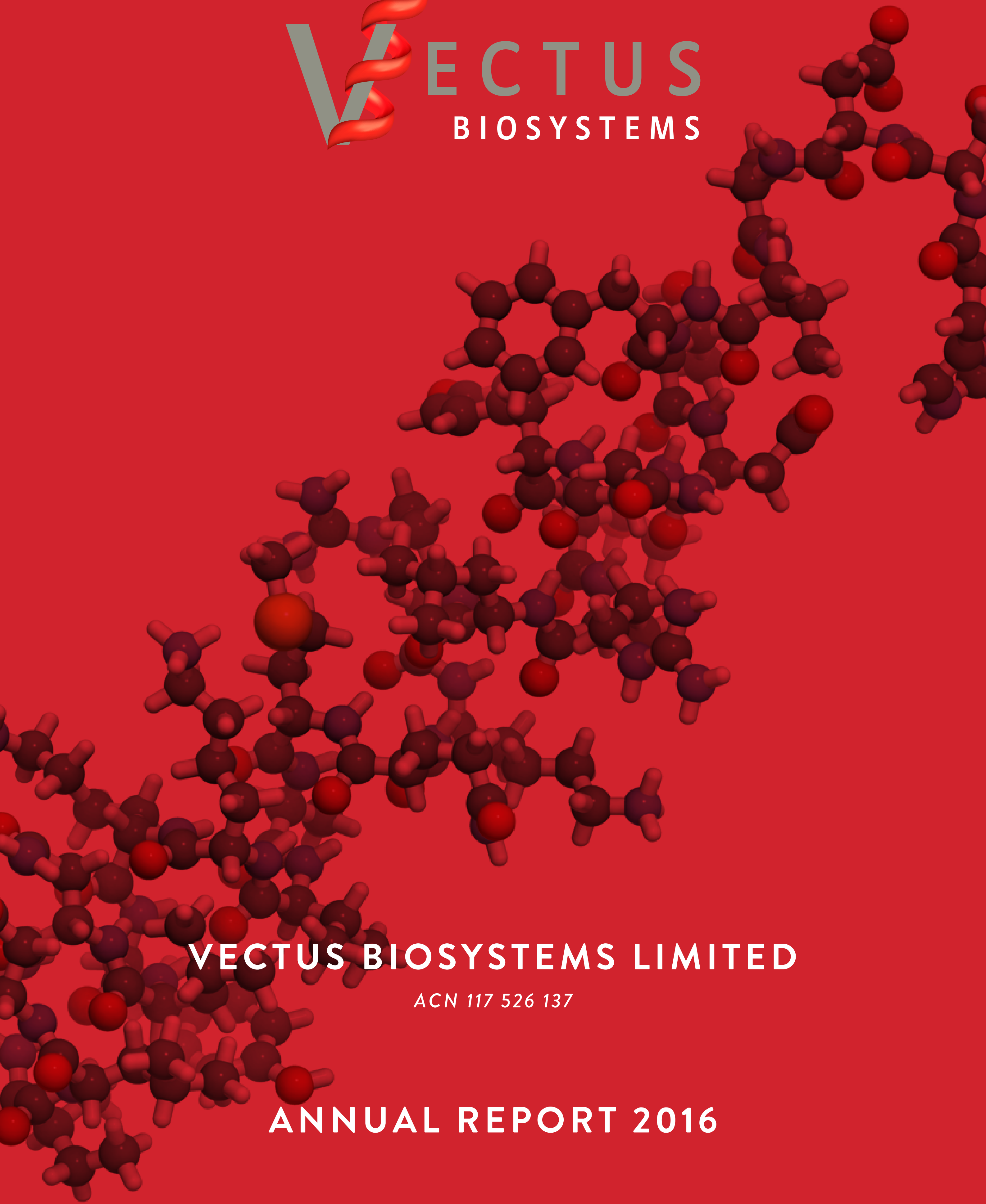
VECTUS BIOSYSTEMS



VECTUS BIOSYSTEMS LIMITED

ACN 117 526 137

ANNUAL REPORT 2016

CONTENTS

GENERAL INFORMATION

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

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

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

Registered office
3-11 Primrose Avenue
Rosebery NSW 2018

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

The financial report was authorised for issue, in accordance with a resolution of directors on 28 September 2016.

CHAIRMAN AND CEO REPORT

Vectus Biosystems Limited (Vectus or the Company) is pleased to present its Annual Report for the financial year ended 30 June 2016. Since its Initial Public Offering (IPO) and its commencement of trading on the ASX on 23 February 2016, Vectus has strongly progressed its scientific programme, meeting or exceeding its internal milestones across its lead candidate, drug library and Accugen Pty Limited (Accugen).

The pharmaceutical industry's focus on the pipeline of new anti-fibrotic drugs is rapidly increasing, and the 2015-16 financial year saw significant activity in acquisitions and licensing of anti-fibrotic technologies. Vectus maintains the unique position of possessing multiple compounds that have been shown, in pre-clinical studies, to not only slow the progression of many fibrotic diseases, but to reverse end organ damage, leading to the potential regeneration of normal tissue architecture. Vectus' drug candidates can be orally administered and have highly-promising preliminary pre-clinical toxicological results.

The Company's primary lead compound, VB0004, which has been shown to be both anti-hypertensive and anti-fibrotic in the heart and kidneys, has demonstrated excellent capacity in manufacturability and scale-up. The critical project of scale-up of production from milligram to kilogram production under Good Manufacturing Process (GMP) conditions is on schedule and on budget. Indeed, the initial synthesis batch resulted in a greater-than-expected yield. Completion of this project will allow the Company to progress into the final two animal species toxicological studies and human trials. Importantly, the patent on VB0004 has now been granted in the US, providing exclusivity in this key market.

The Company has succeeded in expanding its drug library to over 1,000 compounds. This work resulted in the identification of novel therapies for pulmonary (lung) fibrosis and other new potential orphan indications, culminating in the filing of two new key Patent Co-operation Treaty (PCT) applications.

Vectus has engaged in commercial and technical discussions with multiple leading human pharmaceutical and animal health companies. Recent recognition of the importance of fibrotic disease in companion animals (cats and dogs), coupled with a willingness by consumers to pay for pharmaceutical treatments for their pets, means that this has the potential to be an early and meaningful market for Vectus. The Company is now targeting requested veterinary indications with compounds from the drug library.

Fibrotic damage underpins many common, socially and economically important disease states, such as heart failure and end-stage kidney failure. Vectus' platform has received extensive evaluation for these therapeutic areas. The Company's intellectual property position continues to strengthen. To-date, the pharmaceutical industry and analysts have not highlighted any anti-fibrotic agent in development or in the market that purports to have a meaningful impact on disease reversal.

The quantitative real-time polymerase chain reaction (qPCR) product developed by Accugen is being rolled out to over 50 laboratories in Sydney to obtain customer feedback and build market awareness. A manuscript outlining the method was published in BMC Biotechnology, resulting in enquiries from researchers worldwide. The patent covering this technology has also now been granted in the US and Japan. Accugen was also awarded funding by the New South Wales Department of Industry, Skills and Regional Development to undertake a collaborative project with the National Measurement Institute.

In May 2016, the Company announced the appointment of Dr Susan Pond (AM, MD, DSc, FTSE, FAAHMS) to its Board as an independent Non-Executive Director. Dr Pond brings a wealth of scientific knowledge, commercial experience and industry contacts to the already highly-credentialled and experienced Board of Directors.

Vectus continues to be well positioned with its portfolio of orally dose-able drug candidates. These small molecules are clearly the most desirable form of drug delivery, from the pharmaceutical and patient points of view, and the Company not only has an impressive lead candidate, but a number of back-up compounds, potential orphan candidates and a targeted 'first in class' positioning from a reimbursement point of view.

Vectus is focussed on building increased shareholder value by extending awareness of its achievements, continuing to engage with a range of pharmaceutical potential partners and continuing to accelerate successfully its efforts towards human clinic trials for its lead candidate VB0004.

We would like to acknowledge the outstanding contribution of the entire Vectus team, our Board, and our supportive shareholders who have enabled Vectus to achieve a remarkable series of milestones since its formation.

