,324)
Total comprehensive loss for the year		-	(3,211,324)	-	(3,211,324)
Transactions with owners					
Shares issued during the year	14	5,330,890	-	-	5,330,890
Share issue costs		(586,223)	-	-	(586,223)
Share-based payment reserve		-	-	36,437	36,437
Balance at 30 June 2016		17,581,368	(13,869,021)	36,437	3,748,784
Balance at 1 July 2016		17,581,368	(13,869,021)	36,437	3,748,784
Comprehensive Income					
Loss for the year		-	(3,794,254)	-	(3,794,254)
Total comprehensive loss for the year		-	(3,794,254)	-	(3,794,254)
Transactions with owners					
Shares issued during the year	14	10,052	-	-	10,052
Share-based payment reserve		-	-	151,981	151,981
Balance at 30 June 2017		17,591,420	(17,663,275)	188,418	116,563

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

1. Summary of Significant Accounting Policies

Corporate information

The financial report of Vectus Biosystems Limited (the Company) for the year ended 30 June 2017 was authorised for issue in accordance with a resolution of the Directors on 27 September 2017.

Vectus Biosystems Limited (the parent) is a company limited by shares incorporated in Australia whose shares are publicly listed on the Australian Stock Exchange (ASX code: VBS).

The nature of the operations and principal activities of the Group are described in the Directors' Report.

Basis of Preparation

These general purpose financial statements have been prepared in accordance with the *Corporations Act 2001* , Australian Accounting Standards and Interpretations of the Australian Account Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board. The Group is a for-profit entity for financial reporting purposes under Australian Accounting Standards. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

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 Group has recorded a net loss of $3,794,254 during the financial year ended 30 June 2017 and has a net asset balance of $116,563 as at 30 June 2017. The cash and cash equivalents balances as at 30 June 2017 aggregated to $516,913. The Group is in negotiation for an external loan of $1,300,000. Additionally, Vectus is in active dialog with a number of brokers, potential investors and other sources of funding, for an additional initial amount in excess of $2,000,000. The Group also has the ability to reduce its operating expenses to quite modest levels if required.

Directors are of the opinion that the Group will be successful in implementing these initiatives and, accordingly, have prepared the financial report on a going concern basis. Notwithstanding this belief, there is a risk that the Group may not be successful in implementing these initiatives or the implementation of alternative options which may be available to the Group. As a result of these matters, there is a material uncertainty that may cast significant doubt on the Group’s ability to continue as a going concern and therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Statement of compliance

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in a financial report containing relevant and reliable information about transactions, events and conditions. Compliance with Australian Accounting Standards ensures that the financial statements and notes also comply with International Financial Reporting Standards.

New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period. Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

• AASB 2014-4 - Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation.
• AASB 2014-9 - Amendments to Australian Accounting Standards – Equity Method in Separate Financial Statements.
• AASB 2015-3 - Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality. The Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards.
• AASB 2015-1 - Amendments to Australian Accounting Standards – Annual Improvements to Australian Accounting Standards 2012-2014 Cycle, which include:
    AASB 5 – Non-current Assets Held for Sale and Discontinued Operations
    AASB 7 – Financial Instruments: Disclosure
    AASB 119 – Employee Benefits
    AASB 134 – Interim Financial Reporting
• AASB 2015-2 - Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101

The adoption of the above standards did not have any material impact on the group.

Accounting Policies

(a) Principles of Consolidation

The consolidated financial statements incorporate all of the assets, liabilities and results of the parent (Vectus Biosystems Limited) and the subsidiary (including any structured entities). Subsidiary is the entity the parent controls. The parent controls an entity when it is exposed to, or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A list of the subsidiaries is provided in Note 19.

The assets, liabilities and results of the subsidiary are fully consolidated into the financial statements of the Group from the date on which control is obtained by the Group. The consolidation of a subsidiary is discontinued from the date that control ceases. Intercompany transactions, balances and unrealised gains or losses on transactions between group entities are fully eliminated on consolidation. Accounting policies of subsidiary has been changed and adjustments made where necessary to ensure uniformity of the accounting policies adopted by the Group.

Equity interests in a subsidiary not attributable, directly or indirectly, to the Group are presented as "non-controlling interests". The Group initially recognises non-controlling interests that are present ownership interests in subsidiaries and are entitled to a proportionate share of the subsidiary's net assets on liquidations at either fair value or at the non-controlling interests' proportionate share of the subsidiary's net assets. Subsequent to initial recognition, non-controlling interests are attributed their share of profit or loss and each component of other comprehensive income. Non-controlling interests are shown separately within the equity section of the statement of financial position and statement of comprehensive income.

