VIRALYTICS LTD

ABN 12 010 657 351

APPENDIX 4E

Preliminary Final Report

Year ended 30 June 2016 (current period)
and the year ended 30 June 2015 (previous corresponding period)

Results for announcement to the market

Results	30 Jun 16 ($,000)	30 Jun 15 ($,000)	% movement	
Revenue from ordinary activities	513	527	down	3%
(Loss) from ordinary activities after tax attributable to members	(9,066)	(4,255)	up	113%
(Loss) for the period attributable to members	(9,066)	(4,255)	up	113%

	30 Jun 16	30 Jun 15
Net tangible asset backing per ordinary security	20.3 cents	12.4 cents
Basic (Loss) cents per share	(4.3 cents)	(2.3 cents)

An explanation of the result of the current period is set out in the Directors' Report contained in the attached audited Annual Financial Report.

Full financial details of the Company are also contained in the attached audited Annual Financial Report.

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

VIRALYTICS LIMITED

ANNUAL REPORT 2016

ABN 12 010 657 351

Viralytics

Developers of Oncolytic Immunotherapies

Corporate Information

Directors

Mr Paul Hopper
Chairman

Mr Peter Turvey
Non-Executive Director

Dr Leonard Post
Non-Executive Director

Dr Malcolm McColl
Managing Director and
Chief Executive Officer

Managing Director

Dr Malcolm McColl

Company Secretary

Ms Sarah Prince

Chief Financial Officer

Mr Robert Vickery

Principal Place of Business

Suite 305, Level 3
66 Hunter Street
SYDNEY NSW 2000

Registered Office

c/- Company Matters Pty Limited
Level 12
680 George Street
SYDNEY NSW 2000

Contact Information

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Fax: (02) 8068 6038
Email: investorrelations@viralytics.com

Website

www.viralytics.com

Auditors

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

Share Registry & Register

Link Market Services Ltd
Level 12
680 George Street
SYDNEY NSW 2000
Ph: (02) 8280 7454

Viralytics

Developers of Oncolytic Immunotherapies

Welcome to the Viralytics Limited 2016 Annual Report

Contents

Interest in cancer immunotherapy, including oncolytic viruses, has gathered momentum in recent years, with the scientific community and big pharma now recognising the enormous potential of harnessing oncolytic viruses in the fight against cancer.

Chairman's Letter

Dear Fellow Shareholders,

The financial year ended 30 June 2016 was the most successful in Viralytics' history across many fronts. Major milestones were met in the clinical development of our lead drug candidate, CAVATAK. We initiated a key clinical collaboration and significantly strengthened our financial position.

Based on the growing promise of CAVATAK, we were able to attract an important clinical development partner in Merck & Co., Inc. (MSD outside the US and Canada), with whom we have launched a trial assessing the combination of CAVATAK and Merck's checkpoint inhibitor KEYTRUDA in patients with advanced lung or bladder cancer. Establishing this partnership was a key milestone for Viralytics, and we believe it augers well for future big pharma collaborations.

We have completed our most advanced clinical program, a Phase 2 trial in melanoma, known as CALM, and presented updated results at the American Society for Clinical Oncology (ASCO) where we garnered favourable scientific and investor attention. At the same time, we are broadening our clinical program to explore CAVATAK's potential in combination with checkpoint inhibitors, with studies underway, or planned, across a range of cancer indications, including melanoma, lung, bladder and colorectal cancer.

In January 2016 Viralytics completed a $32 million capital raising largely from leading US life science funds. This has placed the company on a solid financial footing as we continue to compile a compelling body of clinical data that will drive future partnering discussions and increase shareholder value.

Interest in cancer immunotherapy, including oncolytic viruses, has gathered momentum in recent years, with the scientific community and big pharma now recognising the enormous potential of harnessing oncolytic viruses in the fight against cancer.

The stewardship of your company is in solid hands. Our CEO, Dr Malcolm McColl, leads the Viralytics team with great skill and is well regarded by the international investment and scientific community. Professor Darren Shafren, our Chief Scientific Officer and founder of the technology, has provided visionary scientific leadership. Global interest in oncolytic viruses is testament to his tenacity and faith in the CAVATAK technology.

We look forward to the coming year with confidence. On behalf of the Board, I thank our management team and loyal shareholders for their continued support.

Paul Hopper
Chairman

Investment Highlights

Broadening Our Clinical Program

Phase 1b STORM (Part B) Keynote 200 Trial – Ongoing

- Clinical trial collaboration with Merck & Co., Inc. (MSD outside the US and Canada)
- Evaluating the combination of intravenous CAVATAK and MSD's checkpoint inhibitor KEYTRUDA in patients with advanced lung or bladder cancer
- Preliminary report expected in the first half of 2017

Phase 1 STORM (Part A) Trial – Fully Enrolled

- Successful systemic tumour targeting by CAVATAK demonstrated in patients with advanced cancers (melanoma, lung cancer and bladder cancer)
- Tumour targeting by CAVATAK associated with potentially strengthened anti-cancer activity
- Intravenous administration of CAVATAK generally well tolerated

Phase 1 CANON Trial – Fully Enrolled

- Tumour-targeted viral (CAVATAK) replication and viral-induced cancer cell death demonstrated in a number of patients with non-muscle invasive bladder cancer
- Potential anti-cancer activity shown when administering CAVATAK either as a single agent or in combination with standard chemotherapy, mitomycin C
- Intravesicular administration (via catheter into the bladder) of CAVATAK generally well tolerated.

Building a Compelling Body of Clinical Data

Phase 2 CALM Trial and Extension Study – Updated Results

- An overall response rate of 28% and a durable response rate (6 months or more) of 21% demonstrated in advanced melanoma patients treated with intralesional CAVATAK
- Similar overall response rates shown in patients previously treated with immunotherapy (29%) or other therapies (27%)
- Anti-cancer activity observed in both injected and non-injected sites
- Increased anti-cancer immune activity in tumour tissue biopsies taken after CAVATAK administration may suggest a role for CAVATAK in combination with checkpoint inhibitors.

Phase 1b MITCI Trial – Ongoing

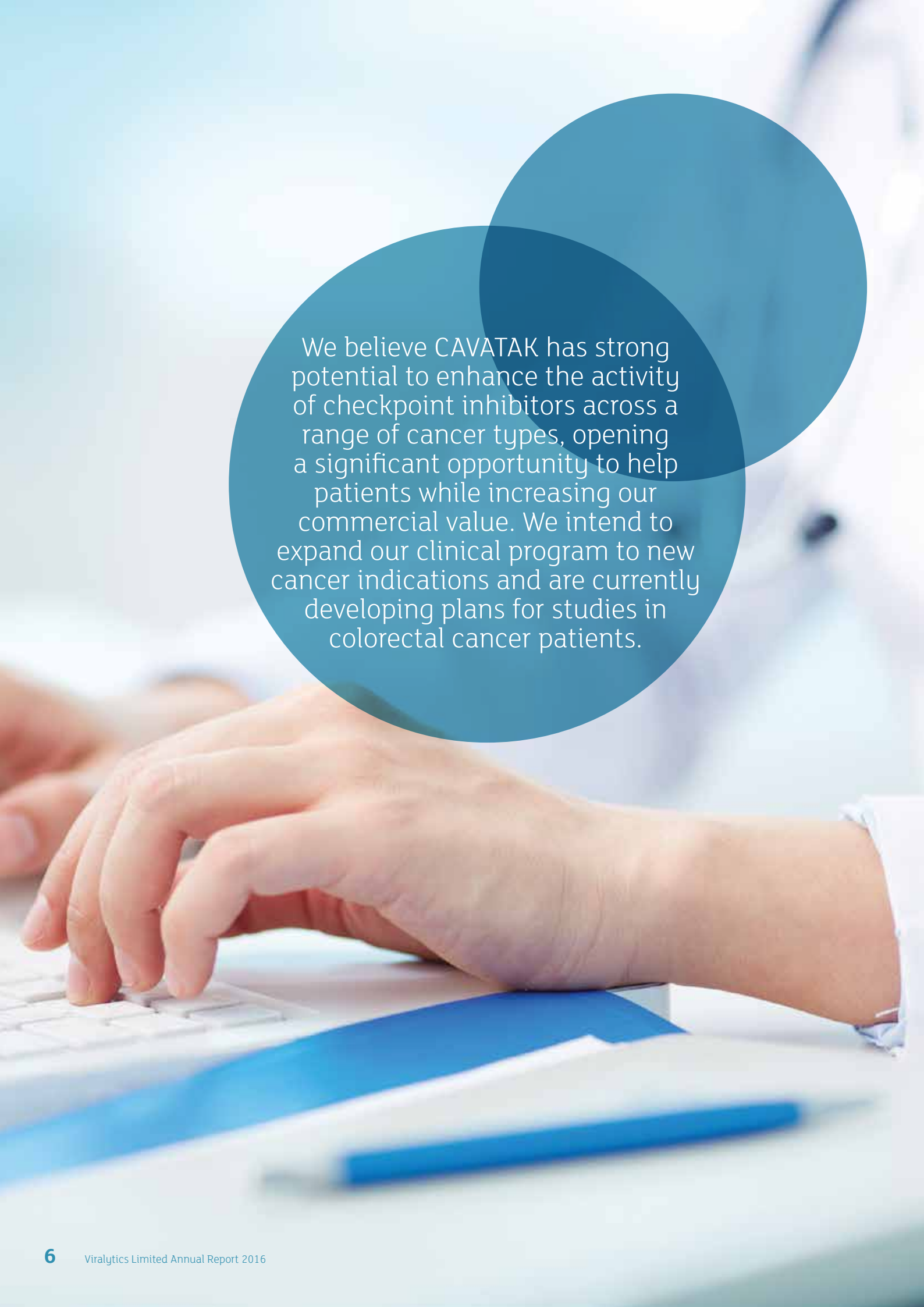
- Evaluating intralesional CAVATAK in combination with the checkpoint inhibitor YERVOY in patients with late-stage melanoma
- Objective responses reported in four patients and stable disease shown in one patient out of the first six evaluable patients

Phase 1b CAPRA Trial – Ongoing

- Evaluating intralesional CAVATAK in combination with the checkpoint inhibitor KEYTRUDA in patients with late-stage melanoma
- Initial findings expected by the end of 2016

Corporate Outlook

- Well financed with $46.1 million at 30 June 2016
- Amassing substantial clinical evidence supporting CAVATAK's potential
- Positioning Viralytics to capitalize on strong interest in cancer immunotherapy.



We believe CAVATAK has strong potential to enhance the activity of checkpoint inhibitors across a range of cancer types, opening a significant opportunity to help patients while increasing our commercial value. We intend to expand our clinical program to new cancer indications and are currently developing plans for studies in colorectal cancer patients.

Managing Director's Letter

I am pleased to report that Viralytics made excellent progress in the clinic in the 2016 financial year, raising its profile in the international oncology community and strongly positioning your Company to capitalise on the intense interest in the burgeoning field of cancer immunotherapy.

A key highlight of the year was the signing of a clinical trial collaboration agreement with Merck & Co., Inc. (known as MSD outside the United States and Canada) to evaluate the combination of CAVATAK™ and MSD's KEYTRUDA®[1], an anti-PD-1 checkpoint inhibitor. The Phase 1b clinical trial, called the KEYNOTE 200 (formerly STORM) study, is now underway in the US and will evaluate the safety and efficacy of this novel immunotherapy combination in patients with either advanced non-small cell lung cancer (NSCLC) or metastatic bladder cancer.

We are optimistic about the prospects for success in the KEYNOTE 200 study, given the promising results from preclinical studies assessing intravenous CAVATAK and anti-PD-1 therapy. In addition, in June, we reported positive data from the first stage of our Phase 1 STORM study at the annual meeting of the American Society for Clinical Oncology (ASCO), the most important oncology conference in the world. In this stage of the study, biopsies from tumour tissue demonstrated tumour infection by CAVATAK following the intravenous administration of CAVATAK as a single agent in patients with melanoma, NSCLC and metastatic bladder cancer. It has been shown that tumour infection by CAVATAK can potentially strengthen anti-cancer activity.

At ASCO we also reported updated results from the 70-patient Phase 2 CALM clinical trial in patients with advanced melanoma. CAVATAK was well tolerated with tumour responses seen in both injected lesions and non-injected lesions. CAVATAK was able to induce notable changes within the tumour that may be predictive of future tumour response, particularly when used in combination with checkpoint inhibitors, such as KEYTRUDA and YERVOY®[2].

To explore this potential, we have ongoing clinical trials of CAVATAK given in combination with checkpoint drugs in melanoma patients. We reported on our Phase 1b MITCI study at the Annual meeting of the American Association of Cancer Research (AACR) in April. The MITCI trial is assessing intralesional CAVATAK in combination with YERVOY. Encouraging early results include a number of patients demonstrating clinically meaningful tumour regressions, not only at injected sites, but at visceral, lymph node and subcutaneous sites not injected with CAVATAK. Accrual to the MITCI study is ongoing, and we look forward to providing further updates through the second half of 2016.

Our Phase 1b CAPRA study, designed to assess the combination of CAVATAK and KEYTRUDA in melanoma patients, is proceeding in the US, with preliminary results expected later in 2016. In the case of non-muscle invasive bladder cancer, results from our Phase 1b CANON study have demonstrated CAVATAK's ability to target tumour tissue and potential to induce anti-cancer activity, whilst also being well tolerated. There is a real need for better therapies for this common cancer type, creating considerable promise for CAVATAK in this setting.

Based on the results we have seen in our clinical and preclinical studies, we believe CAVATAK has strong potential to enhance the activity of checkpoint inhibitors across a range of cancer types, opening a significant opportunity to help patients while increasing our commercial value. We intend to expand our clinical program to new cancer indications and are currently developing plans for studies in colorectal cancer patients.