Graham Macdonald
Chairman

Karen Duggan
Chief Executive Officer

DIRECTORS' REPORT

FOR THE YEAR ENDED 30TH JUNE 2016

The Directors of Vectus Biosystems Limited present their Report together with the financial statements of the consolidated entity, being Vectus Biosystems Limited and its controlled entities ('the Group') for the year ended 30 June 2016.

DIRECTORS' DETAILS

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

Maurie Stang	Appointed 12 December 2005
Bernard Stang	Appointed 12 December 2005
Karen Duggan	Appointed 4 September 2006
Graham Macdonald	Appointed 22 February 2008
Peter Bush	Appointed 9 July 2015
Ronald Shnier	Appointed 2 September 2015
Susan Pond	Appointed 4 May 2016

REVIEW OF OPERATIONS AND FINANCIAL RESULTS

The consolidated loss of the company for the financial year amounted to $3,211,324 (2015 loss $1,655,850).

For a comprehensive review of the company's operational performance please refer to the attached Chairman and CEO Report.

A review of the company's operations during the financial year and the results of those operations are as follows:
- the company's operations during the financial year performed as expected in the opinion of the directors;
- no significant changes in the company's state of affairs occurred during the financial year;
- no significant change in the nature of these activities occurred during the year.

PRINCIPAL ACTIVITIES

During the financial year the principle continuing activities of the consolidate entity consisted of:
- Medical Research and Development

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

DIVIDENDS

There were no dividends paid during the year; and

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

ENVIRONMENTAL REGULATION

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

INDEMNITY AND INSURANCE OF OFFICERS AND AUDITORS

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

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

INDEMNITY AND INSURANCE OF AUDITOR

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

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

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

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied for leave of the Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings. The company was not a party to any such proceedings during the year.

BOARD OF DIRECTORS AND COMPANY SECRETARY

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

Emeritus Professor Graham Macdonald

Non-Executive Chairman

Prof Graham Macdonald (AM, MD, BS, BSc (Med), FRACP, FRCP, FANZCC) received, in June 2012, an Australian Queen's Birthday Honour in the General Division of the Order of Australia for 'service to biomedical research in the areas of hypertension and renal disease, to medical education, to the promotion and awareness raising of organ donation, and as a mentor'. He brings to the Company a wealth of experience in clinical medicine, basic biomedical science, and in the field of pharmaceutical licensing and commercialisation. Prof Macdonald has had an outstanding career first as an academic nephrologist, and then moving into the pharmaceutical industry with Merck Sharp and Dohme (Australia). During this time he successfully brokered a number of high-profile agreements, including a US$100 million-plus deal with AMRAD (now Zenyth Therapeutics) to develop a new asthma treatment. Prof Macdonald retired in 2007 from his former position as External Licensing Coordinator Merck Sharp & Dohme (Australia). Between 1974 and 1998, he was an academic nephrologist at the Prince Henry and Prince of Wales Hospitals Clinical School of the University of New South Wales.

Prof Macdonald's research interests centred on the role of the uridine nucleotides in vascular modulation and sodium metabolism. Other significant projects he has worked on include non-pharmacological control of high blood pressure and interaction of cardiovascular risk factors, psycho-social disorders in patients on dialysis with emphasis on thirst mechanisms, high blood pressure in pregnancy, the role of gut peptides in regulating renal sodium excretion, and normal and disordered regulation of angiotensin II receptors in various disease states. Prof Macdonald is currently a Director and Chairman of Stem Cells Limited.

Directorships held in other listed entities in the past three years: none

Appointed to the Board: 22 February 2008

Dr Karen Duggan

Executive Director and Chief Executive Officer

Dr Karen Duggan is a founder of the Company. She was formally director of the Hypertension Service – South Western Sydney Area Health Service (SWSAHS), and is the immediate past chair of the National Blood Pressure and Vascular Disease Advisory Committee. Dr Duggan was also a member of the Cardiovascular Health Advisory Committee of the National Heart Foundation of Australia and the Post-Acute Stroke Guidelines Advisory Committee of the Australian Government Department of Health and Aging. She remains a member of the Cardiovascular Clinical Expert Reference Group of the NSW Department of Health. In Dr Duggan's role as Director of the Hypertension Service SWSAHS she was responsible for managing a multidisciplinary team (medical, nursing, laboratory and administrative staff), as well as developing and implementing new and innovative strategies in patient care within SWSAHS. The Hypertension Service participated in a number of clinical trials of both new therapeutics as well as evaluation of new diagnostic devices.

Directorships held in other listed entities in the past three years: none

Appointed to the Board: 4 September 2006

Mr Maurie Stang

Non-Executive Deputy Chairman

Mr Maurie Stang has a 30-year track record of building successful companies in the Australasian healthcare market and is recognised as one of its most respected business executives. He has significant experience and an extensive network within the life-sciences, pharmaceutical and finance sectors, both in Australia and internationally. Mr M Stang is a Principal of GryphonCapital, an independent investment house that facilitates the financing and development of emerging health-care related entities. He is also a Founder and Director of Henry Schein Halas, a joint venture with the NASDAQ listed Henry Schein, Inc., the leading wholesale supplier of dental products in Australasia. Mr M Stang is a Director of Novapharm Research (Australia) Pty Ltd and of Regional Health Care Group (a diversified healthcare product supplier, with successful businesses across a range of medical, pharmaceutical, consumer healthcare, and research and development sectors).

Directorships held in other listed entities in the past three years: Non-Executive Chairman of Nanosonics Limited (ASX:NAN) since it listed on 15 May 2007 (and a member of its Board since 14 November 2000) and Non-Executive Chairman of Aeris Environmental Ltd (ASX:AEI) since 24 July 2002

Appointed to the Board: 12 December 2005

Mr Bernard Stang

Non-Executive Director

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

Directorships held in other listed entities in the past three years: Non-Executive Director of Aeris Environmental Ltd (ASX:AEI) since 24 July 2002.

Appointed to the Board: 12 December 2005

Mr Peter Bush
Non-Executive Director

Mr Peter Bush (BCom, CA) previously acted as the Chief Financial Officer and Company Secretary of Vectus and of Accugen Pty Limited. He is the Chief Executive Officer of Aeris Environmental Ltd, and an Executive Director and the Chief Financial Officer of The Regional Health Care Group and GryphonCapital. Mr Bush began his career working for five years at BDO, a global accounting and consulting firm, and has since spent several years working in industry.

Directorships held in other listed entities in the past three years: Alternate Director of Aeris Environmental Ltd (ASX:AEI) since 9 May 2011

Appointed to the Board: 9 July 2015

Dr Ronald Shnier
Non-Executive Director

Dr Ronald Shnier completed a radiology fellowship at Royal Prince Alfred Hospital (RPAH) before undertaking his neuroradiology fellowship at RPAH in 1989 and musculoskeletal fellowship at the University of California Los Angeles (UCLA) in 1991. He was a consultant specialist at RPAH between 1990 and 1993. Dr Shnier started one of Australia's first Private MRI practices in 1991 before becoming General Manager of Mayne's Diagnostic Imaging in 2007 and was its National Director for many years. He has served on several international MRI advisory boards. Dr Shnier has a strong involvement in clinical research, and has lectured both in Australia and overseas.

Directorships held in other listed entities in the past three years: none

Appointed to the Board: 2 September 2015

Dr Susan Pond
Non-Executive Director

Dr Susan Pond (MB, BS, AM, MD, DSc, FTSE, FRACP) has a strong scientific and commercial background, having held executive positions in the biotechnology and pharmaceutical industry for 13 years, including as Chairman and Managing Director of Johnson & Johnson Research Pty Limited (2003 to 2009). She has also held Board positions such as: Director of Pharmaceutical Research at Johnson & Johnson Research Pty Limited (1997 to 2002); Non-Executive Director and Chairman of AusBiotech Limited (2006 to 2008); Director of the Australian Nuclear Science and Technology Organisation (2010 to 2014); Board member of Innovation Australia (2012 to 2015); and Vice President of the Australian Academy of Technological Sciences and Engineering Limited (2010 to 2015). Dr Pond is a Fellow of the Australian Institute of Company Directors, and the Australian Academy of Health and Medical Sciences. She obtained specialist clinical credentials in internal medicine, clinical pharmacology and clinical toxicology, and has held academic appointments at the University of California in San Francisco and the University of Queensland.