(b) Property, Plant and Equipment

Property, plant and equipment are measured on the cost basis and are therefore carried at cost less accumulated depreciation and any accumulated impairment losses. In the event the carrying amount of plant and equipment is greater than its estimated recoverable amount, the carry amount is written down immediately to its estimated recoverable amount and impairment losses are recognised either in profit or loss or as a revaluation decrease if the impairment losses relate to a revalued asset.

Depreciation

The depreciable amount of all fixed assets is depreciated on a prime cost method over the assets useful life to the company commencing from the time the asset is held ready for use. Depreciation is recognised in the profit and loss.
The depreciation rates used for each class of depreciable assets are:

Class of Fixed Asset	Depreciation Rate
Plant & Equipment	20% - 40%
Fixtures & Fittings	10% - 20%
Office Equipment	20% - 50%

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from the 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 discontinued to their present values in determining recoverable amounts.

(c) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within the short-term borrowings in current liabilities in the statement of financial position.

(d) Revenue and Other Income

Revenue is measured at the value of the consideration received or receivable.

Interest revenue is recognised using the effective interest rate method, which, for floating rate financial assets, is the rate inherent in the instrument. Dividend revenue is recognised when the right to receive a dividend has been established.

All revenue is stated net of the amount of goods and services tax.

(e) Trade Receivables and Other Receivables

Trade receivables and other receivables, are recognised at the nominal transaction value without taking into account the time value of money.

If required, a provision for doubtful debts has been created.

(f) Trade Creditors and Other Payables

Trade and other payables represent the liabilities for goods and services received by the company during the reporting period that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 days of recognition of the liability.

(g) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Tax Office.

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

Cash Flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities are recoverable, or payable to, the ATO are presented as operating cash flows included in receipts from or payments to suppliers.

(h) Employee Benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payment
The fair value of options or share-based payments granted under the Employee Option Plan is recognised as an employee benefit expenses with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options or shares.

At each balance sheet date, the entity revises its estimate of the number of options or shares that are expected to vest or become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate. The impact of the revision to original estimates, if any, is recognised in the income statement with a corresponding adjustment to equity.

(i) Leases
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability.

Leased assets acquired under a finance lease are depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

(j) Financial Instruments

Initial recognition and measurement
Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions to the instrument. For financial assets, this is equivalent to the date that the company commits itself to either purchase or sell the asset.

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 recognised immediately as expenses in profit or loss.

Classification and subsequent measurement
Financial Instruments are subsequently measured at fair value, amortised cost using the effective interest method, or cost.

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

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

(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 acccounting 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 and investment strategy.

(ii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

(iii) *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 companies intention to hold these investments to maturity. They are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

(iv) *Available-for-sale investments*

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

Available-for-sale financial assets are classified as non-current assets when they are not expected to be sold within 12 months after the end of the reporting period. All other available-for-sale assets are classified as current assets.

(v) *Financial assets and liabilities*

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

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

The Group does not designate any interests in subsidiaries, associates or joint ventures as being subject to the requirements of Accounting Standards specifically applicable to financial instruments.

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

Preferred shares
Preferred share capital is classified as equity if it is non-redeemable or redeemable only at the discretion of the parent company, and any dividends are discretionary. Dividends thereon are recognised as distributions within equity upon declaration by the directors.

Preferred share capital is classified as a liability if it is redeemable on a set date or at the option of the shareholders, or where the dividends are mandatory. Dividends thereon are recognised as interest expense in profit or loss.

Impairment
A financial asset (or a group of financial assets) is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or move events (a "loss event") having occurred, which has an impact on the estimated future cash flows of the financial asset(s).

In the case of available-for-sale financial assets, a significant or prolonged decline in the market value of the instrument is considered to constitute a loss event. Impairment losses are recognised in profit or loss immediately. Also, any cumulative decline in fair value previously recognised in other comprehensive income is reclassified into profit or loss at this point.

In the case of financial assets carried at amortised cost, loss events may include: indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments; indications that they will enter bankruptcy or other financial reorganisation; and changes in arrears or economic conditions that correlate with defaults.