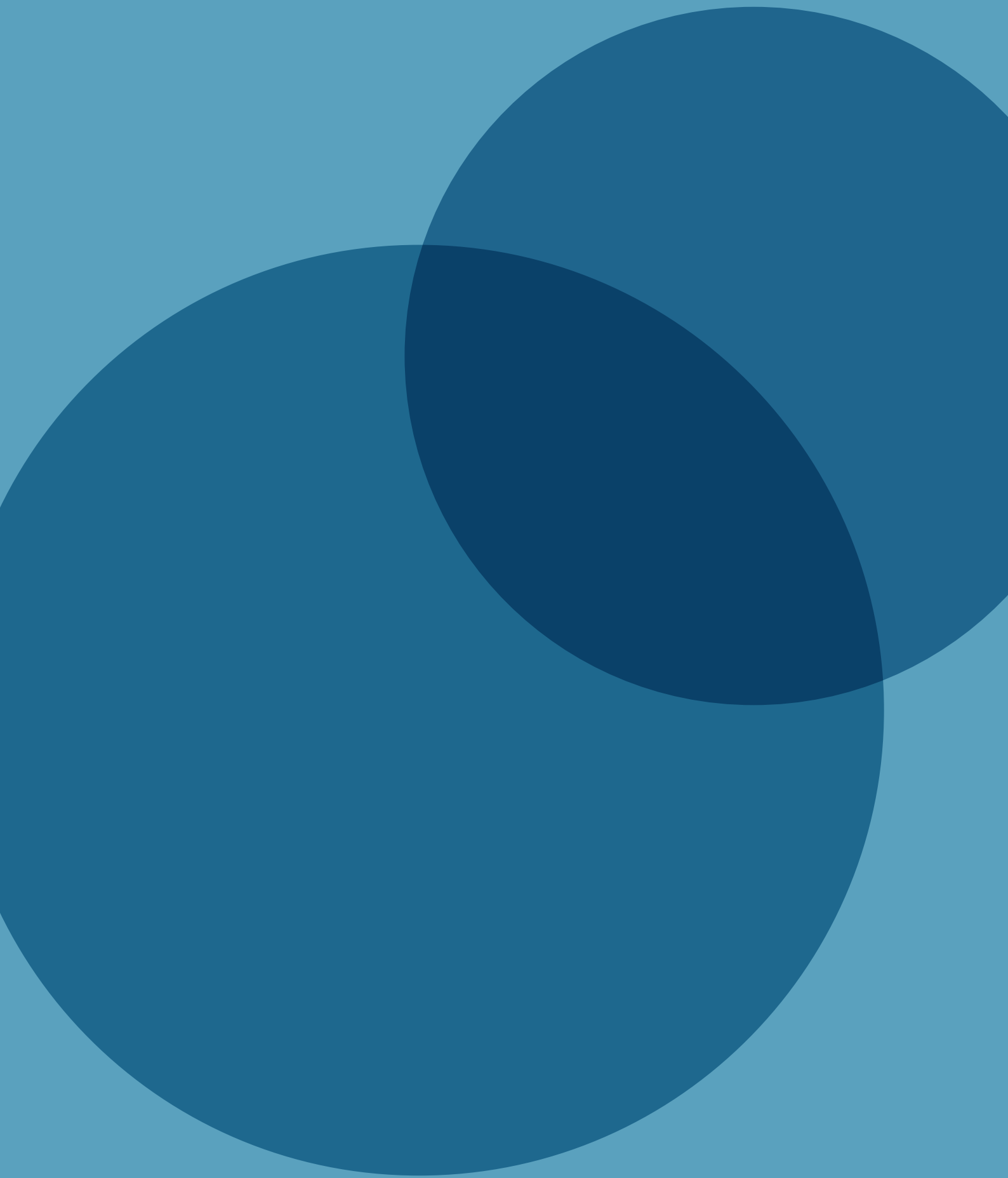
Your Company is well funded as a result of a successful capital raise from specialist healthcare investors completed in January 2016. We were very pleased to welcome two New York-based funds including OrbiMed Advisors LLC as new shareholders in Viralytics. Our follow-up share purchase plan was also very heavily oversubscribed. I would like to thank shareholders for their ongoing confidence and support.

The funds raised will enable the more rapid advancement and expansion of our clinical program. Our goal remains to build the clinical evidence supporting CAVATAK's potential as an important new agent in the blockbuster field of cancer immunotherapy and use this evidence to drive partnering discussions and shareholder value from a position of financial strength.

Finally, I would like to thank our dedicated and hardworking team, and in particular our Chief Scientific Officer, Dr Darren Shafren, for enabling the many achievements and great progress since our last Annual Report. I expect many more important milestones to be achieved in the coming year as we accelerate our clinical development program and establish CAVATAK as a major new oncolytic immunotherapy.

Malcolm McColl
Managing Director and Chief Executive Officer

[1] KEYTRUDA is a trademark of Merck & Company Inc.
[2] YERVOY is a trademark of the Bristol-Myers Squibb Company.



Viralytics Limited

Directors' Report

for the year ended 30 June 2016

The Directors present their report together with the financial statements of the Company for the financial year ended 30 June 2016.

DIRECTORS

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

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

COMPANY SECRETARY

The company secretary during the financial year was Ms Sarah Prince.

PRINCIPAL ACTIVITIES

The principal activity during the year was the continued clinical and preclinical development of the lead product CAVATAK™. This was achieved through:

(i) US Phase 2 CALM clinical study in late stage melanoma patients including analysis of the tumour microenvironment

(ii) Phase 1 STORM (Systemic Treatment Of Resistant Malignancies) study in the UK evaluating a multi-intravenous dose of CAVATAK as a monotherapy in late-stage solid cancer patients, and more recently, in collaboration with Merck, the Phase 1b KEYNOTE 200 study in the US, assessing CAVATAK in combination with KEYTRUDA[3] in advanced lung and bladder cancer patients;

(iii) Phase 1b CANON (CAVATAK in NON-muscle invasive bladder cancer) two-part, open-label, dose-escalation study, completed in the UK during the year;

(iv) Phase 1b MITCI (Melanoma Intra-Tumoral CAVATAK and Ipilimumab) clinical trial of CAVATAK in combination with the drug YERVOY®[4] in late-stage melanoma patients, ongoing;

[3] KEYTRUDA is a registered trademark of Merck

[4] YERVOY is a registered trademark of Bristol Myers Squibb

(v) US Phase 1b CAPRA (CAVATAK and PembRolizumab in Advanced Melanoma) clinical study of CAVATAK in combination with KEYTRUDA in late-stage melanoma patients, ongoing;
(vi) Preclinical programs, including the assessment of CAVATAK in combination with other new important immunotherapies and in various cancer types; and
(vii) Development of intellectual property assets.

The Company achieved a number of significant milestones during the year which are outlined in the Operations Report below.

OPERATING RESULT

The operating loss for the year was $9.1 million (2015: $4.3 million loss) reflecting increased clinical development activities.

CASH MANAGEMENT

Cash on hand as at 30 June 2016 was $46.1 million (30 June 2015: $21.6 million).

STATEMENT OF FINANCIAL POSITION

The Company's financial position compared to the prior year was as follows:

- Cash on hand as at 30 June 2016 was $46.1 million compared to $21.6 million at 30 June 2015
- Net assets increased to $50.3 million from $24.9 million at 30 June 2015.
- Net tangible assets increased to $48.7 million from $22.8 million at 30 June 2015

The Board believes the Company is well placed to support its business programmes throughout 2016/17.

REVIEW OF OPERATIONS

The Company continues to build a broad and substantial body of clinical data to develop and advance its CAVATAK technology toward a licensing, partnering or sale transaction at a key value point. The Company's clinical progress has been achieved through a combination of internal resources and collaborations with key opinion leaders and leading institutions in the oncology space. Progress in clinical development is outlined below.

CLINICAL TRIALS

Phase 2 CALM Melanoma Clinical Trial and Extension Study (US)

Latest data from the Phase 2 CALM (CAVATAK in the treatment of Late-stage Melanoma), clinical trial and extension study was presented at the American Society of Clinical Oncology (ASCO) Annual Meeting in June 2016.

The CALM trial investigated the efficacy and safety of intralesional CAVATAK in 57 patients with advanced melanoma, resulting in a confirmed overall response rate (ORR) of 28 percent and a durable response rate (DRR) of 21 percent. Additionally, tumour responses were observed in injected lesions as well as non-injected, non-visceral lesions, and in distant non-injected visceral lesions.

CAVATAK demonstrated anti-cancer activity in pre-treated patients, with a similar ORR observed in patients administered with prior immunotherapy of 29 percent (9/31), compared to patients administered other treatments (i.e. non-immunotherapy) of 27 percent (7/26).

In the 13-patient CALM extension study, biopsies were taken from melanoma lesions prior to and after the administration of CAVATAK. Results from the tumour tissue analysis demonstrated that CAVATAK was able to facilitate notable changes within the tumour microenvironment by:

- Increasing the number of immune cell infiltrates (CD3+ and CD8+ T cells) and the expression of PD-L1, in particular within lesions displaying stable disease or response. Reconstitution of immune cell infiltrates was observed in a number of CAVATAK-treated lesions from patients failing prior treatment with checkpoint inhibitors.

- Significantly up-regulating a number of immune checkpoint inhibitory molecules in injected melanoma lesions, including CTLA-4, PD-L1, LAG-3, TIM-3 and IDO.

Increases in the number of immune cell infiltrates and up-regulation of the checkpoint molecules in tumour tissue may be predictive of future tumour response, particularly when used in combination with checkpoint inhibitors, an important new class of anticancer agents that work by taking the brakes off the immune response to cancer and have application across a broad range of cancer types.

Phase 1 STORM Solid Tumour Intravenous Clinical Trial (UK)

The first stage, or Part A of the Phase 1 STORM (**S**ystemic **T**reatment **O**f **R**esistant **M**alignancies) clinical trial of CAVATAK for late-stage melanoma, non-small cell lung, metastatic bladder and castrate-resistant prostate cancer has completed recruitment at three cancer centres in the UK.

The trial was designed to establish a safety profile and determine an effective intravenous dosing schedule for successful tumour targeting for CAVATAK given as a single agent to patients with advanced solid tumours. The Company reported in June that clinical data from biopsies of tumour tissue from patients with melanoma, non-small cell lung (NSCLC) and metastatic bladder cancer confirmed successful systemic tumour targeting by CAVATAK following three intravenous doses of CAVATAK. Infection of the tumour by CAVATAK can potentially strengthen anti-cancer activity by increasing levels of immune-cell infiltration, enhancing a potential systemic anti-tumour immune response and increasing the levels of target immune-checkpoint molecules for potential checkpoint inhibitor combination strategies.

In November 2015 the Company announced a collaboration with Merck & Co., Inc., Kenilworth, New Jersey, U.S.A. (known as MSD outside the United States and Canada) to conduct Part B of the STORM trial in the US using CAVATAK in combination with Merck's KEYTRUDA in late-stage lung and bladder cancer patients. This trial, now called the KEYNOTE-200 study, is underway with preliminary data expected in the first half of 2017.

Phase 1 CANON Non-Muscle Invasive Bladder Cancer Clinical Trial (UK)

The CANON (CAVATAK in NON-muscle invasive bladder cancer) clinical trial is a two-part, open-label, dose-escalation study designed to evaluate the safety and tolerability of CAVATAK administered alone, and in combination with a sub-therapeutic dose of the standard chemotherapy, mitomycin C, to patients with non-muscle invasive bladder cancer. The trial, which has now completed enrolment, is also assessing the pharmacodynamics of CAVATAK and documenting evidence of anti-tumour activity.

In March 2016 the Company presented data from 14 patients. Nine of these patients were treated with monotherapy CAVATAK delivered via catheter directly into the bladder (intravesicular administration) while five of the patients received a sub-therapeutic dose of mitomycin C plus CAVATAK delivered intravesically prior to routine surgical removal of the tumour tissue. The study has generated evidence of CAVATAK targeting tumour cells with viral (i.e. CAVATAK) replication and tumour cell death following either single or multiple administrations of CAVATAK. Anti-cancer activity, including viral-induced tumour inflammation has been demonstrated in both the monotherapy and combination therapy arms of the study. A complete response has been observed in one out of the three patients in the highest dose cohort of the monotherapy. The intravesicular administration of CAVATAK has been generally well tolerated with no Grade 2, 3 or 4 product-related adverse events.

Phase 1b MITCI Combination with YERVOY in Melanoma Clinical Trial (US)

The Phase 1b MITCI (Melanoma Intra-Tumoral CAVATAK and ipilimumab) combination clinical trial of CAVATAK™ and YERVOY® (ipilimumab) in late-stage melanoma patients is being conducted at four sites in the US including the Providence Cancer Center in Portland Oregon.

The Company-sponsored, open label study is assessing the safety and tolerability of the established dose of CAVATAK in combination with the checkpoint inhibitor YERVOY in 26 patients with late-stage melanoma for whom YERVOY would be considered the standard of care. The trial is also assessing evidence of anti-cancer activity, including response rates and bio-markers of anti-tumour immunity.

In April the Company reported data from the first 6 patients evaluable for tumour assessment out of 11 enrolled patients. Objective responses have been confirmed by the independent Data Monitoring Committee in 4 patients, including 2 complete responses and 2 partial responses, as well as one patient with stable disease. These patients all have advanced melanoma, meaning their disease has spread to nearby lymph nodes (Stage III) or to other sites in the body (Stage IV). Notably, the patient with stable disease has Stage IV melanoma with multiple liver metastases and had previously failed multiple earlier therapies, including the checkpoint inhibitors YERVOY and KEYTRUDA.

Phase 1b CAPRA Combination with KEYTRUDA in Melanoma Clinical Trial (US)

The Phase 1b CAPRA (CAVATAK and PembRolizumab in Advanced Melanoma) combination clinical trial of CAVATAK and KEYTRUDA (pembrolizumab) in late-stage melanoma patients is underway at Rutgers Cancer Institute in New Brunswick, New Jersey.

The trial is designed to evaluate the safety and tolerability of the established dose of intratumoural CAVATAK given in combination with KEYTRUDA to 30 patients with advanced melanoma for whom KEYTRUDA would be considered the standard of care. Investigators will also assess evidence of anti-cancer activity, including response rates and bio-markers of anti-tumour immunity. Initial findings will be reported later this year.

OTHER STUDIES

Viralytics is planning further studies to assess CAVATAK in other indications, including colorectal cancer. Key opinion leaders from around the globe are contributing to the design of these future studies focussing on the combination of CAVATAK with checkpoint inhibitor across a range of cancer types.

CAVATAK Preclinical studies (Australia)

Preclinical studies of CAVATAK continued in the past year, including research into using CAVATAK for the treatment of lung cancer. At the AACR conference in April, the Company presented data demonstrating the efficacy of CAVATAK for the treatment of non-small cell lung cancer in mouse models. The use of CAVATAK in combination with immune checkpoint inhibitors (e.g. anti-PD-1 and/or anti-CTLA-4) shows significant activity in immune-competent mouse models of lung cancer and melanoma.

CORPORATE

The Company remains in a strong financial position with $46.1 million cash on hand at 30 June and a strong shareholder register comprising 52% institutional representation.