Directorships held in other listed entities in the past three years: Non-Executive Director of Biotron Limited (ASX:BIT) since 7 March 2012

Appointed to the Board: 4 May 2016

Mr Robert Waring
Company Secretary

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

Appointed as Company Secretary: 9 July 2015

MEETINGS OF DIRECTORS

The number of meetings of the company's board of Directors ('the board') and of each Board committee held during the year ended 30 June 2016, and the number of meetings attended by each director were:

	Board of Directors Meetings		Remuneration and Nomination Committee Meetings	
Number of meetings held		12		1
Number of meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended
Graham Macdonald	12	9	1	1
Karen Duggan	12	12	-	-
Maurie Stang	12	12	1	1
Bernard Stang	12	9	-	-
Peter Bush	12	11	-	-
Ronald Shnier	10	6	1	-
Susan Pond	2	1	-	-

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

COMMITTEE MEMBERSHIP

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

Audit and Risk Management Committee
Maurie Stang (Chairman)
Graham Macdonald
Peter Bush
Committee's first meeting was held on 24 August 2016

Corporate Governance Committee
Bernard Stang (Chairman)
Peter Bush
Susan Pond
Committee's first meeting was held on 24 August 2016

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

SHARE REGISTRY

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

AUDITOR'S INDEPENDENCE DECLARATION

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

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 12.

OFFICERS OF THE COMPANY WHO ARE FORMER AUDIT PARTNERS OF UHY HAINES NORTON

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

CORPORATE GOVERNANCE

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

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

DIRECTORS' INTERESTS

	Ordinary shares	Options or rights over ordinary shares
Maurie Stang	2,556,000	-
Bernard Stang	2,556,000	-
Karen Duggan	3,201,500	2,000
Graham Macdonald	46,667	-
Peter Bush	3,900	100,000
Ronald Shnier	100,000	-
Susan Pond	21,500	-

REMUNERATION REPORT (AUDITED)

Key Management Personnel
The key management personnel of the company comprise the Directors only as follows:
Maurie Stang
Bernard Stang
Karen Duggan
Graham Macdonald
Peter Bush
Ronald Shnier
Susan Pond

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

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

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

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

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

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

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

Equity Holding Transactions

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

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

2015	Number held 30 June 2014	Acquired during year	Sold during year	Number held 30 June 2015
Maurie Stang	2,550,000	-	-	2,550,000
Bernard Stang	2,550,000	-	-	2,550,000
Karen Duggan	3,201,500	-	-	3,201,500
Graham Macdonald	46,667	-	-	46,667
Peter Bush	-	-	-	-
Ronald Shnier	-	100,000	-	100,000
	8,348,167	100,000	-	8,448,167

Transactions with Directors and Director related entities

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

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

Details of these transactions are shown below:

	2016	2015
Regional Health Care Group Pty Ltd	$	$
Corporate and administration services	201,433	195,775
Current payables	1,705	-

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

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

	Short term benefits	Post employment benefits	Equity based benefits		Total	Performance Related
	Salary and Directors' fees		Shares	Options or Rights		
	$	$	$	$	$	%
Non-Executive Directors:						
Maurie Stang	45,833	-	-	-	45,833	0.0%
Bernard Stang	37,500	-	-	-	37,500	0.0%
Graham Macdonald	59,167	-	90,001	-	149,167	0.0%
Peter Bush	37,500	-	-	17,222	54,722	0.0%
Ronald Shnier	37,500	-	-	-	37,500	0.0%
Susan Pond	7,500	-	-	-	7,500	0.0%
Total Non-Executive:						
Directors	225,000	-	90,001	17,222	332,223	
Executive Directors:						
Karen Duggan	183,721	17,454	3,000	3,833	208,008	0.0%
Total Executive Directors	183,721	17,454	3,000	3,833	208,008	
Total	**408,721**	**17,454**	**93,001**	**21,056**	**540,231**	

Details of directors' and executive officers' remuneration for the year ended 30 June 2015

	Short-term benefits	Post employment benefits	Equity based benefits		Total	Performance Related
	Salary and Directors' fees		Shares	Options or Rights		
	$	$	$	$	$	%
Non-Executive Directors:						
Maurie Stang	-	-	-	-	-	0.0%
Bernard Stang	-	-	-	-	-	0.0%
Graham Macdonald	30,000	-	-	-	30,000	0.0%
Peter Bush	-	-	-	-	-	0.0%
Ronald Shnier	-	-	-	-	-	0.0%
Susan Pond	-	-	-	-	-	0.0%
Total Non-Executive:						
Directors	30,000	-	-	-	30,000	
Executive Directors:						
Karen Duggan	181,656	20,819	-	-	202,475	0.0%
Total Executive Directors	181,656	20,819	-	-	202,475	
Total	**211,656**	**20,819**	**-**	**-**	**232,475**	

There were no long term benefits paid to directors and executive officers during 2015 and 2016 financial years.

Employment contracts
Executive Director and Chief Executive Officer (CEO):
The following sets out the key terms of the employment agreement for the Executive Director and CEO, Dr Karen Duggan.

Contract term:	Continuous employment until notice is given by either party
Fixed remuneration:	$201,174 per year This is reviewed annually.
Notice period:	To terminate the employment, Dr Duggan is required to provide Vectus with 3 months written notice. Vectus must provide 3 months written notice.
Resignation or termination:	On resignation, unless the Board determines otherwise: All unvested short term or long term benefits are forfeited. All vested but unexercised benefits are forfeited after 90 days following cessation of employment.
Statutory entitlements:	Annual leave applies in all cases of separation. Long Service applies unless service is under 10 years and she is dismissed for misconduct.
Termination for serious misconduct:	Vectus may immediately terminate employment at any time in case of serious misconduct, and Dr Duggan will only be entitled to payment of fixed remuneration until termination date. Such termination will result in all unvested benefits being forfeited. Treatment of any vested but unexercised benefits will be at the discretion of the Board.
Restraint of Trade:	For a period of 6 months or, if that period is unenforceable, 3 months after termination of employment, Dr Duggan must not in the area of Australia or, if that area is unenforceable, New South Wales: i. solicit, canvass, approach or accept any approach from any person who was at any time during her last 12 months with the Company a client of the Company in that part or parts of the business carried on by the Company in which she was employed with a view to obtaining the custom of that person in a business that is the same or similar to the business conducted by the Company; or ii. interfere with the relationship between the Company and its customers, employees or suppliers; or iii. induce or assist in the inducement of any employee of the Company to leave their employment.

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

Link between remuneration and performance and statutory performance indicators
The measures of the group's financial performance over the last five years and its link with KMP remuneration, as required by the Corporations Act 2001, is not disclosed as the Company was recently listed with ASX in February 2016.

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

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

	2016	2015
Performance rights to Peter Bush, Non-Executive Director*	100,000	-
Share based incentives to Karen Duggan, Chief Executive Officer**	2,000	2,000

* Company has issued 100,000 performance rights to Dillon Ventures Pty Ltd, which is a corporate trustee of The Dillon Trust, being an entity associated with Peter Bush, Non-Executive Director. Under the terms of the Performance Rights granted, one fully paid ordinary share will be issued on the date 3 years after Vectus Biosystems Limited is listed on the ASX subject to condition that Peter Bush remains a Director of the Company for a period of not less than 2 years after Vectus is listed on the ASX.

** Karen Duggan, Chief Executive Office of the Company is entitled to be issued 2000 ordinary shares, on or after the date of vesting under employee incentive arrangements subject to the condition that Karen Duggan continues her employment with the Company until the date of vesting. The issue of shares is subject to approval of shareholders. 1500 shares vested on 1 December 2015 and 500 shares vest on 1 December 2016.