For financial assets carried at amortised cost (including loans and receivables), a separate allowance account is used to reduce the carrying amount of financial assets impaired by credit losses. After having taken all possible measures of recovery, if management establishes that the carrying amount cannot be recovered by any means, at that point the written-off amounts are charged to the allowance account or the carrying amount of impaired financial assets is reduced directly if not impairment amount was previously recognised in the allowance account.

When the terms of financial assets that would otherwise have been past due or impaired have been renegotiated, the Group recognised the impairment for such financial assets by taking into account the original terms as if the terms have not been renegotiated so that the loss events that have occurred are duly considered.

Financial guarantees
Where material, financial guarantees issued that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due are recognised as a financial liability at fair value on initial recognition.

The fair value of financial guarantee contracts has been assessed using a probability-weighted discounted cash flow approach. The probability has been based on:
• The likelihood of the guaranteed party defaulting during the next reporting period;
• The proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
• The maximum loss exposure if the guaranteed party were to default.

Financial guarantees are subsequently measured at the higher of the best estimate of the obligation in accordance with AASB 137: Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognised less, when appropriate, cumulative amortisation in accordance with AASB 118: Revenue. Where the entity give guarantees in exchange for a fee, revenue is recognised in accordance with AASB 118.

Derecognition

Financial assets are derecognised when 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 derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

(k) Issued Capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of the new shares or options are shown in equity as a deduction, net of tax, from the proceeds

(l) Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when it is expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within twelve months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability at least twelve months after the reporting period. All other assets are classified as non-current.

A liability is current when; it is expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within twelve months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period. All other liabilities are classified as non-current.

(m) Intangible Assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Research and development

Research costs are expensed in the period in which they are incurred. Development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources; and intent to complete the development and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit.

Patents and trademarks

Patents are in relation to research and are not capitalised, the costs associated with patents have been included as an expense.

(n) Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

(o) Government Grants

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all grant conditions will be met. Grants relating to expense items are recognised as income over the periods necessary to match the grant to the costs it is compensating. Grants relating to assets are credited to deferred income at fair value and are credited to income over the expected useful life of the asset on a straight-line basis.

(p) Comparative Figures

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year.

Where the Group retrospectively applies an accounting policy, makes a retrospective restatement or reclassifies items in its financial statements, an additional (third) statement of financial position as at the beginning of the preceding period in addition to the minimum comparative financial statements is presented.

2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Employee benefits provision

As discussed in note 1, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

	2017 $	2016 $
3. Other Income		
Sales revenue	5,900	-
Sundry income	496	10
Interest revenue	42,941	75,056
	49,337	75,066

4. Loss from Ordinary Activities

	2017	2016
	$	$

Loss from ordinary activities before income tax includes the following items of expense:

Expenses

	2017 $	2016 $
Depreciation and amortisation expense		
Depreciation of Property, plant and equipment	28,205	57,344
	28,205	57,344
Employment expenses and directors remuneration		
Base salary and fees	1,221,643	1,484,844
Superannuation and statutory oncosts	120,020	83,866
Share based payment expense	162,033	193,880
Other employee expenses	10,157	54,600
Transfers from / (to) employee entitlements provisions	43,686	18,124
Total employment expense	1,557,539	1,835,314
Finance Costs		
Interest and bank fees	2,439	1,496
	2,439	1,496
Research & Development expense		
Research and Development expense	1,785,242	795,114
Patent costs	471,261	689,535
Total Research & Development expense	2,256,503	1,484,649

5. Income Tax

(a) Income tax expense

The prima facie income tax benefit on pre-tax accounting loss reconciles to the income tax benefit in the financial statements as follows:

	2017 $	2016 $
Loss for year before income tax benefit	(4,818,625)	(3,959,651)
Income tax benefit calculated at 30%	(1,445,588)	(1,187,895)
Temporary differences and tax losses not recognised	1,445,588	1,187,895
Other permanent differences		
R&D tax offset rebate received	1,024,371	748,327
Income tax benefit attributable to loss	1,024,371	748,327

(b) Deferred tax balances not recognised

Calculated at 30% not brought to account as assets:

	2017 $	2016 $
Deferred tax assets relating to tax losses		
Revenue tax losses available for offset against future tax income	2,334,952	1,984,835
Net deferred tax asset not recognised in respect of tax losses	2,334,952	1,984,835
Deferred tax assets relating to temporary differences		
Provision for employee entitlements	76,421	63,315
Accruals	9,000	6,900
Share Issue Costs	274,675	284,675
	360,096	354,891
Deferred tax liabilities relating to temporary differences		
Accrued Income	-	(14,055)
	-	(14,055)
Net deferred tax asset not recognised in respect of temporary differences	360,096	340,836

Relevance of tax consolidation to the consolidated entity

Legislation to allow groups comprising a parent entity and its Australian resident wholly-owned entities, to elect to consolidate and be treated as a single entity for income tax purposes ('the tax consolidation system') was substantively enacted on 21 October 2002. The company and its wholly-owned Australian resident entity have been consolidated for tax purposes under this legislation.