The focus remains on developing the value of the Company's technology through clinical trial activity. Management is strongly focussed on building the team and other resources to oversee and support that activity.

INTELLECTUAL PROPERTY

The Company continues its strong focus on developing and strengthening its intellectual property portfolio. A summary of the patent portfolio is maintained on the Company's website at http://www.viralytics.com/our-pipeline/intellectual-property-patents/.

LIKELY DEVELOPMENTS AND LIKELY RESULTS

The Company continues to aggressively advance the clinical development of CAVATAK across multiple phase 1 and 2 clinical trials for the treatment of melanoma, as well as prostate, metastatic bladder, non-muscle invasive bladder and lung cancers. CAVATAK will be assessed predominantly in combination with other new immunotherapies such as the checkpoint inhibitors. The Company believes that CAVATAK has the potential to enhance the activity of these new blockbuster agents and thus may provide significant clinical benefits to patients.

The Company will continue to explore other potential indications and combinations for CAVATAK through preclinical and possible Phase 1 clinical trial programmes. The intent is to add value to CAVATAK by strengthening its intellectual property position and by expanding the clinical data and commercial opportunity across a range of indications through our KEYNOTE-200, STORM, CANON, MITCI and CAPRA clinical trials, as well as other planned clinical studies.

Discussions with global pharmaceutical companies will be pursued with the aim of securing partnerships in order to drive CAVATAK towards commercialisation and generate licensing income for Viralytics.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There have been no significant changes in the state of affairs of the Company.

MATTERS SUBSEQUENT TO THE END OF THE YEAR

No matter or circumstance other than matters discussed in the Directors' Report has arisen since the end of the financial year that would significantly affect or may significantly affect the operations of the economic entity, the results of those operations or the state of affairs of the Company in subsequent financial years.

ENVIRONMENTAL ISSUES

The Company's operations are not subject to significant environmental regulation under Commonwealth or State law.

PROCEEDINGS ON BEHALF OF COMPANY

No person has applied for leave of court under section 237 of the Corporations Act 2001 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.

DIVIDENDS

No dividends were paid and the Directors did not recommend a dividend to be paid.

SHARE CAPITAL AND OTHER EQUITY SECURITIES

A total of 12,845,000 unissued ordinary shares under option and 100,000 unissued ordinary shares under performance right options are outstanding at the date of this report. Further details regarding changes to the capital structure during the year are set out in Note 13 – Issued Capital.

Directors' Report

for the year ended 30 June 2016

Unissued Shares under Option

Unissued ordinary shares of Viralytics under option at the date of this report are:

Date Options Granted	Expiry Date	Exercise Price	Closing Balance
23 November 2012	23 November 2017	$0.352	200,000
8 February 2013	21 January 2018	$0.326	1,200,000
28 November 2014	28 November 2019	$0.332	1,245,000
28 September 2015	28 September 2020	$0.5885	4,500,000
18 November 2015	18 November 2020	$0.6626	5,700,000
			12,845,000

All options expire on the earlier of the expiry date or termination of the employee's employment. These options were issued under the Company Equity Incentive Plan. These options do not entitle the holder to participate in any share issue of the Company.

Shares Issued During or Since the End of the Year as a Result of Exercise

During or since the end of the financial year, the Company issued ordinary shares as a result of the exercise of options as follows (there were no amounts unpaid on the shares issued).

Date Options Granted	Issue Price	Number of Shares Issued
22 December 2010	$0.50	200,000
12 August 2011	$0.70	2,900,000

MEETINGS OF DIRECTORS

During the reporting period, 11 meetings of Directors were held. Attendances by each Director during the year were as follows:

	Directors' Meetings eligible to attend	Directors' Meetings attended
Mr Paul Hopper (Non-Executive Chairman)	11	11
Dr Leonard Post (Non-Executive Director)	11	11
Mr Peter Turvey (Non-Executive Director)	11	10
Dr Malcolm McColl (Managing Director)	11	11

Directors' Report

for the year ended 30 June 2016

AUDIT AND RISK COMMITTEE MEETINGS

During the reporting period, 3 meetings of the Audit & Risk Committee were held. Attendances by each member during the period were as follows:

	Meetings eligible to attend	Meetings attended
Mr Peter Turvey (Committee Chairman)	3	3
Mr Paul Hopper	3	3
Dr Leonard Post	3	3

REMUNERATION & NOMINATION COMMITTEE MEETINGS

During the reporting period, 2 meetings of the Remuneration & Nomination Committee were held. Attendances by each member during the period were as follows:

	Meetings eligible to attend	Meetings attended
Mr Paul Hopper (Committee Chairman)	2	2
Dr Leonard Post	2	2
Mr Peter Turvey	2	2

Directors' Report

for the year ended 30 June 2016

DIRECTORS' QUALIFICATIONS AND EXPERIENCE

Details of the Directors in office at the date of this report are as follows:

Mr Paul Hopper – Non Executive Chairman

Mr Hopper has over twenty years' experience in the management and funding of biotechnology and healthcare public companies with extensive capital markets experience in equity and debt raisings in Australia, Asia, US and Europe. Mr Hopper's sector experience has covered a number of therapeutic areas with a particular emphasis on immunotherapy and cancer vaccines.

He is Head of the Australia Desk and Head of the Life Sciences and Biotechnology practice at the Los Angeles merchant bank Cappello Group where he is a partner. Mr Hopper has served as CEO and Director of many listed biotechnology and healthcare companies in Australia and the US.

Other Current Listed Directorships:
Imugene Limited (Executive Chairman)
Prescient Therapeutics Limited (Executive Director)

Previous Listed Directorships (last 3 years):
Psivida Corp

Interest in VLA shares:
160,106
Interest in VLA options:
500,000

Dr Leonard Post - Non-Executive Director

Dr Post has extensive experience in oncolytic viruses and virotherapy having been a past director of and consultant to Biovex Ltd, acquired by Amgen Inc. in 2011. He was also Senior Vice President of R&D at Onyx Pharmaceuticals which was one of the first companies involved in the development of targeted oncolytic viruses.

Dr Post has a strong commercial background. In 2007 he founded US-based LEAD Therapeutics Inc. which was then acquired by BioMarin Pharmaceuticals Inc. in 2010 where he served as Chief Scientific Officer until 2016. He is now Chief Scientific Officer and Director of Vivace Therapeutics and a director of three other North American biotechnology companies. He has also been a member of a number of Scientific Advisory Boards. Dr Post is also advisor to an Australian based venture capital firm.

Dr Leonard Post - Non-Executive Director (continued)

Other Current Listed Directorships:
Nil

Previous Listed Directorships (last 3 years):
Nil

Interest in VLA shares:
Nil
Interest in VLA options:
600,000

Mr Peter Turvey – Non-Executive Director

Mr Turvey has thirty years' experience in the biotechnology industry most of which were as Group General Counsel, Company Secretary and Executive Vice-President Licensing of speciality biopharmaceutical company CSL Limited. Mr. Turvey was heavily involved in CSL's acquisitions and divestments over those years and directly responsible for the protection and licensing of its intellectual property.

He is currently a Non-Executive Director of Victorian State Government-owned Agriculture Victoria Services Pty Ltd and a Principal of Foursight Associates Pty Ltd.

Other Current Listed Directorships:
Starpharma Holdings Limited

Previous Listed Directorships (last 3 years):
Admedus Limited

Interest in VLA shares:
87,561
Interest in VLA options:
600,000

Dr Malcolm McColl – Managing Director

Dr McColl has more than twenty years' experience in negotiating at the highest level for international and regional pharmaceutical and biotech companies. He has been involved in over fifty research, development, licensing, mergers and acquisitions and other partnering transactions with a focus on oncology.

Prior to joining Viralytics he was Vice President Business Development at Starpharma and responsible for partnering activities and programs. Before joining Starpharma he held senior European and Asia Pacific business development roles with Hospira (formerly Mayne Pharma) and CSL where he spent 13 years culminating with 4 years in the US as Vice President Global Business Development for the Animal Health Division.

Other Current Listed Directorships:
Nil

Previous Listed Directorships (last 3 years):
Nil

Interest in VLA shares:
Nil
Interest in VLA options:
6,600,000

COMPANY SECRETARY - QUALIFICATIONS AND EXPERIENCE

Ms Sarah Prince BA LLB Grad Dip Corp Gov.

Ms Prince holds a BA LLB from the University of Tasmania and is an Associate of the Governance Institute of Australia.

Ms Prince has over eight years' experience as a solicitor and governance professional and currently works for Company Matters Pty Limited. Previously, Sarah worked in the Board Advisory Services division of KPMG.

Directors' Report

for the year ended 30 June 2016

REMUNERATION REPORT - AUDITED

This report details the nature and amount of remuneration for each director of Viralytics Ltd and for the Key Management Personnel (KMP). The directors of Viralytics Limited at any time during the financial year were:

Mr Paul Hopper	Non-Executive Chairman	Appointed 4 September 2008
Dr Leonard Post	Non-Executive Director	Appointed 21 November 2011
Mr Peter Turvey	Non-Executive Director	Appointed 8 September 2014
Dr Malcolm McColl	Managing Director	Appointed 8 September 2014

Remuneration Policy

Director and Executive Remuneration

The Company's policy for determining the nature and amount of emoluments of board members and executives is to pay market rates commensurate with their responsibilities and their time and commitment. The policy has been designed to attract and retain talented executives and directors with the specific skills needed to grow an early stage research and development Company into a significant international company.

The nature and scale of the Company's research, development and commercialisation activities requires access to a range of specialised skills as and when needed. It is not feasible to employ all required skills on a full time basis. Accordingly, the Company is structured to address these needs by retaining a small group of executives and calling upon specialist skills as and when required from the board and external sources. As a result all Directors are called upon to contribute to a greater extent than might normally be required of a general small independent Board.

Directors' fees are based upon the Director's experience and contribution to the Company's operations and governance obligations. The maximum aggregate amount of fees that can be paid to non-executive Directors is subject to approval by shareholders at the Annual General Meeting.

Key Management Personnel receive a base salary which is based upon experience and the specific skills of the Executive. In addition, the Company makes superannuation guarantee contributions for all Key Management Personnel where required under Commonwealth superannuation legislation. All remuneration (including performance-based remuneration) paid to Key Management Personnel is valued at the cost to the Company and expensed.

Performance-based Remuneration

The remuneration policy has been tailored to increase goal alignment between shareholders, directors and executives. Two methods have been applied to achieve this aim, the first being a performance-based bonus based on Key Performance Indicators (KPIs), and the second being the issue of options or share rights to the majority of directors and executives to encourage the alignment of personal and shareholder interests.

Performance incentives – Key Performance Indicators (KPIs) are set annually by the Directors and target financial and non-financial areas the Directors believe hold greatest potential for achieving the short and long-term objectives of the Company given its position as an early stage Research and Development Company. The KPI details for 2015/16 include achieving share price performance targets; initiating new trials consistent with corporate strategy; and instigating substantial partnering discussions. Performance in relation to the KPIs is assessed annually in light of the desired and actual outcomes, with bonuses being awarded by resolution of the Directors depending on the number of KPIs achieved.

Options and Rights - KMP are entitled to participate in the employee Share Option and Share Rights arrangements to align their interests with shareholders' interests. Options and Rights granted under the arrangement do not carry dividend or voting rights. Each Option and Right is entitled to be converted into one ordinary share.

KMP or closely related parties of KMP are prohibited from entering into hedge arrangements that would have the effect of limiting the risk exposure relating to their remuneration.

Consequences of Performance on Shareholder Wealth - In considering the Company's performance and consequent outcomes for shareholder wealth, the Board have regard to milestones as described above under *Performance incentives*. The board also considers the following indices in respect of the current financial year and the previous four (4) financial years whilst noting that, given the Company's stage of development, they are not always a reliable metric for performance and generation of shareholder wealth.

	2016	2015	2014	2013
EPS (cents)	(4.3)	(2.3)	(4.6)	(5.1)
Dividends (cents per share)	Nil	Nil	Nil	Nil
Net profit/loss ($,000)	(9,066)	(4,254)	(5,529)	(4,130)
Share price ($)	0.91	0.760	0.270	0.245

Performance Based Remuneration is apportioned as follows:

Performance Based Remuneration - 2016

	Position at 30 June 2016	Related to Performance		Not Related to Performance		Total
		Non-salary Cash-based Incentives	Options/ Rights	Options/ Rights	Fixed Salary/ Fees	
		%	%	%	%	%
Key Management Personnel						
Mr Paul Hopper	Non-Executive Chairman	0%	0%	34%	66%	100%
Dr Leonard Post	Non-Executive Director	0%	0%	36%	64%	100%
Mr Peter Turvey	Non-Executive Director	0%	0%	39%	61%	100%
Dr Malcolm McColl	Chief Executive Officer	7%	62%	3%	28%	100%
Dr Jennifer Rosenthal	Director – Regulatory Affairs	13%	0%	8%	79%	100%
Prof Darren Shafren	Chief Scientific Officer	7%	59%	2%	32%	100%
Mr Robert Vickery	Chief Financial Officer	12%	0%	13%	75%	100%

Performance Based Remuneration – 2015

	Position at 30 June 2015	Related to Performance	Not Related to Performance		Total
		Non-salary Cash-based Incentives	Options/ Rights	Fixed Salary/ Fees	
		%	%	%	%
Key Management Personnel					
Mr Paul Hopper	Non-Executive Chairman	0%	11%	89%	100%
Dr Phillip Altman (i)	Non-Executive Director	0%	6%	94%	100%
Mr Peter Molloy (i)	Non-Executive Director	0%	3%	97%	100%
Dr Leonard Post	Non-Executive Director	0%	17%	83%	100%
Mr Peter Turvey (ii)	Non-Executive Director	0%	27%	73%	100%
Dr Malcolm McColl	Chief Executive Officer	17%	12%	71%	100%
Dr Jennifer Rosenthal (iii)	Director – Regulatory Affairs	0%	0%	100%	100%
Prof Darren Shafren	Chief Scientific Officer	17%	12%	71%	100%
Mr Robert Vickery	Chief Financial Officer	11%	8%	81%	100%

(i) Resigned 8 September 2014
(ii) Appointed 8 September 2014
(iii) Appointed 4 May 2015

Directors' Report

for the year ended 30 June 2016

Director Remuneration for the year ended 30 June 2016:

	Short-Term Benefits				Post Employ-ment	Termin-ation Benefits	Share-based Payment	Total
	Director fees & Salary $	Bonus $	Change Accrued Leave $	Other [(i)] $	Superan-nuation $	$	Options $	$
Non-Executive Directors								
Mr P Hopper[(i)]	82,125	-	-	10,000	-	-	47,000	139,125
Dr L Post	60,225	-	-	-	-	-	34,213	94,438
Mr P Turvey	60,000	-	-	-	5,700	-	42,852	108,552
Executive Director								
Dr M McColl	363,000	108,900	33,301	-	27,000	-	973,918	1,506,119
Total	**565,350**	**108,900**	**33,301**	**10,000**	**32,700**	**-**	**1,097,983**	**1,848,234**

Director Remuneration for the year ended 30 June 2015:

	Short-Term Benefits				Post Employ-ment	Termin-ation Benefits	Share-based Payment	Total
	Directors fees and Salary $	Bonus $	Change Accrued Leave $	Other [(i)] $	Superan-nuation $	$	Options $	$
Non-Executive Directors								
Mr P Hopper[(i)]	75,000	-	-	10,000	7,125	-	11,212	103,337
Dr P Altman	10,011	-	-	12,735	951	-	1,533	25,230
Mr P Molloy	10,011	-	-	12,735	951	-	767	24,464
Dr L Post	59,950	-	-	-	-	-	11,983	71,933
Mr P Turvey	48,833	-	-	-	4,639	-	19,357	72,829
Executive Director								
Dr M McColl[(ii)]	346,500	99,000	33,247	-	27,000	-	70,997	576,744
Total	**550,305**	**99,000**	**33,247**	**35,470**	**40,666**	**-**	**115,849**	**874,537**

(i) Mr Hopper received a travel allowance of $10,000. Dr Altman and Mr Molloy were retained on consulting agreements from the date of their resignations until the AGM on 27 November 2014.

