VIRALYTICS LTD

ABN 12 010 657 351

APPENDIX 4D

Half Year Report

For the 6 months ended 31 December 2016 (current period)
and the previous corresponding period 6 months ended 31 December 2015

Results for announcement to the market

	31 Dec 16 ($,000)	31 Dec 15 ($,000)	% movement	
Revenue from ordinary activities	286	209	Up	37%
(Loss) from ordinary activities after tax attributable to members	(7,133)	(6,066)	Up	18%
(Loss) for the period attributable to members	(7,133)	(6,066)	Up	18%

	31 Dec 16	31 Dec 15
Net tangible asset backing per ordinary security	17.7 cents	19.7 cents
Basic (Loss) per share	(3.0 cents)	(3.2 cents)

An explanation of the result of the current period and full financial details are set out in the attached Directors' Report and Financial Report.

It is not proposed that any dividends will be paid. No dividends were paid in the previous corresponding period.

Viralytics Limited

ABN 12 010 657 351

HALF-YEAR FINANCIAL REPORT

31 DECEMBER 2016

Corporate Information

Directors

Mr Paul Hopper	Chairman
Dr Leonard Post	Non-Executive Director
Mr Peter Turvey	Non-Executive Director
Dr Malcolm McColl	Managing Director and Chief Executive

Company Secretary

Ms Sarah Prince

Chief Financial Officer

Mr Robert Vickery

Principal Place of Business

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Registered Office

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Level 12, 680 George Street
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Auditors

Grant Thornton Audit Pty Ltd
Level 17, 383 Kent Street
Sydney NSW 2000

Share Registry & Register

Link Market Services Limited
Level 12, 680 George Street
Sydney, NSW 2000
Ph: (02) 8280 7454

Directors' Report

Your directors submit the financial report of the Company for the half-year ended 31 December 2016.

DIRECTORS

The names of directors in office during the half year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Mr Paul Hopper	Chairman
Dr Leonard Post	Non-Executive Director
Mr Peter Turvey	Non-Executive Director
Dr Malcolm McColl	Managing Director and Chief Executive

RESULTS AND DIVIDENDS

The loss after tax of the Company for the half-year was $7.1 million (comparative half-year: loss of $6.1 million). The increase in loss was due largely to increased operational expenditure including trial costs and manufacture of drug.

No dividend was proposed or paid.

CASH MANAGEMENT AND FUNDING

The Company's cash on hand decreased in the 6 months to 31 December 2016 by $6.5 million to $39.6 million.

Operating cash outflow for the period was $7.4 million compared to $2.7 million in the prior corresponding period (6 months to 31 December 2015). Nothing was received from the Research and Development Tax Incentive refund (2015 - $2.9m) but $4.3 million was received in the first quarter of 2017. $0.3 million interest was received (2015 - $0.2 million). Payments to suppliers and employees was up by $1.9 million compared to December 2015.

Directors' Report

REVIEW OF OPERATIONS

The highlight of the past half-year period for Viralytics was the presentation of new and strongly positive data at major oncology conferences in the US and Europe from our two trials evaluating CAVATAK® in combination with leading checkpoint inhibitor[1] drugs in late-stage melanoma patients. In October at the Annual Conference of the European Society of Medical Oncology (ESMO), we presented data on our Phase 1b MITCI trial of intralesional CAVATAK in combination with YERVOY®[2] (ipilimumab). In November at the Annual Conference of the Society for Immunotherapy of Cancer (SITC), we reported on our Phase 1b CAPRA trial of CAVATAK in combination with KEYTRUDA®[3] (pembrolizumab). These melanoma trial updates as well as data from our other trials were presented at various conferences in the second half of 2016 and are also detailed later in this report.

We are continuing to build and expand our clinical trial programme in order to establish an optimal path to product registration and to explore possible new indications for CAVATAK. We see this work as critical to strengthening partnering discussions and generating shareholder value. Strong news flow will continue in 2017 as we report on the clinical progress of CAVATAK as a potential new treatment in the fast-growing field of cancer immunotherapy.