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

Graham Macdonald

Graham Macdonald
Chairman
Date: 30 September 2016

AUDITOR'S INDEPENDENCE DECLARATION

UHY Haines Norton
Chartered Accountants

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sydney@uhyhn.com.au
www.uhyhnsydney.com.au

VECTUS BIOSYSTEMS LIMITED
ABN 54 117 526 137

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

As auditor for the audit of Vectus Biosystems 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 independence requirements of the *Corporations Act 2001* in relation to the audit; and
(b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

UHY Haines Norton

M.D. Nicholaeff
Partner
Signed at Sydney on 30 September 2016

UHY Haines Norton
Chartered Accountants

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30TH JUNE 2016

	Note	2016	2015
		$	$
Revenue and other income	3	75,066	2,951
Administration and corporate expenses		(177,009)	(80,553)
Borrowing costs	4	(1,496)	(22,772)
Depreciation and amortisation expense	4	(57,344)	(145,208)
Employee benefits expense and directors remuneration	4	(1,835,314)	(1,049,766)
Foreign exchange losses		(10,780)	(828)
Occupancy expenses		(309,309)	(300,143)
Research & development	4	(1,484,649)	(759,139)
Travel expenses		-	(37,697)
Other expenses		(158,816)	(36,469)
Loss before income tax benefit from continuing operations		*(3,959,651)*	*(2,429,624)*
Income tax benefit	5	748,327	773,774
NET LOSS FOR THE PERIOD		**(3,211,324)**	**(1,655,850)**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss		-	-
Items that will not be reclassified subsequently to profit or loss		-	-
TOTAL COMPREHENSIVE LOSS FOR PERIOD, NET OF TAX		**(3,211,324)**	**(1,655,850)**
Loss for the period attributable to:			
Owners of Vectus Biosystems Limited		(3,211,324)	(1,655,850)
Total comprehensive loss for the period attributable to:			
Owners of Vectus Biosystems Limited		(3,211,324)	(1,655,850)
Earnings per share	*26*		
Basic loss per share (cents per share) from continuing operations		(16.13)	(11.15)
Diluted loss per share (cents per share) from continuing operations		(16.13)	(11.15)

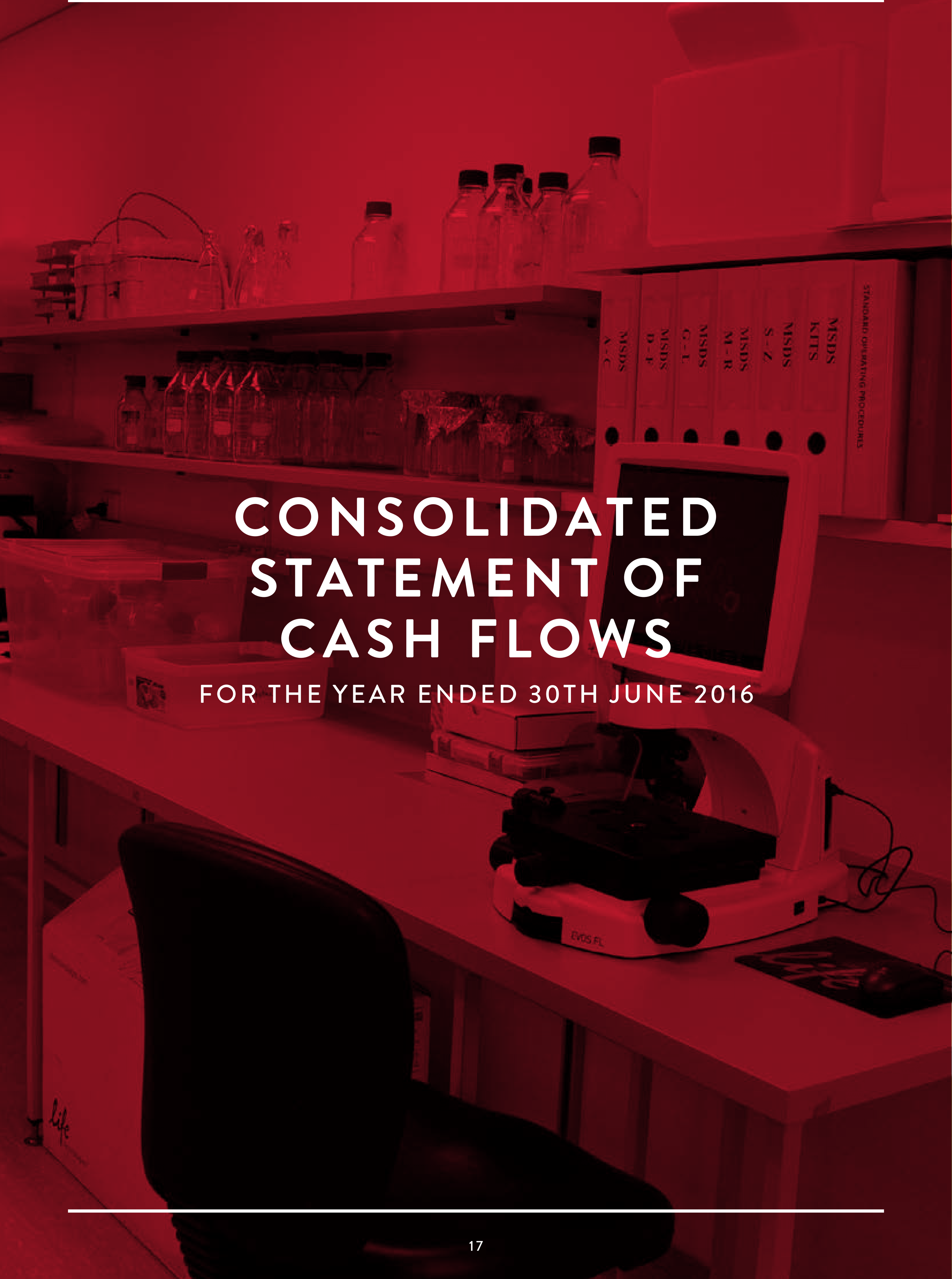
The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30TH JUNE 2016

	Note	2016	2015
		$	$
CURRENT ASSETS			
Cash and cash equivalents	6	420,639	2,545,985
Other current assets	7	145,521	50,014
Financial assets	8	4,033,992	33,992
TOTAL CURRENT ASSETS		**4,600,152**	**2,629,991**
NON-CURRENT ASSETS			
Property, plant and equipment	9	84,382	59,586
TOTAL NON-CURRENT ASSETS		**84,382**	**59,586**
TOTAL ASSETS		**4,684,534**	**2,689,577**
CURRENT LIABILITIES			
Trade and other payables	10	357,590	172,352
Other current liabilities	11	361,730	119,084
Provisions	12	179,467	163,682
Financial liabilities	13	5,379	20,831
TOTAL CURRENT LIABILITIES		**904,166**	**475,949**
NON-CURRENT LIABILITIES			
Provisions	12	31,584	29,245
Financial liabilities	13	-	5,378
TOTAL NON-CURRENT ASSETS		**31,584**	**34,623**
TOTAL LIABILITIES		**935,750**	**510,572**
NET ASSETS		**3,748,784**	**2,179,005**
EQUITY			
Issued capital	14	17,581,368	12,836,702
Reserves	25	36,437	-
Retained earnings/accumulated Losses	15	(13,869,021)	(10,657,697)
TOTAL EQUITY		**3,748,784**	**2,179,005**

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



CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30TH JUNE 2016

	2016	2015
	$	$
Cash flows from operating activities		
Receipt from government grants	748,327	773,774
Payments to suppliers and employees	(3,374,867)	(2,394,009)
Realised exchange losses	(10,780)	(828)
Other income	10	-
Interest received	28,207	2,951
Interest paid	(1,496)	(22,772)
Net cash used in operating activities	*(2,610,599)*	*(1,640,884)*
Cash flows from investing activities		
Investments in term deposits	(4,000,000)	(33,992)
Investment in property, plant and equipment	(82,140)	(9,401)
Net cash used in investing activities	*(4,082,140)*	*(43,393)*
Cash flows from financing activities		
Proceeds from issue of shares	5,174,447	3,973,901
Share issue costs	(586,223)	(194,575)
Repayment of loans	(20,831)	(20,821)
Net cash provided by financing activities	*4,567,393*	*3,758,505*
Net increase (decrease) in cash and cash equivalents	(2,125,346)	2,074,228
Cash and cash equivalents at the beginning of the financial year	2,545,985	471,757
Cash and cash equivalents at the end of the financial year	**420,639**	**2,545,985**