(ii) Dr McColl was appointed Managing Director on 8 September 2014. The Salary noted includes $282,986 relating to the period since his appointment. The $99,000 bonus was paid after this appointment but relates in part to his service as Chief Executive Officer prior to the appointment. The Superannuation noted includes $21,822 relating to the period since his appointment as Managing Director. He was issued with 400,000 share options in November 2014. Details regarding all share options issued are set out in note 13.

Directors' Report

for the year ended 30 June 2016

Company Executives

Remuneration for executives is set out below:

Details of Executives Remuneration for the year ended 30 June 2016:

	Short-Term Benefits				Post Employ-ment	Termin-ation Benefits	Share-based Payment	Total
Executive	Salary $	Consult-ing $	Bonus $	Change Accrued Leave $	Superan nuation $	$	Options / Perf. Rights $	$
Dr Jennifer Rosenthal [(c)]	180,000	-	32,400	4,720	17,100	-	19,945	254,165
Prof Darren Shafren [(a)]	143,546	142,404	64,274	-	13,637	-	576,011	939,872
Mr Robert Vickery [(b)]	151,667	-	27,000	438	16,384	-	29,688	225,177
	475,213	**142,404**	**123,674**	**5,158**	**47,121**	**-**	**625,644**	**1,419,214**

(a) During the year ended 30 June 2016, Professor Shafren retained tenure with the University of Newcastle while engaged full time with Viralytics as its Chief Scientific Officer. Professor Shafren is paid a standard Associate Professor's salary of $143,546 (2015 $133,448) plus superannuation of $13,637 (2015 $23,575) by the University of Newcastle. Viralytics pays Newcastle Innovation, the commercial arm of the University of Newcastle $232,404 (2015 $232,404) in respect of Prof Shafren's services. Of this, Newcastle Innovation pays Professor Shafren a consultancy fee of $142,404 (2015 $142,404). In October 2015 Prof Shafren was awarded a bonus of $64,274 by meeting measurable KPIs for the period. In October 2014 he received a bonus of $69,677. At 30 June 2016 Prof. Shafren holds 4,000,000 share options which expire on 28 September 2020 with an exercise price of $0.5885 (2015 - 600,000 options expiring 12 August 2016 with an exercise price of $0.70 and 200,000 Performance Rights vesting and converting on 8 September 2015).

(b) Mr Vickery was issued 200,000 options in September 2015 and 40,000 Performance Rights in November 2014.

(c) Dr Rosenthal commenced employment on 4 May 2015. She was issued 150,000 options in September 2015.

Directors' Report

for the year ended 30 June 2016

Information relating to Executive Bonuses for the Year Ending 30 June 2016

	Malcolm McColl	Jennifer Rosenthal	Darren Shafren	Robert Vickery
Grant Date	Feb 2016	Jun 2016	Oct 2015	Jun 2016
Nature of Compensation	Cash bonus	Cash bonus	Cash bonus	Cash bonus
Service and Performance Criteria	Achieving KPIs as outlined in 'Performance Based Remuneration'	Achieving KPIs as outlined in 'Performance Based Remuneration'	Achieving KPIs as outlined in 'Performance Based Remuneration'	Achieving KPIs as outlined in 'Performance Based Remuneration'
% Paid	100%	90%	100%	90%
% Forfeited	0%	10%	0%	10%
Subsequent Years in which Compensation might be payable	N/A	N/A	N/A	N/A
Minimum / Maximum possible grant for 2015/16	$0 / $108,900	$0 / $36,000	$0 / $64,274	$0 / $30,000

Details of Executives Remuneration for the year ended 30 June 2015:

	Short-Term Benefits				Post Employ-ment	Termin-ation Benefits	Share-based Payment	Total
Executive	Salary $	Consult-ing $	Bonus $	Change Accrued Leave $	Superan nuation $	$	Options / Perf. Rights $	$
Dr Jennifer Rosenthal [(c)]	29,286	-	-	1,278	2,782	-	-	33,346
Prof Darren Shafren [(a)]	133,448	142,404	69,677	-	23,575	-	49,060	418,164
Mr Robert Vickery [(b)]	130,000	-	20,800	6,561	12,350	-	15,038	184,749
	292,734	**142,404**	**90,477**	**7,839**	**38,707**	**-**	**64,098**	**636,259**

(a) During the year ended 30 June 2016, Professor Shafren retained tenure with the University of Newcastle while engaged full time with Viralytics as its Chief Scientific Officer. Professor Shafren is paid a standard Associate Professor's salary of $143,546 (2015 $133,448) plus superannuation of $13,637 (2015 $23,575) by the University of Newcastle. Viralytics pays Newcastle Innovation, the commercial arm of the University of Newcastle $232,404 (2015 $232,404) in respect of Prof Shafren's services. Of this, Newcastle Innovation pays Professor Shafren a consultancy fee of $142,404 (2015 $142,404). In October 2015 Prof Shafren was awarded a bonus of $64,274 by meeting measurable KPIs for the period. In October 2014 he received a bonus of $69,677. At 30 June 2016 Prof. Shafren holds 4,000,000 share options which expire on 28 September 2020 with an exercise price of $0.5885 (2015 - 600,000 options expiring 12 August 2016 with an exercise price of $0.70 and 200,000 Performance Rights vesting and converting on 8 September 2015).

(b) Mr Vickery was issued 200,000 options in September 2015 and 40,000 Performance Rights in November 2014.

(c) Dr Rosenthal commenced employment on 4 May 2015. She was issued 150,000 options in September 2015.

Executive Contractual Arrangements

Remuneration and other terms of employment for the Executive Directors and other Key Management Personnel are formalised in a Service Agreement. The major provisions of the agreements relating to remuneration are set out below:

Name	Base Salary	Term of Agreement	Notice Period
Malcolm McColl	$363,000	Unspecified	6 months
Darren Shafren	$143,546	Unspecified	6 months
Robert Vickery	$157,500 (i)	Unspecified	3 months
Jennifer Rosenthal	$180,000	Unspecified	3 months

(i) Effective 1 June 2016. $150,000 prior to that date.

Loans to Key Management Personnel

The Company does not have any facilities in place to establish loans to Key Management Personnel. There are no loans in place to Key Management Personnel at 30 June 2016 (2015 – nil).

Performance Rights Issued as Remuneration to directors and key management:

Key Management Personnel	Grant Date	Number Granted	Value per Right $	Value of perf. rights granted $	Expense as a % of remun-eration during the year	Exercise price $	Expiry (Conversion) date
2016							
N/A	-	-	-	-	-	-	-
2015							
Darren Shafren	24 Apr 14	200,000	0.315	63,000	12%	N/A	8 Sep 15
Robert Vickery	24 Apr 14	40,000	0.315	12,600	8%	N/A	8 Sep 15

The rights converted to shares on the expiry date. They cannot be converted before that date. The rights will expire before conversion if the holder ceases employment.

Options Issued as Remuneration to directors and key management:

Director / KMP	Number Granted	Grant Date	Value per option	Total value [(i) (ii)] $	Exp (% remun-eration)	Exercise price $	First Exercise date	Vested at report date	Expiry date
2016									
McColl	2,500,000	18 Nov 15	0.2500	625,000	43%	0.5885	21 Jun 16	2,500,000	18 Nov 20
McColl	2,500,000	18 Nov 15	0.3624	906,000	22%	0.5885	21 Jun 16	-	18 Nov 20
Hopper	300,000	18 Nov 15	0.3400	102,000	34%	0.6626	18 Nov 16	-	18 Nov 20
Post	200,000	18 Nov 15	0.3400	68,000	36%	0.6626	18 Nov 16	-	18 Nov 20
Turvey	200,000	18 Nov 15	0.3400	68,000	39%	0.6626	18 Nov 16	-	18 Nov 20
Shafren	2,000,000	28 Sep 15	0.1800	360,000	39%	0.5885	21 Jun 16	2,000,000	28 Sep 20
Shafren	2,000,000	28 Sep 15	0.2875	575,000	22%	0.5885	21 Jun 16	-	28 Sep 20
Vickery	200,000	28 Sep 15	0.2875	57,500	13%	0.5885	15 Sep 16	-	28 Sep 20
Rosenthal	150,000	28 Sep 15	0.2875	43,125	8%	0.5885	15 Sep 16	-	28 Sep 20

Director / KMP	Number Granted	Grant Date	Value per option	Total value [(i) (ii)] $	Exp (% remun-eration)	Exercise price $	First Exercise date	Vested at report date	Expiry date
2016									
McColl	400,000	28 Nov 14	0.1115	44,600	12%	0.332	8 Sep 15	133,333	28 Nov 19
Hopper	200,000	28 Nov 14	0.1115	22,300	11%	0.332	8 Sep 15	66,667	28 Nov 19
Post	200,000	28 Nov 14	0.1115	22,300	17%	0.332	8 Sep 15	66,667	28 Nov 19
Turvey	400,000	28 Nov 14	0.1115	44,600	27%	0.332	8 Sep 15	133,333	28 Nov 19

(i) The first tranche (50%) of options issued to Dr McColl and Prof. Shafren in 2016 were valued using Monte Carlo simulation. All other options have been valued using the Black-Scholes methodology. Details on how the options were valued, including the inputs to the methodologies, are set out in the Issued Capital Note to the accounts.

(ii) Of the options issued in 2015, one third have vested as at the date of this report. Of the options issues in 2016 2,500,000 issued to Dr McColl and 2,000,000 issued to Prof. Shafren vested in June 2016. No other options have vested at the date of this report.

Terms and conditions applicable to unlisted options and performance rights

Options

2016

The options issued during the year vest in equal tranches as follows:

	1st Tranche	2nd Tranche	3rd Tranche
Malcolm McColl	See note (i)	See note (ii)	Not applicable
Paul Hopper	18 Nov 16	18 Nov 17	18 Nov 18
Leonard Post	18 Nov 16	18 Nov 17	18 Nov 18
Peter Turvey	18 Nov 16	18 Nov 17	18 Nov 18
Darren Shafren	See note (i)	See note (ii)	Not applicable
Robert Vickery	15 Sep 16	15 Sep 17	15 Sep 18
Jennifer Rosenthal	15 Sep 16	15 Sep 17	15 Sep 18

(i) Vests if any one of three performance targets based on share price, clinical trial progress or corporate transaction activity is achieved by 30 November 2016.

(ii) Vests if any one of three performance targets based on share price, clinical trial progress or corporate transaction activity is achieved by 30 November 2017.

2015

One third of the options vested on 8 September 2015, a further third vest on 8 September 2016 and the remaining third will vest on 8 September 2017. The options will expire on 28 November 2019.

Performance Rights

2016

No performance rights were issued to Directors or Key Management Personnel.

2015

Subject to continued employment, the performance rights vested on 8 September 2015 and converted to ordinary shares on a 1-for-1 basis.

Options and Rights Converted into Shares

During the year ended 30 June 2016 the following current and former directors and key management personnel exercised options:

	Amount	Exercise Price
Bryan Dulhunty	200,000	$0.50
Phillip Altman	600,000	$0.70
Paul Hopper	600,000	$0.70
Bryan Dulhunty	800,000	$0.70
Darren Shafren	600,000	$0.70
	2,800,000	

During the year ended 30 June 2015 no current or former director or key management personnel exercised options.

During the year ended 30 June 2016 Mr Vickery received 40,000 shares and Prof. Shafren received 200,000 shares following conversion of performance rights.

During the year ended 30 June 2015 Mr Vickery received 40,000 shares following conversion of performance rights. No other current or former director or key management personnel converted performance rights during either year.

Options Expired during the Year

2016

No options expired during the year.

2015

On 30 June 400,000 options held by Darren Shafren with an exercise price of $0.65 expired. The options were issued on 30 June 2010. No other options expired during the year.

