29 July 2016

Company Announcements Office
Australian Securities Exchange

QUARTERLY REPORT – APPENDIX 4C

In accordance with ASX Listing Rule 4.7B, the Company attaches its June 2016 Quarterly Report – Appendix 4C.

Overview

- **Increasing engagement with multiple pharmaceutical and diagnostic companies.**
- **On schedule and positive progress with crucial GMP synthesis of lead compound VB0004.**
- **Lead compound VB0004 key United States patent now formally granted.**
- **Pre-clinical development of novel therapies for pulmonary (lung) fibrosis.**
- **Completion of the tender process for pre-clinical toxicology testing for VB0004.**
- **Broad extension of the Vectus drug library of over 200 compounds, including new potential orphan applications.**
- **Proprietary Accugen platform now accelerating into pre-commercial marketing phase.**
- **Increasing global interest in novel anti-fibrotic agents.**
- **Vectus targets multiple veterinary indications with several compounds from the Company's library.**

Commentary

During the June 2016 quarter, Vectus Biosystems Limited (ASX:VBS) (Vectus or the Company) has strongly progressed its scientific programme, meeting or exceeding its internal milestones across its lead candidate, drug library and Accugen Pty Limited (Accugen).

Since its initial public offering (IPO), Vectus and its business development team have undertaken a co-ordinated programme of engagement with the full spectrum of companies across human pharmaceutical, animal health, and PCR (DNA amplification) diagnostic, reagent and machine companies. As a consequence, a number of companies have now formally engaged in active discussions with Vectus, the terms of which are covered under several confidentiality agreements. Of note, engagement has been undertaken on various potential candidates from the drug library, in addition to the VB0004 lead. Critical achievements on the planned path to human trials for the lead candidate, VB0004 include:

i) Good Manufacturing Practice (GMP) Synthesis

- has been completed at a scale that indicates that large-scale production will be successful;
- VB0004 has been produced in greater-than-expected yield and with acceptable purity; and
- Work continues on time and on budget.

ii) Granting of Key USA Patent

Vectus is pleased to announce that it has received a notice of allowance for the patent entitled "Compositions for the treatment of hypertension and/or fibrosis" by the United States Patent and Trademark Office (USPTO) for its lead cardiovascular and renal anti-fibrotic drug VB0004, United States Patent Application Number 15/022278. The allowance of this USA patent is an important milestone for the Company and its programme to complete pre-clinical and clinical testing of VB0004. The patent is a valuable addition to the Company's existing intellectual property portfolio in that it provides broad protection for a novel anti-fibrotic agent, which reverses fibrotic damage in both the heart and kidney. This patent provides exclusivity in the world's largest single pharmaceutical market.

iii) Completion of Tender Process for Toxicology Testing for VB0004

Vectus has completed the tender process for pre-clinical toxicology testing for VB0004 with a site visit and review of audit records for the preferred tenderer. This means that toxicology work, such as analytical method development, can commence in the December quarter of this year, with the main programme commencing as planned.

Extension of Anti-Fibrotic Platform Patenting Strategy

Vectus has developed new therapies for the treatment of fibrosis affecting the lung and with the successful development of these agents has claim to a platform technology providing treatment of fibrosis in all major organ systems. The current development programme is the subject of a new Australian Provisional Patent Application "Compositions for the Treatment of Pulmonary Fibrosis". This new drug treatment will have possible application in orphan lung diseases, such as Idiopathic Pulmonary Fibrosis (IPF), sarcoidosis and scleroderma, as well as occupational lung diseases like asbestosis and black lung.

Accugen qPCR

qPCR underpins a broad spectrum of activities in molecular biology in amplifying DNA and quantitating changes that may occur, which are fundamental to many fields of research and application.

Accugen comprises reagents and software that quantitates qPCR reactions, i.e. it measures the amount of DNA or RNA in a sample. Vectus believes the Accugen system potentially offers a time, cost and accuracy benefit to more easily and precisely quantify PCR compared to currently available systems.

The Accugen platform has now entered its pre-marketing phase, and a number of high-profile alpha sites have been identified and recruited. In parallel, Vectus has invested in a formal assessment of key market metrics covering pricing, potential rates of adoption and a highly-structured programme of market feedback. It is anticipated that the successful conclusion of this pre-marketing phase will lead to an early commencement of sales and marketing activities, with a range of prospective strategic partners and distributors showing commercial interest in aligning themselves with the Accugen rollout.

Drug Library

Vectus' drug library offers prospective partners and/or licensees a range of highly-novel and promising drug candidates that are aimed at arresting the progression of fibrosis and, crucially, reversing organ damage.

Internationally, veterinary animal health companies are increasingly targeting disease treatment of domestic companion animals as a highly-attractive market. Many of the disease states targeted by the Vectus human pharmaceutical programme are equally applicable to animal health. These markets are substantial globally and Vectus offers the potential to have therapeutic candidates in many of these high-value categories.