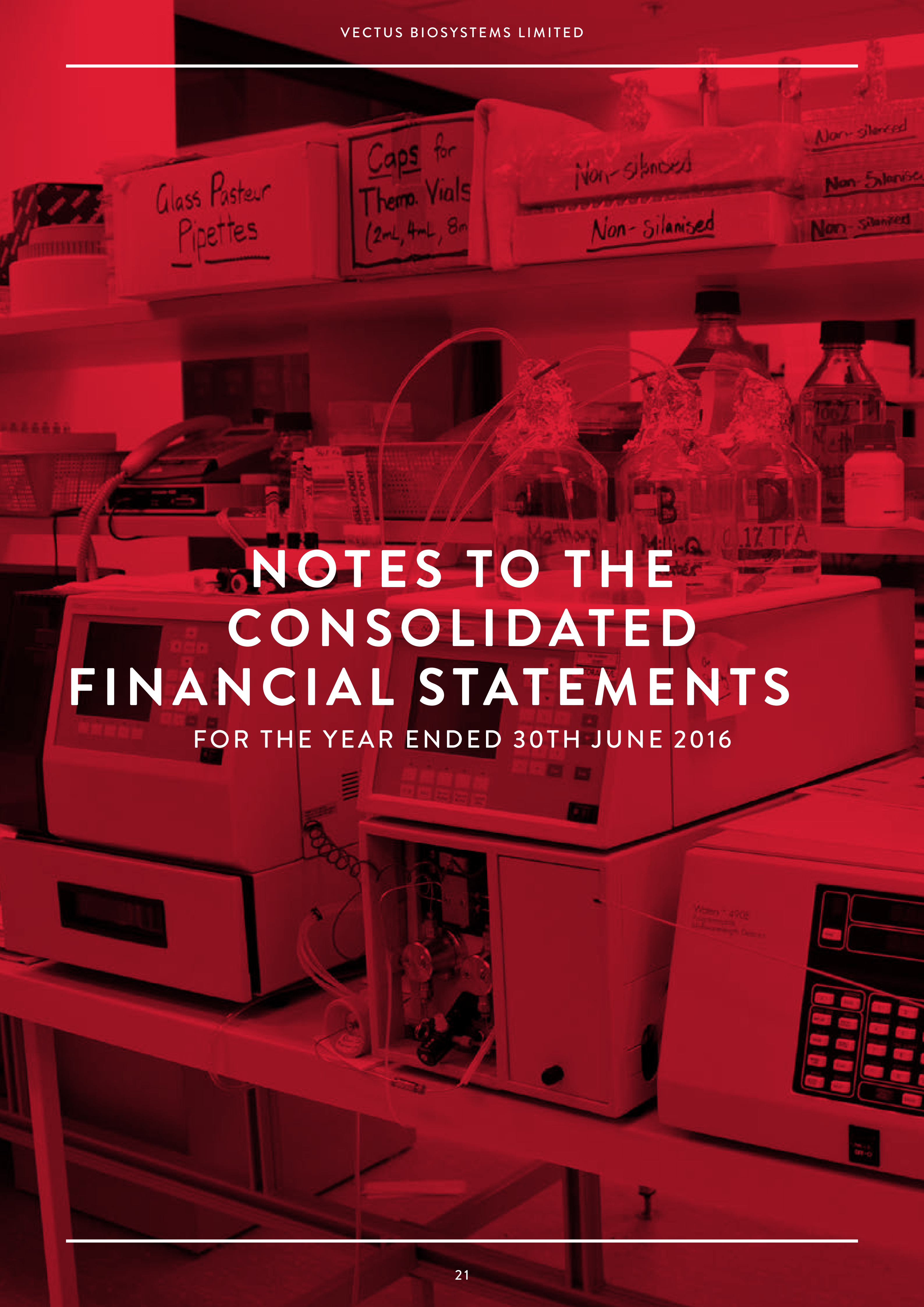
The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30TH JUNE 2016

	Note	Equity	Retained Earnings	Reserves	Total attributable to equity holders of the entity
		$	$	$	$
Balance at 1 July 2014		**9,057,376**	**(9,001,846)**	**-**	**55,530**
Comprehensive Income					
Loss for the period		-	(1,655,851)	-	(1,655,851)
Total comprehensive loss for the period		**-**	**(1,655,851)**	**-**	**(1,655,851)**
Transactions with owners					
Shares issued during the year		3,973,901	-	-	3,973,901
Share issue costs		(194,575)	-	-	(194,575)
Balance at 30 June 2015		**12,836,702**	**(10,657,697)**	**-**	**2,179,005**
Balance at 1 July 2015		**12,836,702**	**(10,657,697)**	**-**	**2,179,005**
Comprehensive Income					
Loss for the period		-	(3,211,324)	-	(3,211,324)
Total comprehensive loss for the period		**-**	**(3,211,324)**	**-**	**(3,211,324)**
Transactions with owners					
Shares issued during the year	14	5,330,890	-	-	5,330,890
Share issue costs		(586,223)	-	-	(586,223)
Share-based payment reserve		-	-	36,437	36,437
Balance at 30 June 2016		**17,581,368**	**(13,869,021)**	**36,437**	**3,748,784**

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30TH JUNE 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Corporate information

The financial report of Vectus Biosystems Limited (the Company) for the year ended 30 June 2016 was authorised for issue in accordance with a resolution of the Directors on 28 September 2016.

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

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

Basis of Preparation

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

The financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

Going Concern

The consolidated entity has recorded a net loss of $3,211,324 during the financial year ended 30 June 2016 and has a net asset balance of $3,748,784 as at 30 June 2016. The balances in cash and term deposits as at 30 June 2016 aggregated to $4,454,631.

The Financial Report has been prepared on a going concern basis. The Directors consider the Group has adequate funding and therefore, no adjustments have been made to the financial report that might be necessary should the Group not continue as a going concern.

Critical accounting estimates

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

Statement of compliance

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

New, revised or amending Accounting Standards and Interpretations adopted

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

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

- *AASB 2015-9 - Amendments to Australian Accounting Standards – Conceptual Framework, Materiality and Financial Instruments.*

The Standard contains three main parts and makes amendments to a number of Standards and Interpretations.

Part A of AASB 2013-9 makes consequential amendments arising from the issuance of AASB CF 2013-1.

Part B makes amendments to particular Australian Accounting Standards to delete references to AASB 1031 and also makes minor editorial amendments to various other standards.

Part C makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 Hedge Accounting into AASB 9 Financial Instruments.

- *AASB 2013-9 - Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality.*
The Standard completes the AASB's project to remove Australian guidance on materiality from Australian Accounting Standards.

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

New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for financial years beginning after 1 July 2016 and have not been applied in preparing these consolidated financial statements. Of the new standards, only the following are expected to have an effect on the consolidated financial statements of the Group:

• *AASB 9 Financial instruments,* which becomes mandatory for Vectus Biosystems Limited's 2019 consolidated financial statements.

• *AASB 15 Revenue from contracts with customers,* which becomes mandatory for Vectus Biosystems Limited's 2019 consolidated financial statements.

• *AASB 16 Leases,* which becomes mandatory for Vectus Biosystems Limited's 2020 consolidated financial statements.

The Group has yet to undertake a detailed assessment of these new standards. At this stage, the Group is not able to estimate the impact of the new rules on the Group's financial statements. The Group will make more detailed assessments of the impact over the next financial years.