Directors' Report

for the year ended 30 June 2016

Directors' and Key Management Personnel relevant interests in securities

Relevant interests in securities during the year and at the date of this report are as follows:

(a) Ordinary Shares	Opening Balance	Shares Acquired	Shares Disposed	Closing Balance
Paul Hopper				
Deborah Coleman [(i)]	36,000	-	-	36,000
Kilinwata Investments Pty Limited [(ii)]	28,106	606,000	(510,000)	124,106
Peter Turvey				
P & P Turvey ATF Katto Superannuation Fund [(ii)]	77,274	10,287	-	87,561
Darren Shafren [(iv)]	150	800,000	(720,000)	80,150
Robert Vickery [(v)]	40,000	62,439	-	102,439
Jennifer Rosenthal	5,000	10,000	-	15,000

(b) Unlisted Options	Opening Balance	Issued during year	Exercised during year	Closing Balance	Vesting Term	Vested and Exercisable at 30 June	Vested and Unexercisable at 30 June
Paul Hopper	800,000	300,000	(600,000)	500,000	(vi)	66,667	-
Leonard Post	400,000	200,000	-	600,000	(vii)	266,667	-
Malcolm McColl	1,600,000	5,000,000	-	6,600,000	(viii)	3,833,333	-
Peter Turvey	400,000	200,000	-	600,000	(ix)	133,333	-
Darren Shafren	600,000	4,000,000	(600,000)	4,000,000	(x)	2,000,000	-
Robert Vickery	-	200,000	-	200,000	(xi)	-	-
Jennifer Rosenthal	-	150,000	-	150,000	(xi)	-	-
Total	3,800,000	10,050,000	(1,200,000)	12,650,000		6,300,000	-

(c) Performance Rights	Opening Balance	Issued during year	Converted during year	Closing Balance	Terms	Expiry Date
Darren Shafren	200,000	-	(200,000)	-	(xii)	8 Sep 15
Robert Vickery	40,000	-	(40,000)	-	(xii)	8 Sep 15
	240,000	-	(240,000)	-		

(i) Ms Coleman is the spouse of Mr Hopper.
(ii) Mr Hopper is a shareholder of Kilinwata Investments Pty Limited. He acquired 600,000 shares during the year from the exercise of share options.
(iii) Mr Turvey is a beneficiary of the KATTO Superannuation Fund. Mr Turvey was appointed on 8 September 2014.
(iv) Prof. Shafren acquired 600,000 shares during the year from the exercise of share options.

(v) Mr Vickery acquired 40,000 (2015 – 40,000) shares on conversion from performance rights.
(vi) For the 200,000 of the opening balance which were not exercised during the year, one third vested on 8 September 2015 with remaining equal tranches vesting on 8 September 2016 and 8 September 2017. For the 300,000 issued during the year one third vest on each of 18 November 2016, 18 November 2017 and 18 November 2018.
(vii) 266,667 of the 400,000 opening balance is fully vested. For the 200,000 issued during the year one third vest on each of 18 November 2016, 18 November 2017 and 18 November 2018.
(viii) Of the 1,600,000 opening balance 1,333,333 have vested. 133,333 are due to vest on 8 September 2016 and 133,334 on 8 September 2017. Of the 5,000,000 issued during the year, 2,500,000 vested on 21 June 2016 due to the achievement of a performance target. The remaining 2,500,000 will only vest on achievement of a further performance target. More details provided in Note 13 - Issued Capital.
(ix) Of the opening balance of 400,000 one third vested on 8 September 2015 with the remaining equal tranches vesting on 8 September 2016 and 8 September 2017. For the 200,000 issued during the year one third vest on each of 18 November 2016, 18 November 2017 and 18 November 2018.
(x) The opening balance of 600,000 is fully vested. Of the 4,000,000 issued during the year 2,000,000 vested on 21 June 2016 due to the achievement of a performance target. The remaining 2,000,000 will only vest on achievement of a further performance target. More details provided in Note 13 - Issued Capital.
(xi) For the amount issued during the year one third vest on each of 15 September 2016, 15 September 2017 and 15 September 2018.
(xii) The rights converted to shares on the expiry date. They could not be converted before that date. The rights would have expired before conversion if the holder ceased employment.

END OF AUDITED REMUNERATION REPORT

DIRECTORS' AND AUDITOR'S INDEMNIFICATION

The Company has entered into Deeds of Indemnity (**Deed**) with each Director, the Company Secretary, the Chief Scientific Officer, and the Chief Financial Officer. Under the Deeds, the Company indemnifies the respective officers to the maximum extent permissible by law and the Constitution against legal proceedings, damage, loss, liability, costs, charges, expenses, outgoings or payments (including legal expenses on a solicitor/basis) suffered, paid or incurred by the Officers in connection with the relevant person being an officer of the Company, the employment of the officer with the Company or a breach by the Company of its obligations under the Deed.

Under the Deed, the Company must insure the relevant officers against liability and provide access to Board papers relevant to defending any claim brought against the officers in their capacity as officers of the Company. The Company has entered into an insurance contract in this regard – disclosure of the premium paid is not permitted under the terms of the contract.

The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify any current or former officer or auditor of the Company against a liability incurred by an officer or an auditor.

Directors' Report

for the year ended 30 June 2016

NON-AUDIT SERVICES

During the year, Grant Thornton, the Company's auditors, performed certain other services in addition to their statutory audit duties.

The Board has considered the non-audit services provided during the year by the auditor and, in accordance with written advice provided by resolution of the Audit and Risk Committee, is satisfied that the provision of those non-audit services during the year is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act 2001 for the following reasons:

a) all non-audit services were subject to the corporate governance procedures adopted by the Company and have been reviewed by the Audit and Risk Committee to ensure they do not impact upon the impartiality and objectivity of the auditor; and
b) the non-audit services do not undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as an advocate for the Company or jointly sharing risks and rewards

Other compliance services were provided by Grant Thornton during the financial year. The fees for IT, tax and other compliance services provided by Grant Thornton were $73,642 (2015 - $29,363).

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the year ended 30 June 2016 as required under s307C of the Corporations Act 2001 has been received and can be found on page 36.

This Director's Report, incorporating the Remuneration Report, is signed in accordance with a resolution of the Board of Directors

Paul Hopper
Chairman
Dated: 25 August 2016

Viralytics Limited

Corporate Governance Statement

for the year ended 30 June 2016

The Board is committed to achieving and demonstrating the highest standards of corporate governance. Viralytics Ltd observes the third edition of the Corporate Governance Principles and Recommendations released by the ASX Corporate Governance Council and effective for financial years beginning on or after 1 July 2014.

The Company's Corporate Governance Statement for the financial year ending 30 June 2016 is dated as at 30 June 2016 and was approved by the Board on 25 August 2016.

The Corporate Governance Statement is available on the Company's website at:

http://www.viralytics.com/investor-centre/corporate-governance/

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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 audit of Viralytics Limited for the year ended 30 June 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 audit; and

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

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

N J Bradley
Partner - Audit & Assurance

Sydney, 25 August 2016

Viralytics Limited

Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2016

	Note	2016	2015
		$	$
Revenue			
Interest Revenue		512,652	527,056
Total Revenue		**512,652**	**527,056**
Other Income			
R & D Tax Incentive	4	4,654,938	2,453,595
Foreign Currency Translation Gain		-	1,682,804
Total Other Income		**4,654,938**	**4,136,399**
Expenses			
Research and development costs:			
Clinical trials		4,295,674	3,362,536
Research and development		2,267,419	1,632,416
Manufacture		2,041,372	930,480
Patents and related costs		132,858	170,438
Amortisation of intangibles		390,312	390,312
Depreciation		36,570	34,730
Employee costs		3,148,422	1,297,555
Corporate compliance costs		755,304	581,710
Other Expenses		478,084	518,055
Interest Expense		4,803	-
Foreign currency translation loss		682,495	-
Total Expenses		**14,233,313**	**8,918,232**
(Loss) before income tax		**(9,065,723)**	**(4,254,777)**
Income tax expense	5	-	-
Total (loss) for the year, net of tax		**(9,065,723)**	**(4,254,777)**
Other comprehensive income		-	-
Total comprehensive income for the year, net of tax		**(9,065,723)**	**(4,254,777)**
Basic (loss) cents per share	6	(4.3)	(2.3)
Diluted (loss) cents per share	6	(4.3)	(2.3)

The accompanying notes form part of these financial statements.

Statement of Financial Position

As at 30 June 2016

	Note	2016	2015
		$	$
Current Assets			
Cash and cash equivalents	7	46,121,485	21,565,813
Trade and Other Receivables	8	4,848,713	2,875,480
Total Current Assets		**50,970,198**	**24,441,293**
Non-Current Assets			
Plant and equipment	9	78,667	82,476
Investments	10	-	-
Intangible assets	11	1,643,464	2,033,776
Total Non-Current Assets		**1,722,131**	**2,116,252**
Total Assets		**52,692,329**	**26,557,545**
Current Liabilities			
Trade and other payables	12	2,364,305	1,685,264
Total Current Liabilities		**2,364,305**	**1,685,264**
Total Liabilities		**2,364,305**	**1,685,264**
Net Assets		**50,328,024**	**24,872,281**
Equity			
Issued Capital	13	121,169,264	87,632,211
Reserves	14	2,193,819	3,430,576
Accumulated Losses		(73,035,059)	(66,190,506)
		50,328,024	**24,872,281**

The accompanying notes form part of these financial statements.

Viralytics Limited

Statement of Changes In Equity

for the year ended 30 June 2016

Year Ended 30 June 2016

	Note	Share Capital	Retained Earnings	Reserves	Total
		Ordinary	(Accumulated Losses)	Option Reserve	
		$	$	$	$
Balance at 1 July 2015		**87,632,211**	**(66,190,506)**	**3,430,576**	**24,872,281**
Loss after income tax expense for the year		-	(9,065,723)	-	(9,065,723)
Other comprehensive income for the year		-	-	-	-
Total comprehensive income for the year		-	(9,065,723)	-	(9,065,723)
Transactions with owners in their capacity as owners, and other transfers:					
Shares issued during the year		32,362,738	-	-	32,362,738
Transaction costs		(1,564,085)	-	-	(1,564,085)
Ordinary Shares issued on Exercise of Options		1,920,000	-	-	1,920,000
Transfer to share capital for options exercised		717,600	-	(717,600)	-
Expired Options Transferred to Retained Earnings		-	2,221,170	(2,221,170)	-
Ordinary Shares issued on Performance Rights		100,800	-	(100,800)	-
Share option based compensation	14	-	-	1,802,813	1,802,813
Total transactions with owners and other transfers		33,537,053	2,221,170	(1,236,757)	34,521,466
Balance at 30 June 2016		**121,169,264**	**(73,035,059)**	**2,193,819**	**50,328,024**

The accompanying notes form part of these financial statements.

Viralytics Limited

Statement of Changes In Equity

for the year ended 30 June 2016

Year Ended 30 June 2015

	Note	Share Capital		Retained Earnings	Reserves	Total
		Ordinary	Convertible Note	(Accumulated Losses)	Option Reserve	
		$	$	$	$	$
Balance at 1 July 2014		**86,959,988**	**595,640**	**(61,935,729)**	**3,256,643**	**28,876,542**
Loss after income tax expense for the year		-	-	(4,254,777)	-	(4,254,777)
Other comprehensive income for the year		-	-	-	-	-
Total comprehensive income for the year		-	-	(4,254,777)	-	(4,254,777)
Transactions with owners in their capacity as owners, and other transfers:						
Shares issued during the year		-	-	-	-	-
Transaction costs		-	-	-	-	-
Transfer Convertible Note Equity to Issued Capital		595,640	(595,640)	-	-	-
Ordinary Shares issued on Exercise of Options		39,875	-	-	-	39,875
Transfer to share capital for options exercised		16,466	-	-	(16,466)	-
Ordinary Shares issued on Performance Rights		20,242	-	-	(20,242)	-
Share option based compensation	14	-	-	-	210,641	210,641
Total transactions with owners and other transfers		672,223	(595,640)	-	173,933	250,516
Balance at 30 June 2015		**87,632,211**	**-**	**(66,190,506)**	**3,430,576**	**24,872,281**

The accompanying notes form part of these financial statements.

Viralytics Limited

Statement of Cash Flows

for the year ended 30 June 2016

	Note	2016	2015
		$	$
Cash Flows from Operating Activities			
R & D Tax Incentive Offset		2,928,531	2,476,255
Payments to suppliers and employees		(10,955,749)	(7,485,815)
Interest received		489,830	544,025
Interest paid		(4,803)	-
Net cash (used in) operating activities	16	**(7,542,191)**	**(4,465,535)**
Cash Flows from Investing Activities			
Purchase of equipment		(32,761)	(69,243)
Security Deposits transferred to cash		52,536	-
Net cash (used in) investing activities		**19,775**	**(69,243)**
Cash Flows from Financing Activities			
Proceeds from issue of shares		32,362,738	-
Exercise of Options		1,920,000	39,875
Costs of fund raising		(1,564,085)	-
Net cash provided by financing activities		**32,718,653**	**39,875**
Net increase / (decrease) in cash held		**25,196,237**	**(4,494,903)**
Net Foreign Exchange Difference		(640,565)	1,725,021
Cash at the beginning of the financial year		21,565,813	24,335,695
Closing cash at the end of the financial year		**46,121,485**	**21,565,813**

The accompanying notes form part of these financial statements

Notes to the Financial Statements

for the year ended 30 June 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Preparation

The financial statements are general purpose financial statements that have been prepared in accordance with Australian Accounting Standards, Australian Accounting Interpretations, other authoritative pronouncements of the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The entity is a for-profit entity under Australian Accounting Standards.

Australian Accounting Standards set out accounting policies that the AASB has concluded would result in financial statements 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 (IFRS) as issued by the International Accounting Standards Board. Material accounting policies adopted in preparation of the financial statements are presented below and have been consistently applied unless stated otherwise.

The financial statements are prepared for Viralytics Limited - a listed public company, incorporated and domiciled in Australia.

Reporting Basis and Conventions

Except for cash flow information, 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. The amounts presented in the financial statements have been rounded to the nearest dollar.

Going Concern

The financial statements for the year ended 30 June 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 under Likely Developments and Likely results. This is because the Company has cash assets of $46.1 million at 30 June 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.

Notes to the Financial Statements

for the year ended 30 June 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fair Value Measurement

The Company does not measure any assets or liabilities at fair value on a recurring basis after initial recognition. The carrying amount of financial assets and financial liabilities as disclosed in the statement of financial position and notes to the financial statements approximate their fair value.

New and Revised Standards that are effective for these financial statements

A number of new and revised standards became effective for the first time to annual periods beginning on or after 1 July 2015. None of these standards has had a material impact on the financial statements for Company for the year ending 30 June 2016.

New Accounting Standards for Application in Future Periods

The AASB has issued new and amended accounting standards and interpretations that have mandatory application dates for future reporting periods. The Company has decided against early adoption of these standards. A discussion of those future requirements and their impact on the Company follows:

AASB 9 Financial Instruments (applicable for annual reporting periods beginning on or after 1 January 2018:
The standard introduces new requirements for the classification and measurement of financial assets and liabilities. These requirements improve and simplify the approach for classification and measurement of financial assets compared with the requirements of AASB 139.