CLINICAL TRIALS

Phase 1b MITCI Combination Clinical Trial

Viralytics presented clinical findings from the Phase 1b MITCI trial as part of the "Immunotherapy of Cancer" poster discussion session at ESMO in October. The MITCI (Melanoma Intra-Tumoral CAVATAK and Ipilimumab) study is designed to evaluate the tolerability and anti-cancer activity of the intralesional injection of CAVATAK in combination with the systemic administration of YERVOY, a top-selling immune checkpoint inhibitor, in patients with unresectable melanoma.

The data was well received, with demonstration of the potential for CAVATAK to drive enhanced activity of checkpoint inhibitors such as YERVOY with a low rate of adverse events. These data strengthen our confidence that CAVATAK has significant potential in combination with the checkpoint inhibitors across a range of cancer indications.

1 Checkpoint inhibitors include the anti-PD1 antibodies such as nivolumab (OPDIVO, trademark of Bristol Myers Squibb Company) and pembrolizumab (KEYTRUDA, trademark of Merck & Company Inc) and the anti-CTLA4 antibodies such as ipilmumab (YERVOY, trademark of Bristol Myers Squibb Company).
2 YERVOY® is a trademark of the Bristol-Myers Squibb company
3 KEYTRUDA® is a trademark of Merck & Company Inc

Directors' Report

A disease control rate[4] (DCR) of 82.4 percent was demonstrated in the first 17 evaluable patients, including nine patients with an objective tumour response and five patients with stable disease. Of these 17 patients, 66 percent had been previously treated with at least one line of systemic therapy.

In a subset analysis of patients who had been previously treated with checkpoint inhibitor therapies, overall tumour responses and stable disease were observed in 87.5 percent (7/8) of patients. A preliminary overall objective tumour response rate of 37.5 percent (3/8 patients) for the MITCI subset compares favourably with that of a 10 percent (4/40 patients) response rate among advanced melanoma patients undergoing YERVOY treatment following prior administration of anti-PD1 checkpoint therapies, according to recent clinical data reported in the *British Journal of Cancer*[5].

In the MITCI trial, responses were observed in injected lesions, non-injected non-visceral lesions, and in distant non-injected visceral lesions, including lung and liver metastases. This study continues at five sites in the United States.

Phase 1b CAPRA Combination Clinical Trial

Viralytics presented an update on the ongoing Phase 1b CAPRA clinical trial at the SITC annual meeting in November. The company-sponsored CAPRA (CAvatak and PembrRolizumab in Advanced Melanoma) study is designed to evaluate the tolerability of intratumourally administered CAVATAK in combination with the checkpoint inhibitor KEYTRUDA in 30 patients with advanced melanoma. Investigators are also assessing evidence of anti-cancer activity, including response rates and bio-markers of anti-tumour immunity.

According to preliminary data from the first 10 patients evaluable for best overall tumour response assessment, a disease control rate (DCR) of 100 percent (10/10 patients) was demonstrated, including seven patients (70 percent) with an objective tumour response and three patients (30 percent) with stable disease.

Phase 1 STORM Solid Tumour Cancer Clinical Trial

In the ongoing Phase 1 STORM (Systemic Treatment Of Resistant Malignancies) study, also known as the KEYNOTE 200 clinical trial, multiple intravenous doses of CAVATAK are being administered in combination with KEYTRUDA to patients with late-stage, non-small cell lung cancer and metastatic bladder cancer.

4 Disease control rate includes patients that live with the cancer without it worsening. It includes patients that achieve a complete tumour response, partial tumour response or stable disease. A complete tumour response (immune related Response Criteria) is the disappearance of all tumour burden. A partial tumour response is a reduction in the total tumour burden by greater that 50%. Progressive disease is a 25% increase in tumour burden and all other cases are stable disease.
5 Bowyer et al; British Journal of Cancer (2016) 114, 1084–1089 et al.

Directors' Report

The trial, a collaboration with Merck (known as MSD outside the United States and Canada), has completed the first two cohorts with no demonstrated dose-limiting toxicities. The third and final expansion cohort commenced recruitment in January 2017. The trial is to be conducted in approximately 80 to 90 patients.

