



28 February 2018

Company Announcements Office
Australian Securities Exchange

HALF-YEAR REPORT

Vectus Biosystems Limited (Vectus or the Company) reports its financial results for the half-year ended 31 December 2017.

Highlights

Vectus is now at an advanced stage in the pre-clinical development of its lead compound, VB0004, a new chemical class of drug that prevents and, unlike any known competitor in its field, reverses fibrosis, the process causing organ failure, in damaged and diseased hearts and kidneys. The economic and health benefits of avoiding very costly treatments (for instance, dialysis for kidney failure or heart transplants), and of evading early death, underpin VB0004's outstanding reimbursement potential and a set of indications for use that could position it in a class of its own.

- The Company's IND toxicology programme has completed all in-life trials in two species (dog and rat). In line with Vectus' previous preclinical results, no adverse effects were observed at doses of 2,000 milligrams per kilogram as a single dose, 1,000 milligrams per kilogram administered daily for seven days and 500 milligrams per kilogram administered daily for 28 days. These doses represent an exposure more than 2,000 to 10,000 times the anticipated therapeutic dose in humans.
- Key patents covering lead compound VB0004 have now been granted in the USA, Europe, Japan, the Republic of South Korea, Singapore, the People's Republic of China, the Russian Federation and Canada, and by the African Regional Intellectual Property Organization.
- Good Manufacturing Practice (GMP) scale-up of the Company's lead compound was completed at 5 kilogram scale, with increased yield at this scale. Even at the 5 kilogram scale, the cost of goods is extremely competitive at \$0.05 per day.
- Attendances at the BIO International Convention in San Diego and the AusBiotech 2017 conference in Adelaide resulted in a series of face-to-face meetings with most of the world's leading human pharmaceutical and animal health companies, as well as numerous regional pharmaceutical companies.
- Vectus now has in place 12 executed Confidential Disclosure Agreements (CDAs) and two executed Material Transfer Agreements (MTAs) with a cross-section of the world's leading human pharmaceutical and animal health companies. The Company is currently in further discussions with additional high-profile market leaders, which are in turn expected to progress to confidential discussions and MTAs.
- Vectus' drug library now has over 1,000 compounds, and reviews by third party industry participants have indicated the potential to address multiple fibrotic disease states, including heart, kidney, lung, liver and ophthalmic opportunities. Furthermore, certain compounds in the Company's library have demonstrated the potential to provide renal protection for common chemotherapy treatment side effects.
- Accugen technology is progressing through pre-commercial customer trials, with the aim to evaluate its commercial rollout potential in calendar year 2018.

VECTUS BIOSYSTEMS LIMITED ABN 54 117 526 137

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Commentary

Vectus made substantial progress in the half year to 31 December 2017, with VB0004 moving towards the goals of Phase I (safety) human trials. In parallel, the Company has had an extensive programme of pharmaceutical industry engagement leading to several CDAs and MTAs. Vectus is engaged in a number of active and current discussions focussing on both strategic partnerships and the initiation of funded human clinical trials in certain international markets.

The Company's intellectual property (IP) portfolio continues to evolve, both in terms of scope and the increasing number of granted patents targeting high-value unmet needs across multiple disease states in major international territories.

Vectus continues to be the recipient of the Australian Taxation Office's (ATO) research and development (R&D) cash-back scheme and is in discussions with parties targeting additional non-dilutive funding reflecting its lead compounds' potential to reduce healthcare costs in several high-cost disease states.

The Company attended the BIO International Convention in San Diego and the AusBiotech 2017 conference in Adelaide, as well as the Bioshares Biotech Summit in New Zealand. Engagement with leading industry participants continues to grow, with Vectus having signed 12 CDAs and two MTAs, allowing potential partners to evaluate certain components of the Company's drug library and IP assets. Vectus is currently engaged in a number of discussions that are expected to progress to additional CDAs being signed in calendar year 2018. Feedback from industry-leading, multinational pharmaceutical companies has confirmed that the treatment of fibrotic disease is considered one of the largest and fastest growing areas of unmet clinical need. This engagement provides meaningful evidence of the growing interest in the Company's portfolio and represents recognition of Vectus' proposed ability to clinically reverse fibrosis.

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

The preclinical trials of VB0004 necessary to initiate the first-in-human trials have been completed with no adverse outcomes identified, even at doses very significantly greater than those anticipated for actual therapeutic applications. All in-life trials in two species (dog and rat) were completed and, in line with the Company's previous preclinical results, no adverse effects were observed at doses of 2,000 milligrams per kilogram as a single dose, 1,000 milligrams per kilogram administered daily for seven days and 500 milligrams per kilogram administered daily for 28 days. These doses represent an exposure more than 2,000 to 10,000 times the anticipated therapeutic dose in humans.