Accounting Policies

a. Principles of Consolidation

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

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

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

b. Property, Plant and Equipment

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

Depreciation

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

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

The carrying amount of plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from the assets. The recoverable amount is assessed on the basis of the expected net cash flows that will be received from the asset's employment and subsequent disposal. The expected net cash flows have been discontinued to their present values in determining recoverable amounts.

c. Cash and Cash Equivalents

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

d. Revenue and Other Income

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

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

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

e. Trade Receivables and Other Receivables

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

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

f. Trade Creditors and Other Payables

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

g. Goods and Services Tax (GST)

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

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

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

h. Employee Benefits

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

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

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

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

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

i. Leases

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

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

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

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

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

j. Financial Instruments

Initial recognition and measurement

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

Financial instruments are initially measured at fair value plus transaction costs, except where the instrument is classified "at fair value through profit or loss" in which case transaction costs are recognised immediately as expenses in profit or loss.

Classification and subsequent measurement

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

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

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

i. Financial assets at fair value through profit or loss
Financial assets are classified at "fair value through profit or loss" when they are held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid acccounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management and investment strategy.

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

iii. Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the companies intention to hold these investments to maturity. They are subsequently measured at amortised cost. Gains or losses are recognised in profit or loss through the amortisation process and when the financial asset is derecognised.

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

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

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

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

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

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

Preferred shares

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

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

Impairment

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

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

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

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

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

Financial guarantees

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

The fair value of financial guarantee contracts has been assessed using a probability-weighted discounted cash flow approach. The probability has been based on:

- The likelihood of the guaranteed party defaulting during the next reporting period;
- The proportion of the exposure that is not expected to be recovered due to the guaranteed party defaulting; and
- The maximum loss exposure if the guaranteed party were to default.

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

Derecognition

Financial assets are derecognised when the contractual rights to receipt of cash flows expire or the asset is transferred to another party whereby the entity no longer has any significant continuing involvement in the risks and benefits associated with the asset. Financial liabilities are derecognised when the related obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability extinguished or transferred to another party and the fair value of consideration paid, including the transfer of non-cash assets or liabilities assumed, is recognised in profit or loss.

k. Issued Capital

Ordinary shares are classified as equity.

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

l. Current and non-current classification

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

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

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

m. Intangible Assets

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

Research and development

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

Patents and trademarks

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

n. Provisions

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

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

o. Government Grants

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

p. Comparative Figures

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

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

2. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Employee benefits provision

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

3. OTHER INCOME

	2016	2015
	$	$
Sundry income	10	-
Interest received	75,056	2,951
	75,066	**2,951**

4. LOSS FROM ORDINARY ACTIVITIES

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

	2016	2015
	$	$
Depreciation and amortisation expense		
Depreciation of property, plant and equipment	57,344	145,208
	57,344	145,208
Employment expenses and directors remuneration		
Base salary and fees	1,484,844	972,226
Superannuation & statutory oncosts	83,866	71,395
Share based payment expense	193,880	-
Other employee expenses	54,600	17,499
Transfers from/(to) employee entitlements provisions	18,124	(11,354)
Total employment expense	1,835,314	1,049,766
Borrowing Costs		
Interest paid	1,496	22,772
Total borrowing costs	1,496	22,772
Research & Development expense		
Research and development expense	795,114	339,836
Patent costs	689,535	419,303
Total research & development expense	1,484,649	759,139

5. INCOME TAX

a. Income tax expense

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

	2016	2015
	$	$
Loss for year before income tax benefit	(3,959,651)	(2,429,624)
Income tax benefit calculated at 30%	(1,187,895)	(697,760)
Temporary differences and tax losses not recognised	1,187,895	697,760
Other permanent differences		
R&D tax offset rebate received	748,327	773,774
Income tax benefit attributable to loss	748,327	773,774

b. Deferred tax balances not recognised

Calculated at 30% not brought to account as assets:

	2016	2015
	$	$
Deferred tax assets relating to tax losses		
Revenue tax losses available for offset against future tax income	1,984,835	1,207,099
Net deferred tax asset not recognised in respect of tax losses	**1,984,835**	**1,207,099**
Deferred tax assets relating to temporary differences		
Provision for employee entitlements	63,315	57,878
Accruals	6,900	-
Share issue costs	284,675	-
	354,891	57,878
Deferred tax liabilities relating to temporary differences		
Accrued income	(14,055)	-
	(14,055)	-
Net deferred tax asset not recognised in respect of temporary differences	**340,836**	**57,878**

Relevance of tax consolidation to the consolidated entity

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

6. CASH AND CASH EQUIVALENTS

	2016	2015
	$	$
Cash on hand	660	1,660
Cash at bank	419,979	2,544,325
	420,639	**2,545,985**

7. OTHER CURRENT ASSETS

	2016	2015
	$	$
Prepayments	49,273	6,420
Accrued income	46,849	-
Goods and services tax	49,399	43,594
	145,521	**50,015**

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

8. FINANCIAL ASSETS

	2016	2015
Current	$	$
Term deposits	4,033,992	33,992
	4,033,992	**33,992**

9. PROPERTY, PLANT AND EQUIPMENT

	2016	2015
	$	$
Plant and equipment	585,202	586,117
Less: Accumulated depreciation	(505,619)	(534,426)
	79,583	51,691
Furniture & fittings	15,139	14,213
Less: Accumulated depreciation	(15,139)	(11,255)
	-	2,959
Office equipment	47,576	39,294
Less: Accumulated depreciation	(42,777)	(34,358)
	4,799	4,936
	84,382	**59,586**

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

	Plant and Equipment	Furniture and Fittings	Office Equipment	Total
Balance at 1 July 2014	178,497	6,083	10,811	195,391
Additions	4,947	498	3,956	9,401
Disposals	-	-	-	-
Depreciation	(131,753)	(3,622)	(9,831)	(145,206)
Balance at 30 June 2015	**51,691**	**2,959**	**4,936**	**59,586**
Balance at 1 July 2015	51,691	2,959	4,936	59,586
Additions	72,933	925	8,282	82,140
Disposals	-	-	-	-
Depreciation	(45,041)	(3,884)	(8,419)	(57,344)
Balance at 30 June 2016	**79,583**	**-**	**4,799**	**84,382**

10. CURRENT TRADE AND OTHER PAYABLES

	2016	2015
	$	$
Trade creditors	329,511	155,610
PAYG withholding payable	28,079	16,742
	357,590	**172,352**

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

11. OTHER CURRENT LIABILITIES

	2016	2015
	$	$
Accrued expenses	361,730	119,084
	361,730	**119,084**

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

12. PROVISIONS

	2016	2015
Current	$	$
Provision for annual leave	176,165	151,660
Provision for long service leave	3,302	12,022
	179,467	**163,682**
Non-Current		
Provision for long service leave	31,584	29,245
	31,584	**29,245**

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

13. INTEREST BEARING PAYABLES

	2016	2015
Current	$	$
Lease liabilities	5,379	20,831
	5,379	**20,831**

Non-Current		
Lease liabilities	-	5,378
	-	**5,378**

14. ISSUED CAPITAL

	2016	2015	2016	2015
	Shares	Shares	$	$
Class A shares	-	1,700,000	-	17
Ordinary shares - fully paid	23,369,744	18,270,652	17,581,368	12,836,685
	23,369,744	**19,970,652**	**17,581,368**	**12,836,702**

Movements in ordinary share capital of Vectus Biosystems Limited

	2016	2015	2016	2015
	Shares	Shares	$	$
Balance at beginning of the year	18,270,652	14,841,492	12,836,685	9,057,359
Shares issued during the year				
Share placement	3,338,353	3,361,884	5,006,326	3,973,901
Class A shares converted to ordinary shares	1,700,000	-	17	-
Other share issues	60,739	67,276	324,564	-
	23,369,744	**18,270,652**	**18,167,592**	**13,031,260**
Transaction costs relating to share issues	-	-	(586,223)	(194,575)
Balance at end of year	23,369,744	18,270,652	17,581,368	12,836,685

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

Capital Risk Management

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

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

The capital risk management policy remains unchanged from the 30 June 2015 Annual Report.