The intravenous delivery of CAVATAK, particularly in combination with checkpoint inhibitors such as KEYTRUDA, has the potential to significantly increase the commercial impact of CAVATAK while benefitting many more cancer patients. This study is the first clinical trial to explore the combination of an intravenously delivered oncolytic virus with a checkpoint inhibitor in these two very common cancer types.

Phase 2 CALM Extension Trial

The CALM extension trial, now complete, was conducted in a 13-patient cohort of the 70-patient Phase 2 CALM clinical trial in patients with advanced melanoma. In the extension study, biopsies were taken from melanoma lesions prior to and after the administration of CAVATAK in order to develop a deeper understanding of the effect of CAVATAK on the tumour microenvironment.

Results from the tumour tissue analysis, presented in November, demonstrated that CAVATAK was able to facilitate notable changes within the tumour microenvironment, including increased immune cell infiltrates and greater expression of PD-L1 and other immune checkpoint inhibitory molecules, in particular within lesions displaying stable disease or response.

Phase 1 CANON Bladder Cancer Clinical Trial

The final results of the Phase 1 CANON trial in bladder cancer patients were presented at the "State-of-the-Art Immunotherapies" session at SITC in November. The 16-patient trial was designed to evaluate the tolerability and anti-cancer activity of CAVATAK delivered via catheter directly into the bladders of patients with non-muscle invasive bladder cancer (NMIBC) – both as a single agent and in combination with the standard chemotherapy, mitomycin C.

Clinical activity of CAVATAK was demonstrated by evidence of viral replication and notable signs of tumour inflammation following either single or multiple administrations of CAVATAK in multiple patients. While the study was not designed to assess efficacy, a complete response was observed in one of the three patients in the highest-dose cohort of the monotherapy.

Directors' Report

Whether used alone or in combination with mitomycin C, CAVATAK facilitated notable changes within NMIBC tissue biopsies taken from treated patients by inducing increases in immune cell infiltrates and up-regulating immune checkpoint inhibitory genes such as PD-L1, compared to tissue samples taken from untreated patients. In addition, the intravesicular administration of CAVATAK, either as a single agent or in combination with standard chemotherapy, was generally well tolerated with no Grade 2 or higher product-related adverse events.

CLINICAL ADVISORY BOARD

In November the company formed a Clinical Advisory Board (CAB) to serve as a strategic resource to the company as it continues to broaden and advance the clinical development program for CAVATAK. The board will be chaired by Keith Flaherty, MD, Professor of Medicine at Harvard Medical School. Other members include Michael Boyer, MD, PhD, Professor of Medical Oncology at the Sydney Medical School and Chief Clinical Officer from the Chris O'Brien Lifehouse; J Randolph Hecht, MD Professor of Clinical Medicine at the David Geffen School of Medicine at UCLA; and Kurt Schalper, MD, PhD, Assistant Professor of Pathology at the Yale School of Medicine. The board will provide valuable strategic insight as Viralytics advances CAVATAK in multiple clinical trials in a variety of cancer types.

INTELLECTUAL PROPERTY

Viralytics continues to develop and strengthen its intellectual property portfolio while maintaining a focus on cost and relevance to its strategic goals. New intellectual property is being developed, including patents covering CAVATAK combination settings, and existing patent claims continue to be pursued through various international jurisdictions.

AUDITOR'S INDEPENDENCE DECLARATION

A statement of independence has been provided by our auditors, Grant Thornton and is included at page 7.

This report is signed in accordance with a resolution of the Board of Directors.

Mr. Paul Hopper
Chairman
Sydney
Dated: 22 February 2017

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Auditor's Independence Declaration
To The Directors of Viralytics Limited

In accordance with the requirements of section 307C of the Corporations Act 2001, as lead auditor for the review of Viralytics Limited for the half-year ended 31 December 2016, I declare that, to the best of my knowledge and belief, there have been:

a No contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the review; and

b No contraventions of any applicable code of professional conduct in relation to the review.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