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

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

A carefully formulated IP strategy has been a cornerstone of the Company's development since its inception. Vectus has consolidated its portfolio of patents (granted or applied for) consisting of 10 families, covering composition, methods of use and methods of synthesis. The VB0004 patent has now been granted in all major jurisdictions and its companion patent covering the T series library has been granted in the USA.

Overall, the Company has demonstrated that it has generated not only a number of promising emerging lead compounds, but that it has a platform technology capable of addressing multiple disease states, protected by a broad and powerful IP library. Inherent in this library of over 1,000 compounds are backup compounds to the existing leads and a promising source of additional compounds to address a variety of disease states underpinned by damaging fibrosis. This in turn provides a number of potential discrete licencing opportunities across a spectrum of disease states.

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

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

Vectus has a material entitlement to an ATO cash-back in relation to eligible R&D expenditure in the financial year ending 30 June 2018. The Company is engaged in evaluating a number of options to address its future capital requirements, including strategic discussions with potential trade partners.

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

Vectus Biosystems Limited

Karen Duggan

Chief Executive Officer and Executive Director

About Vectus Biosystems Limited

Vectus Biosystems Limited (ASX:VBS) (Vectus or the Company) is developing a treatment for fibrosis and high blood pressure, which includes the treatment for three of the largest diseases in the fibrotic market, namely heart, kidney and liver disease. Vectus successfully completed its Initial Public Offering on the Australian Securities Exchange (ASX) and commenced trading on ASX on 23 February 2016, after raising \$5.1 million. Funds raised 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 licencing opportunities.

Appendix 4D

Half Year Report for the six months ended on 31 December 2017

Name of entity

VECTUS BIOSYSTEMS LIMITED ABN: 54 117 526 137

Half year report for the six months ended on 31 December 2017 (comparatives for the six months ended on 31 December 2016).

Results for announcement to the market

Revenues from ordinary activities	down	(96.8%)	to	1,010
(Loss) from ordinary activities after tax attributable to members	down	(43.6%)	to	(873,933)
Net (loss) for the period attributable to members	down	(43.6%)	to	(873,933)
Dividends (distributions)	Amount per security		Franked amount per security	
Final and interim dividends	Nil ¢		Nil ¢	
Previous corresponding period	Nil ¢		Nil ¢	

Brief Explanation of figures

Refer to attached 31 December 2017 Half-year Financial Report

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

NTA backing

	31 Dec 2017	31 Dec 2016
Net tangible asset backing per ordinary share	(2.78) cents	9.58 cents

Audit qualification or review

The accounts were subject to review by the Auditors and the review report is attached as part of half year report.

Other comments

Refer to attached 31 December 2017 Half-year Financial Report



Robert J Waring
Company Secretary
28 February 2018



Vectus Biosystems Limited
ACN 117 526 137

Half-year Financial Report
For the Half-year Ended
31 December 2017



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Corporate Directory

Vectus Biosystems Limited

ACN: 117 526 137
ABN: 54 117 526 137

Directors

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

Company Secretary

Mr Robert Waring

Registered and Principal Office

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Share Registry

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Website: www.boardroomlimited.com.au
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Auditor

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

Stock Exchange Listing

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

Vectus Biosystems Limited

DIRECTORS' REPORT

The Directors present their report on the consolidated entity consisting of Vectus Biosystems Limited (the Company) and its controlled entities together with the consolidated financial report for the half-year ended 31 December 2017.

DIRECTORS

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

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

PRINCIPAL ACTIVITIES

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

In the opinion of the Directors, no matters or circumstances have arisen since 31 December 2017 that have significantly affected, or may significantly affect, the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in future financial years.

REVIEW OF OPERATIONS

The Group's total net loss for the six months period to 31 December 2017 was \$873,933 (2016 loss: \$1,550,108).

ROUNDING OF ACCOUNTS

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

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

The Auditor's Independence Declaration is set out in the attached statement from UHY Haines Norton and forms part of the Directors' Report for the half year ended 31 December 2017.

DIVIDENDS

No dividends were proposed, declared or paid during the half year period and to the date of this report (2016: Nil).