15. EQUITY - ACCUMULATED LOSSES

	2016	2015
	$	$
Accumulated loss at the beginning of the financial year	(10,657,696)	(9,001,846)
Loss after income tax expense for the year	(3,211,324)	(1,655,850)
Accumulated loss at the end of the financial year	**(13,869,020)**	**(10,657,696)**

16. RELATED PARTY DISCLOSURES

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

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

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

17. KEY MANAGEMENT PERSONNEL

a. The Directors of Vectus Biosystems Limited during the year were:
Maurie Stang
Bernard Stang
Karen Duggan
Graham Macdonald
Peter Bush
Ronald Shnier
Susan Pond

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

	2016	2015
	$	$
Short-term employee benefits	408,721	211,656
Post-employment benefits	17,454	20,819
Share-based payments	114,056	-
	540,231	**232,475**

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

18. COMMITMENTS

a. Lease commitments - finance

	2016	2015
	$	$
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	5,379	20,831
One to five years	-	5,378
	5,379	**26,209**

b. Lease commitments - operating

	2016	2015
	$	$
Committed at the reporting date but not recognised as liabilities, payable for the laboratory facility at North Ryde:		
Within one year	25,845	-
One to five years	-	-
	25,845	**-**

c. Operating Commitments

	2016	2015
	$	$
Committed at the reporting date but not recognised as liabilities, payable:		
Research and development expenses		
Within one year	616,653	-
One to five years	40,000	-
	656,653	**-**

d. Capital expenditure commitments

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

19. INTEREST IN SUBSIDIARY

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

Name	Principal place of business/Country of Incorporation	Ownership interest	
		2016	2015
		%	%
Accugen Pty Limited	Australia	100.00%	100.00%

20. SUBSEQUENT EVENTS

There have been no matters or circumstances, which have arisen since 30 June 2016 that have significantly affected or may significantly affect:

a. the operations, in financial years subsequent to 30 June 2016, of the consolidated entity; or
b. the results of those operations;
c. the state of affairs, in the financial years subsequent to 30 June 2016, of the consolidated entity.

21. REMUNERATION OF AUDITORS

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

	2016	2015
Audit Services - UHY Haines Norton	$	$
Audit of financial statements	23,000	20,000
Advice in relation to IPO	35,000	-
	58,000	**20,000**

22. PARENT ENTITY INFORMATION

	2016	2015
	$	$
Loss after income tax	(3,031,831)	(1,436,278)
Total comprehensive loss	(3,031,831)	(1,436,278)
Total current assets	5,511,143	3,337,091
Total assets	5,596,526	3,396,656
Total current liabilities	893,631	469,239
Total liabilities	925,215	474,617
Equity		
Issued capital (net of share issue cost)	17,581,368	12,836,702
Reserves	36,437	-
Retained earnings/accumulated losses	(12,946,494)	(9,914,663)
Total equity	**4,671,311**	**2,922,039**

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

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

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

Capital Commitments - Property, plant and equipment
The parent entity had no capital commitments for property, plant and equipment as at 30 June 2016 and 30 June 2015.

Significant accounting policies
The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1.

23. NOTES TO CASH FLOW STATEMENTS

a. Reconciliation of cash

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

	2016	2015
	$	$
Cash at bank and on hand	420,639	2,545,985
	420,639	**2,545,985**

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

	2016	2015
	$	$
Operating loss after income tax	(3,211,324)	(1,655,850)
Non cash/non-operating items included in profit and loss		
Depreciation and amortisation	57,344	145,208
Share based payments	193,880	-
Changes in assets and liabilities		
(Increase)/decrease in other assets	(95,507)	816
Increase/(decrease) in trade creditors	173,901	(121,032)
Increase/(decrease) in other creditors and accruals	252,982	1,329
Increase /(decrease) in employee entitlement provision	18,125	(11,355)
Net cash used in operating activities	**(2,610,599)**	**(1,640,884)**

24. OPERATING SEGMENTS

The consolidated group had no reportable segments during the year.

25. RESERVES

	2016	2015
	$	$
Share based payments reserve		
Balance at beginning of financial year	-	-
Share based payments during the year allocated to:		
Employees and consultant	15,382	-
Directors	21,055	-
Balance at end of financial year	36,437	-

26. LOSS PER SHARE

	2016	2015
	$	$
Basic loss per share (cents per share)	**(16.13)**	**(11.15)**
Diluted loss per share (cents per share)	**(16.13)**	**(11.15)**
Loss used to calculate basic loss per share	(3,211,324)	(1,655,850)
Loss used to calculate diluted loss per share	(3,211,324)	(1,655,850)
Weighted average number of ordinary shares used to calculate basic loss per share	19,904,750	14,850,887
Weighted average number of ordinary shares used to calculate diluted loss per share	19,904,750	14,850,887

27. FINANCIAL INSTRUMENTS DISCLOSURES

a. Capital:

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

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

b. Financial instrument risk exposure and management:

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

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

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

c. **Principal financial instruments:**

The principal financial instruments used by the Group, from which financial instrument risks arise, are:
cash at bank;
deposits and bonds; and
trade and other payables.

d. **General objectives, policies and processes**

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

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

i. *Credit risk:*

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

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

	2016 ($)	2015 ($)
Deposits with ANZ Bank (credit rating Aa2)	4,453,971	2,578,317

ii. *Liquidity risk:*

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

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

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

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

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

	Cash Flows	< 1 year	1 - 3 years	Total	Carrying amount
Maturity Analysis - 2016	$	$	$	$	$
Financial assets					
Cash and cash equivalents	420,639	420,639	-	420,639	420,639
Term deposits with accrued interest	4,080,876	4,080,876	-	4,080,876	4,080,841
TOTAL	**4,501,515**	**4,501,515**	**-**	**4,501,515**	**4,501,480**
Financial liabilities					
Trade creditors	357,590	357,590	-	357,590	357,590
Accruals	361,730	361,730		361,730	361,730
Lease liabilities	5,379	5,379	-	5,379	5,379
TOTAL	**724,699**	**724,699**	**-**	**724,699**	**724,699**
NET MATURITY	**3,776,816**	**3,776,816**	**-**	**3,776,816**	**3,776,781**
Maturity Analysis - 2015					
Financial assets					
Cash and cash equivalents	2,545,985	2,545,985	-	2,545,985	2,545,985
Term deposits with accrued interest	34,024	34,024	-	34,024	33,992
TOTAL	**2,580,009**	**2,580,009**	**-**	**2,580,009**	**2,579,977**
Financial liabilities					
Trade creditors	172,352	172,352	-	172,352	172,352
Accruals	119,084	119,084	-	119,084	119,084
Lease liabilities	26,209	20,831	5,378	26,209	26,209
TOTAL	**317,645**	**312,267**	**5,378**	**317,645**	**317,645**
NET MATURITY	**2,262,365**	**2,267,743**	**(5,378)**	**2,262,365**	**2,262,332**

iii. *Interest rate risk:*

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

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

	Weighted Average Rates	Floating rates	Fixed rates	Non-interest bearing	Total
2016	$	$	$	$	$
Financial Assets					
Cash and cash equivalents	1.0%	420,639	-	-	420,639
Term deposits	2.8%	-	4,080,876	-	4,080,876
Total		**420,639**	**4,080,876**	**-**	**4,501,515**
Financial liabilities					
Trade creditors	0.0%	-	-	357,590	357,590
Other payables and accruals	0.0%	-	-	361,730	361,730
TOTAL		**-**	**-**	**719,320**	**719,320**
Net financial assets (liabilities)		**420,639**	**4,080,876**	**(719,320)**	**3,782,195**
2015					
Financial Assets					
Cash and cash equivalents	1.0%	2,545,985	-	-	2,545,985
Term deposits	2.0%	-	34,024	-	34,024
Total		**2,545,985**	**34,024**	**-**	**2,580,009**
Financial liabilities					
Trade creditors	0.0%	-	-	172,352	172,352
Other payables and accruals	0.0%	-	-	119,084	119,084
TOTAL		**-**	**-**	**291,436**	**291,436**
Net financial assets (liabilities)		**2,545,985**	**34,024**	**(291,436)**	**2,288,573**

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

Sensitivity analysis

	Carrying Amount	+3% interest Profit & Loss	-3% interest Profit & Loss
2016	$	$	$
Cash at bank	420,639	12,619	(12,619)
Term deposits	4,080,876	122,426	(122,426)
		135,045	**(135,045)**
Tax charge of 30%		(40,514)	40,514
Post tax profit increase / (decrease)		**94,532**	**(94,532)**
2015			
Cash at bank	2,545,985	76,380	(76,380)
Term deposits	34,024	1,021	(1,021)
		77,400	**(77,400)**
Tax charge of 30%		(23,220)	23,220
Post tax profit increase / (decrease)		**54,180**	**(54,180)**

28. CONTINGENT LIABILITIES

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

DIRECTORS' DECLARATION

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

1. In the opinion of the Directors:

    a. the financial statements and notes, as set out on pages 13 to 40, are in accordance with the Corporations Act 2001 and

        i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and its performance for the year ended on that date; and
        ii. complying with Accounting Standards and the Corporations Regulations 2001;

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

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

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ending 30 June 2016.