Notes to the Financial Statements

for the year ended 30 June 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New Accounting Standards for Application in Future Periods continued

The main changes:

a) Financial assets that are debt instruments will be classified based on
   i. the objective of the Company's business model for managing the financial assets; and
   ii. the characteristics of the contractual cash flows.
b) Allow an irrevocable election on initial recognition to present gains and losses on investments in equity instruments that are not held for trading in other comprehensive income (instead of in profit or loss). Dividends in respect of these investments that are a return on investment can be recognised in profit or loss and there is no impairment or recycling on disposal of the instrument.
c) Financial assets can be designated and measured at fair value through profit or loss at initial recognition if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities, or recognising the gains and losses on them, on different bases.

Where the fair value option is used for financial liabilities the change in fair value is to be accounted for as follows:

i. the change attributable to changes in credit risk are presented in other comprehensive income (OCI); and
ii. the remaining change is presented in profit or loss.

If this approach creates or enlarges an accounting mismatch in the profit or loss, the effect of the changes in credit risk are also presented in profit or loss. Otherwise, the following requirements have been carried forward unchanged from AASB 139 into AASB 9:

i. classification and measurement of financial liabilities; and
ii. de-recognition requirements for financial assets and liabilities.

AASB 9 requirements regarding hedge accounting represent a substantial overhaul of hedge accounting that will enable entities to better reflect their risk management activities in the financial statements.

Furthermore, AASB 9 introduces a new impairment model based on expected credit losses. This model makes use of more forward-looking information and applies to all financial instruments that are subject to impairment accounting.

The Company is yet to undertake a detailed assessment of the impact of AASB 9 however, based on its preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.

Notes to the Financial Statements

for the year ended 30 June 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New Accounting Standards for Application in Future Periods continued

AASB 15 Revenue from Contracts with Customers

The main changes:

a) replace AASB 118 Revenue, AASB 111 Construction Contracts and some revenue-related Interpretations;
b) establish a new revenue recognition model;
c) change the basis for deciding whether revenue is to be recognised over time or at a point in time;
d) provide new and more detailed guidance on specific topics (e.g., multiple element arrangements, variable pricing, rights of return, warranties and licensing); and
e) expand and improve disclosures about revenue

The Company does not presently receive revenue from customers. It has not undertaken a detailed assessment of the impact of AASB 15 however, based on its preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2019.

AASB 16 Leases

The main changes:

a) replace AASB 117 Leases and some lease-related Interpretations
b) require all leases to be accounted for 'on-balance sheet' by lessees, other than short-term and low value asset leases
c) provide new guidance on the application of the definition of lease and on sale and lease back accounting
d) largely retain the existing lessor accounting requirements in AASB 117; and
e) require new and different disclosures about leases

The Company's main lease is in respect of its corporate head office. It has not undertaken a detailed assessment of the impact of AASB 16 however, based on its preliminary assessment, the Standard is not expected to have a material impact on the transactions and balances recognised in the financial statements when it is first adopted for the year ending 30 June 2020.

Notes to the Financial Statements

for the year ended 30 June 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

New Accounting Standards for Application in Future Periods continued

AASB 2014-1 *Amendments to Australian Accounting Standards* (Part E: Financial Instruments)

Part E of AASB 2014-1 makes amendments to Australian Accounting Standards to reflect the AASB's decision to defer the mandatory application date of AASB 9 Financial Instruments to annual reporting periods beginning on or after 1 January 2018. Part E also makes amendments to numerous Australian Accounting Standards as a consequence of the introduction of Chapter 6 Hedge Accounting into AASB 9 and to amend reduced disclosure requirements for AASB 7 Financial Instruments: Disclosures and AASB 101 Presentation of Financial Statements. When these amendments are first adopted for the year ending 30 June 2017 there will be no material impact on the Company.

AASB 2015-2 Amendments to Australian Accounting Standards – Disclosure Initiative: Amendments to AASB 101

The amendments:

- clarify the materiality requirements in AASB 101, including an emphasis on the potentially detrimental effect of obscuring useful information with immaterial information;
- clarify that AASB 101's specified line items in the statement(s) of profit or loss and other comprehensive income and the statement of financial position can be disaggregated;
- add requirements for how an entity should present subtotals in the statement(s) of profit and loss and other comprehensive income and the statement of financial position;
- clarify that entities have flexibility as to the order in which they present the notes, but also emphasise that understandability and comparability should be considered by an entity when deciding that order; and
- remove potentially unhelpful guidance in IAS 1 for identifying a significant accounting policy.

When these amendments are first adopted for the year ending 30 June 2017, there will be no material impact on the financial statements.

Notes to the Financial Statements

for the year ended 30 June 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits available on demand with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

b) Financial Instruments

Financial instruments that are in the scope of AASB 139 Financial Instruments: Recognition and Measurement are categorised as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Designation is re-evaluated at each financial year end, but there are restrictions on reclassifying to other categories.

Recognition and de-recognition

Financial assets and financial liabilities are recognised when the Company 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 the purchase or sale of the asset (i.e. trade date accounting is adopted).

Financial assets are de-recognised where 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 de-recognised where the related obligations are discharged, cancelled or expired.

Measurement

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 expensed to profit or loss immediately.

Financial instruments are subsequently measured at fair value, amortised cost using the effective interest rate 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.

Notes to the Financial Statements

for the year ended 30 June 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

b) Financial Instruments continued

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.

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.

(i) 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 when the loans and receivables are de-recognised or impaired. Loans and receivables are included in current assets, where they are expected to mature within 12 months after the end of the reporting period.

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other shared credit risk characteristics. The impairment loss estimate is then based on recent historical counterparty default rates for each identified group.

(ii) Financial liabilities

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

The Company does not have any derivative financial instruments at 30 June 2016 (Nil: 2015).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

c) Inventories

Prepaid costs in relation to CAVATAK™ drug stocks manufactured for the purpose of conducting the Phase 1 and 2 clinical trials have been expensed following commencement of the trials.

The manufacture of additional CAVATAK drug stock during the clinical trials forms part of the ongoing research and development activities of the Company as the drug stock is not held for sale in the ordinary course of business. Consequently, no inventory is recognised by the Company in accordance with Accounting Standard AASB 102 "Inventories" at 30 June 2016 (2015 – nil).

d) Plant and Equipment

Each class of plant and equipment is carried at cost less accumulated depreciation and impairment losses. A formal assessment of recoverable amount is made when impairment indicators are present (refer to Note 1(r) for details of impairment).

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

Depreciation is provided on a straight-line basis over their useful lives on all plant and equipment. The major depreciation periods are:

Computer Equipment:	2-3 years
Furniture & Fittings:	5 years

The assets residual value and useful lives are reviewed and adjusted if appropriate, at each year end date. An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing proceeds with the carrying amounts. These gains and losses are included in the statement of profit or loss and comprehensive income.

Notes to the Financial Statements

for the year ended 30 June 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

e) Investments in Associates

The Company's investment in its associates is accounted for using the equity method of accounting. The associates are entities over which the Company has significant influence and that are neither subsidiaries nor joint ventures. This is because the Company holds, directly or indirectly, over 20% of the voting rights.

Under the equity method, investments in the associates are carried in the Statement of Financial Position at cost plus post-acquisition changes in the Company's share of net assets of the associates. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. After application of the equity method, the Company determines whether it is necessary to recognise any impairment loss with respect to the Company's net investment in associates.

The Company's share of its associates' post-acquisition profits or losses is recognised in the profit or loss or statement of profit or loss and other comprehensive income, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. Dividends receivable from associates reduce the carrying amount of the investment.

When the Company's share of losses in an associate equals or exceeds its interest in the associate, including any unsecured long-term receivables and loans, the Company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The reporting dates of the associates and the Company are identical and the associates' accounting policies conform to those used by the Company for like transactions and events in similar circumstances.

f) Intangible Assets

Patents

Amounts incurred in acquiring and extending patents are expensed as incurred, except to the extent such costs are expected beyond any reasonable doubt to be recoverable. Where applicable, patents are recognised at cost of acquisition. Patents have a finite life and are carried at cost less any accumulated amortisation and any impairment losses. All patents are amortised over the remaining life of the patent closest to expiry, being 14 years from acquisition. The method for assessing for impairment of intangible assets is described in Note 1(r).

Notes to the Financial Statements

for the year ended 30 June 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

g) Employee Benefits

Provision is made for the Company's liability for employee benefits arising from services rendered by employees to the end of the reporting date. Employee benefits that are expected to be settled within one year and later than one year have been measured at the amounts that are expected to be paid when the liability is settled, plus related on-costs.

Short-term employee benefits are measured at the undiscounted amounts expected to be paid when the liabilities are settled. Where applicable, the Company's liabilities for annual leave and long service leave that are not expected to be settled wholly within twelve (12) months after the end of the period in which the employees render the related service are measured at the present value of the expected future payments to be made to employees.

h) Provisions

Provisions are recognised when the Company 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.

i) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Interest revenue is recognised on a proportional basis taking into account the interest rates applicable to the financial assets.

Revenue from government incentives such as Research and Development tax concession is recognised when the eligibility criteria are met and it is probable that such tax concession will be received.

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

j) Research and Development Expenditure

Expenditure on research and development activities is recognised as an expense when incurred.

Notes to the Financial Statements

for the year ended 30 June 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

k) Income Taxes

The charge for current income tax expense is based on the profit for the year adjusted for any non-assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantially enacted by the year end date.

Deferred tax is ascertained based on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. No deferred income tax will be recognised from the initial recognition of an asset or liability, excluding a business combination, where there is no effect on accounting or taxable profit or loss.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the profit or loss except when it relates to items that may be credited directly to equity in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation and the anticipation that the Company will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

l) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) except where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense.

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

Cash flows are included in the Statement of Cash Flows on a gross basis except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

m) 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 they are compensating.

n) Comparative Figures

Where required by Accounting Standards, comparative information has been adjusted to comply with changes in presentation for the current year.

o) Foreign currency translation

(i) Functional and presentation currency
Both the functional and presentation currency of the Company is Australian dollars ($).

(*ii) Transactions and balances*
Foreign currency transactions are initially recorded in the functional currency by applying the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the year-end exchange rate.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Notes to the Financial Statements

for the year ended 30 June 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

p) 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 are responsible for the allocation of resources to operating segments and assessing their performance.

q) Share-based Employee Remuneration

The Company operates equity-settled share-based remuneration plans for its employees. None of the Company's plans feature cash settlement. All goods and services received in exchange for the grant of any share-based payment are measured at their fair values. Where employees are rewarded using share-based payments, the fair values of employees' services are determined indirectly by reference to the fair value of the equity instruments granted. This fair value is appraised at the grant date and where applicable, excludes the impact of non-market vesting conditions (for example profitability and sales growth targets and performance conditions). Where market based conditions are considered the most likely trigger for vesting, fair value is evaluated using a methodology which incorporates the probability attached to such condition being achieved.

All share-based remuneration is ultimately recognised as an expense in profit or loss with a corresponding credit to share option reserve. If vesting periods or other vesting conditions apply, the expense is allocated over the vesting period, based on the best available estimate of the number of share options expected to vest.

Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognised in the current period. Performance rights are valued by reference to the share price at the date of grant.

No adjustment is made to any expense recognised in prior periods if share options ultimately exercised are different to that estimated on vesting. Upon exercise of share options, the proceeds received net of any directly attributable transaction costs are allocated to share capital.

Notes to the Financial Statements

for the year ended 30 June 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

r) Impairment of Non-Financial Assets

Impairment is considered annually for goodwill and intangible assets with indefinite lives. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. At the end of each reporting date, the Company assesses whether there is any indication that an asset may be impaired. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying value. Any excess of the asset's carrying value over its recoverable amount is expensed to the statement of profit or loss and comprehensive income.

2. KEY ESTIMATES AND JUDGEMENTS

Impairment

The Company assesses impairment at the end of each reporting period by evaluating conditions and events specific to the Company that may be indicative of impairment triggers. There were no indicators of impairment as at 30 June 2016.

R&D Incentive Receivable

The R&D Incentive Receivable asset is based on an estimate of the amount the Company stands to receive from the Ausindustry R&D Incentive programme for 2015-16. Under the programme the Company is expected to be eligible to receive a cash offset equal to 45% of eligible R&D expenditure. The estimate calculation is based on expenditure which includes expenditure on overseas activities only where the Company has been successful in receiving Overseas Findings from Ausindustry for those activities.

Share Options and Performance Rights

Share Options were mostly valued using the Black-Scholes option pricing model. Where the valuation required consideration of market based vesting conditions the Monte Carlo Simulation method was used. 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.

Performance Rights were valued based on the share price at the Grant date. This method is considered appropriate given the relatively short term of the Rights.

Notes to the Financial Statements

for the year ended 30 June 2016

3. OPERATING SEGMENTS

Viralytics Ltd operates in only one business segment – biotechnology. The activities of the Company take place principally in Australia.

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.

4. PROFIT/LOSS FOR THE YEAR

The loss before income tax from ordinary operations includes the following specific income and expenses items:

	2016	2015
	$	$
Other Income:		
R&D tax incentive	4,654,938	2,453,595
Expenses:		
Lease Payments	75,632	62,737
Equity Settled Share Based Payments	1,802,813	210,641
Superannuation	71,099	62,617
Remuneration of the auditor of the entity		
- auditing and reviewing the financial reports	64,850	48,000
- IT review and Tax Advisory	73,642	29,363
	138,492	77,363

Notes to the Financial Statements

for the year ended 30 June 2016

	2016	2015
5. INCOME TAX EXPENSES	$	$
The prima facie tax on the (loss) before income tax is reconciled to the income tax as follows:		
Prima facie tax payable on (loss) before income tax at 30% (2015 – 30%)	(2,719,717)	(1,276,433)
Add Tax effect of:		
- non-deductible Research and Development expense	2,800,909	1,706,867
- entertainment	1,067	865
- share option expense	540,844	63,192
Less Tax effect of:		
- R & D incentive receivable current year	(4,201,364)	(2,474,957)
- R & D incentive previous years	(453,574)	21,362
Future income tax benefit not recognised		
- Brought forward from prior years	1,271,369	229,119
- Current year	2,760,466	1,729,985
Income tax benefit attributable to loss before income tax	-	-

Franking Account balance is nil (2015: nil).

The Company has tax losses carried forward at reporting date totalling $43.4 million. The Directors have not brought to account a deferred tax asset to recognise the potential tax benefit of these tax losses as any benefit will only be obtained if:

- the Company meets the conditions for deductibility imposed by tax legislation in relation to the same business test and continuity of ownership laws;
- the Company derives future assessable income of a nature and of an amount sufficient to enable the benefit from deductions for the losses to be realised; and
- no changes in tax legislation occur in future years that would adversely affect the Company in realising the benefit from the deductions for the losses (in the event they qualify to be utilised by the Company).