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



Graham Macdonald
Non-Executive Chairman

Sydney, 28 February 2018

Vectus Biosystems Limited

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the half-year ended 31 December 2017

	Notes	December 2017 \$	December 2016 \$
Revenue and other income	2	1,010	31,153
Administration and corporate expenses		(348,325)	(366,003)
Borrowing costs	3	(4,500)	(70)
Depreciation and amortisation expense	3	(10,050)	(12,205)
Employee benefits expense and Directors' remuneration	3	(702,194)	(744,635)
Occupancy expenses	3	(147,445)	(155,071)
Research & Development	3	(1,073,514)	(1,308,262)
Travel expenses		(18,040)	(19,386)
Loss before income tax expense		(2,303,058)	(2,574,479)
Income tax benefit (R&D tax rebate)		1,429,125	1,024,371
Net loss for the period		(873,933)	(1,550,108)
Other Comprehensive Income			
Items that may be reclassified subsequently to profit or loss		-	-
TOTAL COMPREHENSIVE LOSS FOR THE HALF YEAR		(873,933)	(1,550,108)
Total comprehensive loss attributable to members of Vectus Biosystems Limited		(873,933)	(1,550,108)
EARNINGS PER SHARE		Cents	Cents
Basic loss per share	8	(3.74)	(6.63)
Diluted loss per share	8	(3.74)	(6.63)

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

Vectus Biosystems Limited

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	December 2017 \$	June 2017 \$
CURRENT ASSETS			
Cash and cash equivalents	4	303,846	516,913
Other current assets	5	<u>98,763</u>	<u>137,360</u>
TOTAL CURRENT ASSETS		<u>402,609</u>	<u>654,273</u>
NON-CURRENT ASSETS			
Plant and equipment		<u>56,227</u>	<u>66,277</u>
TOTAL NON-CURRENT ASSETS		<u>56,227</u>	<u>66,277</u>
TOTAL ASSETS		<u>458,836</u>	<u>720,550</u>
CURRENT LIABILITIES			
Trade and other payables		605,106	94,865
Other current liabilities		241,398	254,385
Provisions		<u>247,186</u>	<u>243,391</u>
TOTAL CURRENT LIABILITIES		<u>1,093,690</u>	<u>592,641</u>
NON-CURRENT LIABILITIES			
Provisions		<u>14,560</u>	<u>11,346</u>
TOTAL NON-CURRENT LIABILITIES		<u>14,560</u>	<u>11,346</u>
TOTAL LIABILITIES		<u>1,108,250</u>	<u>603,987</u>
NET ASSETS		<u>(649,414)</u>	<u>116,563</u>
EQUITY			
Issued capital		17,591,420	17,591,420
Reserves		296,374	188,418
Accumulated losses		<u>(18,537,208)</u>	<u>(17,663,275)</u>
TOTAL EQUITY		<u>(649,414)</u>	<u>116,563</u>

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

Vectus Biosystems Limited

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY For the half-year ended 31 December 2017

	Issued Capital \$	Accumulated Losses \$	Other Reserves \$	Total Equity \$
Balance at 1 July 2017	17,591,420	(17,663,275)	188,418	116,563
Total Comprehensive Income				
Loss for the period	-	(873,933)	-	(873,933)
Total comprehensive loss for the period	-	(873,933)	-	(873,933)
Transaction with owners in their capacity as owners				
Share-based payment	-	-	107,956	107,956
Balance at 31 December 2017	17,591,420	(18,537,208)	296,374	(649,414)
Balance at 1 July 2016	17,581,368	(13,869,021)	36,437	3,748,784
Total Comprehensive Income				
Loss for the period	-	(1,550,108)	-	(1,550,108)
Total comprehensive loss for the period	-	(1,550,108)	-	(1,550,108)
Transaction with owners in their capacity as owners				
Shares issued during the year	7,528	-	(7,528)	-
Share-based payment	-	-	40,344	40,344
Balance at 31 December 2016	17,588,896	(15,419,129)	69,253	2,239,020

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

Vectus Biosystems Limited

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the half-year ended 31 December 2017

	December 2017 \$	December 2016 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from government grants (inclusive of GST)	1,429,125	-
Payments to suppliers and employees (inclusive of GST)	(1,642,947)	(2,825,510)
Interest received	755	30,916
Net cash used in operating activities	(213,067)	(2,794,594)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net receipts from term deposits	-	4,033,992
Net cash used in investing activities	-	4,033,992
CASH FLOWS FROM FINANCING ACTIVITIES		
Borrowing of loans	720,000	-
Repayment of loans	(720,000)	(5,379)
Net cash provided by financing activities	-	(5,379)
Net (decrease) / increase in cash held	(213,067)	1,234,019
Cash at the beginning of the financial period	516,913	420,639
Cash at the end of the financial period	303,846	1,654,658

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

Vectus Biosystems Limited

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2017

1 Statement of Accounting Policies

(a) Financial Reporting Framework

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

The Half Year Financial Report should be read in conjunction with the annual financial report of Vectus as at 30 June 2017. It is also recommended that the Half Year Financial Report be considered together with any public announcements made by the Company during the half-year ended 31 December 2017 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001*.