Summary

Vectus continues to be well on track for the major milestones listed in its Prospectus. The broadening of its patent portfolio and new patent application has the potential to accelerate licensing opportunities in many new and novel franchises. With the USA granting of the central patent underpinning its lead candidate, both VB0004 and the broader platform become increasingly validated, and, indeed, more valuable in one of the fastest growing and highly-targeted areas in the pharmaceutical industry.

Vectus Biosystems Limited

Karen Duggan
Chief Executive Officer and Executive Director

About Vectus Biosystems Limited

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

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

Appendix 4C

Quarterly report for entities admitted on the basis of commitments

Name of entity

Vectus Biosystems Limited

ABN	Quarter ended ("current quarter")
54 117 526 137	**30 June 2016**

Consolidated statement of cash flows

Cash flows related to operating activities	**Current quarter $A'000**	**Year to date (12 months) $A'000**
1.1 Revenue receipts	-	-
1.2 Payments for		
(a) staff costs	(183)	(750)
(b) occupancy cost	(85)	(340)
(c) corporate overheads	(63)	(431)
(d) legal and professional fees	(56)	(301)
(e) patent and research expenses	(628)	(1,469)
(f) ASX and ASIC fees	-	(98)
(f) other operating costs, including working capital	28	25
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	4	37
1.5 Interest and other costs of finance paid	(5)	(22)
1.6 Income tax refund received (including R&D Tax Offset)	748	748
1.7 Other income -		
(a) Government grants	-	-
(b) Other income	-	-
Net Operating Cash Flows	(241)	(2,601)

		Current quarter $A'000	Year to date (12 months) $A'000
1.8	**Net Operating Cash Flows (brought forward)**	(241)	(2,601)
	Cash flows related to investing activities		
1.9	Payment for purchases of:		
	(a) businesses (item 5)	-	-
	(b) equity investments	-	-
	(c) intellectual property	-	-
	(d) physical non-current assets	-	(54)
	(e) other non-current assets	-	-
1.10	Proceeds from sale of:		
	(a) businesses (item 5)	-	-
	(b) equity investments	-	-
	(c) intellectual property	-	-
	(d) physical non-current assets	-	-
	(e) other non-current assets	-	-
1.11	Loans to other entities	-	-
1.12	Loans repaid by other entities	-	-
1.13	Other (provide details if material)	-	-
	Net investing cash flows	-	(54)
1.14	**Total operating and investing cash flows**	(241)	(2,655)
	Cash flows related to financing activities		
1.15	Repayment of convertible notes	-	-
1.16	Proceeds from shares issue (IPO)	-	5,174
	Proceeds from exercise of options	-	-
1.17	Proceeds from borrowings	-	-
1.18	Repayment of borrowings	-	-
1.19	Dividends paid	-	-
1.20	Share Issue Cost	(6)	(645)
	Net financing cash flows	(6)	4,529
	Net increase (decrease) in cash held	(247)	1,875
1.21	Cash at beginning of quarter/year	4,702	2,580
1.22	Exchange rate adjustments	-	-
1.23	**Cash at end of quarter**	**4,455**	**4,455**

Payments to directors of the entity and associates of the directors **Payments to related entities of the entity and associates of the related entities**	**Current quarter** **$A'000**
1.24 Aggregate amount of payments to the parties included in item 1.2	82
1.25 Aggregate amount of loans to the parties included in item 1.10	-

1.26 Explanation necessary for an understanding of the transactions

	Current quarter $'000
Salaries paid to Karen Duggan, Executive Director and Chief Executive Officer	35
Corporate overheads, administration and laboratory supplies expenses paid to Regional Healthcare Pty Ltd of which Messrs M Stang and B Stang are Directors.	47

Non-cash financing and investing activities

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows	**Current quarter $'000**
	-

2.2 Details of outlays made by other entities to establish or increase their share in projects in which the reporting entity has an interest	Not applicable

Financing facilities available

Add notes as necessary for an understanding of the position.

	Amount available $A'000	Amount used $A'000
3.1 Loan facilities	0	0
3.2 Other credit arrangements	0	0

Reconciliation of cash

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.

		Current quarter $A'000	Previous quarter $A'000
4.1	Cash on hand and at bank	421	668
	Term Deposits	4,034	4,034
	Others	-	-
	Total: cash at end of quarter (item 1.23)	**4,455**	**4,702**

Acquisitions and disposals of business entities

		Acquisitions *(Item 1.9(a))*	Disposals *(Item 1.10(a))*
5.1	Name of entity	n/a	n/a
5.2	Place of incorporation or registration		
5.3	Consideration for acquisition or disposal		
5.4	Total net assets		
5.5	Nature of business		

Compliance statement

1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.

2 This statement does ~~/does not* *(delete one)*~~ give a true and fair view of the matters disclosed.

Sign here: Robert Waring

(~~Director/~~Company Secretary)

Print name: **Robert J Waring**

Date: **29 July 2016**