N J Bradley
Partner - Audit & Assurance

Sydney, 22 February 2017

Condensed Statement of Profit or Loss and Other Comprehensive Income

for the half-year ended 31 December 2016

	Note	December 2016 $	December 2015 $
Revenue			
Interest Revenue		285,936	209,095
Total Revenue		**285,936**	**209,095**
Other Income			
R&D Tax Incentive		94,404	453,574
Unrealised foreign exchange gain		682,005	-
Total Other Income		**776,409**	**453,574**
Research and development costs:			
Clinical trials		(3,776,354)	(2,224,293)
Research and development		(1,339,610)	(1,148,298)
Drug product		(715,154)	(1,016,815)
Patents and related costs		(160,201)	(66,648)
Amortisation of intangibles		(195,156)	(195,156)
Depreciation expense		(21,819)	(18,991)
Employee costs		(675,560)	(620,406)
Option share based expense	9	(539,675)	(631,530)
Corporate compliance costs		(526,664)	(433,160)
Administration costs		(244,962)	(234,505)
Interest Expense		(4)	(4,790)
Foreign currency translation loss		-	(133,760)
Total Expenses		**(8,195,159)**	**(6,728,352)**
Loss from ordinary activities before income tax		(7,132,814)	(6,065,683)
Income tax expense		-	-
Loss from ordinary activities after income tax		**(7,132,814)**	**(6,065,683)**
Other comprehensive income		-	-
Total Comprehensive Loss		**(7,132,814)**	**(6,065,683)**
Basic loss per share (cents per share)	10	(3.0)	(3.2)
Diluted loss per share (cents per share)	10	(3.0)	(3.2)

The accompanying notes form part of these financial statements.

Condensed Statement of Financial Position

as at 31 December 2016

	Notes	December 2016 $	June 2016 $
ASSETS			
Current Assets			
Cash and cash equivalents		39,575,798	46,121,485
Trade and other receivables	3	4,891,905	4,848,713
Total Current Assets		**44,467,703**	**50,970,198**
Non-Current Assets			
Plant and equipment	4	112,411	78,667
Investments	5	-	-
Intangible assets	6	1,448,308	1,643,464
Total Non-Current Assets		1,560,719	**1,722,131**
TOTAL ASSETS		**46,028,422**	**52,692,329**
LIABILITIES			
Current Liabilities			
Trade and other payables	7	2,087,587	2,364,305
Total Current Liabilities		**2,087,587**	**2,364,305**
TOTAL LIABILITES		**2,087,587**	**2,364,305**
NET ASSETS		**43,940,835**	**50,328,024**
EQUITY			
Contributed equity	8	121,514,064	121,169,264
Reserves	9	2,594,644	2,193,819
Accumulated losses		(80,167,873)	(73,035,059)
TOTAL EQUITY		**43,940,835**	**50,328,024**

The accompanying notes form part of these financial statements.

Condensed Statement of Changes in Equity

for the half-year ended 31 December 2016

	Contributed Equity	Retained Earnings (Accumulated Losses)	Reserves	Total
	Ordinary		Share Based Payment Reserve	
	$	$	$	$
Balance at 1 July 2015	87,632,211	(66,190,506)	3,430,576	24,872,281
Loss for the Period	-	(6,065,683)	-	(6,065,683)
Other Comprehensive Income	-	-	-	-
Comprehensive income for the period	-	(6,065,683)	-	(6,065,683)
Shares Issued during the year	28,362,736	-	-	28,362,736
Funds held in respect of shares to be issued	829,726	-	-	829,726
Cost of fund raising	(1,497,537)	-	-	(1,497,537)
Exercise of options	100,000	-	-	100,000
Share Rights Converted to Shares	100,800	-	(100,800)	-
Share option based compensation	-	-	631,530	631,530
Expired options transferred to Retained Earnings	-	2,221,170	(2,221,170)	-
Total transactions with owners and other transfers	27,895,725	2,221,170	(1,690,440)	28,426,455
Balance at 31 December 2015	**115,527,936**	**(70,035,019)**	**1,740,136**	**47,233,053**

The accompanying notes form part of these financial statements.