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

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

The accounting policies that have been adopted in the preparation of this Financial Report have been consistently applied by the entities in the consolidated group and are consistent with those in the June 2017 Financial Report. The adoption of new and amended standards is set out below.

Going Concern

The Company has made operating losses of \$873,933 for the six months to 31 December 2017 (2016: \$1,550,108). The net assets position has gone down from \$116,563 as at 30 June 2017 to (\$649,414) on 31 December 2017.

The operating cash burn rate for the half-year ended 31 December 2017 was \$213,067 (31 December 2016: \$2,794,594). The cash balance as at 31 December 2017 was \$303,846 (30 June 2017: \$516,913).

The Company has been the beneficiary of the Research and Development (R&D) cash back from Australian Taxation Office, with a refund in excess of \$1 million expected for the financial year ending 30 June 2018. Vectus also has options of drawing certain cash advances which can be provided to the company for repayment from the 2018 R&D cashback.

Vectus is evaluating capital market transactions, trade and strategic discussions and certain proposals for the funding of clinical trials in large scale potential markets. The Company has the ability to vary certain expenditure, by either accelerating or deferring clinical trial related investments as 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.

(b) Changes in Accounting Policies

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

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

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

AASB 15 - Revenue from Contracts with Customers

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

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

The new standard is effective for the first interim period within annual reporting periods beginning on or after 1 January 2018, and will allow early adoption. At this stage, the group is not able to estimate the effect of the new rules on the Group's financial statements. The Group will make more detailed assessments of the effect of the new rule over the next 12 months. The Group does not expect to adopt the new standard before 1 July 2018.

Vectus Biosystems Limited

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2017

	December 2017 \$	December 2016 \$
2 Other Income		
Interest received	755	30,916
Realised exchange variance	255	237
Total revenue	<u>1,010</u>	<u>31,153</u>
3 Expenses		
Loss from ordinary activities before income tax expense includes:		
Borrowing costs		
Interest paid	4,500	70
Depreciation and amortisation	10,050	12,205
Employment expenses and Directors' remuneration		
Base salary and fees	527,183	622,360
Superannuation expenses	36,155	43,495
Share based payment expense	107,957	40,343
Other employee expenses	23,891	20,945
Transfers from / (to) employee entitlements provisions	7,008	17,492
Total employment expense	<u>702,194</u>	<u>744,635</u>
Rental and occupancy expenses	147,445	155,071
Research and development and Patent expense		
Research and development expense	625,987	1,040,924
Patent costs	447,527	267,338
Total research and development and Patent expense	<u>1,073,514</u>	<u>1,308,262</u>
	December 2017 \$	June 2017 \$
4 Cash and Financial Assets		
Cash and Cash Equivalents		
Cash at bank and on hand	<u>303,846</u>	<u>516,913</u>
	<u>303,846</u>	<u>516,913</u>
5 Other Current Assets		
Prepayments	38,521	59,025
Other receivables	60,242	78,335
	<u>98,763</u>	<u>137,360</u>
6 Operating Segments		

The consolidated group operates only in one reportable segment which is 'Research and Development'.

Vectus Biosystems Limited

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2017

	December 2017 \$	December 2016 \$
7 Issues of Equity Securities		
Opening balance	17,591,420	17,581,368
<i>Ordinary shares issued during the half-year reporting period</i>		
1,764 shares issued to Vectus employees as part of Company's Employee Incentive Plan	-	3,528
2,000 shares issued to Vectus Director, Karen Duggan as part of the Company's Employee Incentive Plan	-	4,000
Closing balance	<u>17,591,420</u>	<u>17,588,896</u>

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

	December 2017 \$	December 2016 \$
8 Earnings per Share		
Basic loss per share (cents)	(3.74)	(6.63)
Diluted loss per share (cents)	(3.74)	(6.63)
Weighted average number of ordinary shares outstanding during the year used in the calculation of basic EPS	23,374,770	23,371,396
Weighted average number of ordinary shares outstanding during the year used in the calculation of diluted EPS	23,374,770	23,371,396