Notes to the Financial Statements

for the year ended 30 June 2016

6. EARNINGS PER SHARE	2016 Cents	2015 Cents
Basic earnings (loss) cents per share	(4.3)	(2.3)
Diluted earnings (loss) cents per share	(4.3)	(2.3)
Income and share data used in the calculations of basic and diluted earnings per share:		
Net (Loss)	(9,065,723)	(4,254,777)
	Number	**Number**
Weighted average number of ordinary shares on issue in the calculation of basic earnings per share	212,273,278	184,015,571
Effect of dilutive securities	-	-
Adjusted weighted average number of Ordinary shares and potential ordinary shares used in calculating diluted earnings per share	212,273,278	184,015,571

As at 30 June 2016 there are 13,145,000 (2015 – 5,745,000) share options on issue and 100,000 (2015 – 320,000) performance rights which have not been taken into account when calculating the diluted loss per share due to their anti-dilutive nature.

Notes to the Financial Statements

for the year ended 30 June 2016

	2016	2015
	$	$
7. CASH AND CASH EQUIVALENTS		
Cash at bank and in hand:		
Held in AUD	804,280	309,986
Held in USD	1,038,745	816,048
Short term deposits		
Held in AUD	17,400,000	14,300,000
Held in USD	26,878,460	6,139,779
	46,121,485	**21,565,813**
8. TRADE AND OTHER RECEIVABLES		
a) Current		
Prepayments	508,607	259,407
Interest Receivable	65,278	42,456
R & D Tax Incentive Receivable	4,201,364	2,474,957
GST Receivable	73,464	46,124
Security Deposits	-	52,536
	4,848,713	**2,875,480**
b) Non-Current		
Security Deposits	**-**	**-**
9. PLANT AND EQUIPMENT		
Plant & Equipment – at Cost	959,009	926,248
Accumulated Depreciation	(880,342)	(843,772)
	78,667	**82,476**
Movements in Carrying Amounts		
Balance at beginning of period	82,476	47,963
Additions	32,761	69,243
Loss on Disposals	-	-
Depreciation expense	(36,570)	(34,730)
Balance at end of period	**78,667**	**82,476**

Notes to the Financial Statements

for the year ended 30 June 2016

	2016	2015
	$	$
10. INVESTMENTS		
Accounted For Using The Equity Method		
InJet Digital Aerosols Ltd – Unlisted (IDAL)	-	-

InJet Digital Aerosols Ltd (IDAL) is an unlisted public company incorporated in Australia. Viralytics Ltd holds a 44.5% interest in the issued capital of IDAL. 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.

The Company 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 was for the year ended 30 June 2014 which disclosed a deficiency in net assets of $488,517. A Presentation of Accounts and Statement lodged with ASIC by the External Liquidators on 27 June 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 (2015 – nil) and many of the disclosure requirements under AASB 12: Disclosure of Interests in Other Entities are not available at reporting date. The liquidators in their report indicated the winding up would likely be completed by October 2016.

11. INTANGIBLE ASSETS		
Intellectual Property - Virotherapy	8,605,532	8,605,532
Accumulated amortisation	(6,962,068)	(6,571,756)
	1,643,464	**2,033,776**
Movements in carrying value		
Balance at beginning of year	2,033,776	2,424,088
Less: amortisation expense	(390,312)	(390,312)
Balance at end of year	**1,643,464**	**2,033,776**

The Virotherapy Intellectual Property has been brought to account at cost of acquisition. The value of the Intellectual Property is being written off over the life of the shortest patent (14 years) with approximately 4 years remaining.

Notes to the Financial Statements

for the year ended 30 June 2016

	2016	2015
	$	$
12. TRADE & OTHER PAYABLES		
Current		
Trade payables	1,214,588	1,086,386
Sundry payables and accrued expenses	1,022,293	506,010
Employee entitlements	127,424	92,868
	2,364,305	**1,685,264**

13. ISSUED CAPITAL		2016 $	2015 $	2016 Number	2015 Number
Fully Paid Ordinary shares	(a)	121,169,264	87,632,211	239,895,419	184,153,081
Options Convertible to Ordinary Shares:					
Unlisted Options	(b)	-	-	13,145,000	5,745,000
Performance Rights Convertible to Ordinary Shares					
Performance Rights	(c)	-	-	100,000	320,000

(a) Fully Paid Ordinary shares (Authorised Capital)

Movements in Fully Paid Ordinary shares:				
Balance at beginning of year	87,632,211	86,959,988	184,153,081	183,958,281
Exercise of Options	1,920,000	39,875	2,800,000	125,000
Options Converted to Shares	717,600	16,466	-	-
Share Rights Converted to Shares	100,800	20,242	320,000	69,800
Transfer Convertible Note Equity to Issued Capital	-	565,640	-	-
Share Placement [(i)]	28,362,736	-	46,118,270	-
Share Purchase Plan [(ii)]	4,000,002	-	6,504,068	-
Cost of fund raising	(1,564,085)	-	-	-
Balance at end of year	121,169,264	87,632,211	239,895,419	184,153,081

Notes to the Financial Statements

for the year ended 30 June 2016

13. ISSUED CAPITAL continued

(a) Fully Paid Ordinary shares (Continued)

(i) Share placement of 46,118,570 shares at $0.615 per share allotted 16 December 2015. Total $28,362,736.

(ii) Share Purchase Plan allotted 27 January 2016 – 6,504,068 shares at $0.615 per share totalling $4,000,002.

Ordinary shares have no par value and participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At shareholder's meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

(b) Unlisted Options

The Company issues Share Options to staff and contractors under an Equity Incentive Plan approved by shareholders in November 2013.

	2016 Number	2015 Number
Unlisted Options	13,145,000	5,745,000
Movements in Options:		
Balance at the beginning of period	5,745,000	5,025,000
Options issued	10,200,000	1,245,000
Options exercised	(2,800,000)	(125,000)
Options expired	-	(400,000)
Balance at end of period	**13,145,000**	**5,745,000**

Notes to the Financial Statements

for the year ended 30 June 2016

13. ISSUED CAPITAL continued

(b) Unlisted Options (continued)

Unlisted options on issue at 30 June 2016 comprise:

Expiry Date	Opening Balance July 15	Weighted Average Exercise Price	Granted during Year	Expired during year	Exercised during year	Closing Balance	Weighted Average Exercise Price
22 Dec 15	200,000	$0.50	-	-	(200,000)	-	-
12 Aug 16	2,900,000	$0.70	-	-	(2,600,000)	300,000	$0.70
23 Nov 17	200,000	$0.352	-	-	-	200,000	$0.352
21 Jan 18	1,200,000	$0.326	-	-	-	1,200,000	$0.326
28 Nov 19	1,245,000	$0.332	-	-	-	1,245,000	$0.332
28 Sep 20	-	-	4,500,000	-	-	4,500,000	$0.589
18 Nov 20	-	-	5,000,000	-	-	5,000,000	$0.589
18 Nov 20	-	-	700,000	-	-	700,000	$0.663
	5,745,000	**$0.523**	**10,200,000**	**-**	**(2,800,000)**	**13,145,000**	**$0.543**

6,615,000 options were vested and exercisable at 30 June 2016 (2015 – 4,100,000). The assumptions used in determining the weighted average fair value of options not yet expired at 30 June 2016 are set out in the tables below. Tranche 1 (2,000,000 options) of the 4,000,000 options issued to Dr Shafren on 28 September 2015 and Tranche 1 (2,500,000 options) of the 5,000,000 options issued to Dr McColl on 18 November 2015 were valued using the Monte Carlo Simulation method. This was due to, in management's view, the options being likely to vest due to achievement of a market based vesting condition.

Notes to the Financial Statements

for the year ended 30 June 2016

13. ISSUED CAPITAL continued

(b) Unlisted Options (continued)

Valued Using Black-Scholes Model

Grant Date	12-Aug-11	23-Nov-12	08-Feb-13	28-Nov-14	28-Sep-15[1]	18-Nov-15[2]
Vesting Period Ends	12-Aug-14	23-Nov-14	21-Jan-16	08-Sep-17	28-Sep-18	18-Nov-18
Share price at Date of Grant	$0.057	$0.320	$0.290	$0.315	$0.600	$0.695
Volatility	70%	60%	60%	45%	60%	60%
Option Life (years)	5.0	5.0	5.0	5.0	5.0	5.0
Dividend Yield	0%	0%	0%	0%	0%	0%
Risk Free Investment Rate	3.83%	2.66%	2.69%	2.66%	2.03%	2.24%
Fair Value at Grant Date	$0.2760	$0.1753	$0.2111	$0.1115	$0.2875	$0.3400
Exercise Price	$0.700	$0.352	$0.326	$0.332	$0.5885	$0.6626
Exercisable from	12-Aug-12	23-Nov-12	21-Jan-14	08-Sep-15	28-Sep-16[3]	18-Nov-16[4]
Exercisable to	12-Aug-16	23-Nov-17	21-Jan-18	28-Nov-19	28-Sep-20	18-Nov-20
Weighted Average Remaining Life (years)	0.1	1.4	1.6	3.4	4.3	4.4

Valued Using Monte-Carlo Simulation Model

Grant Date	28-Sep-15[1]	18-Nov-15[2]
Vesting Period Ends	28-Sep-18	18-Nov-18
Share price at Date of Grant	$0.600	$0.695
Volatility	60%	60%
Option Life (years)	5.0	5.0
Dividend Yield	0%	0%
Risk Free Investment Rate	2.03%	2.24%
Fair Value at Grant Date	$0.1800	$0.2500
Exercise Price	$0.5885	$0.6626
Exercisable from	21-Jun-16[5]	21-Jun-16[5]
Exercisable to	28-Sep-20	18-Nov-20
Weighted Average Remaining Life (years)	4.3	4.4

1. 2,000,000 of the 4,000,000 options issued to Dr Shafren were valued using the Monte-Carlo simulation method.
2. 2,500,000 of the 5,000,000 options issued to Dr Shafren were valued using the Monte-Carlo simulation method.
3. 2,000,000 options issued to Dr Shafren may vest earlier if certain performance criteria are achieved.
4. 2,500,000 options issued to Dr McColl may vest earlier if certain performance criteria are achieved.
5. Vested on 21 Jun 2016 due to achievement of a performance condition.

13. ISSUED CAPITAL continued

(b) Unlisted Options (continued)

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.

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.

In total $1,802,813 (2015: $210,641) of employee remuneration expense has been included in profit or loss and credited to the share option reserve in respect of equity settled share based payment transactions. If all unlisted options were exercised in accordance with their terms of issue, 13,145,000 shares would be issued (2015: 5,745,000) and Contributed Equity would increase by $7.1 million (2015: $3.0 million).

Notes to the Financial Statements

for the year ended 30 June 2016

13. ISSUED CAPITAL continued

(c) Performance Rights

The Company issues Performance Rights to staff and contractors under an Equity Incentive Plan approved by shareholders in November 2013. During the 2016 financial year 110,000 performance rights with a fair value of $64,900 were issued to staff (2015 – 320,000 rights, value $100,800). The fair value of the rights was determined by reference to the market price of the Company's shares at the date the transaction occurred. Performance Rights on issue at 30 June 2016 comprise:

Conversion Date	Opening Balance July 15	Value per Right	Granted during Year	Value per Right at Grant	Converted during year	Lapsed During Year	Closing Balance Jun 15	Value per Right at Year End
8 Sep 15	320,000	0.315	-	-	(320,000)	-	-	-
15 Sep 16	-	-	110,000	$0.590		(10,000)	100,000	$0.590
	320,000	**$0.315**	**110,000**	**$0.590**	**(320,000)**	**(10,000)**	**100,000**	**$0.590**

In 2016 no shares were issued in consideration for services rendered to the Company by suppliers (2015 – nil).

Notes to the Financial Statements

for the year ended 30 June 2016

14. RESERVES	2016 $	2015 $
Share Options reserve	2,193,819	3,430,576
Total	**2,193,819**	**3,430,576**
Movements in Reserves:		
Share Option reserve		
Balance at beginning of year	3,430,576	3,256,643
Share based compensation	1,802,813	210,641
Transfers to Retained Earnings	(2,221,170)	-
Transfers to Equity	(818,400)	(36,708)
Balance at end of year	**2,193,819**	**3,430,576**

The Options reserve records items recognised as an expense on payment of share-based consideration. Included under employee benefits expense in the statement of profit or loss and comprehensive income is $1,802,813 which relates to equity-settled share-based payment transactions (2015: $210,641).

15. CAPITAL AND LEASING COMMITMENTS	2016 $	2015 $
Operating Lease Commitments		
Non-cancellable operating lease contracted for but not capitalised in the financial statements payable		
- not later than 12 months	36,527	33,087
- later than 12 months but not later than 5 years	-	-
	36,527	33,087

Commitments relate to the lease of office facilities which will expire in February 2017. The lease has been renewed on a 12 month basis following completion of the initial 3 year agreement in February 2016. In addition to the rentals payable, the lessee is responsible for defined outgoings and the rent is subject to annual review.

Notes to the Financial Statements

for the year ended 30 June 2016

16. CASH FLOW INFORMATION

Reconciliation of cash flow from operations with loss after income tax:

	2016	2015
	$	$
Loss after Income Tax	(9,065,723)	(4,254,777)
Non-Cash items in Total Comprehensive Income:		
Unrealised currency (gain)/loss	640,565	(1,725,021)
Option Based Compensation	1,802,813	210,641
Amortisation	390,312	390,312
Depreciation	36,570	34,730
Changes in Assets and liabilities:		
Decrease/(Increase) in Security Deposits	-	51,153
(Increase) in Trade and Other Receivables	(2,025,768)	(91,052)
Increase/(decrease) in Accounts Payable	679,040	918,479
Net Cash Inflow/(Outflow) from Operating Activities	(7,542,191)	(4,465,535)

There are no credit standby arrangements or used or unused loan facilities.

17. FINANCIAL INSTRUMENTS

a. Financial Risk Management Policies

The Company's financial instruments consist mainly of deposits with banks, short-term investments, accounts receivable and payable and convertible notes. The main purpose of non-derivative financial instruments is to raise finance for Company operations. The Company does not have any derivative instruments at 30 June 2016 (2015 – nil).

i. **Treasury Risk Management:** The Board of Directors meets on a regular basis to analyse financial risk exposure and to evaluate treasury management strategies in the context of the most recent economic conditions and forecasts. The Board's overall risk management strategy seeks to assist the Company in meeting its financial targets, whilst minimising potential adverse effects on financial performance.

ii. **Financial Risk Exposures and Management**: The main risks the Company is exposed to through its financial instruments are interest rate risk, foreign exchange risk, liquidity risk and credit risk.