Condensed Statement of Changes in Equity

for the half-year ended 31 December 2016

	Contributed Equity	Retained Earnings (Accumulated Losses)	Reserves	Total
	Ordinary		Share Based Payment Reserve	
	$	$	$	$
Balance at 1 July 2016	121,169,264	(73,035,059)	2,193,819	50,328,024
Loss for the Period	-	(7,132,814)	-	(7,132,814)
Other Comprehensive Income	-	-	-	-
Comprehensive income for the period	-	(7,132,814)	-	(7,132,814)
Cost of fund raising	(4,050)	-	-	(4,050)
Exercise of options	210,000	-	-	210,000
Share Rights Converted to Shares	56,050	-	(56,050)	-
Share option based compensation	-	-	539,675	539,675
Transfer to share capital for options exercised	82,800	-	(82,800)	-
Total transactions with owners and other transfers	344,800	-	400,825	745,625
Balance at 31 December 2016	**121,514,064**	**(80,167,873)**	**2,594,644**	**43,940,835**

The accompanying notes form part of these financial statements.

Condensed Statement of Cash Flow

for the half-year ended 31 December 2016

	December 2016 $	December 2015 $
Cash flows from Operating Activities		
R & D Tax Refund	-	2,928,531
Payments to suppliers and employees	(7,670,872)	(5,782,209)
Interest Received	292,793	207,942
Interest Paid	-	(4,790)
Net cash (used in) operating activities	**(7,378,079)**	**(2,650,526)**
Cash flows from Investing Activities		
Purchase of Plant and equipment	(55,563)	(27,175)
Net cash (used in) investing activities	**(55,563)**	**(27,175)**
Cash flows from Financing Activities		
Proceeds from issue of shares	-	28,362,736
Exercise of options	210,000	100,000
Costs of fund raising	(4,050)	(1,497,537)
Proceeds from Shares to be issued	-	829,726
Net cash provided by financing activities	**205,950**	**27,794,925**
Net increase/(decrease) in cash held	(7,227,692)	25,117,224
Net Foreign Exchange Difference	682,005	(68,884)
Cash at beginning of the financial period	46,121,485	21,565,813
Cash at the end of the financial period	**39,575,798**	**46,614,153**

The accompanying notes form part of these financial statements

Notes to the financial statements

for the half-year ended 31 December 2016

1. BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

This half-year financial report is a general-purpose condensed interim financial report that has been prepared in accordance with Australian Accounting Standard AASB134; 'Interim Financial Reporting', other authoritative pronouncements of the Australian Accounting Standards Board and the *Corporations Act 2001*.

The half-year report does not include full disclosure of the type normally included in an annual financial report. The half-year financial report should be read in conjunction with the Annual Financial Report of Viralytics Limited (the Company) as at 30 June 2016. It is recommended that the half-year financial report be considered together with any public announcements made by the Company during the half-year ended 31 December 2016 in accordance with the continuous disclosure obligations arising under the Australian Securities Exchange Listing Rules and the *Corporations Act 2001*.

Except as described below, the accounting policies applied by the Company in this half-year financial report are the same as those applied by the Company in the financial report as at and for the year ended 30 June 2016.

Going Concern

The financial statements for the period ended 31 December 2016 are prepared on a going concern basis.

Notwithstanding that the Company has a history of losses, the Directors consider that it has sufficient capital to pursue its strategic plan and objectives in the next twelve months as laid out in the Directors Report. This is because the Company has cash assets of $39.6 million at 31 December 2016 which it forecasts will fund its programmes beyond 12 months from the signing of this report. The cash holdings will provide sufficient funding to meet foreseeable expenditure commitments and pay debts as and when they fall due.

Operating Segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Notes to the financial statements

for the half-year ended 31 December 2016

2. Operating Segments

The entity's operating segment is based on the internal reports that are reviewed and used by the Board of Directors (being the Chief Operating Decision Makers ('CODM')) in assessing performance and determining the allocation of resources. The entity operates in one segment being Development of Oncolytic Therapeutics. The information reported to the CODM, on a monthly basis, is profit or loss before interest, tax, depreciation and amortisation and other one-off-items ('EBITDA') as well as cash flow.