On behalf of the Board of Directors

Graham Macdonald
Chairman

Sydney, 30 September 2016

INDEPENDENT AUDITOR'S REPORT

UHY Haines Norton
Chartered Accountants

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INDEPENDENT AUDITOR'S REPORT

To the members of Vectus Biosystems Limited

Report on the Financial Report

We have audited the accompanying financial report of Vectus Biosystems Limited (the Company), which comprises the consolidated statement of financial position as at 30 June 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the Company and the entity it controlled at the year's end or from time to time during the financial year 30 June 2016.

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* and for such internal controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In Note 1, the directors also state, in accordance with Accounting Standards AASB 101 *Presentation of Financial Statements*, that 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 that we 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 entity'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 entity'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.

UHY Haines Norton
Chartered Accountants

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.*

Opinion

In our opinion:

(a) the financial report of Vectus Biosystems Limited is in accordance with the *Corporations Act 2001, including:*
   i. giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and
   ii. complying with the Australian Accounting and the *Corporations Regulations 2011*; and

(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included on pages 8 to 11 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.

Opinion

In our opinion, the Remuneration Report of Vectus Biosystem Limited for the year ended 30 June 2016, complies with section 300A of the *Corporations Act 2001.*

UHY Haines Norton

M.D. Nicholaeff
Partner
Signed at Sydney on 30 September 2016

UHY Haines Norton
Chartered Accountants

AUSTRALIAN SECURITIES EXCHANGE ADDITIONAL INFORMATION

Additional information required by the Australian Securities Exchange (ASX) Listing Rules, and not disclosed elsewhere in this Report, is detailed below. This information was prepared based on the Company's Share Registry information.

SHAREHOLDING INFORMATION

Distribution of Shareholders

Analysis of the fully paid ordinary shares by holding as at 31 August 2016:

Spread of Holdings	Number of Holders	Ordinary shares	% of Total Issue Capital
1 – 1,000	14	7,430	0.032
1,001 – 5,000	191	345,710	1.479
5,001 – 10,000	36	267,184	1.143
10,001 – 100,000	130	4,807,595	20.570
100,001 – and over	34	17,943,589	76.775
	405	23,371,508	100.00

On 8 September 2016 there were six shareholders holding less than a marketable parcel of $500 worth of shares at a share price of $1.32. There are 8,521,387 fully paid ordinary shares subject to ASX restriction for 24 months until 23 February 2018.

Statement of Shareholdings as at 9 September 2016

The names of the 20 largest holders of fully paid ordinary shares are listed below:

Shareholder	Number of Shares *	% Holding
Ajjika Technology Pty Limited <The Ajjika A/C>	3,200,000	13.634
Energy Trading Systems Pty Ltd <The MPF A/C>	2,550,000	10.864
Bernard Stang	2,550,000	10.864
Dr Xiao Yan He	1,055,586	4.497
3rd Pulitano Pty Ltd	801,667	3.415
Grizzly Holdings Pty Limited	733,333	3.124
Australian Shareholder Nominees Pty Ltd <Colman Super Fund>	683,000	2.910
Bennelong Resources Pty Ltd <John Egan Super Fund>	588,000	2.505
Gleneagle Securities (Aust) Pty Ltd <House Prop A/C>	566,942	2.415
Finot Pty Limited	550,000	2.343
Fleray Pty Ltd	538,000	2.292
Victor Zheng Chun Ye	500,000	2.130
Kent's Flowers Pty Ltd <The Flawless Flowers A/C>	368,333	1.569
Madrettor Pty Limited <Russell and Linda Super A/C>	280,000	1.193
Adziel Pty Limited	250,000	1.065
Helensleigh Pty Limited <Staff Super Fund>	247,083	1.053
Mr Norman Nathan Gelbart	224,160	0.955
Hillridge Pty Ltd	208,000	0.886
Australian Direct Investments Pty Limited <Super Fund A/C>	183,333	0.781
Jennifer Peta Pty Ltd <Phillip D Stricker Super A/C>	166,667	0.710
Total of Top 20 Holdings	**16,244,104**	**69.205**
Other Holdings	**7,127,404**	**30.795**
Total Ordinary Shares	**23,371,508**	**100.00**

* Includes ASX-quoted securities and securities not quoted on ASX (i.e. 24-month restricted securities – restricted until 23 February 2018)

VOTING RIGHTS

At general meetings of the Company, all fully paid ordinary shares carry one vote per share without restriction. On a show of hands, every member present at a general meeting, or by proxy, shall have one vote and, upon a poll, each share shall have one vote. Option holders have no voting rights until the options are exercised.

SUBSTANTIAL SHAREHOLDERS

Substantial shareholders in Vectus Biosystems Limited, based on Substantial Shareholder Notices received by the Company, are as follows:

Name	Number	% of Shares Issued
Dr Karen Duggan	3,201,500	13.640
Mr Maurie Stang	2,562,000	10.963
Mr Bernard Stang	2,562,000	10.963

Fully Paid Ordinary Shares in Escrow until 23 February 2018 as at 9 September 2016

Name of Shareholder	Shares the Holder is Entitled to
Energy Trading Systems Pty Ltd <The MPF A/C>	2,550,000
Bernard Stang	2,550,000
Ajjika Technology Pty Limited <The Ajjika A/C>	3,200,000
Panleaf Pty Ltd <The Shnier Family Trust>	22,581
Karen Duggan	1,500
Graham MacDonald	46,667
Gleneagle Securities Nominees Pty Limited	32,930
Norman Nathan Gelbart	117,709
Total Ordinary Shares	**8,521,387**

Performance Rights in Escrow as at 9 September 2016

Name of Performance Holder	Performance Shares the Holder is Entitled to	In Escrow Until
Dillon Ventures Pty Ltd <The Dillon Ventures A/C>	100,000	23 February 2018

The conversion ratio of the Performance Rights into ordinary shares upon achievement of a relevant performance milestone is one ordinary share for each Performance Right.

USE OF FUNDS

In accordance with ASX Listing Rule 4.10.19, the Company advises that it has used its cash and assets in a form readily convertible to cash, that it had at the time of admission to ASX, in a way consistent with its business objectives, as set out in its Replacement Prospectus dated 23 November 2015. This statement refers to the time between the Company's admission to ASX and the end of the reporting period, being 30 June 2016.

CORPORATE DIRECTORY

Vectus Biosystems Limited

ACN: 117 526 137
ABN: 54 117 526 137

Directors

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

Company Secretary

Mr Robert Waring

Registered Office

3 – 11 Primrose Avenue
Rosebery NSW 2018 Australia

Telephone: +61 2 9662 4144
Facsimile: +61 2 9662 6040
Email: info@vectusbiosystems.com.au
Website: www. vectusbiosystems.com.au

Share Registry

Boardroom Pty Limited
Level 12, Grosvenor Place, 225 George Street, Sydney NSW 2000
GPO Box 3993, Sydney NSW 2000

Telephone: +61 (0) 2 9290 9600
Facsimile: +61 (0) 2 9279 0664
Website: www. boardroomlimited.com.au
Email: enquiries@boardroomlimited.com.au

Auditor

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

Stock Exchange Listing

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

VECTUS
BIOSYSTEMS