	2017 $	2016 $
6. Cash and Cash Equivalents		
Cash on Hand	660	660
Cash at Bank	516,253	419,979
	516,913	420,639

	2017 $	2016 $
7. Other Current Assets		
Current		
Prepayments	59,025	49,273
Accrued Income	-	46,849
Goods and Services Tax	78,335	49,399
	137,360	145,521

The carrying amounts of the group's other current assets are a reasonable approximation of their fair values.

	2017 $	2016 $
8. Financial Assets		
Current		
Term Deposits	-	4,033,992
	-	4,033,992

	2017 $	2016 $
9. Property, Plant and Equipment		
Plant and Equipment	585,202	585,202
Less: Accumulated depreciation	(530,033)	(505,619)
	55,169	79,583
Furniture & Fittings	15,139	15,139
Less: Accumulated depreciation	(15,139)	(15,139)
	-	-
Office Equipment	57,676	47,576
Less: Accumulated depreciation	(46,568)	(42,777)
	11,108	4,799
	66,277	84,382

Reconciliations of the written down values at the beginning and end of the current financial year are set out below

	Plant and Equipment	Furniture and Fittings	Office Equipment	Total
Balance at 1 July 2015	51,691	2,959	4,936	59,586
Additions	72,933	925	8,282	82,140
Disposals	-	-	-	-
Depreciation	(45,041)	(3,884)	(8,419)	(57,344)
Balance at 30 June 2016	79,583	-	4,799	84,382
Balance at 1 July 2016	79,583	-	4,799	84,382
Additions	-	-	10,100	10,100
Disposals	-	-	-	-
Depreciation	(24,414)	-	(3,791)	(28,205)
Balance at 30 June 2017	55,169	-	11,108	66,277

	2017 $	2016 $
10. Current Trade and Other Payables		
Trade creditors	73,697	329,511
PAYG withholding payable	21,168	28,079
	94,865	357,590

The carrying amount of the Group's current trade and other payables are a reasonable approximation of their fair values.

	2017 $	2016 $
11. Other Current Liabilities		
Accrued expenses	254,385	361,730
	254,385	361,730

The carrying amount of the Group's other current liabilities are a reasonable approximation of their fair values.

	2017 $	2016 $
12. Provisions		
Current		
Provision for Annual Leave	209,180	176,165
Provision for Long Service Leave	34,211	3,302
	243,391	179,467
Non-Current		
Provision for Long Service Leave	11,346	31,584
	11,346	31,584

The carrying amount of the Group's provisions are a reasonable approximation of their fair values.

	2017 $	2016 $
13. Interest Bearing Payables		
Current		
Lease liabilities	-	5,379
	-	5,379

14. Issued Capital

	2017 Number of Shares	2016 Number of Shares	2017 $	2016 $
Ordinary shares - fully paid	23,374,770	23,369,744	17,591,420	17,581,368
	23,374,770	23,369,744	17,591,420	17,581,368

Movements in ordinary share capital of Vectus Biosystems Limited

	2017 Number of Shares	2016 Number of Shares	2017 $	2016 $
Balance at beginning of the year	23,369,744	18,270,652	17,581,368	12,836,684
Shares issued during the year				
Share placement	-	3,338,353	-	5,006,326
Class A shares converted to ordinary shares	-	1,700,000	-	17
Other share issues	5,026	60,739	10,052	324,564
	23,374,770	23,369,744	17,591,420	18,167,591
Transaction costs relating to share issues	-	-	-	(586,223)
Balance at end of year	23,374,770	23,369,744	17,591,420	17,581,368

For the purposes of these disclosures, the Group considers its capital to comprise its ordinary share capital and accumulated retained earnings. Neither the share based payments reserve nor the translation reserve is considered as capital.

Capital Risk Management

When managing capital, management's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management also aims to maintain a capital structure that ensures the lowest cost of capital available to the entity.