	December 2016 $	June 2016 $
3. TRADE AND OTHER RECEIVABLES		
GST Receivable	87,409	73,464
Prepayments	450,307	508,607
Interest Receivable	58,421	65,278
R&D Tax Refund	4,295,768	4,201,364
	4,891,905	**4,848,713**
4. PLANT AND EQUIPMENT		
Plant and Equipment at cost	1,014,572	959,009
Accumulated depreciation	(902,161)	(880,342)
	112,411	**78,667**
Movements in Carrying Amounts		
Movements in the carrying amounts at the beginning and end of the current and previous period:		
Balance at beginning of period	78,667	82,476
Additions	55,717	32,761
Disposals	(154)	-
Depreciation expense	(21,819)	(36,570)
Balance at end of period	**112,411**	**78,667**

Notes to the financial statements

for the half-year ended 31 December 2016

	December 2016 $	June 2016 $
5. INVESTMENTS - EQUITY ACCOUNTED ASSOCIATES		
InJet Digital Aerosols Limited	-	-

InJet Digital Aerosols Limited is an unlisted Australian public company. Viralytics Ltd has an investment in IDAL of $630,000. This represents 44.5% of that company's issued capital as at 31 December 2016.

Viralytics Ltd has recognised the losses attributable to the associate in prior years to the extent of the investment. The most recent financial statements released by IDAL were for the year ended 30 June 2014. The net deficiency in assets at that time was $488,517. Consequently, the carrying value of the investment is nil.

On 23 December 2015 a meeting of creditors resolved that the company be wound up under S. 439C(c) of the Corporations Act and to appoint an external liquidator.

A Presentation of Accounts and Statement lodged with ASIC by the External Liquidators as at 22 December 2016 indicated total creditors of $495,950. It further indicated that no dividend was likely to be paid to creditors. Consequently, the carrying value of the investment is nil (Jun 2016 – nil) and many of the disclosure requirements under AASB 12: Disclosure of Interests in Other Entities are not available at reporting date.

6. INTANGIBLE ASSETS		
Virotherapy Intellectual Property	8,605,532	8,605,532
Accumulated Amortisation	(7,157,224)	(6,962,068)
	1,448,308	**1,643,464**
Movement in Intangibles		
Balance at beginning of period	1,643,464	2,033,776
Amortisation expense for the period	(195,156)	(390,312)
Balance at end of period	**1,448,308**	**1,643,464**

Notes to the financial statements

for the half-year ended 31 December 2016

	December 2016 $	June 2016 $
7. TRADE AND OTHER PAYABLES		
Trade payables	1,211,482	1,214,588
Sundry payables and accrued expenses	721,424	1,022,293
Employee entitlements – annual leave	154,681	127,424
	2,087,587	**2,364,305**

	December 2016	
	Number	**$**
8. CONTRIBUTED EQUITY		
Ordinary Shares		
Issued and fully paid	240,290,419	121,514,064
Movements in ordinary shares on issue		
At 1 July 2016	239,895,419	121,169,264
Share Rights Converted to Shares	95,000	56,050
Exercise of Options	300,000	210,000
Options Converted to Shares	-	82,800
Transaction costs	-	(4,050)
At 31 December 2016	240,290,419	121,514,064

Notes to the financial statements

for the half-year ended 31 December 2016

	December 2016 $	June 2016 $
9. RESERVES continued		
Share Based Payments Reserve	**2,594,644**	**2,193,819**

In total $539,675 (Dec 2015: $631,530) of employee remuneration expense has been included in profit or loss and credited to the share based payment reserve in respect of equity settled share based payment transactions. If all unlisted options were exercised in accordance with their terms of issue 14,141,000 shares would be issued (June 2016: 13,145,000) and Contributed Equity would increase by $8.3 million (June 2016: $7.1 million).

The share based payment reserve records items recognised as an expense on payment of share based consideration. The option valuations were calculated using the Black-Scholes option pricing model. Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future movements. For purposes of the valuation the assumed life of the options was based on the historical exercise patterns, which may not eventuate in the future.