9 Related Party Transactions

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

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

	December 2017 \$	December 2016 \$
Details of these transactions are shown below:		
Regional Healthcare Group Pty Ltd		
The Company and its controlled entities paid for services provided by Regional Healthcare Group Pty Ltd.		
Corporate and administration expenses	<u>96,767</u>	<u>86,271</u>
	<u>96,767</u>	<u>86,271</u>
Outstanding Balance at the end of the reporting period *	48,111	16,540

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

Aeris Environmental Ltd

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

Accounting expenses	<u>12,886</u>	<u>17,516</u>
	<u>12,886</u>	<u>17,516</u>
Outstanding Balance at the end of reporting period *	11,109	17,516

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

Vectus Biosystems Limited

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the half-year ended 31 December 2017

	December 2017 \$	December 2016 \$
10 Commitments		
(a) Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable for the laboratory facility at North Ryde:		
Within one year	27,731	28,430
One to five years	-	-
	<u>27,731</u>	<u>28,430</u>
(b) Operating commitments		
Committed at the reporting date but not recognised as liabilities, payable:		
<i>Research and development expenses</i>		
Within one year	271,577	1,419,232
One to five years	178,812	40,000
	<u>450,389</u>	<u>1,459,232</u>
(c) Capital expenditure commitments		
There are no capital expenditure commitments.		

11 Events Subsequent to Reporting Date

There have been no matters or circumstances that have arisen since 31 December 2017 that have significantly affected, or may significantly affect:

- (a) the operations, in financial years subsequent to 31 December 2017, of the consolidated entity;
- (b) the results of those operations; or
- (c) the state of affairs, in the financial years subsequent to 31 December 2017, of the consolidated entity.

Vectus Biosystems Limited

DIRECTORS' DECLARATION

Directors' Declaration

In the Directors' opinion:

- 1 the attached financial statements and notes thereto comply with the *Corporations Act 2001*, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- 2 the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the financial half-year ended on that date; and
- 3 there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

On behalf of the Directors



Graham Macdonald

Non-Executive Chairman

Sydney, 28 February 2018

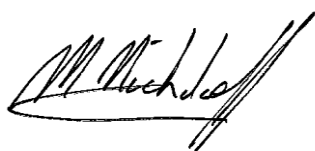
**Auditor's Independence Declaration
Under Section 307C of the Corporations Act 2001**

To the Directors of Vectus Biosystems Limited

I declare that, to the best of my knowledge and belief, in relation to the review for the half-year ended 31 December 2017, there have been:

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

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

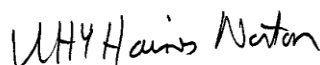


Mark Nicholaeff

Partner

Sydney

Dated: 28 February 2018



UHY Haines Norton

Chartered Accountants

INDEPENDENT AUDITOR'S REVIEW REPORT

To the Members of Vectus Biosystems Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Vectus Biosystems Limited ("the company"), which comprises the condensed consolidated statement of financial position as at 31 December 2017, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the half-year ended on that date, a statement of significant accounting policies, other selected explanatory notes, and the directors' declaration of the consolidated entity comprising the company and the entity it controlled at the end of the half-year or from time to time during the half-year.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and its performance for the half-year ended on that date; and complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Vectus Biosystems Limited and the entity it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Emphasis of Matter – Going Concern

We draw attention to Note 1 in the financial report, which indicates that the consolidated entity incurred a net loss of \$873,933 during the half year ended 31 December 2017 and, as of that date, the consolidated entity's net deficit balance was \$649,414.

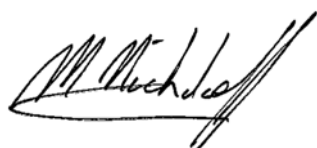
The consolidated entity's ability to continue as a going concern is dependent on the ability of the Group to successfully implement various fund raising initiatives. There is a risk that the consolidated entity may not be successful in implementing these initiatives or the implementation of alternative options which may be available to the consolidated entity. These conditions together with other matters described in Note 1, indicate material uncertainty that may cast doubt on the consolidated entity'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 conclusion is not modified in respect of this matter.

Conclusion

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

- a) giving a true and fair view of consolidated entity's financial position as at 31 December 2017 and of its performance for the half-year ended on that date; and
- b) complying with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

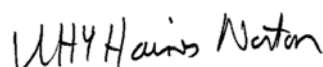


Mark Nicholaeff

Partner

Sydney

Date: 28 February 2018



UHY Haines Norton

Chartered Accountants