Management are constantly adjusting the capital structure to take advantage of favourable costs of capital or high returns on assets. As the market is constantly changing, management may change the amount of dividends to be paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The capital risk management policy remains unchanged from the 30 June 2016 Annual Report.

15. Equity - Accumulated losses	**2017 $**	**2016 $**
Accumulated loss at the beginning of the financial year	(13,869,021)	(10,657,697)
Loss after income tax expense for the year	(3,794,254)	(3,211,324)
Accumulated loss at the end of the financial year	**(17,663,275)**	**(13,869,021)**

16. Related party disclosures

(a) Subsidiary
Vectus Biosystems Limited has a 100% interest in Accugen Pty Limited.

(b) Key management personnel
Disclosures relating to key management personnel are set out in note 17.

(c) Transactions with related parties
Details of transactions occurred with related parties are disclosed in Remuneration Report in the Directors' report.

17. Key management personnel

(a) The Directors of Vectus Biosystems Limited during the year were:
Maurie Stang
Bernard Stang (Resigned 28 October 2016)
Karen Duggan
Graham Macdonald
Peter Bush
Ronald Shnier
Susan Pond

(b) The aggregate compensation made to key management personnel of the consolidated entity is set out below:

	2017 $	**2016** $
Short-term employee benefits	436,329	408,721
Post-employment benefits	41,452	17,454
Share-based payments	144,961	114,057
	622,742	540,232

Futher, disclosures relating to the key management personnel are set out in remuneration report in the directors report

18. Commitments

(a) Lease commitments - finance

	2017	2016
Committed at the reporting date and recognised as liabilities, payable:	$	$
Within one year	-	5,379
One to five years	-	-
	-	**5,379**

(b) Lease commitments - operating

Committed at the reporting date but not recognised as liabilities, payable for the laboratory facility at North Ryde:		
Within one year	25,845	25,845
One to five years	-	-
	25,845	**25,845**

(c) Operating Commitments

Committed at the reporting date but not recognised as liabilities, payable:		
Research and development expenses		
Within one year	844,370	616,653
One to five years	-	40,000
	844,370	**656,653**

(d) Capital expenditure commitments

There are no capital expenditure commitments at the end of the financial year.

19. Interest in subsidiary

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary in accordance with the accounting policy described in note 1.

		Ownership interest	
	Principal place of business/	**2017**	**2016**
Name	**Country of Incorporation**	**%**	**%**
Accugen Pty Limited	Australia	100%	100%

20. Subsequent events

There have been no matters or circumstances, which have arisen since 30 June 2017 that have significantly affected or may significantly affect:

(a) the operations, in financial years subsequent to 30 June 2017, of the consolidated entity; or
(b) the results of those operations;
(c) the state of affairs, in the financial years subsequent to 30 June 2017, of the consolidated entity.

21. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by UHY Haines Norton, Chartered Accountants.

	2017	2016
	$	$
Audit Services - UHY Haines Norton		
Audit and review of financial statements	36,000	29,000
Advice in relation to IPO	-	35,000
	36,000	64,000

22. Parent entity information

	2017 $	2016 $
Loss after income tax	(3,703,575)	(3,031,831)
Total comprehensive loss	(3,703,575)	(3,031,831)
Total current assets	1,639,029	5,511,143
Total assets	1,704,643	5,596,526
Total current liabilities	563,528	893,631
Total liabilities	574,874	925,215
Equity		
Issued capital (net of share issue cost)	17,591,420	17,581,368
Reserves	188,418	36,437
Retained earnings/accumulated losses	(16,650,069)	(12,946,494)
Total equity	1,129,769	4,671,311

Guarantees entered into by the parent entity in relation to the debts of its subsidiary
The parent entity has not entered into guarantee agreement on behalf of its subsidiary.

Operating commitments and Contingent liabilities
Operating commitments and contingent liabilities of the parent entity as at the reporting date are same as of the Group disclosed in note 18 and 28 respectively.

The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that future sacrifice of economic benfits will be required or the amount is not capable of reliable measurement.

Capital Commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment as at 30 June 2016 and 30 June 2017.

Significant accounting policies
The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, with exception of the investment in subsidiary that is accounted for at cost.