No special features inherent to the options granted were incorporated into measurement of fair value. 9,000,000 options offered in September 2015 contained vesting conditions contingent on achievement of performance targets based on share price, clinical trial progress or corporate transaction activity. A probability discount has not been applied to the measurement of fair value of those options. This is because some of the options issued had terms in which the vesting conditions are met if *either* market based or non-market based conditions are met. The first of the two tranches issued have since vested on account of market based conditions being met. The company has also taken the view for the remaining tranche that the options are more likely to vest due to one of the non-market conditions (clinical trial progress or corporate transaction activity) rather than the single market based condition (share price). The result is a higher valuation than would otherwise be the case if the performance conditions were considered in the valuation.

The following terms and conditions apply to unlisted options issued:

- Options issued entitle the holder to acquire an unissued ordinary share in the Company;
- Options are unlisted and not transferable;
- Options not exercised in the prescribed period will lapse;
- Each option has no voting or dividend right;
- All options issued were issued free of charge.

Notes to the financial statements

for the half-year ended 31 December 2016

	December 2016 Number	June 2016 Number
9. RESERVES continued		
Options		
Unlisted options	14,141,000	13,145,000
Movements in Options:		
Balance at the beginning of the period	13,145,000	5,745,000
Options issued	1,296,000	10,200,000
Options exercised	(300,000)	(2,800,000)
Options expired	-	-
Balance at end of period	14,141,000	13,145,000
Share Rights		
Unlisted Share Rights	100,500	100,000
Movements in Share Rights:		
Balance at the beginning of the period	100,000	320,000
Share Rights issued	100,500	110,000
Share Rights Converted to Shares	(95,000)	(320,000)
Share Rights Lapsed	(5,000)	(10,000)
Balance at end of period	100,500	100,000

Notes to the financial statements

for the half-year ended 31 December 2016

	December 2016 cents	December 2015 cents
10. EARNINGS PER SHARE		
Basic earnings (loss) cents per share	(3.0)	(3.2)
Diluted earnings (loss) cents per share	(3.0)	(3.2)
Income and share information used in the calculations of basic and diluted earnings per share:		
Net (Loss) used to calculate basic EPS	(7,132,814)	(6,065,683)
	Number	**Number**
Weighted average number of ordinary shares on issue used to calculate basic earnings per share	240,207,158	188,029,582
Effect of dilutive securities	-	-
Adjusted weighted average number of Ordinary shares and potential ordinary shares used to calculate diluted earnings per share	240,207,158	188,029,582

As at the balance date, there are 14,141,000 share options on issue. These potential ordinary shares have not been taken into account when calculating the diluted loss per share due to their anti-dilutive nature.

11. SUBSEQUENT EVENTS

On 6th February 2017 Viralytics Service Inc. was incorporated in the United States as a 100% subsidiary of Viralytics Limited for the purpose of providing personnel services to the parent entity.

On 10th February the company received $4,295,768 from the Australian Taxation Office under the Research and Development Tax Incentive Programme relating to the financial year ending 30 June 2016.

Directors' Declaration

The directors' of the Company declare that:

(1) the financial statements and notes, as set out on pages 8 to 19 are in accordance with the *Corporations Act 2001* including:

(a) complying with the Australian Accounting Standard AASB 134: Interim Financial Reporting, and

(b) giving a true and fair view of the Company's financial position as at 31 December 2016 and its performance for the half-year ended on that date.

(2) in the directors' opinion there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Mr Paul Hopper
Chairman

Sydney
Date: 22 February 2017

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INDEPENDENT AUDITOR'S REVIEW REPORT TO THE MEMBERS OF VIRALYTICS LIMITED

We have reviewed the accompanying half-year financial report of Viralytics Limited (the Company), which comprises the statement of financial position as at 31 December 2016, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a statement or description of accounting policies, other explanatory information and the directors' declaration.

Directors' Responsibility for the Half-year Financial Report

The Directors of Viralytics Limited 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 controls as the Directors determine is 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 the 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 Viralytics Limited's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Viralytics Limited , 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 complied with the independence requirements of the *Corporations Act 2001*.

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 Viralytics Limited is not in accordance with the *Corporations Act 2001*, including:

a giving a true and fair view of the Company's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and

b complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

N J Bradley
Partner - Audit & Assurance

Sydney, 22 February 2017