17. FINANCIAL INSTRUMENTS continued

iii. **Interest rate risk:** Exposure to interest rate risk arises on financial assets and financial liabilities recognised at the end of the reporting period whereby a future change in interest rates will affect future cash flows or the fair value of fixed rate financial instruments. The Company is not exposed to fluctuations in interest rates as the interest rates on interest bearing financial liabilities are fixed for the duration of the facility. As of 30 June 2016 (2015 - nil), the Company held no interest bearing financial liabilities. The Company holds interest-bearing financial assets however interest rate risk is immaterial.

iv. **Foreign currency risk:** The Company is principally exposed to the USD/AUD exchange rate due to clinical trial activities conducted under USD contracts. It also occasionally contracts other services in USD and GBP. As at 30 June 2016 the Company is committed to a commercial strategy whereby it expects a significant portion of its expenditure to be in USD. The Company does not actively hedge its foreign currency exposure through forward contracts or derivatives, however it does retain a proportion of its cash holdings in USD (A$27.9 million at 30 June 2016, A$7.0 million 30 June 2015) to fund expected medium term expenditure.

v. **Liquidity risk:** Liquidity risk arises from the financial liabilities of the Company and the Company's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due. The Company manages liquidity risk by monitoring forecast cash flows.

vi. **Credit risk***:* Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the entity. The entity is not exposed to significant credit risk on receivables. The entity places its cash deposits with high credit quality financial institutions and by policy, limits the amount of credit exposure to any single counter-party. The entity is averse to principal loss and ensures the safety and preservation of its invested funds by limiting default risk, market risk, and reinvestment risk. The entity mitigates default risk by constantly positioning its portfolio to respond appropriately to a significant reduction in a credit rating of any financial institution. There are no significant concentrations of credit risk within the entity. The credit risk on liquid funds is limited as the counter parties are banks with high credit ratings. Credit risk is managed by limiting the amount of credit exposure to any single counter-party for cash deposits. There are no material amounts of collateral held as security at 30 June 2016 (2015 – nil). Credit risk is managed and reviewed regularly by the directors.

vii. **Price risk**: The Company is not exposed to any material commodity price risk.

b. Financial Instrument Composition and Maturity Analysis

The tables below reflect the undiscounted contractual settlement terms for financial instruments of a fixed period of maturity, as well as management's expectations of the settlement period for all other financial instruments.

Notes to the Financial Statements

for the year ended 30 June 2016

17. FINANCIAL INSTRUMENTS continued

b. Financial Instrument Composition and Maturity Analysis

	Weighted Average Effective Interest Rate	Floating Interest Rate	Fixed Interest Rate Maturing		Non-interest Bearing	Total
			Within 1 Year	1 to 5 Years		
Financial Assets	%	$	$	$	$	$
2016						
Cash and cash equivalents	1.35	804,280	44,278,460	-	1,038,745	46,121,485
Receivables	-	-	-	-	65,278	65,278
		804,280	44,278,460	-	1,104,023	46,186,763
2015						
Cash and cash equivalents	1.93	309,986	20,439,778	-	816,049	21,565,813
Receivables	0.05	-	52,536	-	42,456	94,992
		309,986	20,492,314	-	858,505	21,660,805
Financial Liabilities						
2016						
At amortised cost:						
Trade and sundry payables	-	-	-	-	2,364,305	2,364,305
		-	-	-	2,364,305	2,364,305
2015						
At amortised cost:						
Trade and sundry payables	-	-	-	-	1,685,264	1,685,264
		-	-	-	1,685,264	1,685,264

Trade and other payables are expected to be paid within 30 to 60 days.

17. FINANCIAL INSTRUMENTS continued

c. Net Fair Values

The carrying amount for all financial assets and liabilities is a reasonable approximation of fair value.

d. Sensitivity Analysis

The Company has performed a sensitivity analysis relating to its exposure to changes in interest and foreign exchange rates at balance date. This sensitivity analysis demonstrates the effect on the current year results and equity which could result from a change in these risks.

		2016 $	2015 $
Increase or decrease in interest rate by 1% - Change in profit and equity	+/-	461,215	215,658
Increase or decrease in USD/AUD foreign exchange rate by 5 cents - Change in profit and equity	+/-	880,918	225,613

The above sensitivity analysis has been performed on the assumption that all other variables remain unchanged.

e. Capital Management

The Company manages its capital to ensure that it will be able to fund its operations in the development of CAVATAK™ and continue as a going concern. The Company's overall strategy remains unchanged from 2015.

The capital structure of the Company consists of working capital (cash and cash equivalents minus trade payables) and equity capital, comprising issued share capital and reserves, as disclosed in notes 13 and 14. The Company has no debt or borrowings at reporting date (2015: nil).

The Directors monitor the Company's capital on a continuous basis, considering when to engage in capital raising activities based on market conditions and future resource requirements.

Notes to the Financial Statements

for the year ended 30 June 2016

18. EMPLOYEE REMUNERATION

Expenses recognised for employee benefits are set out below:

	2016 $	2015 $
Wages and Salaries	927,852	740,893
Share Based Payments	1,028,815	88,848
Superannuation	65,399	48,201
	2,022,065	877,942

The expenses above exclude Directors fees and other entitlements.

19. CONTINGENT ASSETS AND LIABILITIES

As at 30 June 2016 the Company has bank guarantees in the amount of $19,000 (2015: $19,000).

20. RELATED PARTY TRANSACTIONS

a) Share Transactions of Directors

Details of directors' holdings and transactions in equity securities of the Company are detailed in the Remuneration Report contained in the Directors' Report.

b) Other Transactions with Directors

Directors receive a fixed director's fee. If any director performs additional services for the Company they are paid a fee based on normal commercial terms. There were no additional paid services provided by Directors during the year. Any payments are detailed in the Remuneration Report contained within the Directors' Report.

20. RELATED PARTY TRANSACTIONS continued

c) Transactions with Key Management Personnel

Key management of the Company are all directors and members of the executive team. Key Management Personnel remuneration includes the following expenses:

	2016 $	2015 $
Short Term Employee Benefits		
Wages and Salaries including bonuses [(i)]	1,110,451	869,797
Directors Fees	212,350	213,805
Consultancy Fees	142,404	167,874
Total Short Term Employee Benefits	1,465,205	1,251,476
Post Employment Benefit		
Superannuation [(i)]	79,821	79,373
Share Based Payments	1,723,627	179,947
	3,268,653	1,510,796

(i) A portion of wages and superannuation in this table are reflected as Research and Development expense by the Company as Professor Shafren is employed by the University of Newcastle who are engaged by the Company through a Research services agreement.

During 2016 600,000 options were exercised by current Key Management Personnel (2015 – nil). During 2016 Key Management Personnel received 240,000 shares (2015 – 40,000) following conversion from Performance Rights granted as part of remuneration arrangements.

Other than remuneration as outlined there are no other transactions between the Company and Key Management Personnel.

21. EVENTS SUBSEQUENT TO REPORTING DATE

On 28 July the Company issued 300,000 shares on the exercise of 300,000 options with an exercise price of $0.70.

No other 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 subsequent financial years. The financial report was authorised for issue by the Directors on the date that the Directors' declaration was signed.

Directors' Declaration

for the year ended 30 June 2015

In accordance with a resolution of the directors of Viralytics Limited, the directors of the Company declare that:

1. The financial statements and notes as set out on pages 37 to 73 of the Company's Annual Report are in accordance with the *Corporations Act 2001* and:

   (a) comply with Australian Accounting Standards (including the Australian Accounting Interpretations) and the Corporations Regulations 2001, which , as stated in accounting policy Note 1 to the financial statements, constitutes compliance with International Financial Reporting Standards (IFRS); and

   (b) give a true and fair view of the financial position as at 30 June 2016 and of the performance ended on that date of the Company;

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; and

3. The directors have been given the declarations required by s295A of the *Corporations Act 2001* from the Chief Executive Officer.

Paul Hopper
Chairman
Signed 25 August 2016

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Independent Auditor's Report
To the Members of Viralytics Limited

Report on the financial report

We have audited the accompanying financial report of Viralytics Limited (the "Company"), which comprises the statement of financial position as at 30 June 2016, the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Company.

Directors' responsibility 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. The Directors' responsibility also includes 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. The Directors also state, in the notes to the financial report, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require us to comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial report that gives a true and fair view 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

Independence

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

Auditor's opinion

In our opinion:

a the financial report of Viralytics Limited is in accordance with the Corporations Act 2001, including:

   i giving a true and fair view of the Company's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and

b the financial report also complies with International Financial Reporting Standards as disclosed in the notes to the financial statements.

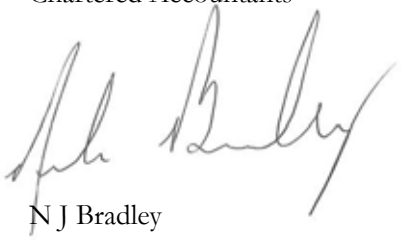
Report on the remuneration report

We have audited the remuneration report included in pages 21 to 33 of the directors' report for the year ended 30 June 2016. 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.

Auditor's opinion on the remuneration report

In our opinion, the remuneration report of Viralytics Limited for the year ended 30 June 2016, complies with section 300A of the Corporations Act 2001.

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants



N J Bradley
Partner - Audit & Assurance

Sydney, 25 August 2016

Viralytics Limited

Additional Information for ASX Listed Companies

The following additional information is required by the Australian Securities Exchange. The information is current as at 26 July 2016.

Distribution of Shareholders – Ordinary Shares

	Number of holders	Number of ordinary shares
1 – 1,000	1,377	656,292
1,001 – 5,000	1,819	5,105,649
5,001 – 10,000	847	6,703,837
10,001 – 50,000	1,362	31,941,657
50,001 – 100,000	258	18,386,678
100,001 and over	161	177,101,306
Total	**5,824**	**239,895,419**

Unmarketable Parcels
The number of shareholders holding less than a marketable parcel of shares is 803 and they hold 174,694 securities.

Voting rights
All ordinary shares carry one vote per share without restriction. All unlisted options have no voting rights.

Twenty Largest Shareholders
The names of the twenty largest holders of ordinary shares are:

Rank	Name	26 July 2016	% Issued Capital
1	Citicorp Nominees Pty Limited	38,938,762	16.23
2	HSBC Custody Nominees (Australia) Limited-GSCO ECA	35,915,691	14.97
3	HSBC Custody Nominees (Australia) Limited	16,264,119	6.78
4	HSBC Custody Nominees (Australia) Limited - A/C 2	11,403,458	4.75
5	BNP Paribas Nominees Pty Ltd	10,266,108	4.28
6	National Nominees Limited	7,869,897	3.28
7	UBS Nominees Pty Ltd	4,898,722	2.04
8	Mr Ka Kian Lim	4,548,909	1.90
9	Dr Nicholas Smith	2,710,090	1.13
10	P Kampfner Pty Ltd	2,216,199	0.92
11	J P Morgan Nominees Australia Limited	1,774,112	0.74

12	Brispot Nominees Pty Ltd	1,763,146	0.73
13	Wolram Investments Pty Ltd	1,575,642	0.66
14	BNP Paribas Noms Pty Ltd	1,569,555	0.65
15	Newcastle Innovation Limited	1,349,601	0.56
16	Mr Dale Anthony Reed	1,310,000	0.55
17	Mr Stephen Richard Barrett	1,000,000	0.42
18	Epping Real Estate Pty Ltd	944,720	0.39
19	Mr Shahen Mekertichian	877,890	0.37
20	Mr Paramjit Singh Nagra & Mrs Surinder Kaur Nagra	841,649	0.35
		148,038,270	61.71

Voluntary escrow
There are no Viralytics securities under voluntary escrow.

Substantial holders
Viralytics has been notified of the following substantial holders of its securities:

Ordinary Shareholder	Number	Percentage
BVF Partners LP on its own behalf and on behalf of BVF Inc. and Mark N Lampert	34,604,778	14.58%
Cormorant Global Healthcare Master Fund Ltd	16,420,361	8.90%
Quest Asset Partners Pty Ltd	14,846,675	6.43%
OrbiMed Advisors LLC	12,000,000	5.20%

Share buy-backs
There is no current or planned buy-back of the Company's shares.

Stock Exchange Listing
Quotation has been granted for all the ordinary shares of the Company on the Australian Securities Exchange.

American Depository Receipts Program
The ADR program allows investors to purchase in US denominated securities through North American brokerages. It is administered by the Bank of New York. Each ADR represents 3 Viralytics Ltd shares.

Unquoted equity securities

	Number on issue	Number of holders
Options over ordinary shares issued	12,845,000	8
Performance rights (converting to ordinary shares on vesting)	100,000	11

Comprising:

Options expiring 23 November 2017 with an exercise price of $0.352

There is one holder holding a total of 200,000 options issued under the Employee Share Option Plan. There are no other holders in this class of options.

Options expiring 21 January 2018 with an exercise price of $0.326

There is one holder holding a total of 1,200,000 options issued under the Employee Share Option Plan. There are no other holders in this class of options.

Options expiring 28 November 2019 with an exercise price of $0.332

There are five holders holding a total of 1,245,000 options issued under the Employee Share Option Plan. There are no other holders in this class of options.

Options expiring 28 September 2020 with an exercise price of $0.5885 and performance based vesting conditions

There is one holder holding a total of 4,000,000 options issued under the Employee Share Option Plan. There are no other holder in this class of options.

Options expiring 28 September 2020 with an exercise price of $0.5885 and no performance based vesting conditions

There are three holders holding a total of 500,000 options issued under the Employee Share Option Plan. There are no other holder in this class of options.

Options expiring 18 November 2020 with an exercise price of $0.5885 and performance based vesting conditions

There is one holder holding a total of 5,000,000 options issued under the Employee Share Option Plan. There are no other holder in this class of options.

Options expiring 18 November 2020 with an exercise price of $0.6626

There are three holders holding a total of 700,000 options issued under the Employee Share Option Plan. There are no other holder in this class of options.

Performance Rights vesting on 15 September 2016

There are eleven holders holding a total of 100,000 performance rights. There are no other holders in this class of securities.

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