23. Notes to Cash Flow Statements

(a) Reconciliation of cash

For the purposes of the statement of cash flows, cash includes cash on hand and in banks and investments in money market instruments, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statement of cash flows is reconciled in the related items in the statement of financial position as follows:

	2017	2016
	$	$
Cash at bank and on hand	516,913	420,639
	516,913	420,639

(b) Reconciliation of operating loss after income tax to net cash flows from operating activities

	2017	2016
	$	$
Operating loss after income tax	(3,794,254)	(3,211,324)
Non cash/non-operating items included in profit and loss		
Depreciation and amortisation	28,205	57,344
Share based payments	151,981	193,880
Changes in assets and liabilities		
Decrease / (increase) in other assets	8,161	(95,507)
(Decrease) / increase in trade creditors	(216,581)	173,901
(Decrease) / increase in other creditors and accruals	(114,257)	252,982
Increase in employee entitlement provision	43,686	18,125
Net cash used in operating activities	(3,893,059)	(2,610,599)

24. Operating Segments

The consolidated group had no reportable segments during the year

25. Reserves	2017	2016
	$	$
Share based payments reserve		
Balance at beginning of financial year	36,437	-
Share based payments during the year allocated to:		
Employees and consultant	10,854	15,382
Directors	141,127	21,055
Balance at end of financial year	188,418	36,437

26. Loss per share	**2017** $	**2016** $
Basic loss per share (cents per share)	(16.24)	(16.13)
Diluted loss per share (cents per share)	(16.24)	(16.13)
Loss used to calculate basic loss per share	(3,794,254)	(3,211,324)
Loss used to calculate diluted loss per share	(3,794,254)	(3,211,324)
Weighted average number of ordinary shares used to calculate basic loss per share	23,372,978	19,904,750
Weighted average number of ordinary shares used to calculate diluted loss per share	23,372,978	19,904,750

27. Financial instruments disclosures

(a) Capital:

The Group considers its capital to comprise its ordinary share capital and accumulated retained earnings.

In managing its capital, the Group's primary objective is to ensure its continued ability to provide a consistent return for its equity shareholders through a combination of capital growth and distributions. In order to achieve this objective, the Group seeks to maintain a sufficient funding base to enable the Group to meet its working capital and strategic investment needs. In making decisions to adjust its capital structure to achieve these aims, either through new share issues or debt, the Group considers not only its short-term position but also its long-term operational and strategic objectives.

(b) Financial instrument risk exposure and management:

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them.

Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Group's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

(c) Principal financial instruments:

The principal financial instruments used by the Group, from which financial instrument risks arise, are:

Cash at bank;

Deposits and bonds; and

Trade and other payables.

(d) General objectives, policies and processes

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and has the responsibility for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The Board receives monthly reports through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets.

The overall objective of the board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. Further details regarding these policies are set out below:

(i) Credit risk:

Credit risk arises principally from the Group's cash and term deposits. It is the risk that the counterparty fails to discharge its obligation in respect of the instrument.

The maximum exposure to credit risk at balance sheet date is as follows :

	2017 $	**2016** $
Deposits with ANZ Bank (credit rating Aa2)	516,253	4,453,971

(ii) Liquidity risk:

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due. To achieve this aim, it seeks to maintain cash balances (or agreed facilities) to meet expected requirements for a period of at least 45 days.

The Board receives cash flow projections on a monthly basis as well as information regarding cash balances. At the balance sheet date, these projections indicated that the Group expected to have sufficient liquid resources to meet its obligations under all reasonably expected circumstances.

Maturity analysis of financial assets and liability based on management's expectations

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Trade payables and other financial liabilities mainly originate from the financing of assets used in our ongoing operations such as property, plant, equipment and investments in working capital (e.g., trade receivables and inventories). These assets are considered in the Group's overall liquidity risk.

Maturity Analysis - 2017	**Cash flows**				**Carrying**
		< 1 year	**1 - 3 years**	**Total**	**amount**
	$	**$**	**$**	**$**	**$**
Financial assets					
Cash and cash equivalents	516,913	516,913	-	516,913	516,913
TOTAL	**516,913**	**516,913**	**-**	**516,913**	**516,913**
Financial liabilities					
Trade Creditors	94,865	94,865	-	94,865	94,865
Accruals	254,385	254,385	-	254,385	254,385
TOTAL	**349,250**	**349,250**	**-**	**349,250**	**349,250**
NET MATURITY	**167,663**	**167,663**	**-**	**167,663**	**167,663**

Maturity Analysis - 2016	**Cash flows**				**Carrying**
		< 1 year	**1 - 3 years**	**Total**	**amount**
	$	**$**	**$**	**$**	**$**
Financial assets					
Cash and cash equivalents	420,639	420,639	-	420,639	420,639
Term deposits with accrued interest	4,080,876	4,080,876	-	4,080,876	4,080,841
TOTAL	**4,501,515**	**4,501,515**	**-**	**4,501,515**	**4,501,480**
Financial liabilities					
Trade Creditors	357,590	357,590	-	357,590	357,590
Accruals	361,730	361,730	-	361,730	361,730
Lease liabilities	5,379	5,379	-	5,379	5,379
TOTAL	**724,699**	**724,699**	**-**	**724,699**	**724,699**
NET MATURITY	**3,776,816**	**3,776,816**	**-**	**3,776,816**	**3,776,781**

(iii) Interest rate risk:

The Group's exposure to fluctuations in interest rates that are inherent in financial markets arise predominantly from assets and liabilities bearing variable interest rates.

The company's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below :

2017	**Weighted Average Rates**	**Floating rates**	**Fixed rates**	**Non-interest bearing**	**Total**
	$	**$**	**$**	**$**	**$**
Financial Assets					
Cash and cash equivalents	1.0%	516,913	-	-	516,913
Total		**516,913**	**-**	**-**	**516,913**
Financial liabilities					
Trade Creditors	0.0%	-	-	94,865	94,865
Other payables and accruals	0.0%	-	-	254,385	254,385
TOTAL		**-**	**-**	**349,250**	**349,250**
Net financial assets (liabilities)		**516,913**	**-**	**(349,250)**	**167,663**

2016	**Weighted Average Rates**	**Floating rates**	**Fixed rates**	**Non-interest bearing**	**Total**
	$	**$**	**$**	**$**	**$**
Financial Assets					
Cash and cash equivalents	1.0%	420,639	-	-	420,639
Term deposits	2.8%	-	4,080,876	-	4,080,876
Total		**420,639**	**4,080,876**	**-**	**4,501,515**
Financial liabilities					
Trade Creditors	0.0%	-	-	357,590	357,590
Other payables and accruals	0.0%	-	-	361,730	361,730
TOTAL		**-**	**-**	**719,320**	**719,320**
Net financial assets (liabilities)		**420,639**	**4,080,876**	**(719,320)**	**3,782,195**

The following sensitivity analysis is based on the interest rate risk exposure in existence at the balance sheet date. The analysis assumes all other variables remain constant.

Sensitivity analysis

2017	**Carrying amount**	**+0.5% interest Profit & Loss**	**-0.5% interest Profit & Loss**
	$	**$**	**$**
Cash at bank	516,913	2,585	(2,585)
Term deposits	-	-	-
		2,585	(2,585)
Tax charge of 30%		(775)	775
Post tax profit increase / (decrease)		1,810	(1,810)

2016	**Carrying amount**	**+0.5% interest Profit & Loss**	**-0.5% interest Profit & Loss**
	$	**$**	**$**
Cash at bank	420,639	2,103	(2,103)
Term deposits	4,080,876	20,404	(20,404)
		22,507	(22,507)
Tax charge of 30%		(6,752)	6,752
Post tax profit increase / (decrease)		15,755	(15,755)

28. Contingent Liabilities

There are no contingent liabilities of the company or the Group other than commitments disclosed in note 18.

VECTUS BIOSYSTEMS LIMITED
AND CONTROLLED ENTITIES

DIRECTORS' DECLARATION

In accordance with a resolution of directors, I state that:

1 In the opinion of the Directors:

(a) the financial statements and notes, as set out on pages 17 to 41, are in accordance with the *Corporations Act 2001* and

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2017 and its performance for the year ended on that date; and

(ii) complying with Accounting Standards and the *Corporations Regulations 2001* ;

(b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in note 1; and

(c) There are reasonable grounds to believe that the company and the consolidated entity will be able to pay its debts as and when they become due and payable;

2 This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the *Corporations Act 2001* for the financial year ending 30 June 2017.

On behalf of the Board of Directors

Graham Macdonald

Graham Macdonald
Chairman

Sydney, 28 September 2017

UHY Haines Norton
Chartered Accountants

Level 11 | 1 York Street | Sydney | NSW | 2000
GPO Box 4137 | Sydney | NSW | 2001
t: +61 2 9256 6600 | f: +61 2 9256 6611
sydney@uhyhn.com.au
www.uhyhnsydney.com.au

INDEPENDENT AUDITOR'S REPORT

To the Members of Vectus Biosystems Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Vectus Biosystems Limited (the Company) and its subsidiary (the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

i. giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and

ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001.*

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the *Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's *APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001,* which has been given to the directors of the Company, would be in the same terms given to the directors at the time of this auditor's report.

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

Material Uncertainty Related to Going Concern

We draw attention to Note 1 in the financial report, which indicates that the Group incurred a net loss of $3,794,254 during the financial year ended 30 June 2017 and, as of that date, the Group's net assets balance was $116,563. The Group's ability to continue as a going concern is dependent on the ability of the Group to successfully implement various capital raising initiatives. There is a risk that the Group may not be successful in implementing these initiatives or the implementation of alternative options which may be available to the Group. These conditions together with other matters described in Note 1, indicate material uncertainty that may cast doubt on the Group's ability to continue as a going concern and, therefore, whether it will realise its assets and discharge its liabilities in the normal course of business, and at the amounts stated in the financial report.

Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

GOING CONCERN

Why a key audit matter	How our audit addressed the risk
The Company has had a history of making losses. The net loss for 2017 was $3.80 million (2016: $3.21 million). Therefore, there is an increased risk that the Company may not have the ability to continue as a going concern. At 30 June 2017, the company had $0.52 million (2016: $4.46 million) of cash in the bank. The net cash outflow from operating activities in 2017 was $3.90 million (2016: $2.61 million). The magnitude of losses relative to the level of cash and net assets in the entity are indicative of possible going concern risk. A key audit matter is regarding the entity's ability as a going concern.	Our audit procedures included, amongst others: ▪ Analysis of the cash flow projections ▪ Assessing significant non-routine forecast cash inflows and outflows including the expected impact of a planned capital raising for quantum and timing. We used our knowledge of the Group, its industry and current status of these initiatives to assess the level of the associated uncertainty ▪ Evaluating the Group's going concern disclosures in the financial report by comparing them to our understanding of the matter, the events or conditions incorporated into the cash flow projection assessment, the Group's plans to address those events or conditions, and accounting standards requirements ▪ Discussions with the directors and management regarding the capital raising initiatives, their current status, including the timeline and their uncertainties

RESEARCH AND DEVELOPMENT COSTS

Why a key audit matter	How our audit addressed the risk
As disclosed in the financial report, the Group has expensed all research and development expenditure (FY17: $2.26 million, FY16 $1.48 million), in the statement of profit or loss and other comprehensive income. Our audit focused on this area due to the value of the research and development costs incurred, and the fact that there is judgment involved in assessing whether the requirements detailed in the accounting standards for expensing or capitalising these costs have been met. The Group is currently performing a range of animal toxicology studies on its main compound. This research continues to progress over time with corresponding increases in the probability of future economic benefits flowing to the Company. AASB 138: Intangible Assets prescribes that research and development expenditure on an asset or product be capitalised as an intangible asset when specific criteria (relating to commercial viability) are met. Significant judgments relevant to the Group for capitalisation of research and development costs include determining if the development stage has been reached. Management's conclusion is that no material element of the spending this year on research and development meets the criteria for capitalisation on the basis that the Group is still in the research phase and has not started with human trials of the main compounds yet.	In responding to the significant judgments involved in determining whether the research and development spend has been recognized in accordance with the relevant accounting standards, our audit procedures included: ▪ Discussions with management regarding their accounting policies for expensing and capitalising the Group's research and development costs. ▪ Updating our understanding of management's process for assessing whether any research and development spend has met all of the AASB 138 recognition criteria; ▪ Meeting with management and discussing the nature of work being completed and their assessment of the areas of judgment, particularly the current stage of the research and development. ▪ Considering other information obtained during the audit, including products being developed, nature of contracts with key suppliers and the stage of related sales prospects. The results of our procedures did not identify any inconsistencies with management's conclusions that no material element of the spending this year on research and development meets criteria for capitalisation. It is likely that in the future, some of the Group's research and development spend will meet the criteria for capitalisation. The Group's systems and processes for recording research and development spend and assessing the stage of the development against all of the specific criteria for recognition under AASB 138 will require further development to provide a framework for capitalisation.

Other Information
The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2017, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors 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 preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Company to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report
Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

UHY Haines Norton
Chartered Accountants

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 11 to 15 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Vectus Biosytems Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.

UHY Haines Norton

M. D. Nicholaeff
Partner
Sydney
28 September 2017

UHY Haines Norton
Chartered Accountants

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
Website: www. vectusbiosystems.com.au